
# Annual Report and Financial Statements

Year ended 31 December 2023

BLOCK ENERGY PLC

# Contents

# Company Information

## Officers and Advisors

**Directors**

| | |
|---|---|
| Paul Haywood | Chief Executive Officer |
| Philip Dimmock | Independent Non-Executive Chairman |
| Jeremy Asher | Independent Senior Non-Executive Director |

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UK company number: 05356303

www.blockenergy.co.uk

**Company Secretary and Registered Office**

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SW1W 9NF

Block Energy Plc is quoted on AIM (Symbol BLOE)

**Advisors**

*Broker*

Tennyson Securities
A trading name of Shard Capital Partners LLP
20 Fenchurch Street
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EC3M 3BY

*Registrar*

Share Registrars Limited
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Surrey
GU9 7XX

*Nominated Advisor*

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

*Bank*

Barclays Bank PLC
1 Churchill Place
Canary Warf
London
E14 5HP

*Independent Auditor*

PKF Littlejohn LLP
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*Public Relations*

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Bream's Buildings
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# Strategic Report

## Strategy and Business Model

Block Energy's goal is to build on its position as the leading independent oil and gas company in Georgia to create a substantial base of energy production and cash flow. The Company plans to continue the development of its production assets and advance all activity associated with appraising and developing its high-impact gas resources and exploration projects. In particular, Block plans to scale up its current production and reserves via efficient drilling programmes, and to complete its current farm-out process on its major, multi Trillion Cubic Feet "TCF" appraisal programme, Project III.

The Company is led by a management team with extensive experience in the Caucasus region, the oil and gas industry, and corporate finance, together with an operations team led by local staff supported by subsurface and financial teams in the UK.

Block holds interests in seven Production Sharing Contracts ("PSCs") in Georgia, each at various stages of the Exploration and Production ("E&P") lifecycle. Opportunities across the portfolio encompass near-term production, mid-term appraisal, exploration and Carbon Capture and Storage ("CCS"). The Company refers to these opportunities as "Projects" rather than particular PSC licence areas, as some areas contain elements of multiple Projects, as explained below.

The following map illustrates the location of the Company's assets:

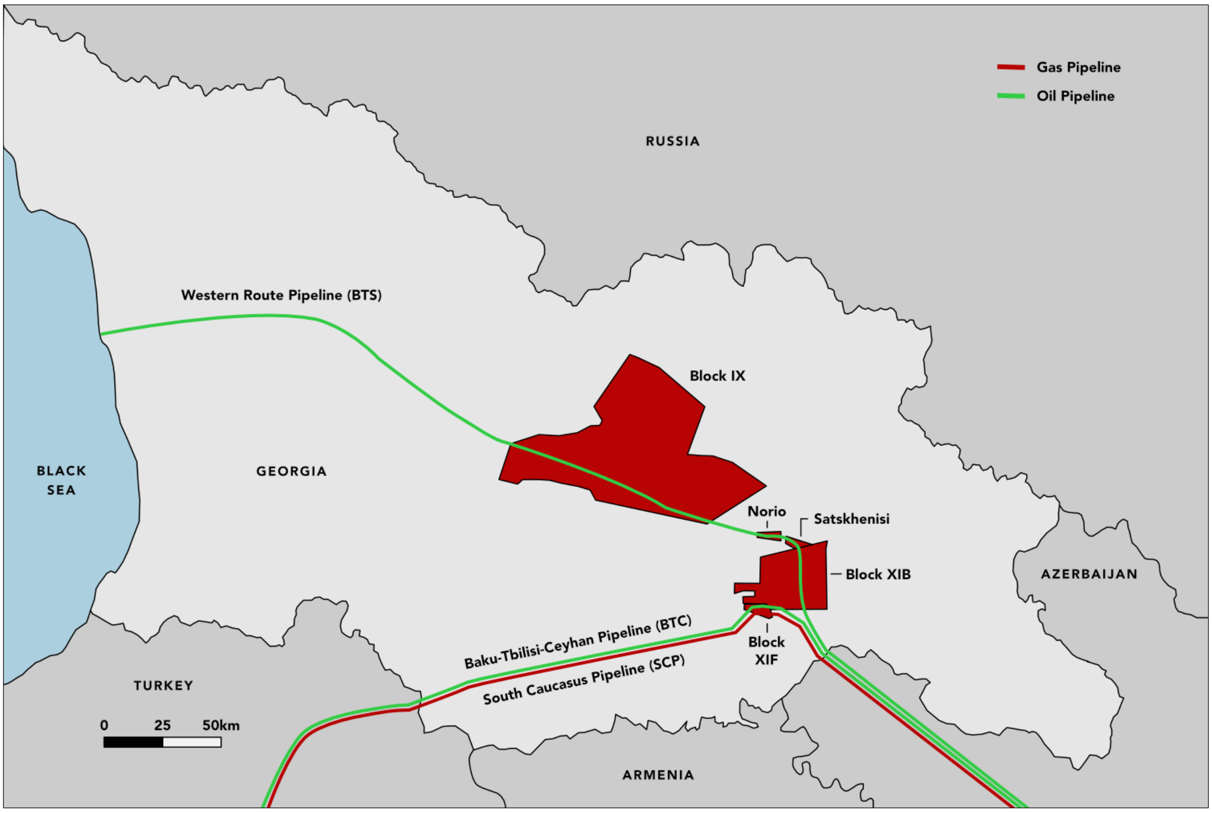


*Figure 1 - Location of Block Energy assets*

The Company's Projects and assets are as follows:

| Project | Associated Field(s) | Associated PSC(s) | Reservoir | Hydrocarbon Type | Project Stage |
|---|---|---|---|---|---|
| Project I | West Rustavi/Krtsanisi | XIB/XIF | Middle Eocene | Oil and Gas | Production & development |
| Project II | Patardzueli-Samgori | XIB | Middle Eocene | Oil | Field redevelopment |
| Project III | Patardzueli-Samgori, Rustavi, Teleti | XIB/XIF | Lower Eocene/Upper Cretaceous | Gas | Appraisal |
| Project IV | Martkopi Terrace | Didi Lilo, South Samgori, IX | Middle Eocene | Oil & Gas | Exploration |
| CCS | Patardzueli-Samgori | XIB | Middle Eocene | Carbon Dioxide | Studies |
| n/a | Norio | Norio | Maikop | Oil | Production |
| n/a | Satskhenisi | Satskhenisi | Maikop | Oil | Production |

The Company's reserves and resources are as follows:

| Field/Project | Type | Units | Reserves/Resources | | | | Source |
|---|---|---|---|---|---|---|---|
| Reserves | | | 1P (Gross) | 2P (Gross) | 3P (Gross) | Mean | |
| Krtsanisi Anticline (Project I) | Oil | MMbbl | 0.19 | 1.07 | 3.01 | - | ERCE. 2022 (5 well programme) |
| | Gas | BCF | 0.34 | 1.07 | 2.14 | - | |
| Contingent Resources | | | 1C (Gross) | 2C (Gross) | 3C (Gross) | Mean | |
| West Rustavi/Krtsanisi (Full Field Project I) | Oil | MMbbl | 12.5 | 19.5 | 27.5 | - | Block Energy, 2022 |
| | Gas | BCF | 79.6 | 123.6 | 180.6 | - | |
| Patardzueli-Samgori (Project II) | Oil | MMbbl | 105.1 | 235.0 | 396.0 | - | Block Energy, 2022 |
| Patardzueli-Samgori (Project III) | Gas | BCF | 926.0 | 1,072.0 | 1,222.0 | 1,073.0 | OPC, 2024 |
| Rustavi (Project III) | Gas | BCF | 884.0 | 1,062.0 | 1,245.0 | 1,064.0 | Block Energy, 2024 |
| Teleti (Project III) | Gas | BCF | 493.0 | 638.0 | 802.0 | 644.0 | Block Energy, 2024 |
| Prospective Resources | | | 1U (Gross) | 2U (Gross) | 3U (Gross) | Mean | |
| Martkopi Terrace (Project IV) | Oil | MMbbl | 135.8 | 239.4 | 420.4 | 267.2 | DeGoyler MacNaughton, 2023 |
| | Gas | BCF | 105.6 | 193.3 | 337.9 | 213.4 | |
| Carbon Storage | | | Low | Mid | High | - | |
| Patardzueli-Samgori (CCS) | $CO_2$ Storage | MT | 57.0 | 151.5 | 246.0 | - | OPC, 2023 |

## Project I

Project I has been designed to develop the Middle Eocene Reservoir of the West Rustavi/Krtsanisi field contained within licence blocks XIB and XIF (which are wholly held by the Company).

The Company has conducted significant operational activity on the field since acquiring Block XIF in 2018 and Block XIB in 2020, having undertaken a 3D seismic survey, drilled wells WR-16aZ, WR-38Z, WR-B01a and JKT-1Z from 2018 – 2022. In 2023, the Company drilled the WR-B01aZ well (a sidetrack of WR-B01a) and the WR-34Z well. The Company has also constructed and operates a production facility at the West Rustavi/Krtsanisi field and a pipeline network of approximately 10 kms transporting gas and fluids to its facility and local third-party owned gas networks.

In 2022, Block engaged independent reserves auditors, ERC Equipoise ("ERCE"), to audit a development plan associated with the first phase (of eight) development of Project I - the Krtsanisi anticline. The ERCE report, which was published in July 2022 assigns gross 3P reserves of 3.01 MMbbl and 2.14 BCF to a development area associated with a 5 well programme. Wells WR-B01aZ and WR-34Z have since been drilled, with further upside in the contingent resource of 19.5 MMbbls, being assigned by the Company.

The Company plans to continue developing this asset, while ensuring that capital allocation across the Company's four Projects is considered within such development. In 2023, the Company has actively been engaged in improving the netbacks received from production on Project I through a range of initiatives including the establishment of a water injection scheme, facilities improvements, and reducing non-productive time. As demonstrated in the 2023 accounts, these efforts have successfully improved the overall profitability of the field in 2023 and in 2024 further work to improve efficiencies has been undertaken, including evaluating lower-cost slim-hole drilling options through the use of alternative technologies.

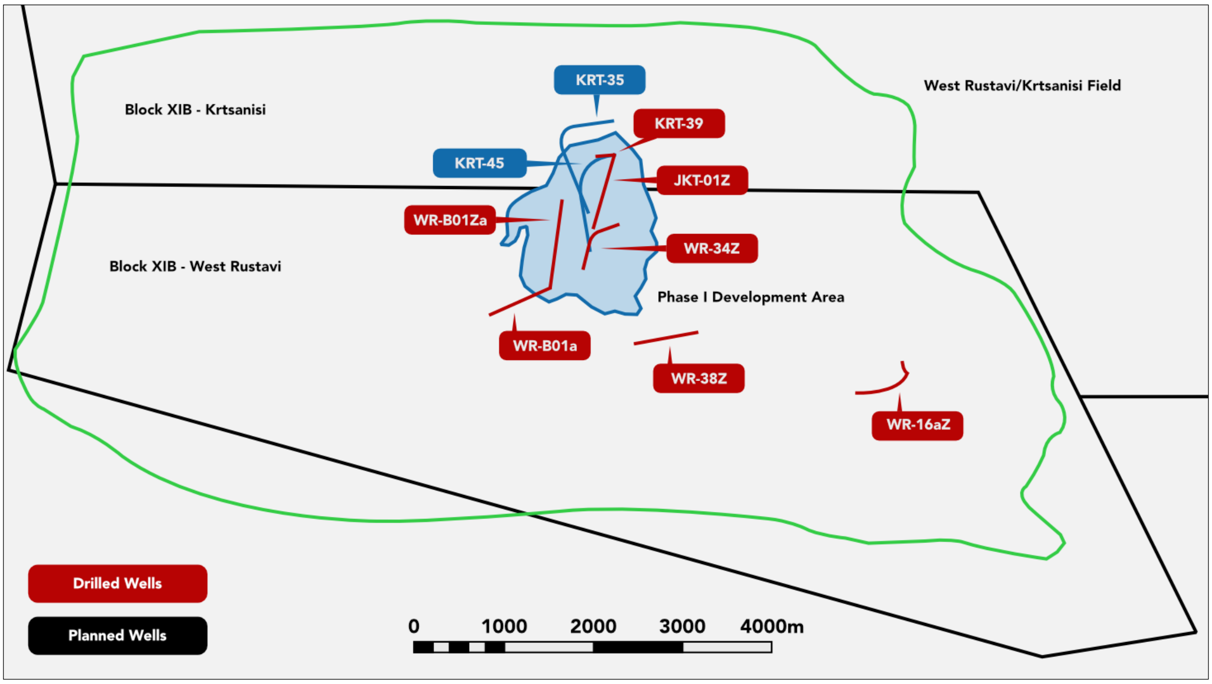


*Figure 2 - Project I field map and phase I area*

Project I is a robust, geoscience led project which has benefited from directional drilling and production operations, improving confidence in the asset's development strategy. The Project delivers material cashflows to the Company, which are then recycled back into the development of its higher impact projects within the portfolio.

The Company's plan for this asset is to complete the initial development of Project I by drilling an additional three sidetracks/new wells and then transition into developing the broader Project I area which contains 19.5

MMbbl gross 2C contingent resources, representing yet another significant development and production opportunity for the Company. Work continues on improving netbacks from the asset, including the evaluation of innovative ways to significantly reduce total development capex, through slim hole drilling technologies.

## Project II

Project II is focused on redeveloping the Patardzueli-Samgori field at Middle Eocene level in licence XIB.

Patardzueli-Samgori produced at high rates (c. 70,000 bopd) in the 1970s-1980s before production suddenly ceased in the late 1980s, due to poor reservoir management practices and lack of capital investment. Approximately 180 MMbbl was produced during this time. Successful wells in this field were high-rate producers, with initial production rates in excess of 5,000 bopd.

Remaining contingent resource estimates (2022) ascribe a gross 2C contingent resource of 235 MMbbl (within Patardzueli-Samgori). In 2022, the Company deepened the JSR-01 well seeking to prove that deeper oil resources existed within the field. The well initially produced oil but declined to sub-commercial rates. However, it did prove that oil resources are deeper within the field and that, therefore, missed pay exists. Plans with regard to the development of Project II seek to identify and test undeveloped areas of the field and deliver commercial rates of oil production.

The Company's focus in 2023-2024 has been on Projects I and III and as such, limited study work and evaluation was completed on Project II during this time. In 2024, the Company is planning significant subsurface and production engineering work on this Project with the aim of developing a costed appraisal and development plan which will seek to unlock the significant potential thought to exist within the Patardzueli-Samgori Middle Eocene reservoir.

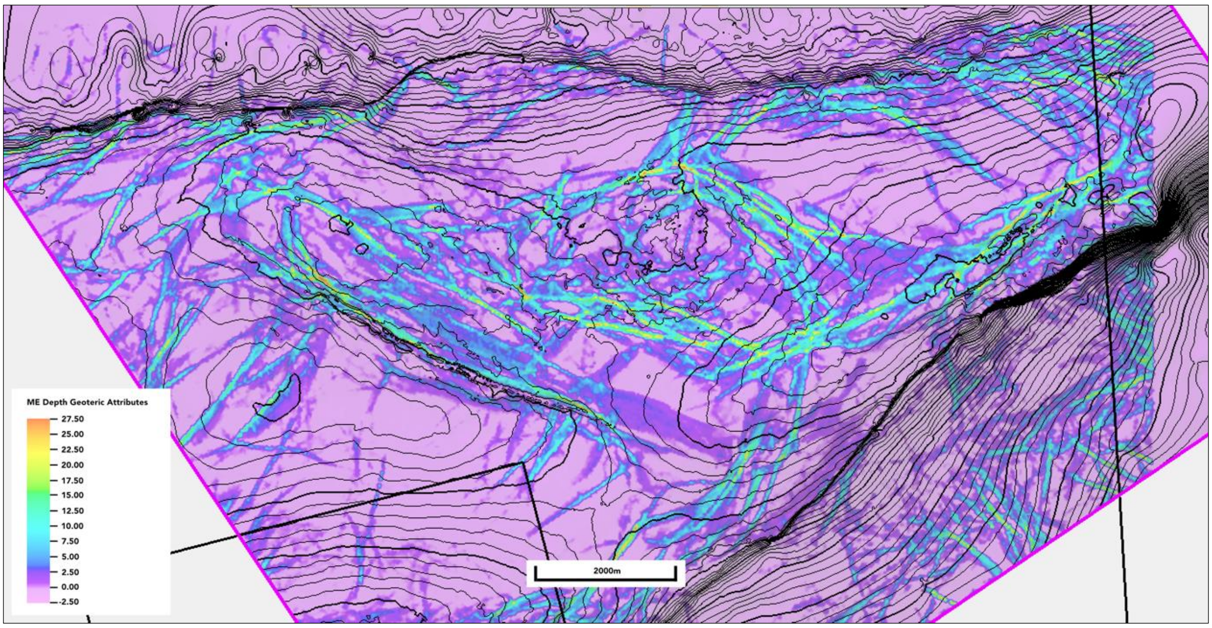


*Figure 3 - Project II image driven geophysical analysis for fracture identification & production correlation*

## Project III

Project III focusses on the appraisal and monetisation of the substantial discovered gas resources (2.77 TCF 2C gross contingent resources with an associated net present value ("NPV") 10 of $1.65 billion) at deeper intervals in the Company's XIF and XIB licences. These volumes are located within the Lower Eocene and Upper Cretaceous reservoirs.

Three fields have been identified within this Project: Patardzueli-Samgori, Rustavi and Teleti ("the Fields"). All three fields have gas proven on test from previous drilling. More than 15 wells have either discovered and/or produced gas from these reservoirs, with some tests being at high commercial rates.

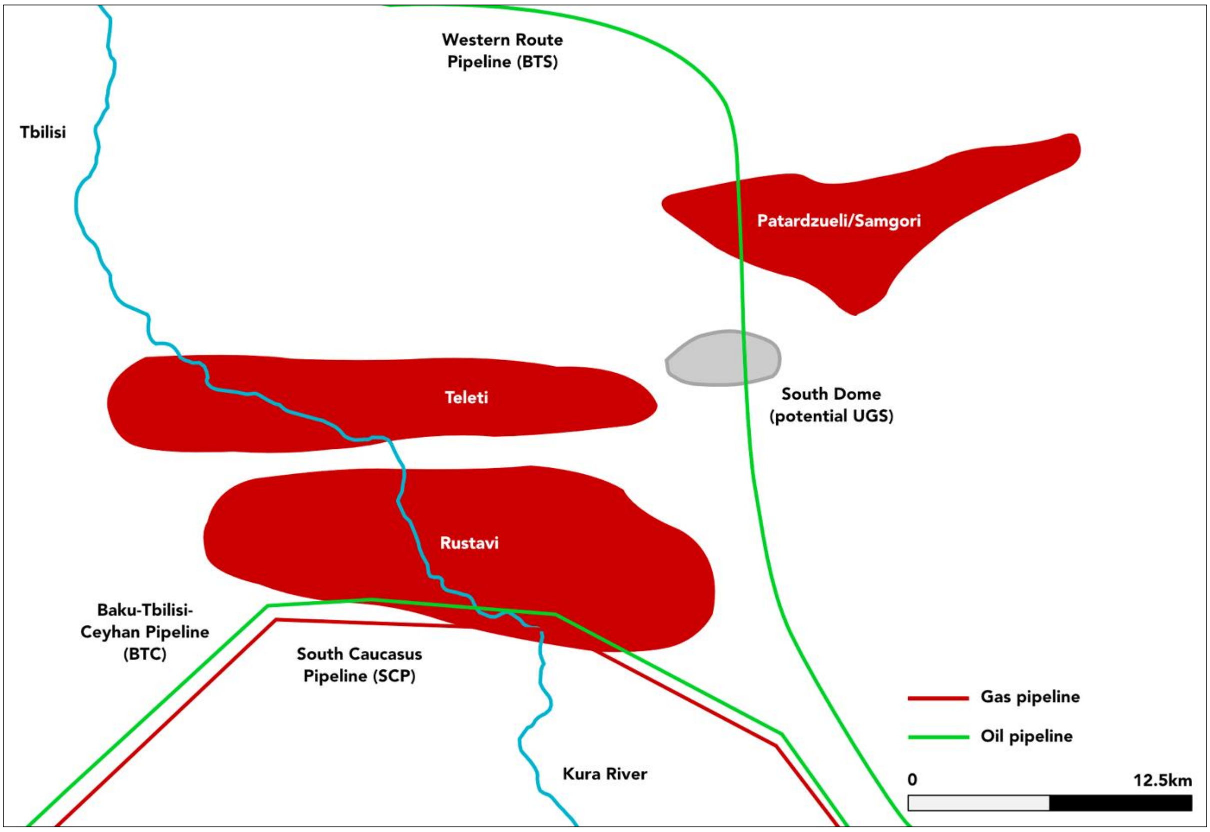


*Figure 4 - Project III field map at Lower Eocene depth*

The Company completed internal contingent resource estimates for these fields in 2023 and as part of this work developed costed appraisal and full-field development plans. This work (on Patardzueli-Samgori) was audited to PRMS standards by a leading geoscience consultancy, Oilfield Production Consultants (OPC) Limited ("OPC"), with the results of the audit being announced in early 2024.

OPC concluded that the Block Energy internal contingent resource estimations and methodologies were consistent with industry practice and in line with PRMS guidance.

Following the OPC report, the Company launched a farm-out process, seeking capital from industry to complete an appraisal campaign on the Patardzueli-Samgori field. The Company engaged a leading UK-based upstream advisor, LAB Energy, to manage an independent process in order to secure the best possible transaction for shareholders.

The target reservoirs are naturally fractured clastics (Lower Eocene) and carbonates (Upper Cretaceous) and are of significant thickness (1.0 km and 0.5 km in the Lower Eocene and Upper Cretaceous respectively). Significant subsurface work to identify the scale of the resource as well as the development concept has been completed. The fields benefit from full 3D seismic coverage as well as previous drilling, including the PAT-E1 well drilled by Schlumberger in 2018. Commercially, the field is well positioned for monetisation, with the major South

Caucuses Pipeline ("SCP"), transporting gas to Turkey and Europe within 15 km from the location of the planned Gas Processing Plant.

2C gross contingent resources for the fields are a total of 2.77 TCF (1,072 BCF Patardzueli-Samgori, OPC 2024; 1,062 BCF Rustavi, Block Energy 2024; 638 BCF Teleti, Block Energy 2024).

## Project IV

Project IV is focused on exploration and commenced in 2022 with the farm-out of two portions of Block XIB to Georgia Oil and Gas Limited ("GOGL") in a transaction which saw GOGL fund the acquisition and processing of 210 km new 2D seismic data and the reprocessing of 1,000 km existing seismic data within these areas, Didi Lilo and South Samgori areas (previously part of XIB). This transaction was announced in 2022 and completed in Q1 2023.

In 2023, GOGL as the operator continued exploration study work and data interpretation for the leads and prospects identified within both Didi Lilo and South Samgori. The primary achievement on this Project in 2023 was the completion of a DeGoyler MacNaughton independent prospective resource report which ascribed gross unrisked 2U prospective resources to the Martkopi Terrace prospect (part of which is in Didi Lilo) of 239.4 MMbbl and 193.3 BCF gas.

GOGL is continuing farm-out efforts on Project IV and has attracted regional National Oil Companies ("NOCs") and mid-sized companies into the data room. Discussions are ongoing and the Company hopes to see additional progress on this Project in 2024.

In addition to the partnership with GOGL on Didi Lilo and South Samgori, the Company also holds a 100% interest in exploration licence IX, which is believed to contain large exploration potential.

Resources will be allocated to advancing this license on the successful farm out of Project III. The minimum work programme on this license has been completed, and the title remains in good standing, providing yet another high-impact project for the Company to pursue as current strategic objectives are achieved.


*Figure 5 - Project IV seismic and well dataset*

## Carbon Capture and Storage (CCS)

In 2023, the Company engaged OPC to undertake a study of the Patardzueli-Samgori Middle Eocene reservoir for carbon sequestration potential. The study was led by Professor Eric Oelkers, a leading expert in the field of water-rock interactions and a co-founder of Carbfix, an operational carbon sequestration project in Iceland utilising the same technology as that proposed for Patardzueli-Samgori Middle Eocene.

The OPC report concluded that the field has the potential to store up to 256 million tons (MT) of $CO_2$ through the injection of $CO_2$ dissolved into water.

Further studies, with the aim of developing a pilot programme for $CO_2$ injection, are ongoing on this project, with the Company recently signing a Memorandum of Understanding ("MoU") with Rustavi Azot, a subsidiary of the major Asian industrial conglomerate, Indorama, for technical and commercial studies on the CCS project with the aim of delivering a pilot programme.

Given the proposed technology and the significant existing well stock in Patardzueli-Samgori field that could easily be reconverted to $CO_2$ injection, the costs estimated by OPC per ton of carbon stored were low, significantly lower than typical carbon storage projects.

The CCS Project is located within Georgia's industrial hub and benefits from being in proximity (less than 25 km) to sources of significant industrial $CO_2$ emissions, including a fertiliser plant, two gas-fired power stations and an oil refinery in addition to other smaller emitters all offering the potential to capture and transport $CO_2$ via pipeline or liquefication process to the Company's CCS pilot location.

The Company plans further development of this project throughout 2024 - in line with its long-term sustainability goals.

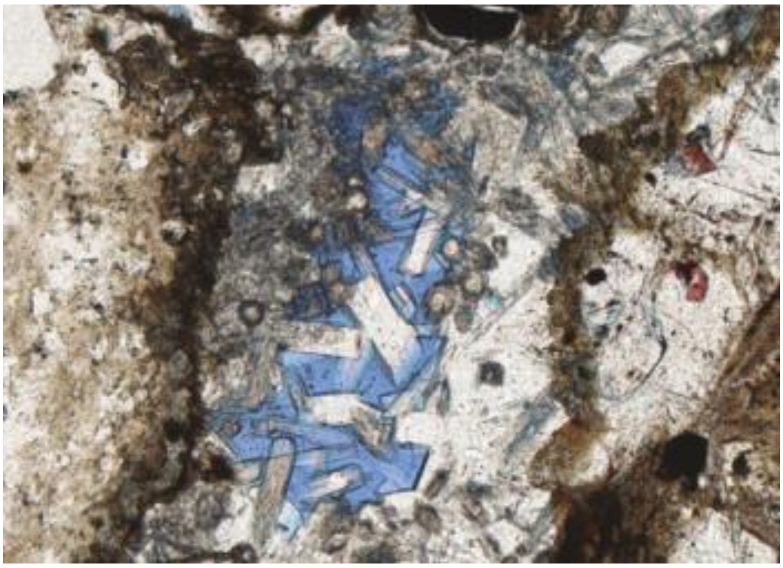

*Figure 6 - Zeolite cement occluding intergranular pore space*

The four Projects and the CCS opportunity give the Company a robust and balanced platform for growth. Block's activities range from low-cost development work focused on short-term cashflow to delivering on a major farm-out process targeted at unlocking a multi TCF gas resource. Exploration upside as well as a sustainability driven project are also within the extensive portfolio. The Company's primary focus is on delivering on these Projects through disciplined allocation of capital in order to continue to deliver on the high-impact Projects in support of providing strong shareholder returns.

Block made good progress in executing its four Project strategy in the year ended 31 December 2023:

- Continued focus on strong HSES practices, delivering an HSES management and improvement plan.
- Delivered 299,824 operational man-hours with one Lost Time Incident ("LTI"); (2022: 382,542 with no LTIs).
- Maintained good realised oil prices, whilst seeing a reduction in gross pricing caused by the reduction in the Brent benchmark. Average realised oil prices in 2023 were $69.71/bbl (2022: $83.34/bbl) with the Brent benchmark at an average of $82.49 (2022: $100.93).
- Maintained good realised gas prices with an average of $4.76/mcf received in the year (2022 $4.53/mcf).
- Successfully and safely drilled wells WR-B01Za and WR-34Z on time and on budget.
- Increased oil production, with a total of 151,184 bbls produced in the year (2022: 120,359 bbls) and increased gas production, with a total of 283 MMCF (2022: 267 MMCF) produced in the year for an average daily production rate of 543 boepd (2022: 452 boepd).
- Undertook work on Project I and II focused on non-productive time, facilities optimisation and netback improvement.
- Reduced cost of sales and administrative costs (excluding depreciation and depletion) in the year from 2022 by $549,000.
- Maintained a disciplined approach to capital allocation across the Company's portfolio.
- Significantly increased EBITDA to $1,469,000 from $158,000 in the prior year.
- Raised $2.0 million in the form of a secured loan to undertake drilling operations on Project I.
- Completed the Project IV farm-out, achieving a carried work programme including a new 2D seismic survey and seismic reprocessing, with the work programme being valued at over $3 million (gross).
- Completed the internal evaluation of Project III, covering the Patardzueli-Samgori, Rustavi and Teleti fields at Lower Eocene and Upper Cretaceous level. This work was subsequently (on the Patardzueli-Samgori field) audited to Petroleum Resource Management System ("PRMS") standards by a leading technical consulting firm and forms the basis for the farm-out campaign.
- Signed a Memorandum of Understanding with the Ministry of Economy and Sustainability covering, amongst other items, the strategic importance of Project III.
- Commenced work on the CCS opportunity with the independent evaluation being published in 2024.

# Chairman's Statement

**Dear Shareholder,**

2023 was a landmark year for our Company. Solid production, a laser focus on costs, and a supportive oil price environment has transformed our financial position. EBITDA has risen to $1,469,000, up from $158,000 in 2022, and income from operating activities (before impairment) has moved to a positive $74,000 from a negative $1,822,000 in 2022.

Supported by robust finances we took a major step forward to unlocking the potential of the multi-TCF gas resource across our licences, launching a farm-out process to accelerate the development of an asset declared a strategic resource by the government of Georgia. We reported that our assets may also hold potential for a major CCS opportunity, publishing an independent study indicating the Patardzeuli-Samgori licence has the geological and geographical conditions to support one of the biggest $CO_2$ storage facilities in Europe. And we have made progress towards realising a fourth exciting venture, Project IV, where a farm-out led to two seismic surveys that formed the basis for an independent prospective resource report that has attracted several interested parties to the data room.

Our focus on these high impact opportunities has been made possible by continued progress with Project I, which has seen the drilling of three successful wells and a well maintenance programme, and the ongoing reduction of the Company's cost base through unrelenting focus on the optimal allocation of capital and scrupulous attention to operational efficiency.

Our drive for operational efficiency continues to respect our absolute commitment to excellent HSES and sustainability. HSES remains the first item on the agenda at both Board and daily operations meetings, entrenching and refining best practice through proven monitoring and training processes.

We continue to maintain and develop excellent relationships both with our business partners in Georgia and with the country's regulatory authorities. Georgia maintains conditions for long-term investment through its robust fiscal framework, sympathetic regulatory environment and established pipeline network, proximate to the Company's licence areas and connected to domestic and export markets. The country has further strengthened its ties with the international community, in 2023 achieving acceptance as an EU candidate nation, and has attracted new foreign direct investment, notably through participation in China's Belt and Road initiative.

Block continues to be led by a highly engaged and active Board with deep and wide experience of the Caucasus and the international energy sector, able to offer strong leadership and enforce rigorous corporate governance across the organisation.

I would like to thank all of our team for their professional contribution to our progress through 2023. I have every confidence both in our strategy and our ability to deliver it and look forward to continuing to represent the Company as we pursue an ever more extensive and prospective range of projects.

Philip Dimmock
**Non- Executive Chairman**

## Chief Executive Officer's Statement

**Dear Shareholder,**

Our progress through 2023 demonstrated the promise of our four-project strategy to deliver strong finances and open exciting new opportunities.

The Company is cashflow positive, achieved through solid production from our Project I wells and disciplined capital allocation. The farm-out of the multi-TCF gas opportunity identified by Project III is underway. The full potential of Project II is becoming clear. We have identified and progressed a major CCS opportunity with partners Indorama Corporation Pte Ltd. and we have maintained our excellent HSES record. We have much to look forward to through 2024 as we continue to work to deliver value for all shareholders.

**HSES and Sustainability**

The Company continued its record of delivering safe operations in 2023. Despite an intensive work programme in which more than 299,824 man hours were worked, only one minor Lost Time Incident ("LTI") was recorded over the 12-month period.

This achievement highlights the strength of our management structures, our uncompromising focus on HSES practices, and the safety culture embedded within the Company: we have a stand-alone HSES department with its own budget; we follow the safety triangle approach; and we operate an observation/stop card system together with permits-to-work.

We continue to minimise our environmental footprint, designing every operation to mitigate the risk of oil spills, gas flaring or other environmental damage.

In 2023 we demonstrated our ongoing commitment to local communities by offering significant employment and training opportunities, as well as working with local authorities to deliver social programmes to complement our drilling and workover campaigns.

**Operations**

Project III took a major leap forward in 2023. We continued to define the Project's potential through a comprehensive field development study, amalgamation and interpretation of various 3D seismic surveys, and third-party conceptual development engineering before signing an MoU with the state of Georgia which declared the Project's strategic importance and supported the concept of a long-term gas offtake. An independent engineering report by leading geoscience consultancy OPC, published in Q1 2024, attributed more than 1 TCF of 2C contingent resources to the Project's Patardzueli-Samgori field, with an NPV exceeding $500 million. An internal 2C resource upgrade for the Rustavi and Teleti fields boosted Project III's resource potential by a further 1.77 TCF, taking the reports' collective estimate for the Patardzueli-Samgori, Rustavi and Teleti fields to 2.77 TCF, with an NPV[10] of $1.65 billion.

We commenced a farmout process for Project III in Q1 2024 facilitated by a leading independent energy consultancy with an international network of contacts encompassing the key Asian and US markets. With its estimated resource, fully costed appraisal programme, and connectivity to Europe's pipeline infrastructure, Project III promises to make a major contribution to the region's growing energy needs. The level of interest we have received so far is encouraging and we look forward to providing further updates as we progress.

The value of Block's assets was further confirmed by the publication of an independent study which indicates the presence of a major CCS opportunity. With an estimated reservoir scale storage of 256 million metric tonnes, and basin scale capacity of up to 8.7 gigatonnes, the Middle Eocene reservoir within our Patardzeuli-Samgori licence has the right geology and geography to become one of the biggest $CO^2$ storage facilities in Europe. It offers the ideal conditions for mineralisation, a highly efficient and proven form of sequestration already being used for a leading CCS project in Iceland. And the reservoir's location in central Georgia make it ideally placed to serve as a regional net-zero hub.

A Memorandum of Understanding was signed post-period with the Georgian subsidiary of Indorama Corporation, one of Asia's leading chemical companies, with which Block is working to define a pilot $CO_2$ injection project. With EU Emissions Trading Scheme ("ETS") prices at around $60/ton, and an estimated cost to store of approximately $12 per ton, the agreement is a significant step forward to developing a commercial pathway toward project development. With upstream and downstream synergies critical for any CCS project, brownfield infrastructure available for re-use, and the conditions for low-cost proven technology, we are excited by how quickly this project continues to develop.

Project IV also saw good progress through the completion of the farmout agreement for the Didi Lilo and South Samgori areas of License XIB to Georgia Oil & Gas (GOG). Under the terms of the agreement the Company farmed-out 50% of the licences for a work programme valued at over $3 million (gross). This included the acquisition and processing of 210 km of 2D seismic data and the reprocessing of 1,000 km of existing seismic data. GOG has subsequently met the requirements of this work programme, further enhancing our understanding of the Project's potential. A DeGoyler MacNaughton independent prospective resource report, commissioned by GOG in the year, attributes 2U unrisked prospective resources of 239.4 MMbbl and 193.3 BCF gas.

While much of the emphasis in 2023 was on Projects III and IV, and the CCS opportunity, we continue to look forward to developing Project II, which will be a key focus for our subsurface team in 2024.

Promotion of our high impact opportunities has been underpinned by the continued progress of Project I. In 2023 average production increased to 543 boepd, up from 452 boepd in 2022, driven by the safe drilling of WR-B01Za and WR-34Z, and a programme of well maintenance encompassing 10 workovers and operational initiatives which significantly reduced non-productive time from key production wells. All this was pursued with an unrelenting focus on the optimal allocation of capital, and focus on driving operational efficiency.

We would like to pay special thanks to Guram Maisuradze, promoted in 2023 to Chief Operating Officer, for leading these efforts. As the year progressed, with our revenues supported by good production performance and commodity prices, we decided to pause Project I drilling to dedicate resources to progressing our high-impact gas resource and CCS projects.

**Sales**

Over the period the Company sold 106 MMbbls of oil in 2023 (2022: 90 MMbbls), at an average price per barrel of $67.53, and 199 MMCF of gas (2022: 170 MMcf) at an average price of $4.76/MCF.

Despite the increase in production, our revenue was broadly flat at $8,366,000 (2022: $8,262,000) owing to average Brent prices decreasing in the year from $100.93 to $82.49. As at the period end, the Company had 16 Mbbls of oil in storage (2022: 9 MMbbls).

**Financials**

Block saw its financial position much improve in 2023, with the Company seeing results from operating activities (before impairment) move positive for the first time in the Company's history, a positive $74,000 in 2023 against a negative $1,822,000 in 2022.

We decided to fully impair the carrying value of the Norio and Satskhenisi assets on the balance sheet to reflect these assets' non-core status within the portfolio. Whilst they remain in production recording a modest positive cashflow, we currently do not plan to develop them, taking a prudent approach to accounting for them as explained in our Financial Review. We have, therefore, taken an impairment charge of $2,210,000 (2022: nil), which sees the total comprehensive loss for the year increase from $1,160,000 (2022) to $2,139,000 (2023). The underlying accounts, however, reflect the substantial improvement in overall financial and operating performance that was achieved in the year.

EBITDA grew substantially in the year, from $158,000 (2022) to $1,469,000 in 2023. This was achieved on broadly flat revenues; reflecting the very significant amount of work that was undertaken in 2023 to improve netbacks and reduce costs.

Our cash position also improved, with the Company ending the year with $713,000 (2022: $450,000) in cash and $971,000 in trade and other receivables (2022: $560,000). As well as an increase in cash and receivables, trade and other payables significantly decreased to $1,176,000 from $1,693,000 in 2022.

We reduced the cost of sales (before depreciation and depletion of oil and gas assets), administrative costs and share based payments, ending the year in a substantially stronger position than we entered it.

We closed a senior secured $2.0 million loan during the year with various existing shareholders and members of the Block management team, which was used to fund Project I development drilling, including WR-B01Za, WR-34Z and the procurement of various long-lead items for the next planned well, KRT-45Z. All interest payments were made on time.

**Outlook**

Block's focus remains on delivering value from its high-impact assets, supported by cashflows from Project I. Our immediate focus is to progress the Project III farm-out and the CCS project. Work is also underway to secure partners for Project IV and, in due course, Project II.

I would like to thank all of our shareholders for joining us on our exciting journey through 2023, and I look forward to reporting on our progress against plan throughout 2024.

Paul Haywood
**Chief Executive Officer**

## Financial Review

**Impairment**

Following a review of the Company's assets and strategy, we elected to fully impair the carrying value of both Norio and Satskhenisi. The review concluded that it was unlikely that significant capital would be deployed to develop these assets given that significantly higher quality and impact opportunities are available elsewhere within the Company's portfolio. Both Norio and Satskhenisi are cashflow positive and contribute to the overall Group positive cashflow, however the carrying value was, to some extent, based upon additional work programmes, such as drilling of new wells and additional workovers, which required capital now being allocated to other higher impact projects.

The Company believes that potential remains within both assets, particularly in the sphere of unconventional oil; however, given the Four Project strategy, these assets have been assessed as non-core and will in due course, be subject to farmout or sale. Therefore, for prudent financial reporting reasons, their carrying value has been fully impaired.

**Cash Generative Units**

The Company currently reports on the basis of Cash Generative Units ("CGUs") associated with West Rustavi, Rustaveli, Norio and Satskhenisi.

In light of the impairment of Norio and Satskhenisi, as well as the Company's well-communicated multi Project strategy, with Project I being the development of the Middle Eocene in the West Rustavi/Krtsanisi field straddling licences XIB and XIF and Project III incorporating the development of reservoirs also within licences XIB and XIF (and therefore within both the West Rustavi and Rustaveli CGUs), the Company is reviewing its financial reporting process and it is likely that for 2024 the Company will either report on the basis of a singular CGU (owing to the proximity of the licences and fields) or alternatively on a Projects basis (owing to the different stage of development between Projects I, II, III, IV and CCS).

**Income Statement**

The Group's revenue from oil and gas sales increased to $8,366,000 (2022: $8,262,000). The current year revenue from sales of crude oil of $7,413,000 (2022: $7,492,000) comprised the sale of 106,000 barrels (2022: 89,900 barrels), which equated to an average revenue per barrel of $69.93 (2022: $83.34). The lower revenue was associated by a fall in the benchmark Brent price between 2022 and 2023.

During the year, the Group produced 151,185 barrels of crude oil (2022: 120,369 barrels), with the increase in production being primarily due to the WR-B01Za well which was brought onto stabilised production in late March 2023. Performance from existing wellstock was also good during the year. Gas production stood at 282 MMCF (2022: 267 MMCF). This gross production figure includes the State of Georgia's share of production before cost recovery and profit sharing.

In addition, the Group had 16,611 barrels of crude oil inventory as at 31 December 2023 (31 December 2022: 9,000 barrels).

In the year, the Group sold gas to the value of $953,000 (2022: $770,000).

The total comprehensive loss for the year was $2,139,000 (2022: $1,160,000); the underlying cause of this is the $2,210,000 impairment charge associated with the decision to fully impair Norio and Satskhenisi.

With respect to operating activities before impairment, the Group delivered a profit of $74,000 (2022: loss of $1,822,000). EBITDA significantly improved to $1,469,000 (2022: $158,000) and this was achieved on broadly flat revenues, highlighting the Company's hard work and commitment to cost control and spending discipline during the year. Cost of sales (before depreciation and depletion of oil and gas assets) fell by $166,000. Other administrative costs fell by $383,000 (despite the end of salary sacrifice). Share based payments also fell by $658,000 in the year.

Overall, in 2023 the Company's financial performance strengthened significantly and the Company is well positioned for growth.

**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 12 months from the date of signing these financial statements. The Group's forecasts are reviewed regularly to assess whether any actions to curtail expenditure or cut costs are required.

The Group's operations presently generate sufficient revenues to cover operating costs and capital expenditures, supporting the continued preparation of the Group's accounts on a going concern basis.

The directors are nevertheless conscious that oil prices have been volatile during the past few years and could rise further but could also fall back in the year ahead, and that future production levels depend on both depletion rates from existing wells and the success of future drilling.

The directors also recognise that the outstanding $2.0 million secured loan is due for full redemption in August 2024 and that there are scenarios in which the Company may not be in a position to settle this liability on time. Nonetheless, the directors remain confident that the loan can either be repaid or renegotiated, or that new lenders could take a portion, or that other financing options will become available to the Company, and therefore judge that the Company retains sufficient flexibility and optionality around the loan to prepare the accounts on a going concern basis.

As part of their going concern assessment, the directors have examined multiple scenarios in which oil prices and/or future production levels fall substantially and have concluded that it remains possible that future revenues in at least some scenarios might not cover all operating costs and planned capital expenditures, creating a material uncertainty that may cast doubt over the Group's ability to continue as a going concern. Whilst acknowledging this material uncertainty, the directors remain confident of making further cost savings if required and, therefore, the directors consider it appropriate to prepare the financial statements on a going concern basis. The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

**Results and Dividends**

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

- The Group has incurred a pre-tax loss of $2,213,000 (2022: loss of $1,608,000).
- The Group achieved positive EBITDA of $1,469,000 (2022: $158,000).
- The Group has net assets of $25,706,000 (2022: $27,200,000).
- The Directors do not recommend the payment of a dividend (2022: $nil).

## Principal Risks and Uncertainties

There are general risks associated with the oil and gas extraction industry as well as those specific to Block Energy. The Board through the Audit and Risk Committee regularly reviews the risks to which the Company is exposed and endeavours to mitigate these risks as far as it can. Given the current size and simplicity of the business, the Board considers that there is no immediate necessity to establish an independent audit function.

The following summary outlines the principal risks and uncertainties facing the Company 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 either internally or in surrounding countries. Georgia has had ongoing territorial disputes with Russia since Georgian independence in 1991. These disputes have led to sporadic short term violence and any escalation of such issues could impact the Group operationally, logistically or financially. | The Board monitors all political developments on an ongoing basis and receives regular reports from senior management in Georgia around the political and security situation. This ensures that swift action can be taken if required. |
| Risks associated with inorganic growth (such as overpaying or conducting insufficient due diligence). | Any acquisition of new oil, gas or energy assets might negatively affect the Group's cash flows, operating results or financial condition. | The Group has the skills and expertise to manage acquisitions and retains both in-house and external expertise for due diligence and asset evaluation. All potential acquisitions are reviewed from a strategic, technical, commercial, operational, HSES and financial perspective. |
| Financial Risk | | |
| Oil and gas prices may decrease significantly. | Significant decreases in oil or gas prices over a sustained period would negatively affect the Group's cash flows, operating results and financial performance. | Capital commitments and operating costs are routinely reviewed by the Board and planned spending is examined in the context of prevailing oil and gas prices. Regular detailed cashflow forecasts are reviewed and discussed and sensitivities relating to oil and gas prices are carefully considered. In the event that oil and gas prices decreased significantly, the Board would review company-wide costs and development programmes and react appropriately. |

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| Currency exchange rate fluctuations may negatively affect the Company. | The Group's consolidated financial statements are presented in United States Dollars. The major portion of both revenues and costs are denominated in United States Dollars also. However, part of its revenues are expressed and certain costs are incurred in British Pounds Sterling, Georgian Lari and other currencies. Changes in exchange rates may impact the Group's cost base and financial reporting. | The Company seeks to minimise its exposure to exchange rate fluctuations by primarily contracting in United States Dollars where possible. Where this is not possible, the Company reviews risks associated with foreign exchange and assesses hedge products from a cost/risk perspective. |
| Capital investment cost. | Higher costs than anticipated might negatively affect the Group's cashflows, operating results or financial condition. | The Company regularly reviews its planned capital investment programme and seeks to optimise cost. Proposed plans are scrutinised by management and robust procurement and tendering strategies are in place to ensure that costs are within forecasts. Regular cost reviews occur and cost performance is tracked during operations. Over its history, the Company has a good record of delivering wells and projects to budget. |
| Capital investment programmes may require third party finance. | The Company's development strategy will require significant capital to fully exploit its potential. The Company will need to generate free cash from its operations and may require third-party finance (either debt or equity, with associated capital cost) to be able to fund these costs, depending upon the spending profile of the development programmes, the oil and gas production rates and the prevailing oil and gas price.<br><br>The ability of Block Energy to arrange financing in the future will depend in part upon the prevailing capital market conditions, the perceived risk associated with Georgia, and business performance of the Company. Fluctuations in oil and gas prices may affect lending policies for potential future lenders. This in turn could limit growth prospects in the short-term or may even require Block Energy to divert existing cash balances or cash flows from other intended purposes (e.g. capital expenditure). | The Board is proactive in identifying possible business risks and funding shortfalls. A fund warning structure is in place, which is activated when funding levels reach certain low cash resource parameters and capital spending is judged on a case-by-case basis. This ensures that the Company's planned development programmes are affordable.<br><br>The Company maintains regular reporting structures, so that all issues are quickly identified by the Board, be it operational or financial in nature.<br><br>The Company maintains frequent contact and dialogue with institutional and industrial providers of debt, equity and offtake finance.<br><br>The Company also plans to mitigate the risk associated with Project IIII and IV, by farming out a portion of |

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| | | its interests in return for a contribution to the capital costs. |
| Over-reliance on one gas purchaser and few oil purchasers. | An inability to sell oil or gas would negatively affect the Company's cashflows, operating results or financial condition. | The Company maintains regular dialogue with local and regional oil and gas buyers and seeks to ensure that commercial relationships with existing purchasers are strong.<br><br>The Company's sales contracts are linked to international benchmark prices. |
| Operational Risk | | |
| Poor production performance. | Less cash flow than expected from operations might negatively affect the Company's cashflows, operating results, investment plans or financial condition. | The Company maintains a prudent approach to production forecasting and adopts conservative production forecasts in budgets and cashflow forecasts.<br><br>The Company operates multiple assets with varying risk, capital and production profiles which enables it to spread the risk of production performance across its various licences. |
| Permits, licences and leases. | The Company's operations and development plans require permits, licences and leases from various national and local governmental authorities in Georgia. The Company may not be able to obtain all necessary permits, licences and leases that are required to carry out its development and exploration programmes in a timely manner. In such events, the Company's development projects may take longer than planned and cashflows, operating results and financial performance may be affected negatively.<br><br>If the Company's existing permits, licences and leases were to be terminated or withdrawn, such an event could have an adverse effect on the Company's operations. | The Company is strongly committed to compliance with all aspects of Georgian legislation and the PSCs. The Company employs specifically qualified and experienced individuals in Georgia who are familiar with the PSCs and national and local legislation and who have experience of obtaining operating permits.<br><br>The PSCs contain provisions obliging the government of Georgia to co-operate fully with the Company in obtaining all of the necessary consents and permits. The Company additionally engages with local stakeholders and representatives to ensure that local support for the Company's operations is present. The Company also has its fiscal and operating performance under the PSCs audited annually by an independent auditor, currently PwC, and ensures that plans, permit requirements and other relevant information are |

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| | | communicated to the government's representative under the PSC's (Georgian Oil and Gas Corporation) at quarterly coordination committee meetings. |
| The proposed development plans are subject to operational risks. | Drilling and workover campaigns performed by the Company involve potentially complex and difficult technical operations in which there are inherent risks. Such risks include health and safety, geological uncertainty, well control issues, community opposition, mechanical failure, human error, errors in operational planning and the encountering of unforeseen difficulties during operations. | Heavy industrial activities are associated with risks that cannot be eliminated. The Company seeks to mitigate them by ensuring it has robust HSES policies, an HSES department, a rigorous focus on HSES from the Board downwards as well as employing experienced professionals to plan and execute operations. Additionally, the Company employs a full-time subsurface team and has access to industry-leading structure and reservoir evaluation software.<br><br>The Company has drilled and worked over in excess of 125 wells since it commenced operations in Georgia and has developed a strong understanding of the human, mechanical, operational and subsurface risks associated with such operations. |
| HSES Risks | | |
| Accidents and risks associated with operations (e.g. blowout, fire, injury). | Serious accidents can result in a shut-down of operations, injury or loss of life, damage to equipment or property, damage to the environment and a loss of credibility and/or licence. | The Company has robust HSES policies and has an emergency response plan which is reviewed by the operations department and the Board regularly. The Board is heavily invested in HSES policy, procedure and culture and has established an HSE Board committee to review the Company's performance, plans and responses to incidents.<br><br>The Company employs a full-time HSES department and regularly trains staff in HSES management. Daily worksite safety meetings, an observation card system and an HSES reporting function strengthen the Company's HSES performance. PPE is provided to all field working staff. The Company provides on-site medical facilities during drilling operations and routinely inspects equipment for signs of damage or |

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| | | potential failure and tests equipment prior to use. HSES reviews are undertaken prior to any operation. |
| Environmental contamination caused by oil and water spills. | Serious environmental contamination can lead to a shut-down of operations and a loss of credibility and/or licence. | The Company continues to repair and upgrade its wells and production facilities to reduce the risk of spills and equipment failure.<br><br>In 2022, a Board level ESG committee was established to ensure that the Company's commitment to environmental best practice was enhanced.<br><br>The Company undertakes training for field-based staff to improve operating procedures and reduce the risks of environmental contamination from the Company's operations. |
| Legal and Compliance Risks | | |
| Non-compliance with laws or regulations. | The Company may incur penalties, fines or loss of reputation. | The Company has a strong compliance framework and employs experienced directors, staff and advisors. The Company has robust policies and procedures and ensures that it complies with all laws or regulations to which it is subject to. |
| Fraud, bribery or corruption. | The Company may suffer financial loss, incur penalties or fines or a loss of reputation. | The Company has a strong fraud, bribery and corruption framework and accords the highest standards to corporate governance matters.<br><br>The Company employs suitably qualified directors and staff with knowledge of compliance and best-practice financial and operational methods. An annual certification scheme is run by the Company's Legal Council covering all staff (not just management) and management staff and other key staff members have clauses in contracts disallowing bonuses in the event of companywide maleficence. The Board is attuned to these risks and standing board agenda items cover them. Finally, the Company employs an independent third-party auditor to |

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| | | audit the Company's financial statements and governance methods and additionally employs a third-party independent auditor to audit costs and revenues under the PSCs. |
| Organisational Risks | | |
| Dependence on key relationships including the State of Georgia and Georgian Oil and Gas Corporation ("GOGC"). | The success of the Company and the effective operation of the Company's interests in Georgia is dependent in part on good relationships and co-operation with key governmental parties, including the national government and the authorised representative of the government under the PSCs, GOGC.<br><br>The State is a counterparty to the Company's PSC. Accordingly, if the State, its Agency (State Agency of Oil and Gas) and/or GOGC cannot cooperate with each other or the Company, it could harm the business, operations and prospects of the Company. | The Company maintains regular communication and dialogue with the State, the State Agency of Oil and Gas and GOGC through the Company's directors and senior management.<br><br>The Company attends a quarterly coordination committee meeting with GOGC (as specified by the PSCs) in which the Company discusses production performance, development plans and financial results and agrees outline budgets and performance against such budgets.<br><br>In addition, the Company also has its fiscal and operating performance under the PSCs audited annually by an independent auditor, currently PwC. |
| Dependence on key executives and personnel, employee retention and recruitment. | The Company has a comparatively small number of key staff and management personnel. The future success of the Company depends partially on the expertise of the Directors and senior management. The loss of key personnel and the inability to recruit additional key personnel could have a negative effect on the Company's future business and trading results. In addition, the loss of the services of the Executive Directors or other key employees could damage the Company's business. | The Executive Directors have notice periods of no less than three months to ensure sufficient time to hand over responsibilities in the event of a departure.<br><br>The Remuneration Committee regularly evaluates compensation and incentivisation schemes to ensure that the Company's package is competitive. |

## Statement of Corporate Responsibility

Block Energy PLC has a practical and open approach to Corporate Responsibility: our programme is focused on doing the right thing, managing risk and investing sustainably in the community in which we operate.

**Impact of Culture on Decision Making**

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

For Block Energy this means:

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

The Company has prepared several detailed Environmental Impact Statements ("EIS") to cover its operations. These have been submitted to and discussed with the Georgian authorities.

**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 operations. To achieve this, as an integral part of our business, we:

- Have established a board-level HSE and ESG committee which meets regularly.
- Identify, assess and manage 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, at 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 our business activities.
- Provide the necessary leadership, training and resources to enable effective HSES management throughout our organisation.
- Strive to prevent and minimise the impact of our operations on the environment.
- Ensure continuous improvement of HSES performance by setting objectives and targets and apply focused auditing, reviews and external benchmarking.
- We select competent staff, contractors and suppliers to manage and support the business.
- Ensure that the highest 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 that lessons learned are shared.
- Consult with and respond to the concerns of our stakeholder on our health, safety environmental and social performance.
- Ensure that HSES policy is communicated to all staff and contractors and that it is clearly displayed in all Block Energy premises and operational sites and made publicly available.
- Empower the Company's directors, employees and contractors to take responsibility for maintaining high HSES standards.

**Section 172 (1) Statement and Stakeholder Engagement**

The Directors believe they have acted in the way most likely to promote the success of the Company for the benefit of its members as a whole, as required by s172 of the Companies Act 2006.

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 our staff is essential for ensuring an understanding of commitment to the Company's objectives.<br><br>As an oil and gas exploration and production company we have particular health, safety, environmental and social obligations (see "Communities and Environment" below). | Management in London and Georgia have daily team meetings. The wider international team has a weekly meeting. The Executive Director and senior management make regular trips to Georgia to work with our staff onsite. The management team have regular one-on-ones with every staff member and transparent performance targets are mutually agreed.<br><br>We also undertake training and development sessions (particularly around HSES, compliance and event prevention) and ensure that our staff are properly motivated and included within the Company's aims and objectives. |
| **Shareholders.** We provide transparent, accessible, regular and balanced information to our shareholders and investors to ensure support and confidence. | Understanding the perspectives of our shareholders and their sentiment regarding the business, its prospects and the performance of management as well as meeting regulatory requirements. | We publish announcements on the London Stock Exchange's website and our website and across our online channels.<br><br>Interviews with our directors and senior management are published as videos or podcasts and accessible to a large audience. We operate an investor mailing list subscription service. We issue regular updates to our corporate presentation. We attend investor relation events and meet with industry analysts. We publish our annual and interim accounts and are physically available for any shareholder at the AGM. We hold one-to-one sessions with our largest shareholders. |
| **Industry Bodies, Local and National Governments.** Our operations and business practices must meet certain legal and regulatory requirements. | We work hard to meet our regulatory obligations to retain our good standing with regulators, the Georgian government and the wider oil and gas sector. Our relationship with the local and national government is a key to our success and has taken a long time to develop. | We adhere to Georgian state regulations and since inception, have maintained good standing on all interests associated with its working interest in all Production Sharing Contracts. We commit to fulfilling our AIM obligations. We engage an independent auditor to perform an audit of the Company's processes and financial risks. We engage an independent auditor in Georgia to ensure our local financial reporting meets local standards and regulations. We have developed comprehensive Market Abuse Regulations ("MAR") and anti-bribery policies. We take legal compliance extremely seriously. |
| **Communities and Environment.** Our operations are | We understand that our operations can have negative effects on the local | We have written HSES policies and ensure that all staff and contractors adhere to such policies. HSES performance is embedded into the director's and senior |

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|---|---|---|
| embedded in a complex local economic and environmental ecosystem. | economy or environment if not properly managed and if risks are not properly mitigated. We place the highest focus on ensuring that our operations are conducted in a safe, responsible manner and that we make a positive contribution to local communities. | management's performance targets. We have a strong focus on HSES and ensure that it is embedded in to all of our operational and management processes and receive daily reports on HSES compliance. We investigate all HSES policy breaches and work to remedy them.<br><br>We maintain two board-level committees, the HSE Committee and the ESG Committee which are tasked with further developing our policies, compliance and performance. We monitor and report emissions and environmental performance. We work with National and Local government to support the communities in the areas where we operate and invest in local community programmes. We provide employment and personal development opportunities for all employees, whilst further extending this support, into the local communities in which we operate. We also maintain a website for our operating company, Block Operating Company, in the Georgian language to ensure local communities and more broadly, people of Georgia, can remain informed on our Company's activity. |
| **Suppliers.** We engage contractors and purchase from a wide range of suppliers, around the globe. | We recognise that our suppliers and contractors are essential to our operational and financial success and understand that third parties working on our operations can impact our HSES policies. | We integrate our MAR, anti-bribery and HSES policies into all agreements with contractors. Where contractors are working in our operations we ensure that HSES briefings and training are undertaken.<br><br>We have robust financial processes for settling our invoices with our contractors and service providers and take care to ensure we source products and services from ethical suppliers. Where possible and commercially competitive, we try to ensure goods are sourced locally, so to support local businesses. |

The Board is responsible for establishing and communicating policies and procedures for risk management and internal controls. We recognise that risk management is an essential business practice and we work to balance risk, return, threat and opportunity. We maintain a detailed risk register which is routinely reviewed by the Audit and Risk Committee and the Board.

**Climate Change**

In today's oil and gas sector stakeholders and investors are keenly interested in 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, we aim to flare zero gas and reduce our carbon dioxide emissions as much as possible. We have established a Board-level ESG committee with a remit to build on and improve our environmental processes and policies. In 2023, we began work on a carbon capture storage project in line with our long-term sustainability goals.

We are aware of the changing regulatory landscape in the UK, particularly with the incorporation of disclosures under the Task Force on Climate-Related Financial Disclosures ("TCFD") to LSE main board companies and we will comply with any requirements imposed by the AIM Rules for Companies.

## Board of Directors

The current Board consists of three directors: two independent non-executive directors and an executive director.

**Paul Haywood | Chief Executive Officer**

*Committee Memberships: Nominations Committee, ESG Committee, HSE Committee.*

Paul is the founder of Block Energy and has more than 13 years' experience in the Georgian oil and gas sector, having identified, managed and completed the acquisition, development and sale of several oil and gas assets before establishing Block Energy. More broadly, Paul has spent much of his career building growth projects, leveraging a cross-functional skill set encompassing strategy, implementation, capital and transaction management. Paul is currently a non-executive director of AIM quoted Synergia Energy plc, where he is Chairman of the Remuneration Committee and resource focused advisory firm, Plutus Strategies.

*Key skills and competencies: Vast capital markets and global energy experience, Georgia knowledge and strong project delivery record.*

**Philip Dimmock | Non-Executive Chairman**

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

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

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

**Jeremy Asher | Senior Independent Non-Executive Director**

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

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

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

The Strategic Report was approved by the Directors and signed on behalf of the board on the 22 May 2024.

Paul Haywood
**Director**

# Report of the Directors

The Directors present their report and the audited financial statements of Block Energy PLC ("the Company") for the year ended 31st December 2023.

## Principal Activity

The principal activity of the Company is oil and gas exploration, development and production.

## Incorporation and Admission to Trading on AIM

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

## Results and Dividends

The results for the year are set out on page 17.

This Report covers the year ended 31st December 2023.

The Directors do not recommend the payment of a dividend (2022: $nil).

## Review of Business and Future Developments

A review of the business and likely future development of the Company is set out in the Chief Executive Officer's Statement on pages 13-15.

## Going Concern

The directors have prepared cash flow forecasts for a period of 12 months from the date of signing these financial statements. The Group's forecasts are reviewed regularly to assess whether any actions to curtail expenditure or cut costs are required.

The Group 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 12 months from the date of signing these financial statements. The Group's forecasts are reviewed regularly to assess whether any actions to curtail expenditure or cut costs are required.

The Group's operations presently generate sufficient revenues to cover operating costs and capital expenditures, supporting the continued preparation of the Group's accounts on a going concern basis.

The directors are nevertheless conscious that oil prices have been volatile during the past few years and could rise further but could also fall back in the year ahead, and that future production levels depend on both depletion rates from existing wells and the success of future drilling.

The directors also recognise that the outstanding $2.0 million secured loan is due for full redemption in August 2024 and that there are scenarios in which the Company may not be in a position to settle this liability on time. Nonetheless, the directors remain confident that the loan can either be repaid or renegotiated, or that new lenders could take a portion, or that other financing options will become available to the Company, and therefore judge that the Company retains sufficient flexibility and optionality around the loan to prepare the accounts on a going concern basis.

As part of their going concern assessment, the directors have examined multiple scenarios in which oil prices and/or future production levels fall substantially and have concluded that it remains possible that future revenues in at least some scenarios might not cover all operating costs and planned capital expenditures, creating a material uncertainty that may cast doubt over the Group's ability to continue as a going concern. Whilst acknowledging this material uncertainty, the directors remain confident of making further cost savings if 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 the applicable commercial and operational risks. Regular reviews of risks and management of these are undertaken and presented to the Board. The Group maintains an Audit and Risk Committee and a Risk Register.

## Principal Risks and Uncertainties

The principal risks the Board have reviewed are disclosed on pages 18-23 of this Report.

## Share Capital

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

## Directors and Directors' Interests

The Directors of the Company who served during the year ended 31st December 2023 are listed below, and the current Board member's biographies are on page 27 of this Report.

| | |
|---|---|
| Paul Haywood | Chief Executive Officer |
| Philip Dimmock | Independent Non-Executive Chairman |
| Jeremy Asher | Independent Senior Non-Executive Director |
| Kenneth Seymour | Independent Non-Executive Director (resigned 12th January 2023) |

Details of Directors' interests in shares are disclosed on page 41 of this Report.

## Director's and Officers' Liability Insurance

The Group provided director's and officer's liability insurance at a cost of $25,125 (2022: $30,240).

## Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under the law, the Directors have elected to prepare the Group and Company financial statements in accordance with UK adopted International Accounting Standards. 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 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 applicable UK-adopted international accounting standards have been followed, in accordance with the provisions of the Companies Act (2006), subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to assume 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 that they are taking reasonable steps for the prevention and detection of fraud or other irregularities.

## Website Publication

The Directors are responsible for ensuring the Annual Report and Financial Statements are made available on a website. Financial statements are published on the Company's website in accordance with the relevant 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 Companies Alliance Corporate Governance Code for Small and Medium Size Quoted Companies (2018 version); ("QCA Code"). Our full statement of compliance with the QCA Code is provided in the Governance Report on pages 32-38 of this Report.

We have reviewed the updated QCA Code (2024) and plan to assess the changes within and update our governance statements accordingly in the next Annual Report and Financial Statements.

## Section 172 (1) Statement and Engagement with Stakeholders

How we comply with Section 172 of the Companies Act 2006 and engage with Stakeholders is set out in the Statement of Corporate Responsibility on pages 24-26 of this Report.

## Engagement With Shareholders

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

## Political Contributions

During the year ended 31st December 2023, political donations totalled $nil (2022: $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 in line with the Company's Risk Register.

Budgets and cashflow forecasts 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 details on financial instruments are shown in note 23.

## Auditors and Disclosure of Information to Auditors

All of the current Directors have taken all of 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.

PKF Littlejohn LLP were appointed on 30th September 2022 to replace the outgoing auditors BDO LLP following a procurement process and they have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the Annual General Meeting.

The Report of the Directors was approved and authorised for issue on 22 May 2024.

Paul Haywood
**Director**

# Governance Report

## Corporate Governance Statement

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

High standards of Corporate Governance were maintained in 2023, continuing into the current year, The Board meets every two months for a thorough review all aspects of the business and the strategy and in between to consider and approve individual investment decisions or extraordinary situations. The Board Committees also meet frequently.

## QCA Corporate Governance Code (2018)

Since 28th September 2018 AIM Rules have required AIM quoted companies to apply a recognised corporate governance code. We have chosen to adhere to the Quoted Companies Alliance's Corporate Governance Code for Small and Mid-Sized Companies ("QCA Code") to meet the 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. The Governance Report explains how the Company follows the ten principles of the QCA Code, quoted in the headings below, as specified in the AIM Rules for Companies published by the London Stock Exchange.

We have reviewed the updated QCA Code (2024) and plan to assess the changes within and update our governance statements accordingly in the next Annual Report and Financial Statements.

## QCA Code Principles & the Company's Response

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

Block Energy'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 advanced subsurface, drilling and production technologies. The Company is developing valuable intellectual property with regard to the specific geology of the region it operates in and is undertaking exploration activities within the portfolio.

Georgia is a stable, business friendly country (Ranked 7th in the World Bank's 'Ease of Doing Business' Index) with proven but underdeveloped reserves and resources of oil and gas and is of increasing interest to major oil and gas companies.

The Company has working interests in seven licences: XIB (100%), XIF (100%), IX (100%), Didi Lilo (50%), South Samgori (50%), Norio (100%) and Satskhenisi (90%). All are within the region's Kura basin, which has historically had major discoveries of oil.

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

- The Company has completed a drilling, development and commercialisation programme primarily associated with production from the West Rustavi/Krtsanisi oilfield. It acquired a proprietary 3D seismic survey over the West Rustavi portion of the West Rustavi/Krtsanisi field in 2019 and, following the acquisition in 2020, of Block IX and XIB, which includes the Krtsanisi portion of the West Rustavi/Krtsanisi field, the Company integrated the 3D seismic data acquired across XIF and XIB and performed a complete re-interpretation of the combined/enlarged 3D data set. The Company has drilled/sidetracked a total of seven wells since 2019 and completed a total of 149 heavy and light workover interventions. Total operational man-hours exceed 1,500,000. Additionally, the Company has procured, constructed oil and gas processing facilities, sales infrastructure, and undertaken geological and other subsurface studies across four projects as well as the CCS opportunity.

- Successful execution of the Company's business plan requires a management and technical team with extensive knowledge of Georgia's oil and gas sector, legal and regulatory environment and geological setting. Block Energy is led by a management team with deep experience both in Georgia and across the international oil and gas industry and its operations and subsurface team have significant expertise in developing naturally fractured reservoirs analogues to those in Georgia.

- The Company's principal technical challenges are associated with determining economically efficient methods of extracting the oil and gas that is proven within its assets, whilst managing and where possible, mitigating execution risks. The Company utilises proven and cost-effective technologies in this endeavour and allocates the time and resources required to risk and rank the opportunities across its portfolio, leading to the planning and execution of risk management. The Company has been operating in Georgia since 2017 and has built a strong body of knowledge which it draws upon to mitigate the risks associated with asset development.

- All of our operations are conducted within a robust HSES framework, with a full-time HSE department, Board level HSE and ESG Committees and HSES performance targets in the Key Performance Indicators of senior executives and managers. The Company places a great emphasis on HSES and it is a daily topic for senior management and for operational personnel. All staff and contractors working on-site are made aware of the importance that the Board place on HSES and we continue to work to embed a safety culture throughout the organisation.

- The Board recognise the importance of developing effective communication channels with current and prospective investors. We regularly update the market as appropriate with announcements which are posted on our website as soon as they appear on the London Stock Exchange's Regulatory News Service ("RNS"). We distribute the RNS announcements and other Block and industry news through a mailing list and social media and continue to make the Company's business case at investor meets and with institutional investors in the UK and internationally. We post video updates and interviews with the executive and senior management. All of our communications are available on our website and social media and we aim to meet our major institutional investors on a regular basis. We contract an experienced financial communications company to assist with our communications activities.

- The Company continuously investigates and evaluates new production and exploration opportunities in Georgia, regionally and internationally. We maintain a robust M&A screening framework and assess opportunities from a technical, commercial, economic and strategic perspective. We are an ambitious operating company and seek to grow our portfolio both organically and inorganically.

**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's website, in accordance with AIM Rules. RNS updates, reports, circulars, videos, podcasts and presentations are all published on the Company's website or social media channels.

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

The AGM is our principal forum for dialogue with shareholders and we encourage all shareholders to attend and participate. The Notice of Meeting is sent to shareholders at least twenty-one days before the meeting. The Chairs of the Board and all Committees 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 announce the number of votes withheld, received for and against each resolution and publish them on our website.

In addition to maintaining digital communications channels the Company maintains a dedicated email address (info@blockenergy.co.uk) which investors can use to contact the Company, and a mailing list. These are displayed prominently on our website together with our address and telephone number. All enquiries received are reviewed and distributed as appropriate. We also contract an experienced financial communications company to assist with our communications activities.

The Directors continually review our engagement with shareholders and our communications approach.

The Directors take every opportunity to communicate our objectives, strategy and business plan to existing and potential institutional investors. We routinely make presentations to institutions and industry analysts, particularly after the announcement of significant news. We keep in touch with institutional investors through a combination of formal meetings, participation at investor conferences, roadshows and informal briefing with management. The majority of meetings with shareholders and potential investors are arranged by the Company's brokers or directly with the Company. The brokers provide frequent feedback to the Company to assist in understanding sentiment and market expectation.

**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. We set out our stakeholder engagement process in our Statement of Corporate Responsibility on pages 24-26 of this Report.

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

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

*Audit and Risk Committee*

The Audit and Risk Committee meets to consider the scope of the annual audit and the interim financial statements and to assess the effectiveness of the Company's system of internal controls. It reviews the results of the external audit, its cost effectiveness and the objectives of the auditor. Given the present size of the Company, the Audit and Risk Committee considers that an internal audit function is not currently justified. The Audit and Risk Committee currently comprises Jeremy Asher (Chair) and Philip Dimmock.

*Remuneration Committee*

The Remuneration Committee reviews the performance of the Executive Director and makes recommendations to the Board on matters relating to his remuneration and terms of employment. The Remuneration Committee also makes recommendations to the Board on proposals for granting share options and other equity incentives pursuant to the share option scheme. The Board sets the remuneration and terms and conditions of appointment of the non-executive Directors of the Group. The Executive Director is invited to attend for agenda items that require his contribution although he does not take part in any discussion on his own benefits and remuneration. The Remuneration Committee currently comprises Philip Dimmock (Chair) and Jeremy Asher.

*Nominations Committee*

The Nominations Committee considers appointments to the Board, senior management positions and succession planning. The Nominations Committee currently comprises Philip Dimmock (Chair), Jeremy Asher and Paul Haywood. The Committee met informally through the year after Board meetings.

*Disclosure Committee*

The Disclosure Committee has the primary responsibility and authority to make decisions on disclosure delay for the purposes of MAR. The Disclosure Committee currently comprises Jeremy Asher (Chair) and Philip Dimmock.

*Technical Committee*

The Technical Committee meets every two months, and sometimes more frequently on an informal basis, to consider surface and sub-surface technical and operational matters. The Technical Committee currently comprises Guram Maisuradze (non-Board Chair) and Philip Dimmock.

*Health, Safety and Environment (HSE) Committee*

The HSE Committee aims to meet at least quarterly and reviews the Company's HSE policies, performance and goals. The Committee meets in the event of any serious HSE lapse to review the causes and identify remedial action. The HSE Committee currently comprises Philip Dimmock (Chair), and Paul Haywood.

*Environmental, Social and Governance (ESG) Committee*

The ESG Committee meets during the year and reviews the Company's environmental and social impact, including monitoring the Company's emissions, any unplanned flaring of gas and the Company's social impact. The ESG Committee currently comprises Philip Dimmock (Chair), Jeremy Asher and Paul Haywood

**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 three Directors, one of whom is an executive and two independent non-executives (including the Chairman). The Board has established a set of committees to support its work as described in this Report.

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 telephonic and video conference meetings with staff and investors.

Executive and non-executive Director attendance at Board and committee meetings during the year ended 31 December 2023 is summarised below (Ken Seymour resigned as a Director on 10 January 2023 and did not attend any of the Board meetings shown below):

| Director | Board Meetings | Audit & Risk Committee | Remuneration Committee | Technical Committee | HSE Committee | ESG Committee |
|---|---|---|---|---|---|---|
| Philip Dimmock | 9/9 | 3/3 | 1/1 | 9/9 | 1/1 | 1/1 |
| Jeremy Asher | 9/9 | 3/3 | 1/1 | - | - | 1/1 |
| Paul Haywood[1] | 7/7 | - | - | - | 1/1 | 1/1 |

[1] Due to being a related party in the secured loan, Paul Haywood did not attend two board meetings (associated with the first and second tranche respectively) connected with considering the issue.

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 Board Meetings are minuted and any papers presented are included in the final minuted Board pack. Directors are aware of the right to have any concerns minuted and to seek independent advice at the Company's expense where appropriate.

The Board has at least one formal meeting every two months. 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 based on their own schedules and more frequently if there is a specific requirement. The Directors will attend the AGM whenever possible and will review the Annual Report and Statement of Accounts in preparation. The Directors also visit Georgia regularly to meet staff and stakeholders. In addition to these formal events, the Directors frequently discuss day-to-day Company matters in person and by conference call. The number of days committed to the Company is challenging to quantify because the Directors make themselves available as required.

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

The Board has established a Nominations Committee. As well as making appointments to the Board, it maintains a list of candidates for potential future selection.

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

Together, the Directors have broad and deep experience in the governance of publicly listed companies, HSES management, well and production operations, petroleum reservoir engineering, oil and gas field development, contractual negotiation, commercial and financial experience and government and community relations. Two of our Directors have previous experience working in Georgia and all of our Directors have publicly listed company board experience.

Profiles of our executive and non-executive Directors demonstrating their suitability for the responsibilities which they have been entrusted with are available in this Report and on our website.

All of our 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 continues to assess the suitability of the Board's skills and expertise for developing and implementing the Company's strategy and, when warranted, will appoint new directors with the required skills.

The Board is kept abreast of developments of governance and AIM regulations and is in regular contact with the Company's Nominated Advisor and the Company Secretary. In the course of a new Director being appointed, the Company's Nominated Advisor provides training and support on the AIM Rules for companies.

The Directors have access to the Company's Nominated Advisor, Company Secretary, lawyers and auditors as and when required and are able to obtain advice from other external bodies when necessary.

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

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

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

Our core values underpin our long-term growth:

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

Our values are expressed and communicated regularly to staff through internal communications and forums. They are enshrined in employment contracts and evidence of commitment to these values by candidates is considered as part of the selection process.

The Board believes that the promotion of our core values across the Company's operations 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 provides the Company's strategic leadership and operates within the scope of a robust corporate governance framework. It ensures 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 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 within appropriate Terms of Reference;
- Ensures that the performance of individual Directors, the Board and its Committees are reviewed on a regular basis;
- Leads the development of strategy and the setting of objectives;
- Oversees communication between the Company and its shareholders and stakeholders.

The Chief Executive Officer ("CEO") role within the Company, is multifaceted and carries significant responsibilities for driving the company's success; The CEO:

- Is responsible for providing strategic direction and leadership to the Company, as agreed by the Board. Including, but not limited to, setting strategic long-term goals, developing business plans, and identifying growth and expansion opportunities.
- Plays a crucial role in ensuring the Company operates within legal and regulatory frameworks and adheres to the Company's corporate governance principles.
- Overseas budgeting, financial reporting, capital allocation and risk management.

- Leads stakeholder relations, including investors, employees and the public, ensuring thoughtful management and development of the company's reputation and long-term success.
- Is responsible for identifying and managing risk which could impact the company's operational, financial performance or reputation.
- Plays a key role in attracting, developing and retaining top talent within the Company,
- Monitors, reviews and manages key risks and strategies with the Board;
- Ensures that the Company's assets are secured and safeguarded.

The CEO is 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, scrutinising the performance of management, provide constructive challenge to the executive Director and ensure that the Company is operating within the governance and risk framework approved by the Board.

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

The matters reserved for the Board are:

- Setting long-term objectives and commercial strategy;
- Approving annual operating and capital expenditure budgets;
- Monitoring the implementation of the HSES Policy and Management Plan;
- Changing the share capital or corporate structure of the Company;
- Approving public announcements;
- 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;
- Approving changes to the Board structure.

The Board has adopted the QCA Code as its governance framework against which this statement has been prepared. The Board monitors the suitability of this Code on an annual bases and will consider any relevant revisions to its governance framework as appropriate as the Company evolves.

The Board's Committees are described in detail on pages 32-38 of this Report.

**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 our website. We publish information on the activities of our Board Committees within our annual reports. We highlight our adoption of the QCA Code and disclose in detail our corporate governance policies and strategies, our view on risks and opportunities and our financial information. We seek to discuss governance issues with shareholders and relevant stakeholders where possible and maintain regular dialogue with our advisors over these issues and any concerns that shareholders or stakeholders may have.

If there is a resolution passed at 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 year ended 31 December 2023 when the Committee comprised Philip Dimmock (Chair) and Jeremy Asher. At times, Paul Haywood attended as a guest and during the year, the Remuneration Committee formally met once.

## 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 and Corporate Governance Codes. The ongoing policy of the Remuneration Committee is to provide competitive remuneration packages to enable the Group to retain and motivate its key executives and to cost-effectively incentivise them to deliver long-term shareholder value.

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

It is the aim of the Remuneration Committee to reward key executives for delivering value for the Group and for shareholders. The Remuneration Committee also applies the broader principle that Block Energy's executive remuneration should be competitive with the remuneration of Directors of comparable companies.

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

**Base salary**

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

The Company responded to the collapse in Brent oil price from c. $60 per barrel to less than $20 per barrel in April 2020, caused by a decrease in demand during the Covid-19 pandemic, by agreeing a salary sacrifice scheme with its Directors and senior management. With effect from 1 April 2020, 40%-50% of their salary or fees was paid in nil-cost options to acquire Ordinary Shares in the Company, reducing monthly cash salary costs.

The cash salary sacrifice scheme was terminated on 1 April 2023 after well WR-B01Za was brought onto production, much improving the Company's monthly cash flow.

A cost-of-living increase in base salary of 5% was awarded to the CEO and all staff effective from 1 January 2023.

**Pension and other benefits**

The Company contributes 10% of base salary to the pensions of the executive Directors.

During 2024, the Company is considering providing other benefits, such as life cover, for some of its employees.

**Performance-related bonus scheme**

Each year, the Remuneration Committee develops a set of individual and corporate key performance indicators ("KPIs") with the aim of measuring performance accurately and consistently and then rewarding performance appropriately.

For executives and staff, the KPIs are weighted 60% for the individual KPIs and 40% for the corporate ones. The CEO has up to 150% of his base salary available for a bonus payment.

Senior managers can receive up to 50% of their base salary as a bonus.

For each KPI, performance measures are established for Threshold, Target and Stretch levels. There is also provision for a degree of discretion for the Board of Directors, including circumstances where no bonuses will be paid regardless of performance. In the event of a death in service, no bonus will be paid to the CEO.

**Description of Corporate KPIs for the year ended 31 December 2023**

- HSESG - sought to reward top performance across all sections of the business and was measured by the number of lost time incidents and the delivery & implementation the updated HSESG plan. During the period there were no major lost time incidents, however, the Board felt that insufficient Safety Committee meetings were held and therefore Target measure was achieved.
- Production (on existing wells) – ambitious production targets were set and the Stretch measure was reached.
- Production (on new wells) – ambitious production targets were set for new wells but this production was not delivered and therefore no target was achieved.
- Work Programme – targets set for in country operations, including drilling wells. The Threshold level was not reached.
- Budget – encouraged meeting or coming under the agreed financial budget by setting targets for costs below the budget. A Stretch level was achieved.

**Description of Chief Executive Officer's individual KPIs for the year ended 31 December 2023**

- New Ventures: The Group completed the Didi Lilo and South Samgori Farm out. Stretch level was achieved.
- Strategic Financing: Growing the business requires sourcing additional funding, a $2m loan was secured to finance the new work programmes, to avoid highly dilutive equity. The Threshold level was achieved.
- Risk Management: This involved considering and reporting on risks across the Group and ensuring these risks were appropriately mitigated. Target level was achieved.
- HSE & Governance Leadership: A bi/monthly safety moment was implemented and CEO was tasked with demonstrating his active commitment to safety to the whole Group – Threshold level achieved.

**Description of KPIs for the year ending 31 December 2024**

For 2024, the KPIs for the CEO remain aligned with the Company's objectives for the year ended 31 December 2024 at both Corporate and Individual levels. The weighting of Individual KPIs remains at 60% and the weighting of Corporate KPIs remains at 40% of the total. At the Corporate Level, the KPIs are based on production, work programme and cost management, in addition to HSE excellence.

At the individual level, KPIs for the Chief Executive Officer will continue to be based on the development of New Ventures, Strategic Financing, Risk Management and HSE & Governance Leadership. The Remuneration Committee will ensure that these KPIs are well defined for the coming reporting period.

**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 awarded share options that vest over a three-year period and have an exercise period of ten years. The vesting of any LTIP awards granted to executive Directors continues to be conditional on certain performance milestones being satisfied.

## Directors' Remuneration

| | Salary | Bonus | Fees | Pension | LTIP | **Year ended 31 December 2023 Total** | Year ended 31 December 2022 Total |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ |
| Non-Executive Directors | | | | | | | |
| Jeremy Asher | - | - | 56,450 | - | - | 56,450 | 37,484 |
| Philip Dimmock | - | - | 71,252 | - | - | 71,252 | 57,475 |
| Kenneth Seymour[1] | - | - | 1,977 | - | - | 1,977 | 37,484 |
| Subtotal | - | - | 129,679 | - | - | 129,679 | 132,443 |
| Executive Directors | | | | | | | |
| Paul Haywood | 270,451 | 195,808[3] | - | 15,037 | 66,676 | 547,972 | 559,276 |
| William McAvock[2] | - | - | - | - | - | - | 296,555 |
| Subtotal | 270,451 | 195,808 | - | 15,037 | 66,676 | 547,972 | 855,831 |
| **Total** | **270,451** | **195,808** | **129,679** | **15,037** | **66,676** | **677,651** | **988,274** |

[1] Resigned as a Director on 10th January 2023 to take up the new role of Chief Operating Officer.

[2] Resigned as a Director on 30th September 2022 but continued as an employee until 13th December 2022. During this time as an employee William McAvock received an additional $39,188 in salary and $3,596 in pension contributions.

[3] Estimated.

During four months of 2023 and all of 2022, non-executive Directors took 50% of their fees in share options while executive Directors took 40% of their salaries in share options rather than in cash. At various times, Directors elected to exercise these options, paying the necessary income tax, but no Director has sold the resulting shares during his engagement as a Director or as an employee.

## Directors' Interests in Shares

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

| | **31 December 2023** | 31 December 2022 |
|---|---|---|
| Non-Executive Directors | | |
| Jeremy Asher | 2,347,830 | 1,353,503 |
| Philip Dimmock | 3,982,674 | 2,794,508 |
| Sub-total | 6,330,504 | 4,148,011 |
| Executive Directors | | |
| Paul Haywood | 12,544,381 | 12,544,381 |
| Sub-total | 12,544,381 | 12,544,381 |
| **Total** | **18,874,885** | **18,472,558** |

The Directors held 2.6% of the total share capital of the Company at 31 December 2023 (2022: 2.7%).

## Directors' Interests in Options

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

| | **31 December 2023** | 31 December 2022 |
|---|---|---|
| Non-Executive Directors | | |
| Jeremy Asher | - | - |
| Philip Dimmock | 928,612 | 928,612 |
| Sub-total | 928,612 | 928,612 |
| Executive Directors | | |
| Paul Haywood | 61,948,032 | 47,595,359 |
| Sub-total | 61,948,032 | 47,595,359 |
| **Total** | **62,876,644** | **48,523,971** |

During both years, all of the options received by non-executive Directors and some of the options received by the executive Director were nil cost options issued under the salary sacrifice scheme in lieu of cash payment of 40%-50% of salary/fees.

On 3rd February 2022, the Company announced that its Non-Executive Directors had entered into an agreement to exercise future options immediately upon grant.

A detailed breakdown of Directors' interests in options is set out below:

| **Director** | **Grant date** | **Expiry date** | **Life** | **Number** | **Exercise price** |
|---|---|---|---|---|---|
| | | | (years) | | (pence) |
| Paul Haywood | 9 June 2018 | 11 June 2028 | 10.0 | 7,756,428 | 4.0 |
| Paul Haywood | 1 March 2021 | 1 March 2031 | 10.0 | 6,000,000 | 4.0 |
| Paul Haywood | 6 April 2021 to 3 December 2021 | 6 April 2031 to 3 December 2031 | 10.0 | 2,564,462 | 0.0 |
| Paul Haywood | 4 January 2022 to 1 December 2022 | 4 January 2032 to 1 December 2032 | 10.0 | 16,774,469 | 0.0 |
| Paul Haywood | 8 April 2022 | 8 April 2032 | 10.0 | 14,500,000 | 1.325 |
| Paul Haywood | 4 January 2023 to 5 April 2023 | 4 January 2033 to 5 April 2033 | 10.0 | 14,352,673 | 0.0 |
| Philip Dimmock | 6 April 2021 to 3 December 2021 | 6 April 2031 to 3 December 2031 | 10.0 | 732,700 | 0.0 |
| Philip Dimmock | 4 January 2022 | 4 January 2032 | 10.0 | 195,912 | 0.0 |
| | | | **Total** | **62,876,644** | |

Philip Dimmock
**Chairman of the Remuneration Committee**

# Independent Auditor's Report to the Members of Block Energy PLC

**Opinion**

We have audited the financial statements of Block Energy plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2023 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Statements of Cash Flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 2023 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**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 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 of the financial statements which references the reliance upon the oil and gas production, oil prices and the success of future drilling to generate sufficient revenue to continue to fund the Group's cash requirements and the impact of potential downside scenarios on the Group's ability to cover its ongoing operating costs. Should such downside scenarios occur the Group and Parent Company would be required to secure further funding. We also note that the outstanding $2.0m secured loan is due for full redemption in August 2024 and that there are scenarios in which the Company may not be in a position to settle this liability on time. As stated in note 1, these conditions are necessarily considered to represent a material uncertainty that may cast significant doubt over the Group's and the Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

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

revenue profiles, historical actuals and forecasted production levels, and operating expenditure historic actuals in order to assess the reasonableness of the forecasts.
- We considered sensitivities over various sales volumes.
- We assessed the reasonableness of key assumptions underpinning the forecasts by reference to Brent crude oil prices, Georgian gas prices, current production sharing agreements, expenditure and commitments and considered the implications of the trends in the global economy on the Group. Where appropriate we confirmed the key inputs to publicly available information and underlying source documentation.
- We performed sensitivity analysis on the cash flow forecast to consider the available headroom under different reasonably possible scenarios such as a decrease in oil and gas prices, an increase in exchange rate, lower than anticipated initial production rates from new wells and additional capex.
- We made enquiries of Management and Directors and reviewed Board minutes and key operational contracts to assess the completeness of commitments considered in the cash flow forecasts.
- We evaluated the adequacy of disclosures made in the financial statements in respect of going concern.

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

**Our Application of Materiality**

| Entity | Basis for materiality | Materiality |
|---|---|---|
| *Block Energy Plc – Group* | *2% of net asset (2022: 2% of net assets)* | *$549,000 (2022: $589,000)* |
| *Parent company* | *2% of net assets (2022: 2% of net assets)* | *$461,000 (2022: $580,000)* |

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

Based on our professional judgement, we consider net assets to be the most significant determinant of the group's and parent company's financial performance used by shareholders as the group continues to progress its oil and gas development assets and the parent company continues to support the group's oil and gas development activities.

Whilst materiality for the group financial statements as a whole was set at $549k (2022: $589k), significant components of the group were audited to a level of materiality ranging between $420k - $210k (2022: $304k - $200k). Performance materiality for the group and components was set at 70% (2022:70%) to ensure sufficient coverage of key balances. We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. At the planning stage materiality is used to determine the financial statement areas that are included within the scope of our audit and the extent of sample sizes during the audit.

We agreed with management that we would report to the Audit Committee all individual audit differences identified during the course of our audit in excess of $27k (2022: $29.4k) for the financial statements as a whole and $23k (2022: $29k) for the parent company. We also agreed to report differences below these thresholds that, in our view warranted reporting on qualitative grounds.

**Our Approach to the Audit**

Our group audit scope focused on the principal areas of operation being the UK and Georgia.

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

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

**Key Audit Matters**

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

| Key Audit Matter | How our scope addressed this matter |
| --- | --- |
| **Carrying value of oil and gas development assets – Group and Parent (note 12)** | |
| **The Group's development and production assets which are categorised within property, plant and equipment, represent the most significant asset on the consolidated statement of financial position amounting to $22.7m as at 31 December 2023 (2022: $23.4m). Management and the Directors are required to assess whether there are any potential impairment triggers which would indicate that the carrying value of the assets may not be recoverable for each cash generating unit.**<br><br>**The indicators of impairment assessment in relation to the development and production assets under the relevant accounting standard and the resulting assessment of the assets' recoverable amount require the exercise of significant judgement by Management and the Directors. 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 considered this a key audit matter.** | Our work in this area included:<br>• Obtaining evidence regarding the compliance with licence terms and that they remain in good standing.<br>• Reviewing third party reports obtained from Directors and Management's experts relating to the reserves and resources impacting the impairment model.<br>• Testing a sample of additions capitalised in the year.<br>• Reviewing Management's IAS 36 impairment indicator review paper and critically challenge the key judgements.<br>• Reviewing of the Competent Person Reports and other external and internal reserve reports in place and assess their scope of work, including an evaluation of their competence, capabilities and independence.<br>• Checking the mathematical accuracy of the value in use calculations.<br>• A review of management's internal production forecasts to the CPR in place and assess the appropriateness of any differences which arise.<br>• Agreeing the key assumptions used by the directors and management in determining the recoverable amount of the development & production asset, such as oil price and discount |

| | |
|---|---|
| | rates and compared to industry averages and benchmarked against publicly available 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.<br>• Confirming the development and producing asset disclosures are in line with the requirements of the applicable financial reporting framework by assessing the appropriateness of the accounting policies and disclosures included in the financial statements in accordance with IAS 16. |
| **Carrying value of investments in subsidiaries and loans due from subsidiary companies in the Parent Company (Note 2 and 3)** | |
| **Under International Accounting Standard 36 'Impairment of Assets', companies are required to assess whether there is any indication that an asset may be impaired at each reporting date. Key judgements and assumptions regarding the impairment of investments include the timing, extent and probability of future cash flow from its subsidiary companies.**<br><br>**The Parent Company has loans due from subsidiary companies amounting to $23m (2022: $25m).**<br>**As at 31 December 2023, the investments represent a significant balance of $6.5m (2022: $6.2m) on the Company balance sheet and there is a risk it could be impaired and that intragroup loans may not be recoverable as a result of the subsidiary companies incurring losses.** | Our work in this area included:<br>• Confirming ownership documents for investments in subsidiaries held by the parent company.<br>• Reviewing the investment balances and for indicators of impairment.<br>• Assessing the appropriateness of the methodology applied by management in their assessment of the recoverable amount of intragroup loans by comparing it to the Group's accounting policy.<br>• Reviewing management's assessment of the intragroup balance receivables in respect of the requirements set out in IFRS 9 Financial Instruments.<br>• Checking that intragroup loans have been reconciled and confirm that there are no material differences.<br>• Evaluating the presentation and disclosures given in the financial statements. |

**Other Information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

**Responsibilities of Directors**

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

In preparing the financial statements, the directors are responsible for assessing the 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 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.

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

- We obtained an understanding of the group and parent company and the sector in which they operate to identify laws and regulations that could reasonably be expected to have a direct effect on the financial statements. We obtained our understanding in this regard through discussions with management about the potential instances of non-compliance with laws and regulations both in the UK and in overseas subsidiaries. We also selected a specific audit team based on experience with auditing entities within this industry of a similar size.

- We determined the principal laws and regulations relevant to the group and parent company in this regard to be those arising from:
  - Companies Act 2006
  - AIM Rules
  - Local industry regulations in Georgia
  - Local tax and employment law
- We designed our audit procedures to ensure the audit team considered whether there were any indications of non-compliance by the group and parent company with those laws and regulations. These procedures included, but were not limited to:
  - Making enquiries of management
  - A review of Board minutes
  - A review of legal ledger accounts
  - A review of Regulatory News Service (RNS) announcements
- We also identified the risks of material misstatement of the financial statements due to fraud. We considered, in addition to the non-rebuttable presumption of a risk of fraud arising from management override of controls, that the estimates, judgements and assumptions applied by management in the assessment of carrying value of development assets and investment balances gave the greatest potential for management bias, that there is potential for fraud in relation to revenue recognition, we addressed this by reviewing the appropriateness of revenue recognition policies in line with IFRS 15. There were no other significant fraud risks.
- As in all of our audits, we addressed the risk of fraud arising from management override of controls by performing audit procedures which included, but were not limited to: the testing of journals; reviewing accounting estimates for evidence of bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

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 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 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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Daniel Hutson (Senior Statutory Auditor)**

**For and on behalf of PKF Littlejohn LLP**

**Statutory Auditor**

22nd May 2024

15 Westferry Circus

Canary Wharf

London E14 4HD

# Financial Statements

## Consolidated Statement of Consolidated Income for the Year Ended 31st December 2023

| | Note | **Year ended 31 December 2023** | Year ended 31 December 2022 |
|---|---|---|---|
| ***Continuing operations*** | | **$'000** | $'000 |
| **Revenue** | 4 | **8,366** | **8,262** |
| Cost of sales | 3 | (3,826) | (3,992) |
| Depreciation and depletion of oil and gas assets | 5 | (1,374) | (1,956) |
| Total cost of sales | | (5,200) | (5,948) |
| **Gross profit** | | **3,166** | **2,314** |
| Other administrative costs | | (2,657) | (3,040) |
| Share based payments charge | 22 | (414) | (1,072) |
| Foreign exchange movement | | (21) | (24) |
| **Results from operating activities before impairment** | | **74** | **(1,822)** |
| Impairment on non-core oil and gas assets | 12 | (2,210) | - |
| **Total operating loss** | | **(2,136)** | **(1,822)** |
| Other income | 8 | 26 | 281 |
| Finance income | | 7 | - |
| Finance expense | 9 | (110) | (67) |
| | | (77) | 214 |
| **Loss for the year before taxation** | | **(2,213)** | **(1,608)** |
| Taxation | 10 | **-** | **-** |
| **Loss for the year from continuing operations (attributable to the equity holders of the parent)** | | **(2,213)** | **(1,608)** |
| ***Items that may be reclassified subsequently to profit and loss:*** | | | |
| Exchange differences on translation of foreign operations | | 74 | 448 |
| **Total comprehensive loss for the year (attributable to the equity holders of the parent)** | | **(2,139)** | **(1,160)** |
| Loss per share basic and diluted | 11 | **(0.31)c** | (0.24)c |

| | | | |
|---|---|---|---|
| ***Earnings before interest, tax, depreciation and amortisation (EBITDA)*** | 3a | ***1,469*** | ***158*** |

All activities relate to continuing operations.

The notes on pages 53 to 78 form part of these consolidated financial statements.

## Consolidated Statement of Financial Position for the Year Ended 31st December 2023

| | Note | **31 December 2023** $'000 | 31 December 2022 $'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | | 50 | - |
| Property, plant and equipment | 12 | 23,851 | 24,815 |
| **Total non-current assets** | | **23,901** | **24,815** |
| **Current assets** | | | |
| Inventory | 13 | 4,377 | 4,791 |
| Trade and other receivables | 14 | 971 | 560 |
| Cash and cash equivalents | 15 | 713 | 450 |
| **Total current assets** | | **6,061** | 5,801 |
| **Total assets** | | **29,962** | **30,616** |
| **Equity and liabilities** | | | |
| Capital and reserves attributable to equity holders of the Parent Company: | | | |
| Share capital | 18 | 3,705 | 3,565 |
| Share premium | 19 | 34,856 | 34,765 |
| Other reserves | 20 | 4,766 | 4,525 |
| Foreign exchange reserve | | 768 | 694 |
| Accumulated deficit | | (18,389) | (16,349) |
| **Total equity** | | **25,706** | **27,200** |
| **Liabilities** | | | |
| Trade and other payables | 16 | 1,176 | 1,693 |
| Provisions | 17 | 1,080 | 1,723 |
| Borrowings | 16 | 2,000 | - |
| **Total current liabilities** | | **4,256** | **3,416** |
| **Total equity and liabilities** | | **29,962** | **30,616** |

The financial statements were approved by the Board of Directors and authorised for issue on 22 May 2024 and were signed on its behalf by:

Paul Haywood
**Director**

The notes on pages 53 to 78 form part of these consolidated financial statement

# Consolidated Statement of Changes in Equity for the Year Ended 31st December 2023

| | Share Capital $'000 | Share Premium $'000 | Accumulated Deficit $'000 | Other Reserves $'000 | Foreign Exchange Reserve $'000 | Total Equity $'000 |
|---|---|---|---|---|---|---|
| **Balance at 31 December 2021** | **3,482** | **34,625** | **(21,548)** | **10,260** | **246** | **27,065** |
| Loss for the year | - | - | (1,608) | - | - | (1,608) |
| Exchange differences on translation of foreign operations | - | - | - | - | 448 | 448 |
| ***Total comprehensive loss for the year*** | ***-*** | ***-*** | ***(1,608)*** | ***-*** | ***448*** | ***(1,160)*** |
| Issue of shares | 27 | 140 | - | - | - | 167 |
| Share based payments | - | - | - | 1,072 | - | 1,072 |
| Options exercised | 56 | - | - | - | - | 56 |
| Options expired | - | - | 418 | (418) | - | - |
| Options relinquished | - | - | 6,389 | (6,389) | - | - |
| ***Total transactions with owners*** | ***83*** | ***140*** | ***6,807*** | ***(5,735)*** | ***-*** | ***1,295*** |
| **Balance at 31 December 2022** | **3,565** | **34,765** | **(16,349)** | **4,525** | **694** | **27,200** |
| Loss for the year | - | - | (2,213) | - | - | (2,213) |
| Exchange differences on translation of foreign operations | - | - | - | - | 74 | 74 |
| ***Total comprehensive loss for the year*** | ***-*** | ***-*** | ***(2,213)*** | ***-*** | ***74*** | ***(2,139)*** |
| Issue of shares | 133 | 91 | - | - | - | 224 |
| Share based payments | - | - | - | 414 | - | 414 |
| Options exercised | 7 | - | - | - | - | 7 |
| Options expired | - | - | 173 | (173) | - | - |
| ***Total transactions with owners*** | ***140*** | ***91*** | ***173*** | ***241*** | ***-*** | ***645*** |
| **Balance at 31 December 2023** | **3,705** | **34,856** | **(18,389)** | **4,766** | **768** | **25,706** |

The notes on pages 53 to 78 form part of these consolidated financial statements.

## Consolidated Statement of Cashflows for the Year Ended 31st December 2023

| | Note | **Year ended 31 December 2023 $'000** | Year ended 31 December 2022 $'000 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Loss for the year before tax | | (2,213) | (1,608) |
| *Adjustments for:* | | | |
| Depreciation and depletion | 5 | 1,374 | 1,956 |
| Impairment | 12 | 2,210 | - |
| Decommissioning finance charge and finance expense | | 110 | 67 |
| Disposal of PP&E at nil value | 12 | 89 | - |
| Finance income | | (7) | - |
| Other income and finance income | 8 | (26) | (281) |
| Creditors paid in shares | | 108 | 167 |
| Share based payments expense | 7 | 414 | 1,072 |
| Foreign exchange movement | | 22 | (29) |
| **Operating cash flows before movements in working capital** | | **2,081** | **1,344** |
| (Increase)/decrease in trade and other receivables | | (411) | 192 |
| (Decrease)/increase in trade and other payables | | (516) | 194 |
| Decrease/(increase) in inventory | | 414 | (206) |
| **Net cash flow from operating activities** | | **1,568** | **1,524** |
| **Cash flow from investing activities** | | | |
| Income received | | 33 | 281 |
| Expenditure in respect of Intangible assets | | (50) | - |
| Expenditure in respect of PP&E | 12 | (3,040) | (2,730) |
| **Net cash used in investing activities** | | **(3,057)** | **(2,449)** |
| **Cash flow from financing activities** | | | |
| Proceeds from Borrowings | 16 | 2,000 | - |
| Interest paid | 9 | (248) | (1) |
| **Net cash inflow/(outflow) from financing activities** | | **1,752** | **(1)** |
| **Net increase/(decrease) in cash and cash equivalents in the year** | | **263** | **(926)** |
| **Cash and cash equivalents at start of year** | | 450 | 1,244 |
| Effects of foreign exchange rate changes on cash and cash equivalents | | - | 132 |
| **Cash and cash equivalents at end of year** | | **713** | **450** |

The notes on pages 53 to 78 form part of these consolidated financial statements.

**Significant non-cash transactions**

The only significant non-cash transactions were the issue of shares and share options detailed in notes 18 and 22.

# Notes Forming Part of the Consolidated Financial Statements

## Corporate Information

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

The Consolidated financial statements of the Group, which comprises Block Energy Plc and its subsidiaries, for the year ended 31 December 2023 were authorised for issue in accordance with a resolution of the Directors on 22 May 2024. Block Energy is a Company incorporated in the UK whose shares are publicly traded. The address of the registered office is given in the officers and advisers section of this report. The Company's administrative office is in London, UK.

The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 3 to 11 and the Report of the Directors on pages 28 to 31.

**1. Significant Accounting Policies**

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

***Basis of Preparation***

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. All amounts presented are in thousands of US dollars unless otherwise stated. Foreign operations are included in accordance with the policies set out below.

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

The preparation of financial statements in accordance with UK-adopted international accounting standards 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***

There were no new or amended accounting standards that required the Group to change its accounting policies for the year ended 31 December 2023 and no new standards, amendments or interpretations were adopted by the Group.

***New Accounting Standards Issued but not yet Effective***

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

| Standard | Effective date | Overview |
|---|---|---|
| Amendments to IAS 1<br><br>Classification of Liabilities as Current or Non-current | 1 January 2024 (early adoption permitted) | The standard has been amended to clarify that the classification of liabilities as current or non-current should be based on rights that exist at the end of the reporting period.<br><br>In order to conclude a liability is non-current, the right to defer settlement of a liability for at least 12 months after the reporting date must exist as at the end of the reporting period.<br><br>The amendments also clarify that (for the purposes of classification as current or non-current), settlement is the transfer of cash, the entity's own equity instruments (except as described below), other assets or services. |
| Amendments to IAS 1<br><br>Non-current Liabilities with Covenants | 1 January 2024 (early adoption permitted) | The standard confirms that only those covenants with which an entity must comply on or before the end of the reporting period affect the classification of a liability as current or non-current. |
| Amendments to IFRS 16<br><br>Lease Liability in a Sale and Leaseback | 1 January 2024 (early adoption permitted) | The amendments address the accounting that should be applied by a seller-lessee in a sale and leaseback transaction when the leaseback contains variable lease payments, such as turnover rentals, that do not depend on an index or rate.<br><br>Specifically, they confirm that the 'lease payments' or the 'revised lease payments' arising from the leaseback arrangement are measured in such a way that no gain or loss is recognised on the right of use retained by the seller-lessee. |
| Amendments to IAS 7 and IFRS 7<br><br>Supplier Finance Arrangements | 1 January 2024 (early adoption permitted) | The amendments require an entity to disclose information about its supplier finance arrangements to enable users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk. |
| Amendments to IAS 21 – Lack of Exchangeability | 1 January 2025 (early adoption permitted) | The amendments have been made to clarify:<br><br>- when a currency is exchangeable into another currency; and<br>- how a company estimates a spot rate when a currency lacks exchangeability. |

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

***Basis of Consolidation***

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

- The size of the Company's voting rights relative to both the size and dispersion of other parties who hold voting rights;

- Substantive potential voting rights held by the Company and by other parties;
- Other contractual arrangements; and
- Historic patterns in voting attendance.

***Business Combinations***

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

***Acquisitions***

The Group and Company measure consideration  at the acquisition date as:

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

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

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

***Asset Acquisition***

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

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

***Going Concern***

The directors have prepared cash flow forecasts for a period of 12 months from the date of signing these financial statements. The Group's forecasts are reviewed regularly to assess whether any actions to curtail expenditure or cut costs are required.

The Group's operations presently generate sufficient revenues to cover operating costs and capital expenditures, supporting the continued preparation of the Group's accounts on a going concern basis.

The directors are nevertheless conscious that oil prices have been volatile during the past few years and could rise further but could also fall back in the year ahead, and that future production levels depend on both depletion rates from existing wells and the success of future drilling.

The directors also recognise that the outstanding $2.0m secured loan is due for full redemption in August 2024 and that there are scenarios in which the Company may not be in a position to settle this liability on time. Nonetheless, the directors remain confident that the loan can either be repaid, or renegotiated, or that new lenders could take a portion, or that other financing options will be available to the Company, and therefore judge that the Company retains sufficient flexibility and optionality around the loan to prepare the accounts on a going concern basis.

As part of their going concern assessment, the directors have examined multiple scenarios in which oil prices and/or future production levels fall substantially and have concluded that it remains possible that future revenues in at least some scenarios might not cover all operating costs and planned capital expenditures, creating a material uncertainty that may cast doubt over the Group's ability to continue as a going concern. Whilst acknowledging this material uncertainty, the directors remain confident of making further cost savings if 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, Rustaveli, Satskhenisi and Norio given they are independent projects under individual Production Sharing Contracts (“PSCs”). An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment charges may no longer exist or may have decreased. If such an indication exists, the Group estimates the recoverable amount. A previously recognised impairment charge is reversed only if there has been a change in the estimates used to determine the assets recoverable amount since the last impairment charge was recognised. If this is the case the carrying amount of the asset is increased to its recoverable amount, not to exceed the carrying amount that would have been determined, net of depreciation, had no impairment charges been recognised for the asset in prior years.

*Property, Plant and Equipment and Depreciation*

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

- PP&E - 6 years

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

***Leases***

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. 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.

***Borrowing Costs***

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take over one accounting period to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

***Taxation and Deferred Tax***

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

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

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

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

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

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

***Foreign Currencies***

Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at the rates of exchange prevailing at the reporting date: $1.27 /£1 (2022: $1.21/£1). Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Exchange differences are taken to the Statement of Comprehensive Income.

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

***Foreign Operations***

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

***Determination of Functional Currency and Presentational Currency***

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

The presentational currency of the Group for year ended 31 December 2023 is US dollars. The presentational currency is an accounting policy choice.

***Revenue***

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

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

***Finance Income and Expenses***

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

***Financial Instruments***

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.

***Share Based Payments***

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

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

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

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

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

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

## 2. Critical Accounting Judgments, Estimates and Assumptions

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

*Recoverable Value of Development & Production assets – Judgement, Estimates and Assumptions*

Costs capitalised in respect of the Group's development and production assets are required to be assessed for impairment under the provisions of IAS 36. Such an estimate requires the Group to exercise judgement in respect of the indicators of impairment and also in respect of inputs used in the models which are used to support the carrying value of the assets. Such inputs include estimates of oil and gas reserves, production profiles, oil price, oil quality discount, capital expenditure (including an allocation of salary costs), inflation rates, and pre-tax discount rates that reflect current market assessments of (a) the time value of money; and (b) the risks specific to the asset for which the future cash flow estimates have not been adjusted. The Directors concluded that there was an indication of impairment at Satskhenisi and Norio, as these assets are being held as non-core assets and are considered to be cash flow neutral. A one-off impairment charge of $2.2m has been charged to the profit and loss account in the year and these oil and gas assets have been written down to nil.

*Asset Decommissioning Provisions – Estimates and Assumptions*

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

Additionally, future changes to environmental laws and regulations, life of development and production assets, estimates and discount rates could affect the carrying amount of this provision. The Board assessed the extent of decommissioning required as at 31 December 2023 and concluded that a provision of $1,080,000 (2021: $1,723,000) should be recognised in respect of future decommissioning obligations at Rustaveli, West Rustavi, Satskhenisi and Norio (see note 17).

*Share Options and Warrants – Estimates and Assumptions*

Share options issued by the Group relate to the Block Energy Plc Share Option Plan and warrants issued relates to the cost of borrowing. The grant date fair value of such options and warrants 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 (see note 22).

*Impairment of Investments and Loans to Subsidiaries – Parent Company only*

The Company assesses at each reporting date whether there is any objective evidence that investments/receivables in subsidiaries are impaired. To determine whether there is objective evidence of impairment, a considerable amount of estimation is required in assessing the ultimate realisation of these investments/receivables, including valuation, creditworthiness and future cashflow. Although no impairment of investments was indicated at year end the Company identified certain intercompany receivables as being impaired.

During the year the Company carried out an assessment of the expected credit loss arising on intercompany receivables. This was calculated as a total loss allowance of $8,097,000 (2022: $3,710,000) therefore an additional amount of $4,387,00 (2022: nil) was provided for in the current year parent company financial statements.

## 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 and Gas Extraction segment) in Georgia and has a corporate head office in the UK (Corporate segment). Based on risks and returns the Directors consider that there are two operating segments that they use to assess the Group's performance and allocate resources being the Oil and Gas Extraction in Georgia, and the corporate segment including unallocated costs.

The Board of Directors primarily uses a measure of adjusted earnings before interest, tax, depreciation and amortisation (EBITDA), see below, to assess the performance of the operating sectors.

### 3 a) *Adjusted EBITDA*

Adjusted EBITDA excludes discontinued operations and the effects of significant items of income and expenditure which might have an impact on the quality of earnings, such as restructuring costs, legal expenses, and impairments where the impairment is the result of an isolated, non-recurring event.

| *Adjusted EBITDA* | **31 December 2023 $'000** | 31 December 2022 $'000 |
|---|---|---|
| Oil and Gas exploration – Georgia | 3,331 | 3,258 |
| Corporate and other | (1,862) | (3,100) |
| **Total adjusted EBITDA** | **1,469** | **158** |

Adjusted EBITDA reconciles to operating profit before income tax as follows:

| | **31 December 2023 $'000** | 31 December 2022 $'000 |
|---|---|---|
| **Total adjusted EBITDA** | **1,469** | **158** |
| Depreciation and depletion | (1,374) | (1,956) |
| Impairment | (2,210) | - |
| Finance and other income | 33 | 281 |
| Finance costs and foreign exchange | (131) | (91) |
| **Loss before income tax from continuing operations** | **(2,213)** | **(1,608)** |

### 3 b) *Other profit and loss disclosures*

| **Year ended 31 December 2023** | **Oil and Gas Extraction $'000** | **Corporate and other $'000** | **Group Total $'000** |
|---|---|---|---|
| Revenue | 8,366 | - | 8,366 |
| Cost of sales | (3,826) | - | (3,826) |
| Depreciation and depletion | (1,373) | (1) | (1,374) |
| Impairment | (2,210) | - | (2,210) |
| Administrative costs | (1,209) | (1,862) | (3,071) |
| Finance and other income | 19 | 14 | 33 |
| Net Finance costs and Forex | (69) | (62) | (131) |
| **Loss from operating activities** | **(302)** | **(1,911)** | **(2,213)** |
| **Total non-current assets** | **23,901** | **-** | **23,901** |

| **Year ended 31 December 2022** | **Oil and Gas Extraction $'000** | **Corporate and other $'000** | **Group Total $'000** |
|---|---|---|---|
| Revenue | 8,262 | - | 8,262 |
| Cost of sales | (3,992) | - | (3,992) |
| Depreciation and depletion | (1,906) | (50) | (1,956) |
| Administrative costs | (1,012) | (3,100) | (4,112) |
| Other income | 18 | 263 | 281 |
| Net Finance costs and Forex | (82) | (9) | (91) |
| Profit/(loss) from operating activities | 1,288 | (2,896) | (1,608) |
| Total non-current assets | 24,814 | 1 | 24,815 |

### *3 c) Segment assets and liabilities*

| Segmental Assets | **31 December 2023 $'000** | 31 December 2022 $'000 |
|---|---|---|
| Oil exploration – Georgia | 29,452 | 30,206 |
| Corporate and other | 510 | 410 |
| | **29,962** | **30,616** |

| Segmental Liabilities | **31 December 2023 $'000** | 31 December 2022 $'000 |
|---|---|---|
| Oil exploration – Georgia | 1,522 | 2,591 |
| Corporate and other | 2,734 | 825 |
| | **4,256** | **3,416** |

### 4. Revenue

| | **Year ended 31 December 2023** | Year ended 31 December 2022 |
|---|---|---|
| | **$'000** | $'000 |
| Crude oil revenue | 7,413 | 7,492 |
| Gas revenue | 953 | 770 |
| | **8,366** | **8,262** |

### 5. Depreciation and Depletion on Oil and Gas assets

| | **Year ended 31 December 2023** | Year ended 31 December 2022 |
|---|---|---|
| | **$'000** | $'000 |
| Depreciation of PP&E | 307 | 273 |
| Depletion of oil and gas assets | 1,067 | 1,683 |
| | **1,374** | **1,956** |

### 6. Expenses by nature

| | **Year ended 31 December 2023** | Year ended 31 December 2022 |
|---|---|---|
| | **$’000** | $’000 |
| Employee benefit expense | 1,413 | 1,705 |
| Share option charge | 414 | 1,072 |
| Security expense | - | 15 |
| Fees to Auditor in respect of the Group audit | 97 | 96 |
| Regulatory fees | 30 | 31 |
| Operating lease expense | 68 | 81 |

## 7. Directors and employees

| | **Year ended 31 December 2023** | Year ended 31 December 2022 |
|---|---|---|
| | **$'000** | $'000 |
| *Employment costs (inc. Directors' remuneration):* | | |
| Wages and salaries | 1,286 | 1,563 |
| Pensions | 30 | 49 |
| Social security costs | 97 | 93 |
| | 1,413 | 1,705 |
| Share based payments | 414 | 1,035 |
| | **1,827** | **2,740** |

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

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

The average monthly number of employees during 2023 was 147 (2022: 168) split as follows:

| | **Year ended 31 December 2023** | Year ended 31 December 2022 |
|---|---|---|
| Management | 8 | 9 |
| Technical | 110 | 129 |
| Administration | 29 | 30 |
| | **147** | **168** |

| | **Year ended 31 December 2023** | Year ended 31 December 2022 |
|---|---|---|
| | **$'000** | **$'000** |
| Amounts attributable to the highest paid Director: | | |
| Director's salary and bonus | 466 | 426 |
| Pension | 15 | 25 |
| Share based payments | 67 | 104 |
| | **548** | **555** |

Key management and personnel are considered to be the Directors.

## 8. Other income

| | **Year ended 31 December 2023** | Year ended 31 December 2022 |
|---|---|---|
| | **$'000** | $'000 |
| Other income | 26 | - |
| Insurance claim | - | 281 |
| | **26** | **281** |

## 9. Finance Expense

| | Year ended 31 December 2023 | Year ended 31 December 2022 |
|---|---|---|
| | **$'000** | $'000 |
| Interest paid and payable on borrowings (note 16) | 248 | - |
| Warrant cost of borrowings (note 21) | 125 | - |
| Arrangement fee | 55 | - |
| | 428 | - |
| Less borrowing costs capitalised (note 12) | (361) | - |
| | **67** | - |
| Unwinding of decommissioning provision (note 17) | 43 | 67 |
| | **110** | **67** |

## 10. Taxation

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

| | Year ended 31 December 2023 | Year ended 31 December 2022 |
|---|---|---|
| **UK taxation** | **$'000** | $'000 |
| UK Group loss on ordinary activities | (2,213) | (1,608) |
| Loss before taxation at the average UK standard rate of 23.5% (2021:19%) | (520) | (306) |
| Effect of: | | |
| Zero tax rate income | (1,966) | (1,570) |
| Disallowable expenses | 125 | 302 |
| Tax losses for which no deferred income tax asset was recognised | 4,304 | 2,876 |
| **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.

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 $16,627,000 (2022: $14,414,000 - estimated).

## 11. Loss Per Share

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

| | **Year ended 31 December 2023** | Year ended 31 December 2022 |
|---|---|---|
| Loss attributable to equity Shareholders ($'000) | (2,213) | (1,608) |
| Weighted average number of Ordinary Shares | 702,875,778 | 660,223,772 |
| Loss per Ordinary share ($/cents) | (0.31)c | (0.24)c |

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

## 12. Property, Plant and Equipment

| | **Development & Production Assets $'000** | **PPE/Computer / Office Equipment / Motor Vehicles $'000** | **Total $'000** |
|---|---|---|---|
| ***Cost*** | | | |
| At 1 January 2022 | 26,962 | 1,802 | 28,764 |
| Additions | 2,397 | 333 | 2,730 |
| Disposals | - | (89) | (89) |
| Reduction in BLO (see note 17) | (265) | - | (265) |
| Foreign exchange movements | 21 | 26 | 47 |
| At 31 December 2022 | 29,115 | 2,072 | 31,187 |
| Additions* | 3,286 | 115 | 3,401 |
| Disposals | - | (151) | (151) |
| Change in decommissioning provision | (686) | - | (686) |
| Foreign exchange movements | 4 | (4) | - |
| **At 31 December 2023** | **31,719** | **2,032** | **33,751** |
| ***Accumulated depreciation*** | | | |
| At 1 January 2022 | 4,029 | 390 | 4,419 |
| Disposals | - | (2) | (2) |
| Charge for the year | 1,683 | 273 | 1,956 |
| Foreign exchange movements | (1) | - | (1) |
| At 31 December 2022 | 5,711 | 661 | 6,372 |
| Disposals | (3) | (54) | (57) |
| Charge for the year | 1,067 | 307 | 1,374 |
| Impairment | 2,210 | - | 2,210 |
| Foreign exchange movements | (1) | - | (1) |
| **At 31 December 2023** | **8,986** | **914** | **9,899** |
| ***Carrying Amount*** | | | |
| At 31 December 2022 | 23,404 | 1,411 | 24,815 |
| **At 31 December 2023** | **22,733** | **1,118** | **23,851** |

*This includes additions of $361,000 which relates to capitalised borrowing costs.

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

| | Norio | Satsk henisi | West Rustavi | Rustaveli | Corporate | Total |
|---|---|---|---|---|---|---|
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| ***Carrying amount*** | | | | | | |
| **At 31 December 2023** | **14** | **28** | **16,967** | **6,403** | **439** | **23,851** |
| At 31 December 2022 | 2,126 | 174 | 14,625 | 7,488 | 402 | 24,815 |

The impairment charge of $2.2m (2022: £nil) arose on the production and development assets held by Norio and Satskhenisi following a decision to define these assets as non-core to the business operations. This was a result of an extensive review of the cost of operations and decision not to allocate additional capital for the further development of these CGUs. Following this decision, the oil and gas assets at Norio and Satskhenisi were written down to £nil (2022: $2.3m). The remaining assets within this CGU relate to non-oil and gas assets only.

## 13. Inventory

| | **31 December 2023** | 31 December 2022 |
|---|---|---|
| | **$'000** | $'000 |
| Spare parts and consumables | 3,286 | 3,606 |
| Crude oil | 1,091 | 1,185 |
| | **4,377** | **4,791** |

## 14. Trade and Other Receivables

| | **31 December 2023** | 31 December 2022 |
|---|---|---|
| | **$'000** | $'000 |
| Trade debtors | 233 | - |
| Other receivables | 420 | 347 |
| Prepayments | 318 | 213 |
| | **971** | **560** |

The fair value at amortised cost is considered to be equivalent to the book value as none of these receivables are considered to be impaired.

## 15. Cash and Cash Equivalents

| | **31 December 2023** | 31 December 2022 |
|---|---|---|
| | **$'000** | $'000 |
| Cash and cash equivalents | **713** | **450** |

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.

## 16. Trade and Other Payables

| | **31 December 2023** | 31 December 2022 |
|---|---|---|
| | **$'000** | $'000 |
| Trade and other payables | 1,041 | 1,182 |
| Accruals | 135 | 511 |
| | **1,176** | **1,693** |

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

During the year the Company entered into a $2,000,000 (2022: $nil) loan with a simple interest rate of 16% becoming payable every quarter. This was drawn down in two tranches, with $1,060,000 being drawn down on 1 February 2023 and the remainder of $940,000 being drawn down on 10 May 2023. The maturity date of this loan is set at 18 months from the date of the drawdowns and has been recognised as a short-term loan.

The loan was advanced for the purpose of the drilling of side tracks and associated works as part of the Company's Project development strategy in relation to the development of the Middle Eocene reservoir within West Rustavi/Krtsanisi.

The Company also granted warrants in consideration for this loan for 50% of the commitment, exercisable for three years from the drawdown at the price of 1.7p and 1.9p for the two respective tranches. . See note 21 for further details on the number of warrants issued and their valuation. A portion of these costs were capitalised as part of the borrowing costs (see note 9).

## 17. Provisions

| | **31 December 2023** | 31 December 2022 |
|---|---|---|
| | **$'000** | $'000 |
| Decommissioning provision | 1,080 | 1,723 |
| Baseline oil liability | - | - |
| | **1,080** | **1,723** |

| | **31 December 2023** | 31 December 2022 |
|---|---|---|
| ***Decommissioning provision*** | **$'000** | $'000 |
| Brought forward | 1,723 | 2,040 |
| Unwinding of discount on provision | 43 | 66 |
| Change in decommissioning provision in the year | (686) | (383) |
| Carried forward | **1,080** | **1,723** |

| | **31 December 2023** | 31 December 2022 |
|---|---|---|
| ***Baseline oil liability*** | **$'000** | $'000 |
| Brought forward | - | 265 |
| Baseline oil liability reducing from the acquisition | - | (265) |
| Additional baseline oil liability provided in the year | - | - |
| Carried forward | **-** | **-** |

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

The baseline oil liability arose from the acquisition of BRL in 2020. Under the production sharing contract for Block XIB, BRL was obliged to deliver a certain quantity of oil to the State of Georgia in quarterly instalments by May 2022. This was all delivered and there were no further liabilities at year end.

**18. Share Capital**

| Called up, allotted, issued and fully paid | No. Ordinary Shares | No. Deferred Shares | Nominal Value $ |
|---|---|---|---|
| **As at 1 January 2022** | **652,749,525** | **2,095,165,355** | **3,482,148** |
| Issue of equity on 5 January 2022 | 324,102 | - | 1,087 |
| Issue of equity on 2 February 2022 | 1,768,705 | - | 5,903 |
| Issue of equity on 3 February 2022 | 233,232 | - | 778 |
| Issue of equity on 11 February 2022 | 636,832 | - | 2,126 |
| Issue of equity on 1 March 2022 | 400,219 | - | 1,313 |
| Issue of equity on 2 March 2022 | 280,117 | - | 919 |
| Issue of equity on 1 April 2022 | 404,838 | - | 1,273 |
| Issue of equity on 3 April 2022 | 376,773 | - | 1,184 |
| Issue of equity on 4 May 2022 | 636,077 | - | 2,004 |
| Issue of equity on 1 June 2022 | 273,392 | - | 793 |
| Issue of equity on 6 June 2022 | 586,133 | - | 1,700 |
| Issue of equity on 6 July 2022 | 902,395 | - | 2,751 |
| Issue of equity on 2 August 2022 | 1,378,658 | - | 4,073 |
| Issue of equity on 2 September 2022 | 2,551,864 | - | 7,125 |
| Issue of equity on 4 October 2022 | 1,632,875 | - | 4,698 |
| Issue of equity on 14 October 2022 | 464,457 | - | 1,336 |
| Issue of equity on 1 November 2022 | 233,047 | - | 506 |
| Issue of equity on 2 November 2022 | 656,382 | - | 1,889 |
| Issue of equity on 1 December 2022 | 303,268 | - | 917 |
| Issue of equity on 2 December 2022 | 1,569,850 | - | 4,749 |
| Issue of equity on 13 December 2022 | 12,000,000 | - | 36,303 |
| **As at 31 December 2022** | **680,362,741** | **2,095,165,355** | **3,565,575** |
| Issue of equity on 4 January 2023 | 764,340 | - | 2,353 |
| Issue of equity on 6 February 2023 | 5,622,613 | - | 16,922 |
| Issue of equity on 7 March 2023 | 924,997 | - | 2,855 |
| Issue of equity on 5 April 2023 | 1,876,413 | - | 5,896 |
| Issue of equity on 03 August 2023 | 35,124,708 | - | 111,798 |
| **As at 31 December 2023** | **724,675,812** | **2,095,165,355** | **3,705,399** |

On 4 January 2023, the Company issued 414,879 Ordinary Shares to two service providers in lieu of cash settlement for services provided to the Company with a total value of £5,145 ($6,335).

On 4 January 2023, the Company issued 349,461 Ordinary Shares to three Non-Executive Directors, on exercise of their nil cost options.

On 3 February 2023, the Company issued 296,556 Ordinary Shares to three Non-Executive Directors on exercise of their nil cost options.

On 6 February 2023, the Company issued 5,173,662 Ordinary Shares to the Employee Benefit Trust at par value.

On 6 February 2023, the Company issued 152,395 Ordinary Shares to two service providers in lieu of cash settlement for services provided to the Company with a total value of £2,421 ($2,915).

On 7 March 2023, the Company issued 646,849 Ordinary Shares to two service providers in lieu of cash settlement for services provided to the Company with a total value of £7,783 ($9,608).

On 7 March, the Company issued 278,148 Ordinary Shares to two Non-Executive Directors, on exercise of their nil cost options.

On 5 April 2023, the Company issued 1,400,025 Ordinary Shares to two Non-Executive Directors, on exercise of their nil cost options.

On 5 April 2023, the Company issued 476,388 Ordinary Shares to two service providers in lieu of cash settlement for services provided to the Company with a total value of £4,783 ($6,011).

On 3 August, the Company issued 30,000,000 Ordinary shares to the Employment Benefit Trust at par value.

On 3 August, the Company issued 5,124,708 Ordinary shares to three service providers in lieu of cash settlement for services provided to the Company with a total value of £68,589 ($87,326).

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On 5 January 2022, the Company issued 324,102 Ordinary Shares to two service providers in lieu of cash settlement for services provided to the Company with a total value of £3,033 ($4,067).

On 2 February 2022, the Company issued 1,768,705 Ordinary Shares to three Non-Executive Directors and a consultant, on exercise of their nil cost options.

On 3 February 2022, the Company issued 233,232 Ordinary Shares to two service providers in lieu of cash settlement for services provided to the Company with a total value of £3,033 ($4,049).

On 11 February 2022, the Company issued 636,832 Ordinary Shares to a consultant on exercise of their nil cost options.

On 1 March 2022, the Company issued 400,219 Ordinary Shares to three Non-Executive Directors on exercise of their nil cost options.

On 2 March 2022, the Company issued 280,117 Ordinary Shares to two service providers in lieu of cash settlement for services provided to the Company with a total value of £3,033 ($3,981).

On 1 April 2022, the Company issued 404,838 Ordinary Shares to three Non-Executive Directors on exercise of their nil cost options.

On 3 April 2022, the Company issued 376,773 Ordinary Shares to three service providers in lieu of cash settlement for services provided to the Company with a total value of £4,033 ($5,071).

On 4 May 2022, the Company issued 329,458 Ordinary Shares to three Non-Executive Directors on exercise of their nil cost options. Additionally on this date, the Company issued 306,619 Ordinary Shares to three service providers in lieu of cash settlement for services provided to the Company with a total value of £4,033 ($5,081).

On 1 June 2022, the Company issued 273,392 Ordinary Shares to three Non-Executive Directors on exercise of their nil cost options.

On 6 June 2022, the Company issued 586,133 Ordinary Shares to three service providers in lieu of cash settlement for services provided to the Company with a total value of £8,183 ($9,494).

On 6 July 2022, the Company issued 243,395 Ordinary Shares to three Non-Executive Directors on exercise of their nil cost options. Additionally on this date, the Company issued 659,000 Ordinary Shares to three service providers in lieu of cash settlement for services provided to the Company with a total value of £10, 641 ($12,976).

On 2 August 2022, the Company issued 309,767 Ordinary Shares to three Non-Executive Directors on exercise of their nil cost options. Additionally on this date, the Company issued 671,722 Ordinary Shares to two service providers in lieu of cash settlement for services provided to the Company with a total value of £11,473 ($13,557) and 397,169 Ordinary Shares to a former consultant following the exercise of their nil cost options.

On 2 September 2022, the Company issued 307,978 Ordinary Shares to three Non-Executive Directors on exercise of their nil cost options. Additionally on this date, the Company issued 2,243,886 Ordinary Shares to three service providers in lieu of cash settlement for services provided to the Company with a total value of £31,400 ($35,070).

On 4 October 2022, the Company issued 233,192 Ordinary Shares to three Non-Executive Directors on exercise of their nil cost options. Additionally on this date, the Company issued 1,399,683 Ordinary Shares to three service providers in lieu of cash settlement for services provided to the Company with a total value of £21,950 ($25,262).

On 14 October 2022, the Company issued 464,457 Ordinary Shares to a consultant on exercise of their nil cost options.

On 1 November 2022, the Company issued 233,047 Ordinary Shares to three Non-Executive Directors on exercise of their nil cost options.

On 2 November 2022, the Company issued 656,382 Ordinary Shares to a service provider in lieu of cash settlement for services provided to the Company with a total value of £12,198 ($14,038).

On 1 December 2022, the Company issued 303,268 Ordinary Shares to three Non-Executive Directors on exercise of their nil cost options.

On 2 December 2022, the Company issued 1,569,850 Ordinary Shares to three service providers in lieu of cash settlement for services provided to the Company with a total value of £28,640 ($34,657).

On 13 December 2022, the Company issued 12,000,000 Ordinary Shares to Jindal Petroleum (Georgia) Limited on exercise of the nil cost options which were granted in 2020 as part of the consideration for the acquisition of Schlumberger Rustaveli Company Limited.

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.

## 19. Share Premium Account

| | **$’000** |
|---|---|
| Balance at 1 January 2023 | 34,765 |
| Premium arising on issue of equity shares | 91 |
| Share issue costs | - |
| **Balance at 31 December 2023** | **34,856** |

| | $’000 |
|---|---|
| Balance at 1 January 2022 | 34,625 |
| Premium arising on issue of equity shares | 140 |
| Share issue costs | - |
| Balance at 31 December 2022 | 34,765 |

## 20. Reserves

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

| **Reserves** | **Description and purpose** |
|---|---|
| Share capital | Amount subscribed for share capital at nominal value. |
| Share premium account | Amount subscribed for share capital in excess of nominal value, less attributable costs. |
| Other reserves | The other reserves comprises the fair value of all share options and warrants which have been charged over the vesting period, net of the amount relating to share options which have expired, been cancelled and have vested. It also comprises of the fair value of the share options issued as part of the consideration paid for the acquisition of the subsidiary BRL and subsequently relinquished in the year. This movement has been shown in the Consolidated Statement of the Changes in Equity and is also set out in the table below |

| | |
|---|---|
| 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. |

| **Other reserves** | **$'000** |
|---|---|
| Balance at 1 January 2023 | 4,525 |
| Share based payments | 414 |
| Options movement | (173) |
| **Balance at 31 December 2023** | **4,766** |

| | $'000 |
|---|---|
| Balance at 1 January 2022 | 10,260 |
| Share based payments | 1,072 |
| Options movement | (6,807) |
| Balance at 31 December 2022 | 4,525 |

On 30th November 2022, the Company announced that the outstanding Consideration due to Schlumberger Production Management ("SLB"); (the seller of XIB) had not been taken up and that the 108,000,000 nil-cost options issued to SLB were to be relinquished. This decision has significantly improved the Company's accumulated deficit, with $6,389,000 of the movement in options being attributable to this relinquishment of options and their subsequent recycling of this amount through the reserves.

## 21. Warrants

| | **Number of Warrants** | **31 December 2023 weighted average exercise price** | Number of Warrants | 31 December 2022 weighted average exercise price |
|---|---|---|---|---|
| Outstanding at the beginning of the year | 10,809,194 | 4p | 16,820,502 | 6p |
| Granted in the year | 44,682,643 | 1.8p | - | - |
| Expired in the year | (1,250,000) | 4p | (6,011,308) | 11p |
| Outstanding at the end of the year | 54,241,837 | 2.2p | 10,809,194 | 4p |

As at 31 December 2023, all warrants were available to exercise and were exercisable at prices between 1.7p and 12.5p (31 December 2022: 3p and 12.5p). The weighted average life of the warrants is 2.1 years (31 December 2022: 2.8 years). 44,682,643 warrants were issued during the year, nil were exercised and 1,250,000 warrants expired.

The warrants granted during the year related to the cost of borrowing and therefore a fair value was calculated using the Black Scholes Model. This resulted in fair value charge of $125,000 being assigned to the warrants granted to the lenders. The inputs used for the model are shown below in note 22.

## 22. Share Based Payments

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

Under IFRS 2, an expense is recognised in the statement of comprehensive income for share based payments, to recognise their fair value at the date of grant. The application of IFRS 2 gave rise to a charge of $414,000 for the year ended 31 December 2023. The equivalent charge for the year ended 31 December 2022 was $1,072,000. The Group recognised total expenses (all of which related to equity settled share-based payment transactions) under the current plans of:

| | **Year ended 31 December 2023** | Year ended 31 December 2022 |
|---|---|---|
| | **$'000** | $'000 |
| Share option scheme | 414 | 1,072 |
| | **414** | **1,072** |

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

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

| | **2023 Options** | **2023 Weighted average exercise price** | 2022 Options | 2022 Weighted average exercise price |
|---|---|---|---|---|
| Outstanding at beginning of year | 100,106,152 | $0.02 | 47,065,951 | $0.05 |
| Granted during the year | 26,701,508 | $0.01 | 85,637,597 | $0.02 |
| Exercised during the year | 8,540,800 | $0.00 | (15,111,350) | $0.01 |
| Expired during the year | 18,481,019 | $0.03 | (17,486,046) | $0.06 |
| **Outstanding at the end of the year** | **99,785,841** | **$0.01** | 100,106,152 | $0.02 |
| Exercisable at the end of the year | 83,823,460 | | 59,272,819 | |

The weighted average exercise price of the share options exercisable at 31 December 2023 is $0.01 (31 December 2022: $0.02). The weighted average contractual life of the share based payments outstanding at 31 December 2023 is 9.16 years (31 December 2022: 7.96 years).

The estimated fair values of these share options, and the inputs used in the Black-Scholes model to calculate those fair values are as follows:

| **Date of grant** | **Number of options** | **Estimated fair value** | **Share price** | **Exercise price** | **Expected volatility** | **Expected life** | **Risk free rate** | **Expected dividends** |
|---|---|---|---|---|---|---|---|---|
| 30 June 2017 | 1,200,000 | $0.04 | $0.01 | $0.03 | 84% | 5.5 years | 1.16% | 0% |
| 6 April 2018 | 4,400,000 | $0.05 | $0.04 | $0.03 | 84% | 10 years | 1.34% | 0% |
| 11 June 2018 | 18,098,332 | $0.04 | $0.05 | $0.05 | 84% | 10 years | 1.23% | 0% |
| 21 October 2019 | 6,325,000 | $0.05 | $0.06 | $0.15 | 109% | 9.0 years | 0.63% | 0% |
| 1 March 2021 | 10,800,00 | $0.04 | $0.04 | $0.06 | 192% | 9.5 years | 0% | 0% |
| 8 April 2022 | 25,200,000 | $0.01 | $0.02 | $0.02 | 105% | 10 years | 1.75% | 0% |
| | **Warrants** | | | | | | | |
| 31 December 2020 | 8,750,167 | $0.04 | $0.04 | $0.04 | 190% | 5 years | 0% | 0% |
| 1 February 2023 | 25,330,249 | $0.003 | $0.012 | $0.017 | 70.5% | 3 years | 3.76% | 0% |
| 10 May 2023 | 19,352,394 | $0.003 | $0.013 | $0.019 | 70.5% | 3 years | 3.57% | 0% |

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

For the options and warrants granted in 2023, expected volatility was determined by reviewing benchmark values from comparator companies. For the options granted prior to 2023, expected volatility was determined by reference to the volatility of historic trading prices of the Company's shares.

**23. 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.

**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 $713,000 (2022: $ 450,000). 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 loans at a simple interest rate of 5% to its subsidiary companies. Although the loans are repayable on demand, they are unlikely to be repaid until the projects become successful and the subsidiaries start to generate revenues. An assessment of the expected credit loss arising on intercompany loans is detailed in note 6 to the parent Company financial statements.

**Market Risk**
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk for the Company comprises of currency risk (discussed below) and interest rate risk. Since there are no variable interest-bearing loans in the Group (the Group Borrowings are set at a fixed rate of 16%), no risk is therefore identified.

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

A 10% increase in the strength of the pound sterling against the US dollar would cause an estimated increase of $221,000 (2022: $161,000 increase) in the loss after tax of the Group for the year ended 31 December 2022, with a 10% weakening causing an equal and opposite decrease. The impact on equity is the same as the impact on loss after tax.

The Group's cash and cash equivalents and liquid investments are mainly held in US dollars, pounds sterling and Georgian Lari. At 31 December 2023, 16% of the Group's cash and cash equivalents and liquid investments were held in pounds sterling. 78% in Georgian Lari and the remainder in US dollars (31 December 2022: 12% in pounds sterling, 74% in Georgian Lari and the remainder in US dollars, Euros and Canadian dollars).

**Liquidity Risk**

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

## 24. Categories of Financial Instruments

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

| | **31 December 2023** | 31 December 2022 |
|---|---|---|
| | **$'000** | $'000 |
| Liabilities at amortised cost | 1,042 | 1,694 |
| Borrowings at amortised cost | 2,000 | - |
| | **3,042** | **1,694** |
| Cash and cash equivalents at amortised cost | 713 | 450 |
| Financial assets at amortised cost | 971 | 347 |
| | **1,684** | **789** |

A fixed and floating charge has been placed over the assets owned by the Group as security for the $2m borrowings taken out in the year. This will be discharged in full on payment of these secured liabilities.

## 25. Subsidiaries

At 31 December 2023, 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 2023** | Proportion of voting rights and equity interest 2022 |
|---|---|---|---|
| Block Norioskhevi Ltd | British Virgin Islands | 100% | 100% |
| Satskhenisi Ltd | Marshall Islands | 100% | 100% |
| Georgia New Ventures Inc. | Bahamas | 100% | 100% |
| Block Operating Company LLC | Georgia | 100% | 100% |
| Block Rustaveli Limited | British Virgin Islands | 100% | 100% |
| Didi Lilo & Nakarala Limited | British Virgin Islands | 100% | 100% |
| South Samgori Limited | British Virgin Islands | 0% | 100% |

***Subsidiaries - Nature of business***

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

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

The principal activity of South Samgori Limited and Didi Lilo & Nakarala Limited is oil and gas exploration. These companies were both incorporated on 28 October 2022. South Samgori was disposed of in the first quarter of 2023 for nil consideration, as part of a Farm out Agreement, involving exploration licences being split between Didi Lilo & Nakarala with Georgia Oil & Gas Limited (GOG). These licences will continue to be explored by the Group as part of a Joint Operating Agreement with GOG.

***Registered office***

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

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

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

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

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

The registered office of South Samgori Limited and Didi Lilo & Nakarala Limited is Woodbourne Hall, Road Town, Tortola, British Virgin Islands.

**26. Commitments**

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

Operating lease commitment

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

| | **31 December 2023** | 31 December 2022 |
|---|---|---|
| | **$'000** | $'000 |
| Within 1 year | 81 | 269 |
| Between 1 and 5 years | - | - |
| Total | - | 269 |

Short term leases are leases with a lease term of 12 months or less without a purchase option and are recognised on a straight-line basis as an expense in the profit or loss account.

**27. Related Party Transactions**

The Directors consider that there is no ultimate controlling party.

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

The Company secured a $2m loan facility during the year and the draw down on this loan included the following related parties, who also received warrants as set out below:

| | |
|---|---|
| Paul Haywood - $115,000 | 2,665,373 warrants at a fair value cost of $7,569 |
| Ken Seymour - $125,000 | 2,904,337 warrants at a fair value cost of $8,241 |

**28. Events Occurring After Year End**

On the 16th January 2024, the Company announced the results of a study into the carbon storage potential of the Patardzueli-Samgori Middle Eocene reservoir.

On the 8th February 2024, the Company announced an Independent Engineering Report covering Contingent Gas Resources associated with Patardzueli-Samgori Lower Eocene and Upper Cretaceous Reservoirs.

On the 12th February 2024, the Company announced the formal commencement of the Project III farm out campaign.

On the 4th March 2024, the Company announced results of an internal study into the Contingent Gas Resources associated with the Teleti and Rustavi fields at Lower Eocene and Upper Cretaceous reservoir.

## Parent Company Statement of Financial Position for the Year Ended 31st December 2023

Company number: 05356303

| | Note | **2023 $'000** | 2022 $'000 |
|---|---|---|---|
| **Non- current assets** | | | |
| Investments | 2 | 6,533 | 6,209 |
| Property, plant and equipment | | - | 1 |
| | | 6,533 | 6,210 |
| **Current assets** | | | |
| Trade and other receivables | 3 | 23,017 | 25,340 |
| Cash and cash equivalents | 4 | 157 | 112 |
| **Total current assets** | | 23,174 | 25,452 |
| **Total assets** | | **29,707** | **31,662** |
| **Capital and reserves attributable to equity shareholders** | | | |
| Share capital | 5 | 3,705 | 3,565 |
| Share premium | 5 | 34,856 | 34,765 |
| Other reserves | 5 | 4,766 | 4,525 |
| Foreign exchange reserve | | 59 | (360) |
| Accumulated deficit | | (16,413) | (11,657) |
| **Total equity** | | **26,973** | **30,838** |
| **Current liabilities** | | | |
| Trade and other payables | 6 | 734 | 824 |
| Borrowings | 11 | 2,000 | - |
| **Total current liabilities** | | 2,734 | 824 |
| **Total equity and liabilities** | | **29,707** | **31,662** |

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

The Company's loss for the year from continuing operations is $4,929,000 (2022: loss of $1,661,000).

The financial statements were approved by the Board of Directors and authorised for issue on 22 May 2024 and were signed on its behalf by:

Paul Haywood
**Director**

The notes on pages 82 to 85 form part of these financial statements.

## Parent Company Statement of Changes in Equity for the Year Ended 31st December 2023

| | Share capital $'000 | Share premium $'000 | Accumulated deficit $'000 | Other reserve $'000 | Foreign currency reserve $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|
| **Balance at 31 December 2021** | **3,482** | **34,625** | **(16,803)** | **10,260** | **366** | **31,930** |
| *Comprehensive income* | | | | | | |
| Loss for the year | - | - | (1,661) | - | - | (1,661) |
| Exchange differences on translation of foreign operations | - | - | - | - | (726) | (726) |
| ***Total comprehensive income for the year*** | ***-*** | ***-*** | ***(1,661)*** | ***-*** | ***(726)*** | ***(2,387)*** |
| *Transactions with owners recognised directly in equity* | | | | | | |
| Shares issued | 27 | 140 | - | - | - | 167 |
| Share based payments | - | - | - | 1,072 | - | 1,072 |
| Options exercised | 56 | - | - | - | - | 56 |
| Options relinquished | - | - | 6,389 | (6,389) | - | - |
| Options expired | - | - | 418 | (418) | - | - |
| ***Total transactions with owners*** | ***83*** | ***140*** | ***6,807*** | ***(5,735)*** | ***-*** | ***1,295*** |
| **Balance at 31 December 2022** | **3,565** | **34,765** | **(11,657)** | **4,525** | **(360)** | **30,838** |
| *Comprehensive income* | | | | | | |
| Loss for the year | - | - | (4,929) | - | - | (4,929) |
| Exchange differences on translation of foreign operations | - | - | - | - | 419 | 419 |
| ***Total comprehensive income for the year*** | ***-*** | ***-*** | ***(4,929)*** | ***-*** | ***419*** | ***(4,510)*** |
| *Transactions with owners recognised directly in equity* | | | | | | |
| Shares issued | 133 | 91 | - | - | - | 224 |
| Share based payments | - | - | - | 414 | - | 414 |
| Options exercised | 7 | - | - | - | - | 7 |
| Options expired | - | - | 173 | (173) | - | - |
| ***Total transactions with owners*** | ***140*** | ***91*** | ***173*** | ***241*** | ***-*** | ***645*** |
| **Balance at 31 December 2023** | **3,705** | **34,856** | **(16,413)** | **4,766** | **59** | **26,973** |

## Parent Company Statement of Cashflows for the Year Ended 31st December 2023

| | Note | 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Loss for the year before income tax | | (4,929) | (1,661) |
| *Adjustments for*: | | | |
| Depreciation | | 1 | 3 |
| Intercompany interest and other income | | (1,383) | (1,188) |
| Finance expense | | 66 | |
| Increase in ECL provisions for loans | 3 | 4,387 | - |
| Creditors paid in shares | | 108 | 167 |
| Share based payments expense | | 362 | 1,035 |
| Foreign exchange movement | | - | 9 |
| **Operating cash flows before movements in working capital** | | **(1,388)** | **(1,635)** |
| (Increase)/decrease in trade and other receivables | 3 | (56) | 113 |
| (Decrease)/increase in trade and other payables | 6 | (90) | 52 |
| **Net cash used in operating activities** | | **(1,534)** | **(1,470)** |
| **Cash flow from investing activities** | | | |
| Finance and other income | | 14 | - |
| Inter-Group amounts received/ (drawn down) | | (187) | (1,452) |
| **Net cash used in investing activities** | | **(173)** | **(1,452)** |
| **Cash flow from financing activities** | | | |
| Proceeds from Borrowings | 11 | 2,000 | - |
| Finance costs | | (248) | (1) |
| **Net cash inflow from financing activities** | | **1,752** | **(1)** |
| **Net increase/(decrease) in cash and cash equivalents in the year** | | **45** | **(19)** |
| **Cash and cash equivalents at start of year** | | 112 | 133 |
| Effects of foreign exchange | | - | (2) |
| **Cash and cash equivalents at end of year** | 4 | **157** | **112** |

# Notes Forming Part of the Parent Company Financial Statements

## 1. Accounting policies

***Basis of Preparation***

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

***Going Concern***

The Directors have prepared cash flow forecasts for a period of 24 months from the date of signing these financial statements. The Group's forecasts are reviewed regularly to assess whether any actions to curtail expenditure or cut costs are required.

The Group's operations presently generate sufficient revenues to cover operating costs and capital expenditures, supporting the continued preparation of the Group's accounts on a going concern basis.

The Directors are nevertheless conscious that oil prices have been volatile during the past few years and could rise further but could also fall back in the year ahead, and that future production levels depend on both depletion rates from existing wells and the success of future drilling. As part of their going concern assessment, the Directors have examined multiple scenarios in which oil prices and/or future production levels fall substantially and have concluded that it remains possible that future revenues in at least some scenarios might not cover all operating costs and planned capital expenditures, creating a material uncertainty that may cast doubt over the Group's ability to continue as a going concern. Whilst acknowledging this material uncertainty, the Directors remain confident of making cost savings if required and, therefore, the Directors consider it appropriate to prepare the financial statements on a going concern basis. The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

***Investments in Subsidiaries***

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

## 2. Investments

| Shares in Group undertakings | **2023 $'000** | 2022 $'000 |
|---|---|---|
| Balance at 1 January | 6,209 | 6,939 |
| FX movement on translation of assets | 324 | (730) |
| **Balance at 31 December** | **6,533** | **6,209** |

Investments in subsidiaries are recorded at cost, which is the fair value of the consideration paid.
At 31 December 2023, the carrying amount of the Company's net assets of $26,973,000 (2022: $30,838,000) exceeded the Group's net assets of $25,706,000 (2022: $27,200,000). This is identified by IAS 36 Impairment of Assets as an indicator that assets may be impaired. Following a review of the assets held by the Company, the Directors do not believe an impairment is necessary at this time, but will keep this under review.

## 3. Trade and Other Receivables

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Prepayments | 14 | 195 |
| Other receivables | 339 | 102 |
| Amounts due from Group undertakings | 22,664 | 25,043 |
| | **23,017** | **25,340** |

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 repayable on demand. The Company charges 5% interest per annum on intercompany loans.

Under IFRS 9, the Expected Credit Loss ("ECL") Model is required to be applied to the intercompany loans receivable from subsidiary companies, which are held at amortised cost. An assessment of the expected credit loss arising on intercompany loans has been calculated and a cumulative loss allowance of $8,097,000 has been provided for in the parent Company financial statements ($3,710,000 in 2022). No further impairment was indicated in the current year.

## 4. Cash at Bank

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Cash and cash equivalents | **157** | **112** |

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 2023, 74% (2022: 47%) of the cash balances held by the Company were held in UK Sterling, 21% (2022: 53%) in US Dollar and the remaining in other currencies (2022: 0%).

## 5. Share Capital and Reserves

Details of share capital and reserve movements in the year are set out in notes 18 and 20 to the consolidated financial statements.

## 6. Trade and Other Payables

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Trade and other payables | 236 | 316 |
| Accruals and other creditors | 498 | 508 |
| | **734** | **824** |

Trade and other payables at 31 December 2023 comprised balances in US dollars and pounds sterling.

## 7. Categories of Financial Instruments

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

| | 31 December 2023 $'000 | 31 December 2022 $'000 |
|---|---|---|

| | | |
|---|---|---|
| Trade and other payables | 599 | 824 |
| Borrowings | 2,000 | - |
| **Total financial liabilities at amortised cost** | **2,599** | **824** |

The carrying amounts of trade and other payables and the Borrowings are considered to be the same as their fair values due to their short-term nature. Details of the Borrowings are set out in note 16 to the consolidated financial statements.

| | **31 December 2023 $'000** | 31 December 2022 $'000 |
|---|---|---|
| Other receivables | 353 | 102 |
| Amounts due from Group undertakings | 22,664 | 25,043 |
| Cash and cash equivalents at amortised cost | 157 | 112 |
| **Total financial assets at amortised cost** | **23,174** | **25,257** |

The amounts due from Group undertakings includes a loss allowance of $8,097,000 (2022: $3,710,000). The loans are repayable on demand and include a 5% (2022: 5%) per annum interest rate charge. They are all denominated in US dollars, which differs from the parent Company's functional currency of pounds sterling, and therefore there is an exposure to foreign currency risk. There is no exposure to price risk as the underlying investments are expected to be held to maturity.

## 8. Financial and Capital Risk Management

The Company's exposure to financial risks is managed as part of the Group. Full details about the Group's exposure to financial risks and how these risks could affect the Group's future financial performance are given in note 23 to the consolidated financial statements. Information specific to the Company is given below.

***Credit Risk***

For deposits lodged at banks and financial institutions these are all held through a recognised financial institution. The maximum exposure to credit risk is $157,000 (2022: $112,000). The Company does not hold any collateral as security.

The Company has made unsecured interest payable loans to its subsidiary companies and repayments have commenced during the year. Although the loans are repayable on demand, they are unlikely to be fully repaid until the projects become more developed and the subsidiaries start to generate increased revenues. An assessment of the expected credit loss arising on intercompany loans has been calculated and a loss allowance of $8,097,000 (2022: $3,710,000) has been provided for in the parent Company financial statements.

***Currency Risk***

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

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

The Company's cash and cash equivalents and liquid investments are mainly held in pounds sterling and US dollars. At 31 December 2023, 26% (2022: 53%) of the Group's cash and cash equivalents and liquid investments were held in a currency other than pounds sterling. The currency risk is not considered to be significant and has not been calculated. A 10% movement in the strength of the pound sterling against the US dollar would increase the net assets of the Company by $2,716,000 (2022: $3,084,000).

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

***Capital Management***
The capital of the Company is managed as part of the capital of the Group as a whole. Full details, are contained in note 23 to the consolidated financial statements.

## 9. Commitments

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

*UK operating lease commitment*
At 31 December 2023, the total of future minimum lease payments under non-cancellable operating leases for each of the following periods was:

| | **2023** | 2022 |
|---|---|---|
| | **$'000** | $'000 |
| Within 1 year | 52 | 81 |
| Between 1 and 5 years | - | - |
| Total | 52 | 81 |

Short term leases are leases with a lease term of 12 months or less without a purchase option and are recognised on a straight-line basis as an expense in the profit or loss account.

## 10. Related Party Transactions

At 31 December 2023, the following subsidiaries owed the parent Company for payments made and recovered on their behalf.

- Block Norioskhevi Ltd – $nil (31 December 2022: $3,860,614)
- Georgia New Ventures Inc – $22,794,169 (31 December 2022: $19,950,781)
- Satskhenisi Ltd – $nil (31 December 2022: $314,044)
- Block Operating Company LLC – $2,619,674 (31 December 2022: $2,029,351)
- Block Rustaveli Limited - (Debtor of $2,811,352) (31 December 2022: Debtor of $1,115,554)
- Didi Lilo & Nakarala Limited - $61,343 (31 December 2022: $2,000)

An estimated credit loss of $4,387,000 was recognised in the current year in relation to the loans to Satskhenisi Ltd and Block Norioskhevi Ltd, resulting in their impairment to nil cost outstanding. The total estimated credit loss recognised to date is £8,097,000. Further details on related party transactions can be found in note 27 to the consolidated financial statements. The disclosure of fees paid to consultancy companies for key management services can be seen in the Remuneration Report.

## 11. Information Included in the Notes to the Consolidated Financial Statements

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

Note 6 – Auditors' remuneration
Note 16 – Trade and other payables
Note 22 – Share based payments
Note 25 – Subsidiaries
Note 28 – Events occurring after the year end