

30 September 2020

Block Energy Plc

("Block" or the "Company")

Interim Results for the Six Months Ended 30 June 2020

Block Energy Plc, the exploration and production company focused on Georgia, is pleased to announce its interim results for the six months ended 30 June 2020.

Highlights

- Entered into a conditional sale and purchase agreement to acquire Schlumberger Rustaveli Company Limited ("SRCL") including Georgian onshore licence blocks IX and XI^B
- Implementation of prudent cost-cutting and cash conservation measures in response to COVID-19
- The Group held cash at 30 June 2020 of US\$2,258,000
- Proceeds from sales of crude oil from its West Rustavi, Norio and Satskhenisi licences were US\$313,000 during the six months ended 30 June 2020 (2019: US\$nil) and US\$568,000 following the period end in August and September 2020
- Early production facility ("EPF"), including a gas processing unit procured during the period and commissioned in September 2020
- Commencement of construction of the gathering line between the EPF and WR-38Z during September 2020
- Shut-in of the West Rustavi field's production at wells WR-16aZ and WR-38Z to conserve valuable gas resources until the gas sales pipeline is complete later this year
- Early results from fully migrated 3D seismic processing are providing insight into the full potential of the West Rustavi XI^F licence area
- Engaged EPI Limited ("EPI"), a leading independent geoscience and geophysical consultancy

Paul Haywood, CEO of Block Energy, commented:

"Firstly, I am very proud of how everyone at Block has helped navigate the challenges of the pandemic. Undoubtedly, this has been a very tough six months for the sector, but I am pleased this hasn't stopped Block from still achieving its goals for the period. With the EPF in place and connected to the first of two West Rustavi wells, we expect gas sales to commence in Q4. The acquisition of SRCL has been slightly delayed due to COVID-19 restrictions, but both parties remain committed to its completion. We have been progressing an extensive sub-surface technical study, which is revealing some exciting short and medium-term opportunities that will be presented to the market on completion of the acquisition.

Block Energy remains strong and agile, with cash on the balance sheet and near-term realisation of its gas reserves. Through these gas sales, we will generate more cash from our production base. We look forward to the remaining months of 2020, to continue our mission of value creation for our shareholders, through growing the business and unlocking Georgia's potential."

Chief Executive Officer's Business Review

Introduction

COVID-19 has affected the whole sector. During the period, the Company's activities were disrupted by lockdowns in the UK and Georgia and travel restrictions. The consequent weak demand for oil, combined with the price war between Russia and Saudi Arabia, resulted in the Brent oil price per barrel collapsing from US\$67 at the beginning of the year to a low of US\$9 in April 2020, before recovering to over US\$40 in June 2020.

Reactive measures

In early April 2020, Block reacted quickly with prudent measures to conserve its cash and oil and gas resources. Measures in place from April 2020 to today included shutting-in two wells at West Rustavi, deciding not to sell its crude oil inventory at a low price, revising operating and capital budgets, cutting operating and administrative costs, negotiating discounts with creditors, reducing staff numbers, deferring the payment of 40% of salaries in Georgia until oil was sold at higher oil prices and paying 40% of management salaries in options in lieu of cash.

Work during 2020

While navigating the challenges encountered in 2020, Block continued to press ahead with its planned work programme.

Block continued with the processing and interpretation of the 3D seismic data. Results show good sub-surface imaging of the main producing and prospective formations in the permit.

The Company achieved the procurement of its EPF from Canada, its transport to Georgia, its reassembly on WR-16aZ well site and its successful commissioning with continuous production of dry gas for 25 hours.

Construction of the gathering line between the EPF and WR-38Z commenced on 11 September 2020 and is due to be completed by the end of October 2020. The steel flowline has an internal diameter of 75 mm and will be buried for its full length of 3.5 km. Once the WR-38Z well has been tied into the facility, the EPF will be ready to process oil and gas from the two West Rustavi wells. The EPF is currently rated to handle up to 3 MMCF/d, but can be expanded and it has inlets for four additional wells.

Unfortunately, the Company had to abort drilling operations at the WR-51Z site owing to the discovery of poor conditions in the existing well. Legacy wellbore integrity issues are an inherent risk with re-entry operations and the occasional abandonment is to be expected.

Crude oil production and sales

During the period, the Company continued to produce and sell oil from its Norio and Satskhenisi licences. Revenue from oil sales during the period was US\$313,000 (2019: US\$nil) and, during August 2020, it sold stored crude oil from its West Rustavi, Norio and Satskhenisi licences for net proceeds of approximately US\$568,000, bolstering its cash position.

Acquisition of SRCL

Block continues to work with Schlumberger on completion of the acquisition of SRCL, which was announced on 26 March 2020.

Some conditions necessary for completion have been fulfilled, such as the receipt of approval from the State Agency of Oil and Gas, but, owing to COVID-19 travel restrictions, an agreed shadowing period has not yet been possible. We look forward to updating the market in due course. In the meantime, sub-surface technical study work on the SRCL assets continues, yielding economically attractive short and medium-term opportunities that will be presented to the market following the completion of the acquisition.

Engagement of EPI

In June 2020, Block announced the engagement of EPI, whose expertise encompasses geophysical and geological interpretation, petrophysics and reservoir engineering.

EPI has been defining new development well activity in West Rustavi, and in the soon-to-be-acquired assets within the Block XI^B area. In particular, Block sees significant potential for the horizontal side-tracking of new and existing wells, including deeper targets in the Patardzeuli field. EPI has brought their expertise to the analysis of the geological aspects of horizontal well design and the selection and ranking opportunities in Block XI^B, where over 180 MMbbls of oil have been produced, with a peak production rate of 67,000 barrels of oil equivalent per day.

Directorate Change

Following the successful commissioning of the EPF, Mr Roger McMechan has expressed his intention to stand down from the Board on 30 September 2020. I'm very pleased that Roger will remain a consultant to the Company, and will continue to make his extensive expertise on the sub-surface and operations in Georgia available to us.

Block continues to give significant focus to its internal corporate governance standards and has initiated a search through a leading energy executive search firm for a senior independent director and an independent non-executive director. We will update the market further when it has appointed suitable candidates for these roles.

Outlook

Though COVID-19 is proving very hard to predict, Block still expects gas sales to commence in Q4 2020 from West Rustavi, as the gas purchaser, Bago, is completing the final stages of the permitting process to enable it to construct its gas sales pipeline, which they expect to have completed later this year.

This first half of the year has proven how dedicated everyone at Block is to its success and survival. As CEO, I am greatly impressed by and appreciative of how our staff have navigated these challenges and will continue to do so as the year progresses.

Financial Review

For the six months ended 30 June 2020, Block reported a net loss of US\$2,668,000 (six months ended 30 June 2019: US\$2,725,000). The net loss included an impairment of the capitalised costs in respect of the Satskhenisi licence amounting to US\$208,000 (2019: US\$nil), but it was still lower than the comparative six months ended 30 June 2019 owing to no revenue in the prior period and administrative cost savings during the current period.

During the six months ended 30 June 2020, Block incurred a net operating cash outflow of US\$2,498,000 (six months ended 30 June 2019: US\$1,732,000). The Group held cash at 30 June 2020 of US\$2,258,000 (31 December 2019: US\$6,494,000).

Subsequent to the period end, Block received US\$568,000 for sales of crude oil inventory.

Paul Haywood
Chief Executive Officer

Roger McMechan, Non-Executive Director, has reviewed the reserve, resource and production information contained in this announcement. Mr McMechan has a BSc in Engineering from the University of Waterloo, Canada and is a Professional Engineer registered in Alberta.

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 to Editors

Block Energy is an AIM-listed independent oil and gas company focused on production and development in Georgia by applying innovative technology to realise the full potential of previously discovered fields.

The Company has a 100% working interest in the highly prospective West Rustavi onshore oil and gas field with multiple wells that have tested oil and gas from a range of geological horizons. The field has so far produced 50 Mbbls of light sweet crude and has 0.9 MMbbls of gross 2P oil reserves in the Middle Eocene. It also has 38 MMbbls of gross unrisked 2C contingent oil resources and 608 BCF of gross unrisked 2C contingent gas resources in the Middle, Upper and Lower Eocene formations (Source: CPR by Gustavson Associates: 1 January 2018).

Block also holds 100% and 90% working interests in the onshore oil producing Norio and Satskhenisi fields. In March 2020, it entered into a conditional sale and purchase agreement to acquire a company that owns Georgian onshore licence Block IX and XI^B.

The Company offers a clear entry point for investors to gain exposure to Georgia's growing economy and the strong regional demand for oil and gas.

Glossary

1. bbls: barrels. A barrel is 35 imperial gallons.
2. Mbbls: thousand barrels.

3. MMbbls: million barrels.
4. MMCF/d: million cubic feet per day.
5. BCF: billion cubic feet.

INDEPENDENT REVIEW REPORT TO BLOCK ENERGY PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 which comprise the Condensed Consolidated Interim Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Condensed Consolidated Interim Statement of Cash Flows and the notes to the Condensed Consolidated Interim Financial Statements.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the rules of the London Stock Exchange for companies trading securities on AIM which require that the half-yearly report be presented and prepared in a form consistent with that which will be adopted in the Company's annual accounts having regard to the accounting standards applicable to such annual accounts.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

Material uncertainty related to going concern

We draw attention to note 2 to the Condensed Consolidated Interim Financial Statements which highlights the further economic and commercial challenges which the Group faces as a result of the global uncertainty surrounding the COVID-19 pandemic, and notes that as a result the Group may need to raise additional funding to enable it to continue as a going concern. As stated in note 2, these conditions, along with the other matters referred to in note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Use of our report

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting the requirements of the rules of the London Stock Exchange for companies trading securities on AIM and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

BDO LLP

Chartered Accountants

London

29 September 2020

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

Condensed Consolidated Interim Statement of Comprehensive Income

For the period ended 30 June 2020

6 months ended 30 June 2020	6 months ended 30 June 2019
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	Unaudited US\$'000	Unaudited US\$'000
Continuing operations		
Revenue	313	-
Cost of sales	(1,141)	(478)
Gross loss	(828)	(478)
Impairment losses	(208)	-
Administrative expenses	(1,646)	(2,243)
Results from operating activities	(2,682)	(2,721)
Finance income	14	-
Finance expense	-	(4)
Loss for the year before taxation	(2,668)	(2,725)
Taxation	-	-
Loss for the period from continuing operations (attributable to the equity holders of the parent)	(2,668)	(2,725)
Loss for the year	(2,668)	(2,725)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(223)	638
Total comprehensive loss for the period attributable to the equity holders of the parent	(2,891)	(2,087)
Loss per share (basic and diluted)	4 (0.61)c	(0.70)c

Condensed Consolidated Statement of Financial Position

As at 30 June 2020

		30 June 2020 Unaudited US\$'000	31 December 2019 Audited US\$'000
Non-current assets			
Property, plant and equipment	5	13,607	12,713
		13,607	12,713
Current assets			
Inventory		2,979	2,519
Trade and other receivables		352	303
Cash and cash equivalents		2,258	6,494
Total current assets		5,589	9,316
Total assets		19,196	22,029
Equity and liabilities			
Capital and reserves attributable to equity holders of the Company:			
Share capital	6	2,754	2,623
Share premium		28,073	27,985
Other reserves		1,432	1,114
Foreign exchange reserve		210	433
Accumulated deficit		(14,213)	(11,545)
Total Equity		18,256	20,610
Liabilities			
Trade and other payables		650	1,143
Provisions		290	276
Total current liabilities		940	1,419
Total equity and liabilities		19,196	22,029

Consolidated Statement of Changes in Equity

As at 30 June 2020

	Share capital US\$'000	Share premium US\$'000	Accumulated deficit US\$'000	Other reserve US\$'000	Foreign exchange reserve US\$'000	Total equity US\$'000
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Balance at 30 June 2018 (unaudited)	2,192	12,221	(5,623)	460	(50)	9,200
Loss for the year	-	-	(6,130)	-	-	(6,130)
Exchange differences on translation of operations in foreign currency	-	-	-	-	483	483
Total comprehensive loss for the year	-	-	(6,130)	-	483	(5,647)
Shares issued	431	16,655	-	-	-	17,086
Cost of issue	-	(891)	-	-	-	(891)
Share based payments	-	-	208	654	-	862
Total transactions with owners	431	15,764	208	654	-	17,057
Balance at 1 January 2020 (audited)	2,623	27,985	(11,545)	1,114	433	20,610
Loss for the year	-	-	(2,668)	-	-	(2,668)
Exchange differences on translation of operations in foreign currency	-	-	-	-	(223)	(223)
Total comprehensive loss for the year	-	-	(2,668)	-	(223)	(2,891)
Shares issued	131	88	-	-	-	219
Share based payments	-	-	-	318	-	318
Total transactions with owners	131	88	-	318	-	537
Balance at 30 June 2020 (unaudited)	2,754	28,073	(14,213)	1,432	210	18,256

Condensed Consolidated Interim Statement of Cash Flows

For the 6 months ended 30 June 2020

	6 months ended 30 June 2020 Unaudited US\$'000	6 month ended 30 June 2019 Unaudited US\$'000
Operating activities		
Loss for the period before income tax	(2,668)	(2,725)
Adjustments for:		
Finance income	(14)	-
Depreciation and depletion	5	456
Impairment losses	208	-
Share based payments expense	318	262
Foreign exchange movement	69	293
Net cash flows used in operating activities before changes in working capital	(1,631)	(2,086)
Increase in trade and other receivables	(49)	(573)
(Decrease) / increase in trade and other payables	(274)	1,033
Decrease in inventory	(544)	(106)
Net cashflows used in operating activities	(2,498)	(1,732)
Investing activities		
Expenditure in respect of PP&E	(1,679)	(1,352)
Cash used in investing activities	(1,679)	(1,352)
Financing activities		
Issue of ordinary share capital	-	14,574
Costs of issue of ordinary share capital	-	(891)
Net cash flows from financing activities	-	13,683
Net (decrease) / increase in cash and cash equivalents	(4,177)	10,599

Cash and cash equivalents at the beginning of period	6,494	2,518
Effects of foreign exchange rate changes on cash and cash equivalents	(59)	75
Cash and cash equivalents at end of period	2,258	13,192

Notes to the Condensed Consolidated Interim Financial Statements

For the 6 months ended 30 June 2020

1. Interim Financial Statements

The Condensed Consolidated Interim Financial Statements of the Group, which comprises Block Energy plc and its subsidiaries for the six-month period from 1 January 2020 to 30 June 2020, were approved by the directors on 29 September 2020.

The Condensed Consolidated Interim Financial Statements have been reviewed by the Group's auditors.

The Company's shares are traded on AIM and the trading symbol is BLOE.

2. Summary of significant accounting policies

Management have prepared these interim accounts in accordance with the IFRS accounting policies as applied at 31 December 2019 (without the disclosure requirements of IFRSs) with the exception of IFRS 16 as noted below.

During the prior period, the Group changed its accounting reference date from 30 June to 31 December and consequently reported on the 18-month period ended 31 December 2019. The comparatives are the 6-month period ended 30 June 2019, except for the Condensed Consolidated Statement of Financial Position, where the comparative is 31 December 2019.

The condensed set of financial statements included in this half-yearly financial report have been prepared on a going concern basis as the directors consider that the Group has adequate resources to continue operating for the foreseeable future.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive Officer's Business Review. The financial position of the Group at the period end and its cash flows and liquidity position are included in the Financial Review.

The Group continues to closely monitor and manage its cash. Cash forecasts are regularly produced, and sensitivities run for different scenarios including, but not limited to, commodity prices, the date for recommencement of oil and gas production from West Rustavi, operating expenditure, capital expenditure and the USD/GBP foreign exchange rate. To preserve cash in response to COVID-19 and as a result of the low oil price, the Group reduced its capital and operating expenditure, reduced its workforce, paid salaries of remaining employees and fees of directors of its parent company in nil-cost options instead of cash, deferred salaries of its remaining employees in Georgia until it sold oil at higher oil prices and negotiated discounts with some of its suppliers. The Group's forecasts, taking into account the applicable risks and the stress test scenarios, show that it may have a shortage of cash to fund its development plans within 12 months from the date of approval of the 2020 half year financial statements.

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

The accounting policies adopted in this half-yearly financial report are the same as those adopted in the 2019 Annual Report and Financial Statements, other than the implementation of new IFRS reporting standards as set out below.

Adoption of new and revised accounting standards

As of 1 January 2020, a number of accounting standard amendments and interpretations became effective, as noted in the 2019 Annual Report and Financial Statements (page 49). The adoption of these amendments and interpretations has not had a material impact on the financial statements of the Group for the six months ended 30 June 2020.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 supersedes IAS 17 Leases. The date for the initial application of IFRS 16 for the Group is 1 January 2020, as the previous reporting period was an 18-month period commencing on 1 July 2018.

The most significant lease the group has is in relation to a drilling rig. Management has considered the terms of this lease and notes that the lease term is for 12 months to 1 September 2020. The lease may be continued, but only by the agreement of both parties. Therefore, management has applied the short-term lease practical expedient in IFRS 16.

Other leases for which the group is lessee are not material and have not been recognised on this basis.

3. Operating segments

The Group is engaged in the exploration for, and development of oil and gas resources in Georgia, and is therefore considered to operate in a single geographical and business segment.

4. Loss per share

The calculation of loss per share for the six months ended 30 June 2020 is based on the loss for the period attributable to ordinary shareholders of US\$2,668,000 and is 0.61 cents from continued operations. The calculation of loss per share for the six months ended 30 June 2019 is based on the loss for the period attributable to ordinary shareholders of US\$2,725,000 and is 0.70 cents from continued 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.

5. Property, plant and equipment

Unaudited Cost	Licence area	Development/ Production equipment	Computer/ Office equipment/ Vehicles	Total
	US\$'000	US\$'000	US\$'000	US\$'000
At 1 January 2020	4,985	8,219	129	13,333
Additions	-	1,434	124	1,558
At 30 June 2020	4,985	9,653	253	14,891

Accumulated depreciation and impairment

At 1 January 2020	18	595	7	620
Charge	-	454	2	456
Impairment	-	208	-	208
At 30 June 2020	18	1,257	9	1,284

Carrying amount

At 30 June 2020	4,967	8,396	244	13,607
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Cost	Licence area	Development/ Production equipment	Computer/ Office equipment/ Vehicles	Total
	US\$'000	US\$'000	US\$'000	US\$'000
At 1 July 2018	1,641	208	-	1,849
Transfer from intangibles	2,158	-	-	2,158
Additions	1,186	8,011	129	9,326
At 31 December 2019	4,985	8,219	129	13,333

Accumulated depreciation

At 1 July 2018	18	28	-	46
Charge	-	567	7	574
At 31 December 2019	18	595	7	620

Carrying amount

At 31 December 2019	4,967	7,624	122	12,713
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During the six months ended 30 June 2020, an impairment of US\$208,000 (2019: US\$nil) was recognised to reduce the capitalised costs in respect of the Satskhenisi licence to their value-in-use.

6. Share capital

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.

On 30 June 2020, the company's share capital consisted of 435,702,834 Ordinary Shares (2019: 389,064,667) and 2,095,165,355 Deferred Shares (2019: 2,095,165,355).

7. Other matters

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

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