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Block Energy plc ("Block Energy" or the "Company")
Interim Results

Block Energy, the exploration and production company focused on the Republic of Georgia, is pleased to announce its Interim Results for the six month period to 31 December 2018.

Highlights

- Excellent progress made towards realising objective of transforming the Company into Georgia's leading independent oil and gas producer: consolidating assets, increasing production and developing infrastructure
- Agreement concluded with major Georgian shareholder for 100% Working Interest (WI) in flagship West Rustavi field, giving Block full strategic control over asset with company-making potential including gross contingent 2C resources of 38 million barrels of oil and 608 BCF of gas (Source: CPR dated 1 January 2018)
- Successful completion of the first of two wells projected for horizontal sidetracking at West Rustavi field, with significant hydrocarbon shows in the targeted Upper and Middle Eocene formations signalling promise for meeting base case production rate of 325 bopd
- At US $60/bbl Brent, the 325 bopd forecast for sidetracked West Rustavi well would:
    - Generate free cash flow of US $3.6m per annum
    - Pay back well costs in less than six months
    - Open possibilities for further sidetracking operations at West Rustavi and exploration of the field's legacy gas discoveries
- Offtake agreement secured with established Georgian gas trader with capacity to support the Company's gas development ambitions for West Rustavi
- Agreement for exclusive use throughout the Former Soviet Union region of specialist micro-drilling tool currently being deployed for operations at the Norio field
- Four-fold increase in the Company's total production rate to 60 bopd achieved so far at Norio field through ongoing multi-well workover programme:
    - Closing in on corporate breakeven target of around 100 bopd (at US $60/bbl Brent)
    - 60 bopd generates gross revenue of approximately US $1.1m per annum at US $60 Brent
    - Anticipated pay back at Norio less than 12 months
- Dedicated executive, technical, operations, communications and administrative teams built in London and Georgia
- Skilled and experienced operations team operating an extensive infrastructure with excellent HSE record

Chief Executive Officer's Business Review

I am pleased to take this opportunity to report on the encouraging progress we continue to make this financial year to realise the value of our Georgian assets, comprising combined gross 2P reserves of 2.6 MMbbls of oil, gross 2C contingent resources of 72.9 MMbbls of oil and 626 BCF of gas (Source: CPR).

We have completed and are currently testing the first horizontal sidetrack well at our flagship West Rustavi field, drilling into the Middle Eocene in pursuit of a 325 bopd production rate. And the Norio workover programme we are pursuing in parallel with our West Rustavi operations is generating increasing production: the four-fold increase to 60 bopd we have achieved so far is a significant step towards our corporate breakeven target of 100 bopd.

We have also secured a milestone agreement with our major Georgian shareholder giving us complete strategic control over the West Rustavi licence. We already have 100% and 90% interests in Norio and Satskhenisi respectively, and now a clear path to a 100% interest in West Rustavi from our current 71.5%.

Block Energy has made solid progress since the Company's IPO in June 2018. The Company's share price fell below its IPO level for a few months as Block got underway in the second half of 2018, but has gathered momentum as we have secured our assets and increased production. We look forward to continuing to open up the value of our current fields and exploring new opportunities in Georgia and beyond.

<u>Securing our West Rustavi asset</u>

Operations progress

We began horizontal sidetracking operations in January 2019 at West Rustavi, an asset with company-making potential, holding 38 MMbbls of gross 2C contingent oil resources and 608 BCF gross 2C contingent gas resources (Source: CPR). West Rustavi's Middle Eocene reservoir holds 21 MMbbls of gross 2C contingent resources (Source: CPR).

A Total Depth (TD) of 2,659 metres was reached in March after the well was re-entered and cleaned, a whipstock positioned 1,932 metres below the ground, a build section drilled 205 metres into the top of the target Middle Eocene formation, and a further 522 metres drilled horizontally into the layer. Hydrocarbon readings derived from field interpretation of drill cuttings, live oil shows on the shale shaker unit and frequent spikes in gas readings indicate that the expected naturally fractured hydrocarbon reservoir Middle Eocene formation was entered, and that the entire horizontal section was drilled within it.

We are aiming for a gross initial flow rate of 325 bopd from the well, which would generate a free cash flow of approximately US $3.6m per annum, and payback well costs in less than six months (assuming a price of US $60 Brent). As a vertical well, 16a produced some 35 Mbbls when first on production during the Soviet era. According to Gustavson Associates (Source: CPR) West Rustavi's Middle Eocene reservoir holds 21 MMbbls of gross 2C contingent resources. Furthermore, the pressure has been bled off at a second West Rustavi well, number 38, which is now ready for re-entering and sidetracking, subject to results at well 16a.

We also look forward to appraising West Rustavi's legacy gas discoveries. According to the documentation the Company received on acquiring its interest in the licence one of West Rustavi's discovery wells flowed at rates up to 29,000 m^3 per day when originally tested in 1988. Block has signed an offtake agreement with one of Georgia's largest private gas traders with robust infrastructure and scalability with the ability to handle large volumes.

Taking strategic control

In February 2019 we secured a significant agreement with one of our major shareholders, Georgia Oil and Gas Limited (GOG), to increase our WI in West Rustavi to 100% from 25%. The agreement replaces the original earn-in deal, according to which Block would have increased its interest to a maximum of 75% by completing a defined work programme on the Middle Eocene oil reservoir. At the time of writing, our WI is 71.5%, and this is expected to increase to 100% in Q3 this year

The new deal, which gives Block operatorship of the licence with immediate effect, increases the Company's net 2C gas resources by 152 BCF and net 2C oil resources by 9.5 MMBbl, based on Block completing its acquisition of 100% of West Rustavi. It also releases Block from obligations in the original agreement such as the requirement to undertake specified, time-limited workovers or well preparations, to replace the field's existing production facilities, and to pay certain production and reserves-based bonuses to GOG. When the transaction is complete, we will have full strategic control of the field's future development.

The consideration for increasing this WI is heavily weighted towards equity in the Company, testifying to GOG's confidence in Block's current value and potential upside. Indeed, West Rustavi is an analogue to the nearby Ninotsminda field where GOG's founders oversaw horizontal sidetracks that increased oil production from 50 bopd to more than 1,900 bopd in the early-2000s. West Rustavi's gas discoveries lie on trend to the same play being targeted by Schlumberger in a neighbouring field, Block XIb.

<u>Increased production at Norio</u>

Our Norio work programme, which began in October last year, is beginning to bear fruit. Workover operations have increased the combined production rate at Norio and Satskhenisi to up to 60 bopd, a four-fold increase since work began, taking the Company to 60% of its breakeven production target (covering operating and administrative costs) of 100 bopd, assuming a crude oil price of US $60 Brent.

A production rate of 60 bopd generates approximately gross US $1.1m per annum at US $60 Brent, and could payback the Norio programme within a year. This return meets our typical risk-reward threshold for investments. The Production Sharing Contract (PSC) allows us to recover 100% of our operating expenses before sharing any crude oil with the Georgian state agency, after which we will recover our capital costs from cost oil and share profit oil with the agency.

Encouraged by this momentum, we look forward to starting operations at Norio 31 where we aim to increase the well's current production of 10 bopd: Norio 31 has already produced more than 400 Mbbls over its lifetime. Our ongoing Norio operations continue to yield valuable insights into how best to access the field's potential, particularly in regard to the identification of new workover candidates. Norio has gross 2P oil reserves of 1.631 MMbbls.

We have taken the time to find the right people and source the right technology to meet the inherent technical challenges presented in re-entering wells first drilled in the 1940s and 50s. The increased production testifies to our methodical work in preparing the wellbores of our workover candidates to open access to the most promising horizons, and the value of the specialist micro-drilling tool handpicked by Block to meet the particular challenges of the field's oil-bearing formations.

In December last year Block signed Heads of Terms for an agreement giving the Company exclusive access to the tool throughout eastern Europe, the Caucasus and central Asia, opening a new stream of potential revenue for the Company.

Financial Review

For the half year to 31 December 2018, the Company reported a net loss of £582,000 (2017: £416,000). This was higher than the comparable period to 31 December 2017 due to an increase in business activities following the ramp up of operations in Georgia during 2018.

During the six-month period to 31 December 2018, the Company incurred a net operating cash outflow of £462,000 (2017: £444,000). The Company held cash at 31 December 2018 of £1,975m (2017: £81,000).

Subsequent to period end, Block Energy paid US $250,000 as the first instalment to increase its WI in West Rustavi to 71.5% from 25%.

Outlook

Laying the foundations for long-term success

During the period and subsequent to period end, we have continued to work hard to lay the foundations for the Company's long-term success. We have negotiated significant agreements to give us complete freedom to realise the value of our assets, patiently pursued our work programme, built out our production infrastructure, and have maintained an excellent HSE record.

Block Energy is a young, ambitious company dedicated to fulfilling our founding objective of becoming Georgia's leading independent oil and gas producer, ever open to new opportunities within the region and beyond.

Paul Haywood

Chief Executive Officer

This announcement contains inside information which is disclosed in accordance with the Market Abuse Regulation which came into effect on 3 July 2016.

The Directors of the Company accept responsibility for this announcement.

For further information please visit http://www.blockenergy.co.uk or contact:

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Notes

Block Energy (BLOE.L) is an AIM quoted oil and gas company with a growing portfolio of production, development and exploration assets in the Republic of Georgia. Block holds a 100% WI in the producing Norio licence, a 90% WI in the producing Satskhenisi licence and, at the time of this report's publication, a 71.5% WI in the West Rustavi licence, with an agreement to take a 100% WI.

Condensed Consolidated Interim Statement of Comprehensive Income
For the period ended 31 December 2018

	6 months to 31 December 2018 Unaudited Group £'000	6 months to 31 December 2017 Unaudited Group £'000	Year ended 30 June 2018 Audited Group £'000
Continuing operations			
Revenue	117	58	133
Cost of sale	(9)	(2)	(243)
Gross Profit	108	56	(101)
Exploration costs	-	(92)	-
Administrative expenses	(869)	(328)	(1,228)
Foreign exchange movement	181	-	4
Results from operating activities and other income	**(580)**	**(364)**	**(1,325)**
Finance income	1	-	1
Finance expense	(3)	(11)	(36)
Loss for the period/ year before taxation	**(582)**	**(375)**	**(1,360)**
Taxation	-	-	-

Loss for the period/ year from continuing operations (attributable to the equity holders of the parent)	**(582)**	**(375)**	**(1,360)**
Discontinued operations			
Discontinued operations – Antubia Ltd	-	(41)	127
Loss for the year	**(582)**	**(416)**	**(1,233)**
Total comprehensive income for the period/year attributable to the equity holders of the parent	(582)	(416)	(1,233)
Earnings per share (basic and diluted)	(0.22)p	(0.11)p	(1.20)p

Condensed Consolidated Statement of financial position
As at 31 December 2018

	At 31 December 2018 Unaudited Group £000	At 31 December 2017 Unaudited Group £000	At 30 June 2018 Audited Group £000
Non-current assets			
Intangible assets	3,037	1,381	1,435
Property, plant and equipment	1,420	275	1,365
	4,457	1,656	2,800
Current assets			
Cash and cash equivalents	1,975	81	3,997
Restricted cash	-	197	-
Trade and other receivables	83	113	127
Inventory	262	160	253
Asset held for sale	-	329	-
Total current assets	2,320	880	4,377
Total assets	6,777	2,536	7,177
Equity and liabilities			
Capital and reserves attributable to equity holders of the Company:			
Share capital	1,675	1,274	1,675
Share premium	9,222	3,619	9,222
Other reserves	68	55	68
Accumulated deficit	(4,612)	(3,223)	(3,998)
Total Equity	6,353	1,725	6,967
Liabilities			
Trade and other payables	379	458	165
Borrowings	45	353	45
Total current liabilities	424	811	210
Total equity and liabilities	6,777	2,536	7,177

Consolidated Statement of changes in equity
As at 31 December 2018

	Share capital £'000	Share premium £'000	Retained deficit £'000	Other reserve £'000	Total equity £'000
Balance at 30 June 2017	**1,217**	**2,721**	**(2,808)**	**-**	**1,130**

Loss for the period	-	-	(416)	-	(416)
Shares issued	22	341	-	-	363
Cost of issue		(3)	-	-	(3)
Acquisition of subsidiary	35	560	-	-	595
Equity component of convertible loan note	-	-	-	55	55
Balance at 31 December 2017	**1,274**	**3,619**	**(3,224)**	**55**	**1,724**
Loss for the period	-	-	(817)	-	(817)
Share based payments				13	13
Shares issued	401	5,976	-	-	6377
Cost of issue	-	(373)	-	-	(373)
Foreign exchange revaluation	-	-	43	-	43
Balance at 30 June 2018	**1,675**	**9,222**	**(3,998)**	**68**	**6,967**
Loss for the period	-	-	(582)	-	(582)
Foreign exchange revaluation	-	-	(32)	-	(32)
Balance at 31 December 2018	**1,675**	**9,222**	**(4,612)**	**68**	**6,353**

Condensed Consolidated Interim Statement of Cash Flows
for the 6 months ended 31 December 2018

	6 months ended 31 December 2018 Unaudited Group £'000	6 months ended 31 December 2017 Unaudited Group £'000	Year ended 30 June 2018 Audited Group £'000
Operating activities			
Loss for the period before income tax	(582)	(375)	(1,360)
Profit/(loss) from discontinued operations	-	(41)	127
Adjustments for:			
Non-refundable deposit	-	(39)	-
Finance income	-	-	1
Finance expense	(3)	11	36
Depreciation and depletion	7	-	36
Share based payments expense	-	-	68
Gain on sale of subsidiary	-	-	(127)
Foreign exchange movement	(181)	-	(4)
AIM admission costs	-	-	385
Net cash flows used in operating activities before changes in working capital	**(759)**	**(444)**	**(840)**
(Increase) / decrease in trade and other receivables	44	(60)	117
Increase in trade and other payables	253	265	101

Increase in inventory	-	-	253
Net cashflows used in operating activities	**(462)**	**(239)**	**(369)**
Investing activities			
Non-refundable deposit	-	39	-
Income received	-	-	1
Expenditure in respect of intangible assets	(1,550)	(454)	(592)
Expenditure in respect of PP&E	(10)	-	(527)
Restricted cash	-	(197)	-
Considerations received on sale of subsidiary	-	-	454
Cash used in investing activities	**(1,560)**	**(612)**	**(664)**
Financing activities			
Convertible loan notes issued	-	360	360
Issue of ordinary share capital	-	361	5250
Costs of issue of ordinary share capital	-	(3)	(761)
Interest paid		-	(36)
Net cash flows from financing activities	**-**	**718**	**4,813**
N**et increase/(decrease) in cash and cash equivalents**	**(2,022)**	**(133)**	**3,780**
Cash and cash equivalents at the beginning of period	3,997	215	215
Effects of foreign exchange rate changes on cash and cash equivalents	-	(1)	2
Cash and cash equivalents at end of period	**1,975**	**81**	**3,997**

Notes to the Condensed Consolidated Interim Financial Statements

1. Interim Financial Statements

The information relates to the six month period from 1 July 2018 to 31 December 2018.

The Group's trading symbol is BLOE.

The Condensed Consolidated Interim Financial Statements comprise of the Company and its subsidiaries and were approved by the Directors on 27 March 2018.

The Condensed Consolidated Interim Financial Statements have not been reviewed by the Group's auditors.

2. Basis of accounting

The report has been prepared using accounting policies that the Group has adopted and were used for the accounting period to 30 June 2018. The information does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006.

The financial statements are prepared under the historical cost convention.

The Group will report again for the full year to 30 June 2019.

3. Significant accounting policies

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial statements for the period ended 30 June 2018, with the exception of the following policies;

Revenue

Revenue from the production of oil is recognised at the point at which oil is delivered to the customer.

The total revenue for the Group for the period was derived from its principal activity, being the development and enhancement of oil and gas production assets.

Property, Plant and Equipment

The PPE were acquired through the acquisition of the Production Sharing Agreements ("PSA") interests in Norioskhevi and Satskhenisi licence areas. These assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Inventories

Inventories were acquired through the acquisition of the PSA interests in Norioskhevi and Satskhenisi licence areas. Costs comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Financial instruments

The Group's financial assets consist of current bank account, loans and other receivables. Trade and other receivables are stated initially at fair value and subsequently at amortised cost.

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

Convertible loan notes

In accordance with IAS 32, the Group has classified the convertible debt in issue as a compound financial instrument. Accordingly, the Group presents the liability and equity component separately on the statement of financial position. The classification of the liability and equity component is not reversed as a result of a change in the likelihood that the conversion option will be exercised. No gain or loss arises from initially recognising the components of the instrument separately. Interest on the debt element of the loan is accreted over the term of the loan at the effective interest rate. In the event of conversion the equity component relating to the conversion rights will be transferred to share capital and share premium (for any amount over the nominal value of each share).

4. Operating segments

The Group manages a group involved in Oil resources development and exploration in the country of Georgia, and, is therefore considered to operate in a single geographical and business segment.

5. Basic and diluted loss per share

The calculation of loss per share for the six months to 31 December 2018 is based on the loss for the period attributable to ordinary shareholders of £582k and is 0.22p from continued operations. The calculation of loss per share for the six months to 31 December 2017 is based on the loss for the period attributable to ordinary shareholders of £416k and is 0.10p (continued operations) and 0.01p (discontinued operations).

In the opinion of the directors, all the outstanding share options and warrants are anti-dilutive and hence, basic and fully diluted loss per share are the same.

6. Investments & Intangibles

	£'000
	Licences
Cost	
At 1 July 2018	1,435
Additions during the year	1,550
Foreign exchange movements	52
At 31 Dec 2018	3,037

7. Plant, Property and equipment

	£’000 Licence area	£'000 Equipment	£'000 Total
Cost			
At 1 July 2018	1,243	157	1,400
Additions during the year	5	5	10
Foreign exchange movements	38	12	51
At 31 December 2018	1,286	174	1,461
Depreciation			
At 1 July 2018	14	21	35
Charge for the year	-	7	7
Foreign exchange movements	-	-	-
At 31 December 2018	14	28	42
Net book value			
At 31 December 2018	1,272	146	1,420

8. Inventory

	£’000
At 1 July 2018	253
Additions	-
Foreign exchange movements	9
At 31 December 2018	262

9. Subsequent events

Other than what has been disclosed in this report there were no further events subsequent to period end.

10. Other matters

A copy of this report is available from the Group’s website, www.blockenergy.co.uk