

Block Energy plc
Annual Report and Financial Statements
Year Ended 31st December 2022

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Company Information

Officers and Advisors

Directors

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

UK Office

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 London
 EC3V 0HR
 UK company number: 05356303

www.blockenergy.co.uk

Company Secretary and Registered Office

Ben Harber
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Block Energy Plc is quoted on AIM (Symbol BLOE)

Advisors

<p>Broker</p> <p>Tennyson Securities A trading name of Shard Capital Partners LLP 20 Fenchurch Street London EC3M 3BY</p>	<p>Registrar</p> <p>Share Registrars Limited 3 The Millennium Centre Crosby Way Farnham Surrey GU9 7XX</p>
<p>Nominated Advisor</p> <p>Spark Advisory Partners Limited 5 St John's Lane London EC1M 4BH</p>	<p>Bank</p> <p>Barclays Bank PLC 1 Churchill Place Canary Warf London E14 5HP</p>
<p>Statutory Auditor</p> <p>PKF Littlejohn LLP 15 Westferry Circus London E14 4HD</p>	<p>Public Relations</p> <p>Celicourt Communications Limited Orion House 5 Upper St Martin's Lane London WC2H 9EA</p>

Strategic Report

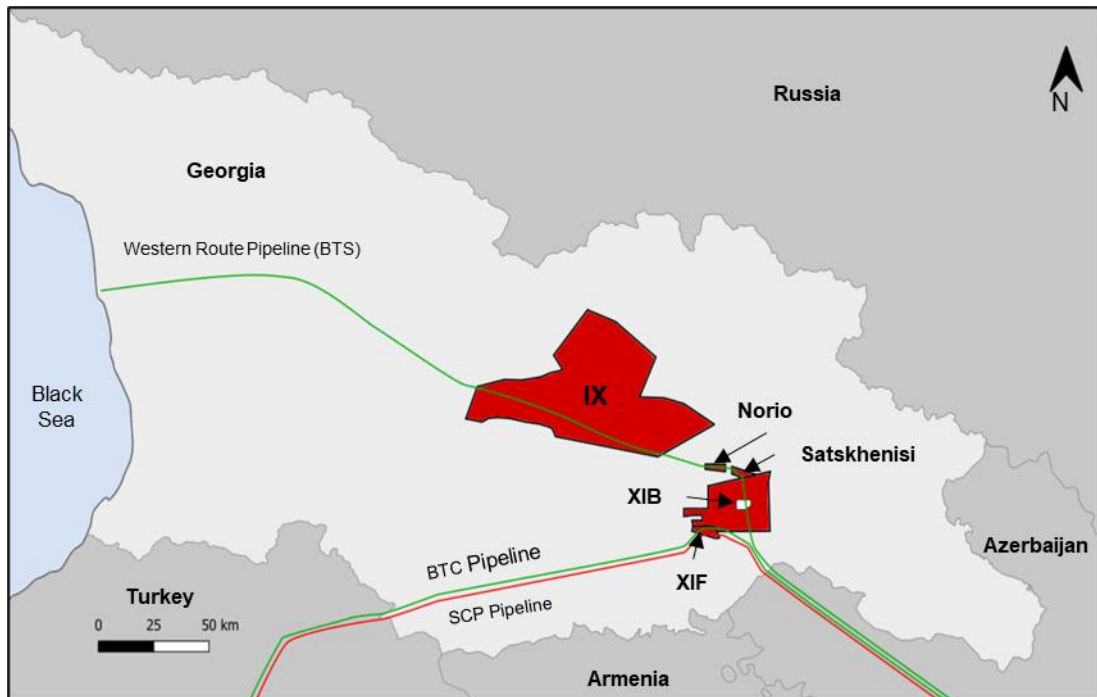
Strategy and Business Model

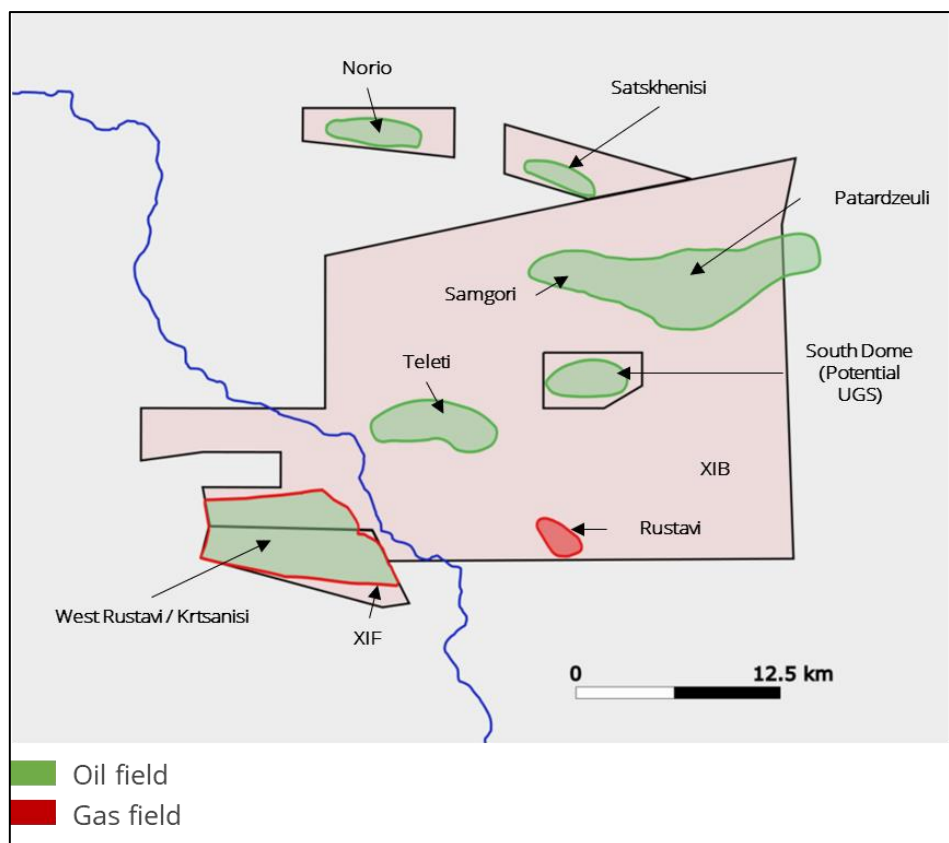
Block Energy aims to build on its position as the leading independent oil and gas company in Georgia. The Company plans to continue the development of its production assets and advance all activity associated with appraising its high-impact gas resources and securing farm-out partners for the high impact exploration projects across its portfolio.

The Company plans to scale up current production and reserves via efficient drilling programmes led by a management team with deep experience in the Caucasus region and an operation team led by local staff supported by the team in the UK.

The Company holds interests in six Production Sharing Contracts (“PSCs”) in Georgia, each at various stages of the full E&P lifecycle. Opportunities across the portfolio encompass near-term production, mid-term appraisal and longer-term exploration, and the Company defines these opportunities concerning “Projects” as opposed to particular PSC licence areas.

The Company’s assets are presented in the following maps:





Project I is focused on developing the Middle Eocene Reservoir of the West Rustavi/Krtsanisi field contained within licence blocks XIB & XIF (wholly-held by the Company). The Company has undertaken significant operational activity on the field since it acquired 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 between 2018 – 2021. In 2022, the Company spudded the WR-B01Za well (a sidetrack of WR-B01a). The Company has also constructed and operates a production facility at the West Rustavi/Krtsanisi field.

In 2022, Block engaged independent reserves auditors, ERCE, to audit a development plan associated with the first phase (of a total of 8) development of Project I. The ERCE report, published in July 2022, assigns gross 3P reserves of 3.01 MMbbl and 2.14 BCF to a development area associated with a five well programme. Wells JKT-1Z and WR-B01Za have since been drilled and are performing above ERCEs base case production forecast. The Company's short-term plan is to complete the initial development of Project I by drilling three sidetracks/new wells and then to transition into developing the broader Project I area, which contains 19.5 MMbbl gross 2C contingent resources based on the Company's internal estimates. A full field development plan for Project I has been concluded by the Company's subsurface and operational teams and, in due course, will be subjected to an audit by a specialist firm. Project I is a robust, geoscience-led project that has benefited from back-to-back drilling success and aims to continue delivering material short-term cashflows to the Company.

Project II is focused on the XIB licence, acquired from Schlumberger Production Management in 2020, mainly on the Patardzeuli field but there is also potential in the Teleti, Samgori and Rustavi fields. Patardzeuli produced at high rates (55,000 bopd) in the 1980s before production suddenly ceased. The Company believes that substantial oil resources remain in the field and that a redevelopment programme could deliver material results to the Company in terms of production and asset value. In 2022, work on Project II began with the deepening of the JSR-01 well. Internal contingent resource estimates for Project II see a gross 2C contingent resource of 201 MMbbl in the Patardzeuli field and a further 34 MMbbl within the Samgori field.

Project III is focused on the appraisal and monetisation of substantial gas resources at deeper intervals in the Company's XIB & XIF licences in the Lower Eocene, Upper Cretaceous and Palaeocene

reservoirs. Across the Company's portfolio of XIB & XIF fields, over 14 wells have either discovered or produced commercial volumes of gas or otherwise indicated gas from these reservoirs. The target reservoirs are often more than 1km thick and host a gas-bearing natural fracture system. The Company has estimated over 1 TCF of 2C contingent resource with 860 BCF of gas resource in the West Rustavi/Krtsanisi and Patardzueli/Samgori fields. The Company's approach to Project III is to continue geological, geophysical and reservoir engineering studies before advancing a phased appraisal programme, initially comprising workovers and re-testing of wells that previously produced and discovered gas. Project III is of strategic importance and value to Georgia, as the country imports c. 99% of its consumed gas and has recently sanctioned the South Dome underground gas storage project, which is located in the heart of the XIB license and located adjacent to development areas central to Project III plans.

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 of new 2D seismic data and the reprocessing of 1,000 km existing seismic data within XIB. The new data supports overall estimates of 3.1 TCF gas and 1,400 MMbbl oil which, in line with Block's and GOGL's farm out strategy for Project IV, has attracted regional NOCs and mid-sized oil companies into the data room. This transaction was announced in 2022 and completed in Q1 2023.

The four Projects provide the Company with a robust and balanced platform for growth. Activities range from low risk and low-cost development, focussed on generating rapid cash flow to de-risking high-impact appraisal projects and undertaking a farm out strategy which will support strong shareholder returns.

Block made good progress in executing its four Project strategy in the year ended 31 December 2022:

- Sold crude oil at higher prices as compared to last year (2022: \$83.34/bbl, 2021 \$60.65/bbl).
- Completed an independent Competent Person's Report on Phase I of Project I, with ERCE ascribing gross 3P reserves of 3.01 MMbbl and 2.14 BCF to a five-well programme.
- Spud the second Project I development well, WR-B01Za, which post-year end was put on production above pre-drill estimates.
- Successfully deepened well JSR-01 on time and below budget.
- Signed binding documentation for a farm-out of part of XIB to GOGL, the transaction being completed post-year end and is known as "Project IV").
- Continued to build its management and technical teams in London and Georgia by implementing training programmes and recruiting suitably qualified staff.
- Maintained a disciplined and focused approach to capital allocation by ensuring a technical, commercial and economic review supports all capital investment decisions.
- Continued to improve its HSES processes and policies to ensure safe and sustainable operations.

Chairman's Statement

Dear Shareholder,

The Company's operations over the last year reflect the wider strategy to create a solid springboard from which Block can deliver further growth by unlocking the potential of its significant asset base in Georgia while mitigating, through diversification, risks to shareholders and lenders, including those related to operations, revenue and cashflows.

Block's portfolio of assets offers material potential to deliver on this strategy, with opportunities to increase production and revenue in the near and medium term and in the longer term through Company making opportunities in substantial deep gas resources.

Along this journey, there will inevitably be operations that deliver better results and returns than others. While this is a general feature of oil & gas, it is particularly true for our business in Georgia, which is weighted towards production rather than exploration due to the complexity of the reservoirs when compared to many other regions of the world.

The best way to regard Block, therefore, is to consider the totality of the opportunities in the planned portfolio of wells rather than on a well-by-well basis. The best way to unlock the value is through multi-well operations.

Reflecting that approach in 2022, the Company introduced its four-project strategy, initially focusing on developing production, revenues and cashflow from Projects I & II. The results from Projects I and II to date have been very encouraging, including the completion of two successful Project I wells, one during the year and one in 2023, and of a successful Project II well, which proved the concept of unswept oil in the Patardzeuli Field.

The success of these wells was based on the culmination of the knowledge gained from previous wells, which have all added to the Company's understanding of the sub-surface and its ability to build a model that informs and supports future drilling. I am, therefore now confident that our geoscientists can use 3D seismic attribute analysis to accurately locate the natural fractures that give high levels of productivity and that our operational staff can drill horizontal sidetracks through pressure-depleted, faulted reservoirs with cost-effective efficiency.

The three successful wells are delivering a material increase in production rate, which, along with higher crude oil and gas pricing and the benefit of a successful workover campaign in the first half of the year, has already contributed to a stronger financial performance. During 2022, the Company saw the loss on the year reduce materially from \$4,581k in 2021 to \$1,160k. This year-on-year performance improvement is continuing into 2023, and I am confident that this year will see a profit for the first time.

All of this is only possible with a rigorous approach to managing and mitigating the inevitable day-to-day risks facing the business, including those of costs and financing, safety and the wider business environment, among others.

Cost management is part of the Company's culture and has been effectively delivered through improved efficiencies, aggressive supplier contracting, careful and considered investment planning and by employing innovative solutions to unforeseen problems, a good example of which being the use of internal resources, to undertake very low-cost remedial operations on well WR-B01Za, resulting in the Company's most successful producing well.

Effective management of the cost base not only improves the returns from successful wells but also minimises the costs of those wells that could be more successful. During 2022, the keen focus on cost management was reflected in overall costs remaining relatively flat and G&A costs decreasing substantially.

Of utmost importance to the Board is the safety of our people and our contractors, the protection of the environment and the wellbeing of nearby communities. The review of HSES management performance is always the first agenda point at Board meetings. It is of paramount importance that our people work

in a safe environment, and it is also vital to the efficient operations of the business. By taking the wellbeing of our people and local communities seriously, along with the protection of the environment, we are best placed to be able to attract and retain the best people and suppliers, and we limit the chance of our operations being delayed or postponed, due to injury or the influence of third parties.

The Company cannot influence a number of external factors, such as global crude oil prices. During 2022, Block Energy enjoyed relatively high crude oil prices, but markets are volatile, and accordingly, the Company puts in place measures to mitigate this exposure.

The Company was otherwise able to operate during 2022 unfettered by external influences. With the pandemic having receded, Block was no longer subject to the restrictions imposed by it, and while the war in Ukraine has caused terrible anxiety and harm for many, it has not impacted the Company's operations.

Key to ensuring effective management of the business in the interest of all stakeholders is governance. Block has always kept a keen focus on this, as reflected in the structure and experience of the Board, along with the regularity and structure in which Board meetings take place.

Alongside meeting of the whole board, Block has a rigorous system of sub-committees covering key areas of the business, from finance and nominations to ESG. These committees meet regularly and report to meetings of the whole Board.

The balance of the Board was maintained despite changes that occurred, including Ken Seymour moving from a non-executive to an executive management position and William McAvoek resigning as CFO and leaving the Board.

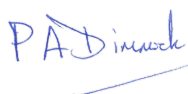
While 2022 was not without its challenges, the Company and team can be proud of what has been delivered. With three successful wells, all adding materially to production, the return on investment that has been achieved is significant.

Furthermore, as the enhanced levels of production continue to feed into a stronger cash position, the Company will be increasingly well placed to execute its multi-well strategy across its four projects and deliver additional value at reduced risk without the need to dilute shareholders.

I would therefore like to take the opportunity to thank our team of 120 people in Georgia and six in London for the consistent dedication and commitment they show the Company. That of the operational and geoscience teams is obvious from the increasing production rate. But they are kept safe and the environment protected by our ever vigilant HSES team. Our commercial team negotiates effective contracts with suppliers, sells the produced oil and gas into limited local markets, procures the necessary permits and ensures that our neighbours in the local communities are kept undisturbed by our operations. Last but not least, our dedicated accountants maintain the accurate records you see in this Annual Report.

We are also very grateful for the support and encouragement from all within the Georgian state agencies with whom we interact.

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



Philip Dimmock

Non- Executive Chairman

Chief Executive Officer's Statement

Dear Shareholder,

Since announcing the Company's three project strategy approximately 12 months ago, marking the start of concurrent development and appraisal activity, Block has made material progress. This has included the safe and successful delivery of multiple wells, increased production, material revenue growth, a successful farm out, and fulfilling the XIF licence minimum work programme ("MWP") commitments.

The achievements would not have been possible without the continued hard work, dedication, and experience of the Company's team. Since 2020 they have successfully navigated macro and micro headwinds associated with a global pandemic, a commodity price collapse, war, and significant cost inflation, all while delivering on our operational and strategic plans.

Health, Safety and Environment

The safety of the Company's operations and team is of the highest importance and central to delivering the Company's transformative growth strategy. Block continues to focus on enhancing the effectiveness of its safety measures, process and procedures whilst supporting personal development and rigorously building and incentivising a culture of care for others.

The strength of our systems and procedures in place is reflected in the Company's HSES record, with one minor lost time incident reported across the 382,542 operational man-hours worked in 2022.

We continued to build on our commitment to the environment and local communities and established a board-level ESG committee. In line with our commitment to the environment, the Company monitors its emissions to minimise its CO₂ footprint, including targeting zero-flaring of gas from operations. During the year, total reported emissions were 618.42 tCO₂ from operations, mainly a result of the need to flare 283,802m³ of gas due to unplanned shutdowns.

Operations

The Company delivered on its operational plans for 2022, which included increasing near-term production and cashflows from Project I, proving the concept of un-swept oil in the Patardzueli field under Project II and advancing the Project III high-impact 1 TCF contingent gas resource opportunity. Additionally, Block secured a farm-out of non-core areas within XIB, establishing Project IV and providing the Company with direct exposure to high-impact exploration.

Project I

Early in the year, the Company announced the safe and successful execution of well JKT-01Z, which achieved a stable production rate of 310boepd, in line with our guidance to the Market, significantly boosting the Company's total production at that time.

JKT-01Z is performing in line with the 3P (or high) case, as presented in the Project I Competent Person's Report ("CPR"), announced in August, which attributed gross 3P field reserves of 3.01 MMbbls and a 3P NPV of \$57m.

That CPR focused on part of the West Rustavi and Krtsanisi oil fields only, auditing internal plans for the phase one, five-well development programme. The Company's Contingent resource report ascribed 2C of 19.5 MMbbl to the entire West Rustavi / Krtsanisi Middle Eocene reservoir, providing plenty of scope for significant reserve upgrades in the future, on further drilling success.

The planning and construction of facilities for WR-B01Za, the next well in the five-well programme, was completed later in the year, enabling the rapid monetisation of production from future wells. Post-year-end, well WR-B01Za was successfully drilled, completed and tested at 269bopd. Since being tied into the production facilities and handed over to the production team, the well continues to perform, providing another material boost to total production.

Recent drilling success has significantly increased our confidence in Project I. We plan to drill three further wells (as defined in the CPR), and will prioritise this work programme moving forward. In parallel, the team is working on a full field development plan consisting of five additional back-to-back drilling phases.

Project II

In September, the Company commenced Project II with the drilling of well JSR-01 and successfully proved the concept of un-swept oil within the Patardzeuli oil field, Georgia's most prolific field. Well, JSR-01 was safely drilled to the base of the 600m thick middle Eocene located at a depth of approximately 2,800 metres, on plan and below budget. JSR-01 was brought into production at a rate of 45boepd, proving recovery of commercial volumes of oil and supporting plans to appraise additional targets.

Following these results, the drilling team upgraded the Company's service rig to enable it to be better utilised across a multi-well drilling programme, where four candidates have been risked, ranked, and prioritised. Following this initiative, Project II can advance in parallel to planned drilling under Project I.

Project III

Project III exposes the Company to a large undeveloped gas resource within the Lower Eocene, Palaeocene and Upper Cretaceous reservoirs of licence blocks XIB and XIF. Work throughout the period has focused on internal resource auditing, producing a conceptual development plan, negotiating long-term gas sales agreements with the state of Georgia and scoping out facility requirements to handle a plateau phase one production rate of approximately 30 mmcf/d rising to 60 mmcf/d within 18 – 24 months.

The appraisal and development plan will kick off with the side track of the PatE1 well. This well is in close proximity (c. 8km) to the state-owned Samgori South Dome Underground Gas Storage Project (SSDUGS). The \$290m Government-backed project is designed to store approximately 300 million cubic metres of gas, equivalent to roughly 15% of Georgia's annual consumption. To date, the State has assigned €150m to the SSDUGS. Success at Project III will see Block deliver gas volumes to SSDUGS, the growing domestic gas market and/or export to Europe via the southern caucuses pipeline.

Production

Production for the year was relatively stable, reflecting the success of well JKT-01Z and the extensive 23-well workover programme in the first half of 2022, offset by natural decline. This resulted in average production during the year of over 450 boepd, representing a 5 % increase over the prior year (2021: 427boepd).

Post-year end, the Company sees record production levels of over 620 boepd in April 2023, reflecting the added benefit of production from well WR-B01Za, alongside stable and strong levels of production from well JKT-01Z and rapid and efficient routine maintenance across other mature wells.

Corporate

As a result of the successful development of the XIF license, which included geological studies, a 3D seismic campaign and the drilling of multiple wells, Georgia's State Agency of Oil and Gas, confirmed that all requirements under the XIF minimum work programme had been fulfilled. Integrity over the XIF license is therefore secured until 2043.

The Company also completed the successful farm-out of 50% of the non-core areas of licence XIB, to Georgia Oil & Gas Limited ("GOGL"), for a work programme valued at c.\$3m, which significantly advances the exploration potential of non-core areas within the licence at no cost to Block. This provides the Company with direct exposure to 3.1 TCF gas and 1,400 MMbbl oil unrisked prospective resources within GOGL's portfolio, of which, the state of Georgia is a 22% partner via a cash investment into the project.

Under the farm-out terms, the work programme committed by GOGL consists of \$2.5m of 2D seismic acquisition and \$0.5m of seismic reprocessing. The farm-out has no impact on the Company's current operator status, existing production and/or development plans associated with Projects I, II or III.

Financials

Total Group revenue from the sale of oil & gas during 2022 was \$8.26m, representing a 35% increase over the prior year. Revenue was predominantly from oil sales, which increased to c \$7.5m during the year, with the remaining \$0.77m from the sale of gas.

The year's revenue increase, combined with relatively flat operating costs, including a decrease in G&A, resulted in a significant decrease in the operating loss for the year to \$1.8m (2021: \$4.7m).

Post reporting period, the Company secured additional funding through a senior secured loan facility of \$2.0m, with various shareholders and members of Block's management team. The facility is in place to accelerate Project I and III plans, and \$1.06m has been drawn down.

Looking forward

As revenue grows, so can the Company. This is why we remain focussed on accelerating the Project I development programme alongside Projects II, III and IV. Success will create significant shareholder value and cash flow and provide the Georgian Government and society with greater energy security.

Our plan is clear, the strategy is working, and the team is highly motivated to execute operationally and strategically. As we enter our next drilling phase, the Company has never been in a more exciting position.

I want to thank our shareholders for their continued support throughout a challenging yet highly exciting year and finish by thanking the entire team at Block Energy for their continued drive and passion towards delivering the plan and growing our business.



Paul Haywood

Chief Executive Officer

Financial Review

Balance Sheet

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 cancelled. This decision has significantly improved the Company’s accumulated deficit, reducing the deficit to \$16,349,000 (2021: \$21,548,000).

The Group’s assets have remained stable, with non-current assets at \$24,815,000 (2021: \$24,345,000). At the end of the year, the Group’s cash balance was \$450,000 (2021: \$1,244,000).

Income Statement

The Group’s revenue from oil and gas sales increased to \$8,262,000 (2021: \$6,114,000) and other income included \$281,000 from an insurance claim. The current year revenue from sales of crude oil of \$7,492,000 (2021: \$5,519,000) comprised the sale of 89,900 barrels (2021: 86,700 barrels), which equated to an average revenue of \$83.34 (2021: \$60.65) per barrel.

During the year, the Group produced 120,359 barrels of crude oil (2021: 108,000 barrels), with the increase in production primarily due to the JKT-01 well, which was brought online in January 2022. Gas production stood at 267 mmcf (2021: 288 mmcf). This gross production includes the State of Georgia’s share of production before cost recovery and profit sharing.

In addition, the Group had over 9,000 barrels of crude oil inventory as of 31st December 2022 (31st December 2021: 20,000 barrels). Following the year end, during Q1 of 2023, the Group sold 13,300 barrels for net revenue of \$999,000 and additionally successfully tested WR-B01Za, the second of the Project I development wells, which established stable production above pre-drill estimates.

In the year, the Group sold gas to the value of \$770,000 (2021: \$596,000).

The total loss for the year was \$1,160,000 (2021: \$4,581,000), representing a significant improvement on last year’s results.

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 24 months from the date of signing these financial statements. The Group’s forecasts are reviewed regularly to assess whether 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 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; therefore, they 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 \$1,608,000 (2021: loss of \$4,783,000).
- The Group has net assets of \$27,200,000 (2021: \$27,065,000).
- The Directors do not recommend the payment of a dividend (2021: \$nil).

Principal Risks and Uncertainties

There are general risks associated with the oil and gas extraction industry and 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 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.
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	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.

	impact the Group's cost base and financial reporting.	
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.	<p>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.</p> <p>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).</p>	<p>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 will ensure that the Company's planned development programmes are affordable.</p> <p>The Company maintains regular reporting structures, so that all issues are quickly identified by the Board, be it operational or financial in nature.</p> <p>The Company maintains frequent contact and dialogue with institutional and industrial providers of debt, equity and offtake finance.</p> <p>The Company also plans to mitigate the risk associated with Project IV, deep gas exploration and appraisal, by farming out a portion of its interests in return for a contribution to the capital costs.</p>
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.	<p>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.</p> <p>The Company's sales contracts are linked to international benchmark prices.</p>
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 generally lower than expected production forecasts in budgets and cashflow forecasts.

		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.	<p>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.</p> <p>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.</p>	<p>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.</p> <p>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 communicated to the government's representative under the PSC's (Georgian Oil and Gas Corporation) at quarterly coordination committee meetings.</p>
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 mechanical failure, human error, errors in operational planning and the encountering of unforeseen difficulties during operations.	<p>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.</p> <p>The Company has drilled and worked over 116 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.</p>
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,	The Company has robust HSES policies and has an emergency response plan which is reviewed by the operations department and the Board regularly. The

	damage to the environment and a loss of credibility and/or licence.	<p>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.</p> <p>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 potential failure and tests equipment prior to use. HSES reviews are undertaken prior to any operation.</p>
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.	<p>The Company continues to repair and upgrade its wells and production facilities to reduce the risk of spills and equipment failure.</p> <p>In 2022, a Board level ESG committee was established to ensure that the Company's commitment to environmental best practice was enhanced.</p> <p>The Company undertakes training for field-based staff to improve operating procedures and reduce the risks of environmental contamination from the Company's operations.</p>
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.	<p>The Company has a strong fraud, bribery and corruption framework and accords the highest standards to corporate governance matters.</p> <p>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 Counsel covering all staff (not just management) and management staff and other key staff</p>

		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 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").	<p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>In addition, the Company also has its fiscal and operating performance under the PSCs audited annually by an independent auditor, currently PwC.</p>
Dependence on key executives and personnel, employee retention and recruitment.	<p>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.</p>	<p>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.</p> <p>The Remuneration Committee regularly evaluates compensation and incentivisation schemes to ensure that the Company's package is competitive.</p>

Statement of Corporate Responsibility

Block Energy plc has a practical and open approach to its Corporate Responsibility. Our Corporate Responsibility 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 effects 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 transparent 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**:

- 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 the 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 promptly and effectively.
- Foster a culture where accidents, incidents and near misses are reported and investigated and lessons learned are shared.
- Consult with and respond to our stakeholder's concerns on our health, safety environmental and social performance.
- Ensure that HSES policy is communicated to all staff and contractors and 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 timely and practical 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
<p>Employees. Our capacity to design and execute our strategy depends on the health, development and retention of our dedicated and skilled staff.</p>	<p>Transparent and regular communications with our staff is essential for ensuring an understanding of commitment to the Company's objectives.</p> <p>As an oil and gas exploration and production company we have particular health, safety, environmental and social obligations (see "Communities and Environment" below).</p>	<p>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.</p> <p>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.</p>
<p>Shareholders. We provide transparent, accessible, regular and balanced information to our shareholders and investors to ensure support and confidence.</p>	<p>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.</p>	<p>We publish announcements on the London Stock Exchange's website and our website and across our online channels.</p> <p>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.</p>
<p>Industry Bodies, Local and National Governments. Our operations and business practices must meet certain legal and regulatory requirements.</p>	<p>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.</p>	<p>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.</p>
<p>Communities and Environment. Our operations are embedded in a complex local economic and environmental ecosystem.</p>	<p>We understand that our operations can have negative effects on the local 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.</p>	<p>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 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.</p> <p>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</p>

		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.	<p>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.</p> <p>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.</p>

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

For our sector, stakeholders and investors have a keen interest in 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 carbon dioxide emissions as much as possible. In 2022, we established a Board-level ESG committee with a remit to build on and improve our environmental processes and policies. We are aware of the changing regulatory landscape in the UK, particularly around incorporating disclosures under the Task Force on Climate-Related Financial Disclosures (TCFD) to LSE main board companies. We will comply with any requirements imposed by AIM.

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 12 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 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 10th May 2023.



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 2022.

Principal Activity

The Company's principal activity 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 13.

This Report covers the year ended 31st December 2022.

The Directors do not recommend the payment of a dividend (2021: \$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 9-11.

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.

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 evaluating the applicable commercial and operational risks. Regular risks and management reviews 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 has reviewed are disclosed on pages 14-18 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 2022 are listed below, and the current Board member's biographies are on page 22 of this Report.

Paul Haywood	Chief Executive Officer
William McAvock	Chief Financial Officer (resigned 30 th September 2022)
Philip Dimmock	Independent Non-Executive Chairman
Jeremy Asher	Independent Senior Non-Executive Director
Kenneth Seymour	Independent Non-Executive Director (resigned 12 th January 2023)

Details of the Director's interests in shares are disclosed on pages 37-38 of this Report.

Director's and Officers' Liability Insurance

The Group provided director's and officer's liability insurance at a cost of \$30,240 (2021: \$28,000).

Statement of Director's 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 only approve the financial statements if 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 26-33 of this Report.

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 20-21 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 2022, political donations totalled \$nil (2021: \$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 10th May 2023.



Paul Haywood

Director

Governance Report

Corporate Governance Statement

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

High standards of Corporate Governance were maintained in 2022, 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)

From 28th September 2018, AIM Rules require 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 ten broad principles and disclosures. The QCA has stated what it considers appropriate arrangements for growing companies and asks companies to explain how they are meeting the principles through the prescribed disclosures. The Governance Report describes 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.

QCA Code Principles & the Company's Response

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

Block Energy aims to build on its position as the leading independent oil and gas producer in Georgia by realising the potential of previously discovered fields suited for deploying 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 (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 five licences: XIB (100%), XIF (100%), IX (100%), Norio (100%) and Satskhenisi (90%). All are within the region's Kura basin, which has historically had significant discoveries of oil.

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

- The Company raised a total of £22 million (\$29 million) between June 2018 and December 2020 to fund a drilling, development and commercialisation programme primarily associated with production from the West Rustavi/Krtsanisi oilfield. We 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 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. The Company has drilled six wells in West Rustavi/Krtsanisi since 2018 and deepened one in the Patardzeuli field. The Company has also undertaken 110 workovers consisting of over 940,744 operational hours (2020/1/2), constructed oil and gas processing facilities, and sales infrastructure, and undertaken geological and other subsurface studies across three projects.
- 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 proven oil and gas 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.
- 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 regularly. 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. Whenever possible, the Chair of the Board and all Committees 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. This address is displayed prominently on our website, together with an online enquiries form and 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 expectations.

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 20-22 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. During 2022, it comprised Jeremy Asher (Chair) and Ken Seymour.

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. During 2022 it comprised Ken Seymour (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. During 2022 it comprised Philip Dimmock (Chair), Jeremy Asher and Paul Haywood.

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. During 2022 it comprised Jeremy Asher (Chair), Philip Dimmock and William McAvock.

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 Ken Seymour (non-Board Chair) and Philip Dimmock. During 2022 it comprised Ken Seymour (non-Board Chair) and Philip Dimmock.

Health, Safety and Environment (HSE) Committee

The HSE Committee was established in 2022 and Terms of Reference for the Committee were adopted by the Board. The HSE Committee meets 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), Paul Haywood, Ken Seymour (non-Board Member) and Mamuka Kharabadze (non-Board Member). During 2022 it comprised of Phillip Dimmock (Chair), Ken Seymour and Paul Haywood.

Environmental, Social and Governance (ESG) Committee

The ESG Committee was established in 2022 and Terms of Reference for the Committee were adopted by the Board. The ESG Committee meets frequently 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 Ken Seymour (Non-Board Chair), Paul Haywood and Mamuka Kharabadze (non-Board Member). During 2022 it comprised Ken Seymour (Chair), Paul Haywood and Simon Barry (non-Board Member).

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 Company's interests 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 Executive and non-executive directors are required to attend and 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 31st December 2022 is summarised below:

Director	Board Meetings	Audit and Risk Committee	Remuneration Committee	Nominations Committee	Technical Committee	HSE Committee	ESG Committee
Philip Dimmock	11/11	2/2	4/4	1/1	9/9	2/2	-
Jeremy Asher (1)	11/11	2/2	4/4	1/1	-	-	-
Paul Haywood	11/11	-	-	1/1	-	2/2	4/4
Ken Seymour (2)	11/11	2/2	3/4	-	9/9	2/2	4/4
William McAvock (3)	9/9	-	-	-	-	-	-

Notes –

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

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

(3) Resigned as a Director on 30th September 2022.

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

Principle Six: 'Ensure that between then 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. 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, 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.

It is intended that a questionnaire method of measuring the performance of the Board will be introduced for the financial year ending 31st December 2023.

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") oversees the coherent leadership and management of the Company. The CEO:

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

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 results and reports;
- Approving dividend policy and the declaration of dividends;
- Approving major investments, disposals, capital projects or contracts;
- Approving resolutions to be put to general meetings of shareholders and the associated documents or circulars;
- 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 28-29 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

The Remuneration Committee currently comprises Philip Dimmock (Chair) and Jeremy Asher. This Remuneration Report covers the year ended 31st December 2022 when the Committee comprised Ken Seymour (Chair) and Jeremy Asher (Member). Dr. Seymour left the Committee on 10th January 2023, when he stepped down from the Board to become Chief Operating Officer. At times, Paul Haywood attended as a guest, and other Directors attended on an ad hoc basis. During the year, the Remuneration Committee met seven times.

Remuneration Policy

The Remuneration Committee, in forming its policy on remuneration, gives due consideration to the needs of the Group, the shareholders and the provisions of the QCA 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 incentivise them to deliver long-term shareholder value cost-effectively.

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

The Remuneration Committee aims to reward key executives for delivering value for the Group and 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 practices 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, regarding the performance of the Company and economic conditions and considering 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 to a salary sacrifice scheme with its Directors and senior management. With effect from 1st 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.

Whilst oil prices significantly improved in 2022 to an average of \$101 per barrel, the salary sacrifice scheme was continued as one of the measures to support the Company's primary strategic focus on drilling new wells. The number of options granted each month was based on the shares valued at a volume-weighted average price ("VWAP") over the monthly salary period.

The cash salary sacrifice scheme continued into 2023 but was terminated on 1st April 2023 after well WR-B01Za was brought onto production, 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 1st January 2022. Executive Directors took the increase in cash and nil-cost options in the same proportion as base salary.

Pension and other benefits

The Company contributes 10% of base salary to executive directors' pensions.

During 2023, the company is considering providing other benefits, such as life cover, for some of its employees.

Performance-related cash bonus scheme

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

For executives and staff, the KPIs are weighted 60% for the individual and 40% for corporate. The CEO has up to 100% of his base salary available for a bonus payment. During 2022, the Remuneration Committee resolved that 150% of a KPI element would be awarded for the achievement of a stretch target. Nevertheless, the maximum bonus for the CEO remains at 100% of base salary.

During 2022 the CFO's role became redundant, and no KPIs were set. Other 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 a 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 delivered to the CEO.

The bonus payments made in February 2023 were for the year ended 31st December 2022 and were accrued in the 2022 accounts. In keeping with the current practice of preserving as much cash as possible for operations, these bonuses were paid mainly in the form of nil cost share options in lieu of money. The next bonus payments are planned to be paid in early 2024, depending on the economic, environmental conditions and the financial resources of the Company at that time, and will be for the year ending 31st December 2023.

Description of Corporate KPIs for the year ended 31st December 2022

- HSES - sought to reward top performance across all business sections and was measured by the number of lost time incidents. During the period, there were no major lost time incidents, and the Stretch measure was achieved.
- Production – ambitious production targets were set. The Threshold measure was not reached.
- Work Programme – targets set for in country operations, including drilling wells. The Target level was achieved.
- Subsurface Studies – targets set for subsurface studies, including CPRs and FDPs. A Target level was achieved.
- Budget – encouraged meeting or coming under the agreed financial budget by setting targets for costs being below the budget. A Stretch level was achieved.

Description of Chief Executive Officer's individual KPIs for the year ended 31st December 2022

- Business Development and New Ventures – given the company's stated aim of becoming one of Georgia's leading oil and gas companies, there needs to be a concerted effort in building

Block Energy's portfolio. Therefore, targets are designed to motivate the building of Block Energy's portfolio. The Target measure was achieved.

- Strategic Financing – growing the business requires sourcing additional funding. The Target measure was achieved by various term sheets and potential transactions, one of which was completed post year-end.

Description of Chief Financial Officer KPIs for the year ended 31st December 2022

The Chief Financial Officer resigned from the Board on 30th September 2022, as a consequence of the Company's decision to make this position redundant, as part of the Company's continuing efforts to improve efficiency across its business. He continued as an employee until 13th December 2022. No KPIs were set in 2022 for the former CFO, however, following the Committee's recommendation, the board of Directors agreed to use discretion to extend the expiry date of the former CFO's long-term incentive plan options by six and a half months to 30th September 2023.

Description of KPIs for the year ending 31st December 2023

For 2023, the KPIs for the CEO have been aligned with the Company's objectives for the year ended 31 December 2023 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 are based on the New Ventures, Strategic Financing, Risk Management and HSE & Governance Leadership.

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.

In April 2022, the CEO was awarded 14.5 million share options from a total of 42 million awarded to staff. These LTIP options have exercise price of 1.325p per share, an expiry date ten years from the date of grant, and vest by one-third on each of the first, second and third anniversaries of the date of grant. The ones awarded to executive Directors have operational performance conditions to their vesting.

Directors' Remuneration

	Salary	Bonus	Fees	Pension	Termination	LTIP	Year ended 31 st December 2022	Year ended 31 st December 2021
	\$	\$	\$	\$	\$	\$	Total	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Non-Executive Directors								
Jeremy Asher ¹	-	-	37,484	-	-	-	37,484	16,000
Christopher Brown ²	-	-	-	-	-	-	-	23,206
Philip Dimmock	-	-	57,475	-	-	-	57,475	63,366
David Sandroshvili ²	-	-	-	-	-	-	-	24,636
Kenneth Seymour ³	-	-	37,484	-	-	-	37,484	13,192
Charles Valceshini ²	-	-	-	-	-	-	-	40,186
Subtotal	-	-	132,443	-	-	-	132,443	180,586
Executive Directors								
Paul Haywood	250,141	180,102	-	25,014	-	104,019	559,276	567,515
William McAvoock ⁴	178,197	-	-	13,400	37,484	67,474	296,555	378,098
Subtotal	428,338	180,102	-	38,414	37,484	171,493	855,831	945,613
Total	428,338	180,102	132,443	38,414	37,484	171,493	988,274	1,126,199

¹ Appointed as a Director on 12th August 2021.

² Resigned as a Director in prior year.

³ Resigned as a Director on 10th January 2023 to take up the new role of Chief Operating Officer.

⁴ Resigned as a Director on 30th September 2022 but continued as an employee until 13th December 2022. During this time as an employee William McAvoock received an additional \$39,188 in salary and \$3,596 in pension contributions.

During eight months of 2021 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 st December 2022	31 st December 2021
Non-Executive Directors		
Jeremy Asher	1,353,503	592,445
Philip Dimmock	2,794,508	1,678,289
Kenneth Seymour	1,780,166	1,019,108
Sub-total	5,928,177	3,289,842
Executive Directors		
Paul Haywood	12,544,381	12,544,381
Sub-total	12,544,381	12,544,381
Total	18,472,558	15,834,223

The Directors held 2.71% of the total share capital of the Company at 31st December 2022 (2021: 3.04%).

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 st December 2022	31 st December 2021
<u>Non-Executive Directors</u>		
Jeremy Asher	-	247,296
Philip Dimmock	928,612	732,700
Kenneth Seymour	-	208,646
Sub-total	928,612	1,188,642
<u>Executive Directors</u>		
Paul Haywood	47,595,359	16,320,890
Sub-total	47,595,359	25,751,168
Total	48,523,971	26,939,810

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 (years)	Number	Exercise price (pence)
Paul Haywood	9 th June 2018	11 th June 2028	10.0	7,756,428	4.0
Paul Haywood	1 st March 2021	1 st March 2031	10.0	6,000,000	4.0
Paul Haywood	6 th April 2021 to 3 rd December 2021	6 th April 2031 to 3 rd December 2031	10.0	2,564,462	0.0
Paul Haywood	4 th January 2022 to 1 st December 2022	4 th January 2032 to 1 st December 2032	10.0	16,774,469	0.0
Paul Haywood	8 th April 2022	8 th April 2032	10.0	14,500,000	1.325
Philip Dimmock	6 th April 2021 to 3 rd December 2021	6 th April 2031 to 3 rd December 2031	10.0	732,700	0.0
Philip Dimmock	4 th January 2022	4 th January 2032	10.0	195,912	0.0
				48,523,971	

PAD Dimmock

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 31st December 2022 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 31st December 2022 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 group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1 of the financial statements which notes 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 Groups 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. 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 and the Parent Company’s ability to continue to adopt the going concern basis of accounting and in response to the Key Audit Matter included evaluating the following:

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

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

- We considered the Group's ability to produce and sell oil and gas at increased levels during a period of at least twelve months from the date of approval of the financial statements. We considered sensitivities over various sales volumes.
- We assessed the reasonableness of key assumptions underpinning the forecasts by reference to Brent crude oil prices, Georgian gas prices, current production sharing agreements, expenditure and commitments and considered the implications of the trends in the global economy on the Group. 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
<i>Block Energy Plc – Group</i>	<i>2% of net assets</i>	<i>\$589,000</i>
<i>Parent company</i>	<i>2% of net assets</i>	<i>\$580,000</i>

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 financial statements as a whole was set at \$589k, significant components of the group were audited to a level of materiality ranging between \$304k - \$200k. Performance materiality for the group and components was set at 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 \$29.4k for the financial statements as a whole and \$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 area 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, Block Norioskhevi Limited, Georgian New Ventures Inc, Block Rustaveli Limited which were all subject to a full scope audit and Block Operating Company LLC which was subject to an audit of material balances. Together with the Group consolidation, which was also subject to a full scope audit, these represented the significant components of the Group. All audit work on the 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 (note 12)	
<p>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 (\$23.4m as at 31st December 2022). Management and the Directors are required to assess whether there are any potential impairment triggers which would indicate that the carrying value of the assets may not be recoverable for each cash generating unit.</p> <p>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.</p>	<p>Our work in this area included:</p> <ul style="list-style-type: none"> • Reviewing Management's IAS 36 impairment indicator review paper and critically challenging the considerations made regarding indicators of impairment. • Obtaining evidence regarding the compliance with licence terms and that they remain in good standing. • Reviewing third party reports obtained from the Directors and Management's experts relating to the reserves and resources impacting the impairment model. • Reviewing the CPR in place and assessing the scope of work, including an evaluation of their competence, capabilities and independence. • A review of management's internal production forecasts to the CPR in place and assess the appropriateness of any differences which arise. • Agreeing the key assumptions used by the Directors and Management in determining

	<p>the recoverable amount of the D&P asset such as oil price and discount rates and compared to industry averages and benchmarked these against publicly available information. We considered assumptions such as production levels and sales in the light of historic results and underlying agreements such as the production sharing agreements.</p> <ul style="list-style-type: none"> • Checking the mathematical accuracy of the value in use calculations. • Independently developing a reasonable range of discount rates and compare those to the discount rate applied by management in the impairment review. • An assessment of whether management's presentation and disclosures relating to estimation uncertainty are adequate.
<p>Carrying value of investments in subsidiaries and loans due from subsidiary companies in the Parent Company (Note 4 and 6)</p>	
<p>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.</p> <p>The Parent Company has loans due from subsidiary companies of \$25m as at 31st December 2022. The investments represent a further significant balance of \$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.</p> <p>We therefore identified the risk over the impairment of investments and loans due from subsidiary companies as a significant risk in the Parent Company financial statements, which was one of the most significant risks of material misstatement. Given the significance of the assets to the Parent Company's statement of financial position and the significant management judgements and estimates involved in this area, we considered this a key audit matter.</p>	<p>Our work in this area included:</p> <ul style="list-style-type: none"> • Reviewing the investment balances and intra group loans for indicators of impairment. • Assessing the appropriateness of the methodology applied by management in their assessment of the recoverable amount of the investments and intragroup loans by comparing it to the Group's accounting policy. • Assessing management's evaluation of the recoverability of the investments and intragroup loans including the review of the underlying production assets that support the recoverability of the loans. • Checking that intragroup loans have been reconciled and confirm that there are no material differences; and • Considering the appropriateness of disclosures included 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 group and parent company 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 group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the group and parent company 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 group and parent company financial statements, the directors are responsible for assessing the group and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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 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 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; and reviewing transactions through the bank statements to identify potentially large or unusual transactions that do not appear to be in line with our understanding of business operations.

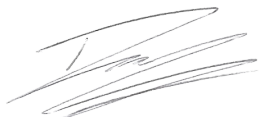
Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with

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

10th May 2023

15 Westferry Circus

Canary Wharf

London E14 4HD

Financial Statements

Consolidated Statement of Comprehensive Income for the Year Ended 31st December 2022

	Note	Year ended 31 st December 2022	Year ended 31 st December 2021
Continuing operations		\$'000	\$'000
Revenue	4	8,262	6,114
Other cost of sales		(3,992)	(2,982)
Depreciation and depletion of oil and gas assets	5	(1,956)	(2,901)
Total cost of sales		(5,948)	(5,883)
Gross profit		2,314	231
<i>Other administrative costs</i>		(3,040)	(3,432)
<i>Share based payments charge</i>	22	(1,072)	(1,494)
Total administrative expenses	6,7	(4,112)	(4,926)
Foreign exchange movement		(24)	(6)
Operating loss		(1,822)	(4,701)
Other income	8	281	5
Finance expense	9	(67)	(87)
Loss for the year before taxation		(1,608)	(4,783)
Taxation	10	-	-
Loss for the year from continuing operations (attributable to the equity holders of the parent)		(1,608)	(4,783)
<i>Items that may be reclassified subsequently to profit and loss:</i>			
Exchange differences on translation of foreign operations		448	202
Total comprehensive loss for the year (attributable to the equity holders of the parent)		(1,160)	(4,581)
Loss per share basic and diluted	11	(0.24)c	(0.76)c

All activities relate to continuing operations.

The notes on pages 50 to 74 form part of these consolidated financial statements.

Consolidated Statement of Financial Position as at 31st December 2022

		31st December 2022	31 st December 2021
	Note	\$'000	\$'000
Non-current assets			
Property, plant and equipment	12	24,815	24,345
Current assets			
Inventory	13	4,791	4,585
Trade and other receivables	14	560	752
Cash and cash equivalents	15	450	1,244
Total current assets		5,801	6,581
Total assets		30,616	30,926
Equity and liabilities			
Capital and reserves attributable to equity holders of the Parent Company:			
Share capital	18	3,565	3,482
Share premium	19	34,765	34,625
Other reserves	20	4,525	10,260
Foreign exchange reserve		694	246
Accumulated deficit		(16,349)	(21,548)
Total equity		27,200	27,065
Liabilities			
Trade and other payables	16	1,693	1,556
Provisions	17	1,723	2,305
Total current liabilities		3,416	3,861
Total equity and liabilities		30,616	30,926

The financial statements were approved by the Board of Directors and authorised for issue on 10th May 2023 and were signed on its behalf by:

Paul Haywood

Director



The notes on pages 50 to 74 form part of these consolidated financial statement

Consolidated Statement of Changes in Equity as at 31st December 2022

	Share Capital \$'000	Share Premium \$'000	Accumulated Deficit \$'000	Other Reserves \$'000	Foreign Exchange Reserve \$'000	Total Equity \$'000
Balance at 31st December 2020	3,353	34,234	(17,057)	9,120	44	29,694
Loss for the year	-	-	(4,783)	-	-	(4,783)
Exchange differences on translation of foreign operations	-	-	-	-	202	202
<i>Total comprehensive loss for the year</i>	-	-	(4,783)	-	202	(4,581)
Issue of shares	52	255	-	-	-	307
Share based payments	-	-	-	1,494	-	1,494
Options exercised	77	136	210	(272)	-	151
Options expired	-	-	82	(82)	-	-
<i>Total transactions with owners</i>	<i>129</i>	<i>391</i>	<i>292</i>	<i>1,140</i>	<i>-</i>	<i>1,952</i>
Balance at 31st 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
<i>Total comprehensive loss for the year</i>	-	-	(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)	-	-
<i>Total transactions with owners</i>	<i>83</i>	<i>140</i>	<i>6,807</i>	<i>(5,735)</i>	<i>-</i>	<i>1,295</i>
Balance at 31st December 2022	3,565	34,765	(16,349)	4,525	694	27,200

The notes on pages 50 to 74 form part of these consolidated financial statements.

Consolidated Statement of Cashflows for the Year Ended 31st December 2022

	Note	Year ended 31 st December 2022 \$'000	Year ended 31 st December 2021 \$'000
Cash flow from operating activities			
Loss for the year before tax		(1,608)	(4,783)
<i>Adjustments for:</i>			
Depreciation and depletion	5	1,956	2,901
Decommissioning finance charge	17	66	66
Disposal of PP&E at nil value		-	49
Other income	8	(281)	(5)
Finance expense		1	3
Creditors paid in shares		167	-
Share based payments expense	7	1,072	1,494
Foreign exchange movement		(29)	6
Operating cash flows before movements in working capital		1,344	(269)
Decrease/ (increase) in trade and other receivables		192	(4)
Increase in trade and other payables		194	179
(Increase) in inventory		(206)	(471)
Net cash used in operating activities		1,524	(565)
Cash flow from investing activities			
Cash received from acquisition of BRL		-	278
Income received		281	5
Expenditure in respect of PP&E		(2,730)	(6,407)
Net cash used in investing activities		(2,449)	(6,124)
Cash flow from financing activities			
Proceeds from issue of equity		-	1,465
Interest paid		(1)	(3)
Net cash (outflow) /inflow from financing activities		(1)	1,462
Net (decrease) in cash and cash equivalents in the year		(926)	(5,227)
Cash and cash equivalents at start of year		1,244	6,331
Effects of foreign exchange rate changes on cash and cash equivalents		132	140
Cash and cash equivalents at end of year		450	1,244

The notes on pages 50 to 74 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 31st December 2022 were authorised for issue in accordance with a resolution of the Directors on 10th May 2023. 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 4 to 22 and the Report of the Directors on pages 23 to 25.

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 31st December 2022 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	Impact on initial application	Effective date
IFRS 10 and IAS 28 (Amendments)	Long term interests in associates and joint ventures	Unknown
Amendments to IAS 1	Classification of liabilities as current or non-current	1 st January 2023
Amendments to IAS 1	Disclosure of material rather than significant accounting policies.	1 st January 2023
Amendments to IAS 8	Clarification on how companies should distinguish between changes in accounting policies and accounting estimates	1 st January 2023
Amendments to IFRS 12	Deferred tax assets and liabilities arising from a single transaction	1 st January 2023

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

Basis of consolidation

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

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

Business combinations and goodwill

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

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 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.

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 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 allocated based on normal operating capacity of the production facilities, determined on a weighted average cost basis. Net realisable value of crude oil is based on the market price of similar crude oil at the balance sheet date and costs to sell, adjusted if the sale of inventories after that date gives additional evidence about its net realisable value at the balance sheet date.

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

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

Decommissioning provision

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

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

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

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

Taxation and deferred tax

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

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

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

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

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

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

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at the rates of exchange prevailing at the reporting date: \$1.21/£1 (2021: \$1.35/£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 31st December 2022 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 no indication of impairment in the current year.

Asset decommissioning provisions – estimates and assumptions

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

Additionally, future changes to environmental laws and regulations, life of development and production assets, estimates and discount rates could affect the carrying amount of this provision. The Board assessed the extent of decommissioning required as at 31st December 2022 and concluded that a provision of \$1,723,000 (2021: \$2,040,000) should be recognised in respect of future decommissioning obligations at Rustaveli, West Rustavi, Satskhenisi and Norio (see note 17).

Share options – estimates and assumptions

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

The key estimates include volatility rates and the expected life of the options, together with the likelihood of non-market performance conditions being achieved (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. No impairment of investments was indicated at year end.

In prior years the Company carried out an assessment of the expected credit loss arising on intercompany receivables. This was calculated as a total loss allowance of \$3,710,000 and was provided for in the parent Company financial statements. The Company has judged that as there has been no impairment of the underlying assets then no further loss allowance is required in the current year.

3. Segmental disclosures

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

The segmental results are as follows:

	Oil Extraction \$'000	Corporate and other \$'000	Group Total \$'000
Year ended 31st December 2022			
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
Year ended 31st December 2021			
Revenue	6,114	-	6,114
Cost of sales	(2,982)	-	(2,982)
Depreciation and depletion	(2,896)	(5)	(2,901)
Administrative costs	(1,201)	(3,725)	(4,926)
Other income	5	-	5
Net Finance costs and income	(90)	(3)	(93)
Loss from operating activities	(1,050)	(3,733)	(4,783)
Total non-current assets	24,341	4	24,345
Segmental Assets	31st December 2022 \$'000	31st December 2021 \$'000	
Oil exploration – Georgia	30,206	23,745	
Corporate and other	410	7,181	
	30,616	30,926	

Segmental Liabilities	31st December 2022 \$'000	31 st December 2021 \$'000
Oil exploration – Georgia	2,591	3,087
Corporate and other	825	774
	3,416	3,861

4. Revenue

	Year ended 31st December 2022 \$'000	Year ended 31 st December 2021 \$'000
Crude oil revenue	7,492	5,519
Gas revenue	770	595
	8,262	6,114

5. Depreciation and Depletion on Oil and Gas assets

	Year ended 31st December 2022 \$'000	Year ended 31 st December 2021 \$'000
Depreciation of PP&E	273	238
Depletion of oil and gas assets	1,683	2,663
	1,956	2,901

6. Expenses by nature

	Year ended 31st December 2022 \$'000	Year ended 31 st December 2021 \$'000
Employee benefit expense	1,705	1,720
Share option charge	1,072	1,224
Warrants charge	-	270
Security expense	15	162
Fees to Auditor in respect of the Group audit	96	93
Fees to Auditor for other non-audit services	-	7
Regulatory fees	31	51
Operating lease expense	81	49

7. Directors and employees

	Year ended 31st December 2022 \$'000	Year ended 31 st December 2021 \$'000
<u>Employment costs (inc. Directors' remuneration):</u>		
Wages and salaries	1,563	1,453
Pensions	49	55

Social security costs	93	212
	<u>1,705</u>	<u>1,720</u>
Share based payments	1,035	1,449
	<u>2,740</u>	<u>3,169</u>

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

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

The average monthly number of employees during 2022 was 168 (2021: 176) split as follows:

	Year ended 31st December 2022	Year ended 31 st December 2021
Management	9	18
Technical	129	135
Administration	30	23
	<u>168</u>	<u>176</u>

	Year ended 31st December 2022	Year ended 31 st December 2021
	\$'000	\$'000
Amounts attributable to the highest paid Director:		
Director's salary and bonus	426	358
Pension	25	27
Share based payments	104	183
	<u>555</u>	<u>568</u>

Key management and personnel are considered to be the Directors.

8. Other income

	Year ended 31st December 2022	Year ended 31 st December 2021
	\$'000	\$'000
Sale of materials	-	5
Insurance claim	281	-
	<u>281</u>	<u>5</u>

In the prior year, materials to be used in the construction of the gas pipeline from the Early Production Facility at West Rustavi were sold for \$5,000.

9. Finance expense

	Year ended 31st December 2022	Year ended 31 st December 2021
	\$'000	\$'000
Finance expense	67	87
	<u>67</u>	<u>87</u>

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 31st December 2022	Year ended 31 st December 2021
	\$'000	\$'000
UK taxation		
UK Group loss on ordinary activities	(1,608)	(4,783)
Loss before taxation at the average UK standard rate of 19% (2021:19%)	(306)	(909)
Effect of:		
Zero tax rate income	(1,570)	(1,162)
Disallowable expenses	302	457
Tax losses for which no deferred income tax asset was recognised	2,876	5,488
Current tax	<u>-</u>	<u>-</u>

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

For any other jurisdictions which the Group has not recognised deferred income tax assets for tax losses carried forward for entities in which it is not considered probable that there will be sufficient future taxable profits available for offset. Unrecognised deferred income tax assets related to unused tax losses. The Company has UK corporation tax losses available to carry forward against future profits of approximately \$14,414,000 (2021: \$13,109,000 - 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 31st December 2022	Year ended 31 st December 2021
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Loss attributable to equity Shareholders (\$'000)	(1,608)	(4,783)
Weighted average number of Ordinary Shares	660,223,772	630,629,894
Loss per Ordinary share (\$/cents)	(0.24)c	(0.76)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
<i>Cost</i>			
At 1 st January 2021	22,096	777	22,873
Reallocation of assets	(780)	780	-
Additions	6,182	290	6,472
Disposals	(38)	(12)	(50)
Reduction in BLO (see note 17)	(498)	-	(498)
Foreign exchange movements	-	(33)	(33)
At 31 st December 2021	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	42
At 31st December 2022	29,115	2,072	31,187
<i>Accumulated depreciation</i>			
At 1 st January 2021	1,457	105	1,562
Reallocation of assets	(91)	91	-
Disposals	-	(1)	(1)
Charge for the year	2,663	238	2,901
Foreign exchange movements	-	(43)	(43)
At 31 st December 2021	4,029	390	4,419
Disposals	-	(2)	(2)
Charge for the year	1,683	273	1,956
Foreign exchange movements	(1)	-	(1)
At 31st December 2022	5,711	661	6,372
<i>Carrying Amount</i>			
At 1 st January 2022	22,933	1,412	24,345
At 31st December 2022	23,404	1,411	24,815

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

	Norio \$'000	Satsk henisi \$'000	West Rustavi \$'000	Rustaveli \$'000	Corporate \$'000	Total \$'000
<i>Carrying amount</i>						
At 31st December 2022	2,126	174	14,625	7,488	402	24,815

At 31 st December 2021	2,222	176	14,045	7,721	181	24,345
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At the end of the current year, the Directors concluded there were no impairment indicators in the current year that warranted impairment testing to be prepared with respect to the carrying value of the assets of the Group.

13. Inventory

	31st December 2022	31 st December 2021
	\$'000	\$'000
Spare parts and consumables	3,606	3,174
Crude oil	1,185	1,411
	4,791	4,585

14. Trade and other receivables

	31st December 2022	31 st December 2021
	\$'000	\$'000
Other receivables	347	657
Prepayments	213	95
	560	752

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

	31st December 2022	31 st December 2021
	\$'000	\$'000
Cash and cash equivalents	450	1,244

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

	31st December 2022	31 st December 2021
	\$'000	\$'000
Trade and other payables	1,182	845
Accruals	511	711
	1,693	1,556

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

17. Provisions

	31st December 2022	31 st December 2021
	\$'000	\$'000
Decommissioning provision	1,723	2,040
Baseline oil liability	-	265
	1,723	2,305
	31st December 2022	31 st December 2021
	\$'000	\$'000
Decommissioning provision		
Brought forward	2,040	1,917
Unwinding of discount on provision	66	-
Change in decommissioning provision in the year	(383)	123
Carried forward	1,723	2,040
	31st December 2022	31 st December 2021
	\$'000	\$'000
Baseline oil liability		
Brought forward	265	745
Baseline oil liability reducing from the acquisition	(265)	(498)
Additional baseline oil liability provided in the year	-	18
Carried forward	-	265

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 st January 2021	614,542,093	2,095,165,355	3,352,509
Issue of equity on 4 th January 2021	617,571	-	2,098
Issue of equity on 12 th January 2021	397,904	-	1,362
Issue of equity on 1 st February 2021	839,996	-	2,937
Issue of equity on 15 th February 2021	180,715	-	632
Issue of equity on 1 st March 2021	232,248	-	800
Issue of equity on 12 th March 2021	865,896	-	2,983
Issue of equity on 16 th March 2021	6,590,707	-	22,752
Issue of equity on 7 th April 2021	58,972	-	204
Issue of equity on 5 th May 2021	171,715	-	611
Issue of equity on 7 th June 2021	125,696	-	434
Issue of equity on 2 nd July 2021	1,355,805	-	4,713
Issue of equity on 2 nd September 2021	62,005	-	209
Issue of equity on 15 th September 2021	24,877,230	-	83,684
Issue of equity on 4 th October 2021	746,668	-	2,556
Issue of equity on 8 th October 2021	299,412	-	1,025

Issue of equity on 2 nd November 2021	262,403	-	873
Issue of equity on 5 th December 2021	522,489	-	1,766

As at 31st December 2021	652,749,525	2,095,165,355	3,482,148
Issue of equity on 5 th January 2022	324,102	-	1,087
Issue of equity on 2 nd February 2022	1,768,705	-	5,903
Issue of equity on 3 rd February 2022	233,232	-	778
Issue of equity on 11 th February 2022	636,832	-	2,126
Issue of equity on 1 st March 2022	400,219	-	1,313
Issue of equity on 2 nd March 2022	280,117	-	919
Issue of equity on 1 st April 2022	404,838	-	1,273
Issue of equity on 3 rd April 2022	376,773	-	1,184
Issue of equity on 4 th May 2022	636,077	-	2,004
Issue of equity on 1 st June 2022	273,392	-	793
Issue of equity on 6 th June 2022	586,133	-	1,700
Issue of equity on 6 th July 2022	902,395	-	2,751
Issue of equity on 2 nd August 2022	1,378,658	-	4,073
Issue of equity on 2 nd September 2022	2,551,864	-	7,125
Issue of equity on 4 th October 2022	1,632,875	-	4,698
Issue of equity on 14 th October 2022	464,457	-	1,336
Issue of equity on 1 st November 2022	233,047	-	506
Issue of equity on 2 nd November 2022	656,382	-	1,889
Issue of equity on 1 st December 2022	303,268	-	917
Issue of equity on 2 nd December 2022	1,569,850	-	4,749
Issue of equity on 13 th December 2022	12,000,000	-	36,303
As at 31st December 2022	680,362,741	2,095,165,355	3,565,575

On 5th 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 2nd 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 3rd 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 11th February 2022, the Company issued 636,832 Ordinary Shares to a consultant on exercise of their nil cost options.

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

On 2nd 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 1st April 2022, the Company issued 404,838 Ordinary Shares to three Non-Executive Directors on exercise of their nil cost options.

On 3rd 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 4th 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 1st June 2022, the Company issued 273,392 Ordinary Shares to three Non-Executive Directors on exercise of their nil cost options.

On 6th 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 6th 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 2nd 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 2nd 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 4th 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 14th October 2022, the Company issued 464,457 Ordinary Shares to a consultant on exercise of their nil cost options.

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

On 2nd 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 1st December 2022, the Company issued 303,268 Ordinary Shares to three Non-Executive Directors on exercise of their nil cost options.

On 2nd 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 13th 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 st January 2022	34,625
Premium arising on issue of equity shares	140
Share issue costs	-
Balance at 31st December 2022	34,765
	\$'000
Balance at 1 st January 2021	34,234
Premium arising on issue of equity shares	391
Share issue costs	-
Balance at 31 st December 2021	34,625

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 st January 2022	10,260
Share based payments	1,072
Options movement	(6,807)
Balance at 31st December 2022	4,525
	\$'000
Balance at 1 st January 2021	9,120
Share based payments	1,494
Options movement	(354)
Balance at 31 st December 2021	10,260

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 st December 2022 weighted average exercise price	Number of Warrants	31 st December 2021 weighted average exercise price
Outstanding at the beginning of the year	16,820,502	6p	16,820,502	6p
Expired in the year	(6,011,308)	11p	-	-
Outstanding at the end of the year	10,809,194	4p	16,820,502	6p

As at 31st December 2022, all warrants were available to exercise and were exercisable at prices between 3p and 12.5p (31 December 2021: 3p and 12.5p). The weighted average life of the warrants is 2.89 years (31 December 2021: 2.65 years). No new warrants were issued and no existing warrants were exercised during the year. 6,011,308 warrants expired during the year. The fair value of additions during the year was \$nil (2021: \$nil).

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 \$1,072,000 for the year ended 31st December 2022. The equivalent charge for the year ended 31st December 2021 was \$1,494,000. The Group recognised total expenses (all of which related to equity settled share-based payment transactions) under the current plans of:

	Year ended 31 st December 2022	Year ended 31 st December 2021
	\$'000	\$'000
Share option scheme	1,072	1,224
Warrants charge	-	270
	1,072	1,494

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.

	2022 Options	2022 Weighted average exercise price	2021 Options	2021 Weighted average exercise price
Outstanding at beginning of year	47,065,951	\$0.05	31,338,713	\$0.05
Granted during the year	85,637,597	\$0.02	44,136,726	\$0.02
Exercised during the year	(15,111,350)	\$0.01	(25,211,024)	\$0.01
Expired during the year	(17,486,046)	\$0.06	(3,198,464)	\$0.04
Outstanding at the end of the year	100,106,152	\$0.02	47,065,951	\$0.03
Exercisable at the end of the year	59,272,819		29,161,323	

The weighted average exercise price of the share options exercisable at 31st December 2022 is \$0.02 (31st December 2021: \$0.03). The weighted average contractual life of the share-based payments outstanding at 31st December 2022 is 7.96 years (31st December 2021: 9.8 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 th June 2017	1,200,000	\$0.04	\$0.01	\$0.03	84%	5.5 years	1.16%	0%
6 th April 2018	4,400,000	\$0.05	\$0.04	\$0.03	84%	10 years	1.34%	0%
11 th June 2018	18,098,332	\$0.04	\$0.05	\$0.05	84%	10 years	1.23%	0%
21 st October 2019	6,325,000	\$0.05	\$0.06	\$0.15	109%	9.0 years	0.63%	0%
1 st March 2021	10,800,000	\$0.04	\$0.04	\$0.06	192%	9.5 years	0%	0%
8 th April 2022	25,200,000	\$0.01	\$0.02	\$0.02	105%	10 years	1.75%	0%
	Warrants							
31 st December 2020	8,750,167	\$0.04	\$0.04	\$0.04	190%	5 years	0%	0%

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

For the options granted prior to 30th June 2018, expected volatility was determined by reviewing benchmark values from comparator companies. For the options granted after 30th June 2018, 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 \$450,000 (2021: \$1,244,000). 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. 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 \$161,000 (2021: \$480,000 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 31st December 2022, 12% of the Group's cash and cash equivalents and liquid investments were held in pounds sterling. 74% in Georgian Lari and the remainder in US dollars, Euros and Canadian dollars (31st December 2021: 3% in pounds sterling, 88% 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:

	31st December 2022	31 st December 2021
	\$'000	\$'000
Liabilities at amortised cost	1,694	1,556
	1,694	1,556
Cash and cash equivalents at amortised cost	450	1,244
Financial assets at amortised cost	347	657
	798	1,901

No collateral has been pledged in relation thereto.

25. Subsidiaries

At 31st December 2022, 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 2022	Proportion of voting rights and equity interest 2021
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%
South Samgori Limited	British Virgin Islands	100%	-
Didi Lilo & Nakarala Limited	British Virgin Islands	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 28th October 2022.

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 31st December 2022 and 31st December 2021, the total of future minimum lease payments under non-cancellable operating leases for each of the following periods was:

	31st December 2022	31 st December 2021
	\$'000	\$'000
Within 1 year	269	-
Between 1 and 5 years	-	-
Total	<u>269</u>	<u>-</u>

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

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 after the year end (see note 28 for more details). The draw down on this loan included the following related parties:

Paul Haywood - \$90,000

Key Seymour - \$100,000

28. Events occurring after year end

On 10th January 2023, the Company announced that Ken Seymour had stood down from the Board to take up a position as the Company's Chief Operating Officer.

On 2nd February 2023, the Company announced that it had secured additional funding through a senior secured loan facility of \$2m, of which US\$1.06 million was drawn down with various existing shareholders and member of Block's Management team. The facility is for a term of 18 months and carries an interest rate of 16% per annum. Each lender will also receive warrants with a 3 year expiry date and exercise price of 1.7p per Ordinary share. A total of 25,330,249 warrants were issued in relation to this draw down.

On 9th March 2023, the Company announced that it had closed the farm-out of part of XIB to GOGL.

On 3rd April 2023, the Company announced the successful test of well WR-B01Za.

Parent Company Statement of Financial Position as at 31st December 2022

Company number: 05356303

	Note	2022 \$'000	2021 \$'000
Non- current assets			
Investments	4	6,209	6,939
Property, plant and equipment	5	1	4
		<u>6,210</u>	<u>6,943</u>
Current assets			
Trade and other receivables	6	25,340	25,628
Cash and cash equivalents	7	112	133
Total current assets		<u>25,452</u>	<u>25,761</u>
Total assets		<u>31,662</u>	<u>32,704</u>
Capital and reserves attributable to equity shareholders			
Share capital	8	3,565	3,482
Share premium		34,765	34,625
Other reserves		4,525	10,260
Foreign exchange reserve		(360)	366
Accumulated deficit		(11,657)	(16,803)
Total equity		<u>30,838</u>	<u>31,930</u>
Current liabilities			
Trade and other payables	9	824	774
Total current liabilities		<u>824</u>	<u>774</u>
Total equity and liabilities		<u>31,662</u>	<u>32,704</u>

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

The Company's loss for the year from continuing operations is \$1,661,000 (2021: loss of \$4,384,000).

The financial statements were approved by the Board of Directors and authorised for issue on 10th May 2023 and were signed on its behalf by:

Paul Haywood

Director

The notes on pages 78 to 82 form part of these financial statements.

Parent Company Statement of Changes in Equity as at 31st December 2022

	Share capital \$'000	Share premium \$'000	Accumulated deficit \$'000	Other reserve \$'000	Foreign currency reserve \$'000	Total equity \$'000
Balance at 31st December 2020	3,336	34,234	(12,711)	9,121	449	34,429
<i>Comprehensive income</i>						
Loss for the year	-	-	(4,384)	-	-	(4,384)
Exchange differences on translation of foreign operations	-	-	-	-	(66)	(66)
<i>Total comprehensive income for the year</i>	-	-	(4,384)	-	(66)	(4,450)
<i>Transactions with owners recognised directly in equity</i>						
Shares issued	52	255	-	-	-	307
Foreign exchange rate correction	17	-	-	(1)	(17)	(1)
Share based payments	-	-	-	1,494	-	1,494
Options exercised	77	136	210	(272)	-	151
Options expired	-	-	82	(82)	-	-
<i>Total transactions with owners</i>	<i>146</i>	<i>391</i>	<i>292</i>	<i>1,139</i>	<i>(17)</i>	<i>1,951</i>
Balance at 31st December 2021	3,482	34,625	(16,803)	10,260	366	31,930
<i>Comprehensive income</i>						
Loss for the year	-	-	(1,661)	-	-	(1,661)
Exchange differences on translation of foreign operations	-	-	-	-	(726)	(726)
<i>Total comprehensive income for the year</i>	-	-	(1,661)	-	(726)	(2,387)
<i>Transactions with owners recognised directly in equity</i>						
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)	-	-
<i>Total transactions with owners</i>	<i>83</i>	<i>140</i>	<i>6,807</i>	<i>(5,735)</i>	<i>-</i>	<i>1,295</i>
Balance at 31st December 2022	3,565	34,765	(11,657)	4,525	(360)	30,838

Parent Company Statement of Cashflows for the Year Ended 31st December 2022

	Note	2022 \$'000	2021 \$'000
Cash flow from operating activities			
Loss for the year before income tax		(1,661)	(4,384)
<i>Adjustments for:</i>			
Depreciation		3	5
Intercompany interest/ finance income		(1,188)	(2,558)
Increase in ECL provisions for loans		-	3,205
Creditors paid in shares		167	-
Share based payments expense	2	1,035	1,449
Foreign exchange movement		9	4
Operating cash flows before movements in working capital		(1,635)	(2,279)
Decrease/(increase) in trade and other receivables	6	113	(9)
Increase/(decrease) in trade and other payables	9	52	(26)
Net cash used in operating activities		(1,470)	(2,314)
Cash flow from investing activities			
Cash from acquisition of BRL		-	278
Finance income		-	-
Expenditure in respect of property, plant and equipment		-	(1)
Inter-Group amounts received/ (drawn down)		1,452	(4,920)
Net cash used in investing activities		1,452	(4,643)
Cash flow from financing activities			
Proceeds from issue of ordinary share capital		-	1,465
Finance costs		(1)	-
Net cash inflow from financing activities		(1)	1,465
Net (decrease) in cash and cash equivalents in the year		(19)	(5,492)
Cash and cash equivalents at start of year		133	5,657
Effects of foreign exchange		(2)	(32)
Cash and cash equivalents at end of year	7	112	133

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 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 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; therefore, they 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. Employees

	Year ended 31st December 2022 \$'000	Year ended 31 st December 2021 \$'000
Employment costs consist of:		
Wages and salaries	813	651
Pension	49	55
Share based payments	1,035	1,449
Social security costs	91	210
	1,988	2,365

The average monthly number of employees during the year was 10 (2021: 13) split as follows:

	Year ended 31st December 2022 \$'000	Year ended 31 st December 2021 \$'000
Management	6	5
Technical	3	6
Administration	1	2
	10	13

3. Directors' emoluments

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

4. Investments

	2022 \$'000	2021 \$'000
Shares in Group undertakings		
Balance at 1 January	6,939	7,027
FX movement on translation of assets	(730)	(88)
Balance at 31 December	6,209	6,939

Investments in subsidiaries are recorded at cost, which is the fair value of the consideration paid.

At 31st December 2022, the carrying amount of the Company's net assets of \$30,838,000 exceeded the Group's net assets of \$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.

5. Property, plant and equipment

	Computer equipment \$'000	Office equipment \$'000	Total \$'000
<i>Cost</i>			
At 1 st January 2022	16	1	17
Additions	-	-	-
At 31st December 2022	16	1	17
<i>Depreciation</i>			
At 1 st January 2022	(13)	-	(13)
Depreciation charge	(3)	-	(3)
At 31st December 2022	(16)	-	(16)
<i>Carrying amount</i>			
At 1 st January 2022	3	1	4
At 31st December 2022	-	1	1

6. Trade and other receivables

	2022 \$'000	2021 \$'000
Prepayments	195	27
Other receivables	102	383
Amounts due from Group undertakings	25,043	25,218

	25,340	25,628
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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 loss allowance of \$3,710,000 has been provided for in the parent Company financial statements (\$3,710,000 in 2021). No further impairment was indicated in the current year.

7. Cash at bank

	2022	2021
	\$'000	\$'000
Cash and cash equivalents	112	133

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 2022, 53% of the cash balances held by the Company were held in US Dollars and the remained in UK sterling.

8. Share capital

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

9. Trade and other payables

	2022	2021
	\$'000	\$'000
Trade and other payables	316	296
Accruals	508	478
	824	774

Trade and other payables at 31st December 2022 comprised balances in US dollars and pounds sterling.

10. Categories of financial instruments

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

	31st December	31 st December
	2022	2021
	\$'000	\$'000
Trade and other payables	824	774
Total financial liabilities at amortised cost	824	774

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

	31st December 2022 \$'000	31 st December 2021 \$'000
Other receivables	102	383
Amounts due from Group undertakings	25,043	25,218
Cash and cash equivalents at amortised cost	112	133
Total financial assets at amortised cost	25,257	25,734

The amounts due from Group undertakings includes a loss allowance of \$3,710,000 (2021: \$3,710,000). The loans are repayable on demand and include a 5% per annum interest rate charge. They are all denominated in US dollars, which differs from the parent Company's functional currency of pounds sterling, and therefore there is an exposure to foreign currency risk. There is no exposure to price risk as the underlying investments are expected to be held to maturity.

11. 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 \$112,000 (2021: \$133,000). The Company does not hold any collateral as security.

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

Currency risk

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

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

The Company's cash and cash equivalents and liquid investments are mainly held in pounds sterling and US dollars. At 31st December 2022, 47% of the Group's cash and cash equivalents and liquid investments were held in pounds sterling. A 10% movement in the strength of the pound sterling against the US dollar would increase the net assets of the Company by \$3,084,000.

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.

12. Commitments

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

UK operating lease commitment

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

	2022 \$'000	2021 \$'000
Within 1 year	81	-
Between 1 and 5 years	-	-
Total	<u>81</u>	<u>-</u>

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.

13. Related party transactions

At 31st December 2022, the following subsidiaries owed the parent Company for payments made and recovered on their behalf.

- Block Norioskhevi Ltd – \$3,860,614 (31st December 2021: \$3,815,000)
- Georgia New Ventures Inc – \$19,950,781 (31st December 2021: \$18,212,000)
- Satskhenisi Ltd – \$314,044 (31st December 2021: \$310,000)
- Block Operating Company LLC – \$2,029,351 (31st December 2021: \$1,819,000)
- Block Rustaveli Limited - (Debtor of: \$1,115,554); (31st December 2021: \$1,063,000)
- South Samgori Limited - \$2,000
- Didi Lilo & Nakarala Limited - \$2,000

A total loss allowance of \$3,710,000 was recognised in prior year and no further loss was recognised in the current year. This amount was recognised in relation to the loans to Satskhenisi Ltd and Georgia New Ventures Inc. Further detail on related party transactions can be found in note 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.

14. 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 22 – Share based payments
- Note 25 – Subsidiaries
- Note 28 – Events occurring after the year end