

Deltic Energy Plc
Annual Report & Accounts 2021



DELTA ENERGY

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Chairman's Statement

Looking back at my statement of a year ago, with the pandemic dominating the news, I couldn't have imagined what we are faced with today, with a global power having launched an attack on a neighbour in Europe.

As a result, we have learned that there are very real consequences to relying on natural gas from Russia. Whatever the outcome of the situation in Ukraine, Europe's position on Russian gas has undoubtedly changed for the foreseeable future.

At the same time, and partly as a consequence of these events, we have seen energy prices spiralling upwards. The UK gets a relatively small portion of its gas from Russia by pipeline and by Liquefied Natural Gas (LNG), brought on ships. However, moves away from Russian natural gas for our European neighbours causes further escalation of prices from global producers which then itself leads to further escalation of the cost of living and household spending.

With that background, our business is positioned to play its part in providing these vital natural resources. Contributing to the essential domestic supply of natural gas from North Sea waters has always been the very core of our business.

The UK Government is supportive of our sector, sharing our view that a domestic gas supply is better for energy security, jobs, Treasury receipts and the environment compared with importing higher emission supplies. This is apparent in the North Sea Transition Deal of 2021 and the Energy Security Strategy published just a few weeks ago.

Direction towards favourable policy has helped our business in attracting high-quality international joint venture partners, but the bumps along the road, machinery of policy-making and the volatility of recent months have undoubtedly impacted the exact timing of commitment towards operations and contracts.

Our industry continues to face challenges. The challenges change but they are always there. As a responsible nation, aware of the potential risks from climate change, we need to use this valuable resource wisely and deal with the associated greenhouse gas emissions in order to prevent them from being released into the atmosphere. Some do not see this as the solution. A popular narrative is to transition away from oil and gas rather than continuing to reap its benefits alongside other natural resources such as wind, solar and nuclear. All predictions from independent sources such as the Climate Change Committee and United Nations Climate Panel show oil and gas as part of the future energy mix for the UK and the world for decades to come.

Deltic Energy is committed to being part of the energy transition while continuing to explore for natural resources in the North Sea with a focus on natural gas. Natural gas heats homes, lights rooms and cooks meals. Fuels such as natural gas are needed to make cement, steel, glass and bricks; materials that are integral to our society.

Each member of the Deltic team is proud to play this role.

Our business model is a simple but a highly effective one. We have developed a conveyor belt of opportunities from picking up licences in areas where we have demonstrated expertise such as the Southern North Sea, developing prospects by thorough technical work and new data acquisition where appropriate, bringing in world-class operators as partners for exploration well drilling in order to get these valuable resources to the UK shores. We currently have acreage at each stage along our conveyor belt up to drilling, and are preparing to drill our first exploration well at Pensacola with operator Shell within the coming months. Acreage farmed out to Shell and Capricorn Energy PLC ("Capricorn") (previously Cairn Energy PLC) is moving forward along this process to a similar conclusion and other acreage is being worked towards farm-out.

The Deltic business is in good shape and poised for an exciting period of exploration in the coming months.

Mark Lappin
Chairman

22 April 2022

Chief Executive's Statement

2021 has been a year of significant achievement and continued progress. The major highlights for the year have been the positive well investment decision and firm commitment to drill our Pensacola Prospect as well as successfully attracting a new high-quality partner into five of our Southern North Sea gas licences by way of a wide ranging farm-out. I am particularly excited that as a direct result of this progress, we are now on the verge of drilling our first exploration well this year. It has also been a significant development for Deltic to have broadened its partner base with another well-established operator who clearly sees the opportunity that the Southern North Sea presents. As well as providing further endorsement of our prospects and high quality technical work, the additional partnership will ensure significant additional operational activity across our portfolio in the course of the coming year. Having created a portfolio of highly prospective opportunities which is now being progressed with multiple partners, I believe Deltic is in a strong position and geared for exploration success.

Pensacola

The early part of 2021 was focussed on the completion of the technical work to support a well investment decision to drill Pensacola. The outcome of that work was very positive with the evaluation of the new 3D data acquired resulting in a significant de-risking of the prospect, with the geological chance of success increasing from 20% to 55%. The final stage of the technical (and commercial) work supported the positive decision to commit to a firm well on Pensacola which will see Deltic drilling its first well this year.

Following the commitment to drill Pensacola, the focus of activity moved to well planning which progressed rapidly. The geophysical site survey over the planned well location was completed in September and the geotechnical survey, representing the final phase of the site survey programme, was completed in October. The surveys, conducted by Fugro GB North Marine Limited, were completed on time and without incident. The successful completion of the programme, which is a key part of well planning and the final phase of offshore activities ahead of drilling, represented another important milestone in our steady progress towards drilling the Pensacola prospect.

Preparations for the key catalyst of the drilling of Pensacola are advancing on a range of fronts as the JV gets closer to the start of operations. Analysis of site survey data, undertaken as a standard but important part of the ongoing well planning process, has identified hard seabed conditions at the well location which have in part informed Shell's well-advanced rig selection and contracting process as the JV seeks to ensure straightforward, safe and efficient operations. This process is being factored into the planning schedule, with Shell now indicating that drilling is expected to commence towards the end of Q3 2022.

Pensacola is a Zechstein Reef prospect located to the northwest of the Breagh gas field in the Southern North Sea. Deltic estimates the Prospect to contain gross P50 Prospective Resources of 309 BCF which will rank Pensacola as one of the highest impact exploration targets to be drilled in the gas basin in recent years. Drilling success will be transformational both for Deltic and the emerging Zechstein reef play.

The Pensacola well is also being highly anticipated by the industry for its potential to unlock a significant new source of gas to the UK from the Zechstein Reef play, which has been successfully produced in NW Europe from Poland to The Netherlands. It also has the potential to demonstrate that the UK still has a significant level of previously unrecognised exploration upside which can deliver cost competitive natural gas to UK based businesses and homes and support the UK's Net Zero targets.

Selene

On the Company's Selene Prospect on Licence P2437, Deltic's other licence with Shell, the JV has continued to refine its technical and commercial work to support a well investment decision, which the Company is continuing to target within the coming months. Deltic's conviction in Selene has further increased throughout this process resulting in an uplift in estimated P50 recoverable resources to 318 BCF. With Phase A of the licence due to conclude in September this year, in line with good licence management, the JV has taken the prudent step of approaching the North Sea Transition Authority ('NSTA') to seek an extension to Phase A. Deltic continues to consider Selene to represent the largest undrilled structure of its kind in this part of the SNS, and with an estimated 70% geological chance of success remains committed to progressing this material prospect to drilling.

Capricorn Energy Farm-in to Licences P2560, P2561, P2562, P2567 and P2428

A key highlight of 2021 was the farm-out of five of our gas licences in the Southern North Sea to Capricorn which represented a further endorsement of the quality of the assets that our team has developed and our gas- focussed exploration strategy, as we continue to develop our portfolio of opportunities and attract the highest quality partners.

Chief Executive's Statement

continued

The farm-out was announced in August and completed in November 2021 with the key terms being as follows:

- Capricorn acquired a 60% interest in each of Licences P2428 (Cupertino Area) and P2567 (Cadence) and a 70% interest in each of Licences P2560, P2561 and P2562 which are located between the Breagh and Tolmount Gas Fields.
- Deltic received consideration of USD\$1 million as a contribution towards historic costs.
- Deltic retained a 40% interest in licences P2428 and P2567 and a 30% interest in licences P2560, P2561 and P2562.
- Capricorn is funding 100% of an agreed work programme for each of the five licences up to the point of making a drill or drop decision on each licence, which includes the acquisition of new seismic data over Licence P2428 (which was acquired in Autumn 2021).
- Following a drilling decision being made on either of P2428 and P2567, Capricorn will fund 70% of the costs of whichever well is drilled first, subject to a gross well cost cap of USD\$25 million.
- Capricorn became Operator of each of the licences.

This transformational and wide-ranging farm-out across multiple licences and our partnership with Capricorn will see significant investment being made across Deltic's strategic Southern North Sea gas exploration portfolio. It has been particularly encouraging to see the pace at which activity on the licences has already occurred.

Acquisition of the 3D seismic survey over Licence P2428 commenced in September. Approximately 680km² of new data over the Plymouth Zechstein Reef prospect and surrounding areas was acquired and completed in November. The data collected is now being processed with the results expected during the course of May 2022. The results of this high quality modern 3D seismic survey are expected to significantly enhance our understanding of the multiple gas prospects on P2428 and will be key to de-risking future drilling on this licence. As was the case with the Pensacola Prospect which was derisked following the acquisition of new seismic. The acquisition and processing of the seismic data already fulfils the work programme commitments of this licence. The final processed data will allow Capricorn and Deltic to fast track the assessment of prospectivity and the JV is now aiming to be in a position to make a drilling decision by the end of Q3 this year.

We are particularly excited at the prospect of continuing to build our partnership with Capricorn, with both parties sharing a commitment to pursuing high impact exploration opportunities in the Southern North Sea and successfully developing these gas prospects.

Central North Sea

The Company holds two licences in the Central North Sea, P2352 (which contains the Dewar prospect) and P2542 (which contains the Syros prospect).

The Dewar Prospect is a 30th Round licence which, despite attracting initial farm-out interest, saw the progression of discussions adversely affected by Covid. However, Dewar remains an attractive, highly prospective and relatively low risk opportunity located in close proximity to other fields and existing infrastructure and one which could be developed very quickly. As such, Dewar remains an attractive drill-ready prospect with strong economics. Continued strengthening in the oil price has seen renewed interest and engagement from interested parties and Deltic remains committed to seeking a suitable partner to ultimately drill the prospect, in line with our strategy.

P2542, also located in the Central North Sea, contains the Syros Prospect and is a more recent licence award. Technical work has commenced, and the new data having recently been obtained with initial work looks encouraging. This work will continue with a view to commencing a farm-out process in due course.

Board appointment

In November, I was delighted to welcome Peter Nicol to the Board of Deltic. Peter has outstanding experience in the energy sector both in industry and in senior investment banking positions. Peter has worked with several listed oil and gas companies and is currently an independent non-executive director of a number of exploration-focussed companies. We are already benefitting from Peter's wealth of energy sector, financial, city and public company experience which will be invaluable to Deltic as we continue to build our business.

Outlook

As I write, recent events mean that energy security has never felt more important. Soaring energy prices with its impact on energy intensive industry and households alike has acutely highlighted the consequences of having domestic production. UK domestic production does not come close to meeting even half of national demand. There is heavy dependence on imports from foreign countries, including Russia. The effect of this reliance is compounded when considering the significantly higher emissions associated with gas imported in the form of LNG. It is abundantly clear that a secure supply of domestically produced oil and gas is much better for jobs, the UK economy and, importantly, the environment. Accordingly, it is imperative that the UK continues to encourage further exploration. The UK still has a significant level of previously unrecognised exploration upside which we know can deliver cost competitive and low carbon intensity natural gas to UK-based businesses and homes while at the same time supporting the UK's Net Zero targets.

Chief Executive's Statement

continued

The UK oil and gas industry has a vital role to play in the energy transition. Deltic is fully supportive of 'net zero' ambitions and, with a largely gas dominated portfolio, we believe we have the potential and ability to contribute to this transition. Indeed, we are confident that all of our Southern North Sea gas prospects have the potential to be developed in a manner which is entirely consistent with Net Zero goals.

Deltic welcomes the UK Government's Energy Security Strategy announced earlier this month. In addition to committing to maximise North Sea production it confirmed that a new North Sea licensing round will be brought forward and launched in the Autumn. Previous licensing rounds have been a key source of success and growth of Deltic's portfolio in recent years, and as such we are particularly encouraged by this development. Accordingly, Deltic is already commencing its plans to invest in applications both individually and in partnership as we look to continue to expand the Company's conveyor belt of drilling opportunities.

The progress made throughout 2021 has created the foundation for what has the potential to be a very exciting year ahead. We will shortly be drilling our first well with Shell on the Pensacola Prospect with success being potentially transformational for our company. At the same time, we expect to significantly progress the five licences we now have in partnership with Capricorn. We should see the results of the newly acquired and processed 3D seismic data over Licence P2428 before the end of Q2 which will enable the JV to fast-track an assessment of prospectivity in this area and support a well investment decision later in the year. We will also continue to progress our 100% owned licences in the Central North Sea with a view to farm-out and drilling and look forward to the launch of the UK's 33rd Licensing Round in the Autumn.

With our conveyor belt of opportunities, high quality partners, and activity, we anticipate a potentially transformational year as we continue to strive to create value for our shareholders.

Graham Swindells
Chief Executive Officer

22 April 2022

Operational Review

Introduction

Significant progress has been made across the portfolio during the reporting period with key highlights being confirmation of exploration drilling on the Pensacola prospect in March 2021 and securing a successful outcome to the farm-out process on Licence P2428 which ultimately resulted in Capricorn committing to a significant work programme investment across a total of five of Deltic's Southern North Sea licences as announced on the 12th August 2021.

P2252 – Pensacola (30% Deltic)

On 29 March 2021, the Shell-Deltic JV confirmed its intention to drill the Pensacola exploration well. Preparatory works are well advanced: the site survey works completed in October 2021, long lead items have been ordered and environmental permitting for the drilling activities are underway.

Preparations for the key catalyst of the drilling of Pensacola are advancing on a range of fronts as the JV gets closer to the start of operations. Analysis of site survey data, undertaken as a standard but important part of the ongoing well planning process, has identified hard seabed conditions at the well location which have in part informed Shell's well-advanced rig selection and contracting process as the JV seeks to ensure straightforward, safe and efficient operations. This process is being factored into the planning schedule, with Shell now indicating that drilling is expected to commence towards the end of Q3 2022.

Licence P2252, located in the Southern North Sea Gas Basin, contains the Pensacola prospect which is estimated to contain gross P50 Prospective Resources of 309 BCF in a Zechstein carbonate build-up. The licence was farmed out to Shell U.K. Ltd in 2019, which resulted in the Company being fully carried through the 3D seismic acquisition and processing-based work programme through to well investment decision. Following the well investment decision on 29 March 2021, Deltic is now paying its 30% share of costs associated with this well and remains fully funded for its share.

During the period, a review of the additional potential prospectivity associated with the P2252 licence, but unrelated to Pensacola, was completed by the Operator and the JV took the decision to relinquish the southern portion of P2252 licence and realise a significant saving on annual licence rental costs. The relinquished area represented approximately 40% of the overall licence area and contained the Lytham prospect which was not considered sufficiently attractive to retain.

P2437 – Selene (50% Deltic)

During the period, Deltic continued to refine its subsurface models and development scenarios for the Selene prospect. This work has resulted in an uplift in Gross P50 Prospective Resources from 271 BCF to 318 BCF and a tightening of the P90-10 range from 82-552 BCF to 132-581 BCF. The geological chance of success (GCoS) remains unchanged at 70%.

Deltic remains convinced that the Selene prospect is a significant and strategic exploration opportunity in the mature Leman Sandstone fairway and remains fully committed to drilling an exploration well on the prospect at the soonest practicable opportunity.

Licence P2437 is located in the Leman Sandstone fairway of the Southern North Sea Gas Basin and contains the Selene prospect which we believe is the largest undrilled prospect in this mature play. The P2437 licence was farmed out to Shell U.K. Ltd in 2019 with Deltic retaining a 50% interest and operatorship until a final well investment decision is made. Under the terms of the farm-out, once the well investment decision is taken, Shell assume operatorship and pay for 75% of the costs of the initial exploration well up to a gross well cost of USD\$25M.

P2428 – Cupertino / Plymouth Area (40% Deltic)

Licence P2428 contains prospects in each of the Carboniferous, Leman Sandstone and Zechstein Carbonates and was included in the farm-out to Capricorn announced in August. Following completion of that transaction, a 60% working interest in licence P2428, along with licence operatorship, has been transferred to Capricorn. Under the terms of the farm-in agreement Capricorn are paying 100% of the costs of the technical evaluation for the licence up until the point at which a firm well investment decision is made.

The primary target on the P2428 licence area is the Plymouth Zechstein reef prospect and as part of the farm-out agreement Capricorn funded the acquisition of 680km² of new multi-client 3D data over the Plymouth prospect and surrounding areas. The 3D seismic acquisition was completed in late November 2021 and data processing is ongoing with final deliverables expected in May 2022. Early versions of the seismic data have been viewed and a clearer picture of the Plymouth prospect and other potential opportunities on block are starting to emerge. Once the processing workflows have been completed, we expect that this new 3D seismic data will allow a full evaluation of the Plymouth prospect and other opportunities in the underlying Leman and Carboniferous Sandstones.

A drilling decision is expected to be made in the second half of this year once this new data has been fully evaluated by the Capricorn-Deltic JV.

Operational Review

continued

P2567 – Cadence (40% Deltic)

Licence P2567 contains prospects in both the Carboniferous and Triassic Bunter Sandstone and was included in the farm-out to Capricorn announced in August. Following completion of that transaction, a 60% working interest in licence P2567, along with licence operatorship, has been transferred to Capricorn. Under the terms of the farm-out agreement Capricorn are paying 100% of the costs of the technical evaluation of the licence up until the point at which a firm well investment decision is made.

It is anticipated that technical work over the coming months will focus on the reprocessing of the legacy 3D seismic survey that covers 100% of the licence area which will in turn be followed by detailed technical evaluation of the previously identified prospectivity.

P2560, P2561 & P2562 – South Breagh Area (30% Deltic)

Licences P2560, P2561 and P2562 were awarded in the most recent 32nd Licensing Round. The licences contain early stage exploration opportunities located between the Breagh and Tolmount gas fields and have significant potential in the Carboniferous sandstones, Permian Lemn Sandstones and the Zechstein carbonates.

All three licences were included in the farm-out to Capricorn and following completion of that transaction, a 70% working interest in each of the three licences, along with licence operatorship, has been transferred to Capricorn. Under the terms of the farm-out agreement Capricorn are paying 100% of the costs of the technical evaluation for each licence up until the point at which a firm well investment decision is made on each licence.

During and post the transaction process, Deltic has worked closely with Capricorn to ensure that the JV is fully aligned with respect to the exploration potential over the area and Capricorn continue to evaluate the existing legacy datasets and develop a comprehensive exploration work programme for the area. We expect that reprocessing a number of the legacy 3D seismic datasets will be the priority over the coming 6 to 12 months which will provide a sound basis for the more detailed geological evaluation required to mature a number of the identified leads into potential drilling opportunities.

P2352 – Dewar (100% Deltic)

Licence P2352, located in the Central North Sea, was awarded to the Company in the 30th UK Offshore Licensing Round with an effective date of 1 October 2018.

During the period, work continued on fully integrating the previously completed AVO study into the company's geological model for the Dewar prospect. As a result of this work, the geological model for this Forties Sandstone channel prospect is now much more robust. However, the gross P50 Prospective Resources have been reduced from 39.5mmbo to 20.8mmbo with a P90-P10 range of 10 to 38.2mmbo. The GCoS of 41% remains unchanged.

In the event of exploration success, the Dewar Prospect will represent a highly attractive commercial proposition as it is located approximately 5km east of BP's Eastern Trough Area Project (ETAP) Central Processing Facility.

With the recent recovery in oil prices, there has been a renewed interest in the Dewar Prospect and over the coming months we will continue to pursue farm-out discussions with companies that have shown recent interest and those with whom we had established a positive dialogue prior to the Covid enforced lockdowns.

P2542 – Syros (100% Deltic)

Licence P2542 located in the Central North Sea and which contains the Syros prospect, was awarded to Deltic in the most recent 32nd Licensing Round. Technical work on this licence, has commenced with newly reprocessed seismic data having recently been obtained. Work will focus on maturing the Syros prospect using recently released seismic and offset well datasets not available to previous licence operators such that farm-out marketing can be commenced in mid-2022.

Portfolio Management

As disclosed in our interim statement in September 2021, during the period our technical review of Licence P2424 was completed. Although we identified significant resource potential associated with the Licence, the prospects identified were particularly high risk when compared to other opportunities within the portfolio. The currently available seismic datasets are not of sufficient quality to adequately de-risk the prospects and therefore it was considered unlikely that a positive well decision could be made on any prospect within the licence area without the acquisition of new 3D seismic data. Therefore, the decision was taken to allow this licence to lapse at the end of its Phase A on 30 September 2021.

Operational Review

continued

Licence P2384 in the Central North Sea which was awarded as a remnant of a much larger multi-block licence application in the 30th Offshore Licensing Round and retained purely for its option value. Following a review of the prospectivity associated with this very small licence it was clear that it only captured the very fringes of the prospects targeted in the original licence application. Given that there was no obvious drilling target located on block it was decided to also relinquish this licence on 30 September 2021.

33rd Licensing Round

The UK government recently announced its British Energy Security Strategy on 6 April 2022 in which a new offshore licensing round, scheduled to commence in the Autumn of 2022, was confirmed. Deltic has been busy working on identifying and maturing a number of potential opportunities in the Southern and Central North Seas which we plan to use to support multiple licence applications on both a 100% basis and in conjunction with established industry partners.

Full details of the round, blocks available for licensing and submission timelines are expected to be announced by the NSTA in due course.

Andrew Nunn
Chief Operating Officer

22 April 2022

Operational Review

continued

Qualified Person

Andrew Nunn, a Chartered Geologist and Chief Operating Officer of Deltic, is a “Qualified Person” in accordance with the Guidance Note for Mining, Oil and Gas Companies, June 2009 as updated 21 July 2019, of the London Stock Exchange. Andrew has reviewed and approved the information contained within this announcement.

Southern North Sea

Portfolio and Resource Summary

The Company’s current licence portfolio and prospect inventory, as of the end of March 2022, is summarised below:

Licence Ref:	Block ID	Deltic Equity	Project ID	Discovery (D) Prospect (P) Lead (L)	Net Prospective Resource (BCF)			GCoS %
					P90 Low	P50 Best	P10 High	
P2252 ¹	41/5a, 41/10a & 42/1a	30%	Pensacola – Zechstein Reef	P	12	93	354	55
P2437	48/8b	50%	Sloop – Leman	D	4	9	19	100
			Selene – Leman	P	66	159	290	70
			Endymion – Leman	L	18	24	31	27
			Rig & Jib – Leman	L	7	18	29	35
P2428 ²	43/7 & 43/8	40%	Cupertino – Scremerston	P	37	148	454	26
			Richmond – Leman	P	25	84	219	20
			Plymouth – Zechstein	P	13	113	507	19
P2567 ²	43/11 & 43/12b	40%	Cadence – Scremerston	P	12	57	189	26
			Cadence – Fell	L	75	182	344	16
			Cordova – Millstone Grit	L	13	50	131	26
			Bassett – Bunter Sst	P	14	51	121	37
P2435 ³	47/10d & 48/6c	25%	Bob (Teviot) – Leman	D	2.8	5.5	10.3	100
			Blackadder – Leman	P	17.8	28.3	42.5	45
P2258 ¹	41/5b & 42/1b	30%	Pensacola North		To Be Determined			
P2560 ²	42/13b, 42/17 & 42/18	30%			To Be Determined			
P2561 ²	42/19 & 42/20b	30%			To Be Determined			
P2562 ²	42/22 & 42/23	30%			To Be Determined			

¹ Operated by Shell

² Operated by Capricorn

³ Operated by Parkmead

Operational Review

continued

Central North Sea

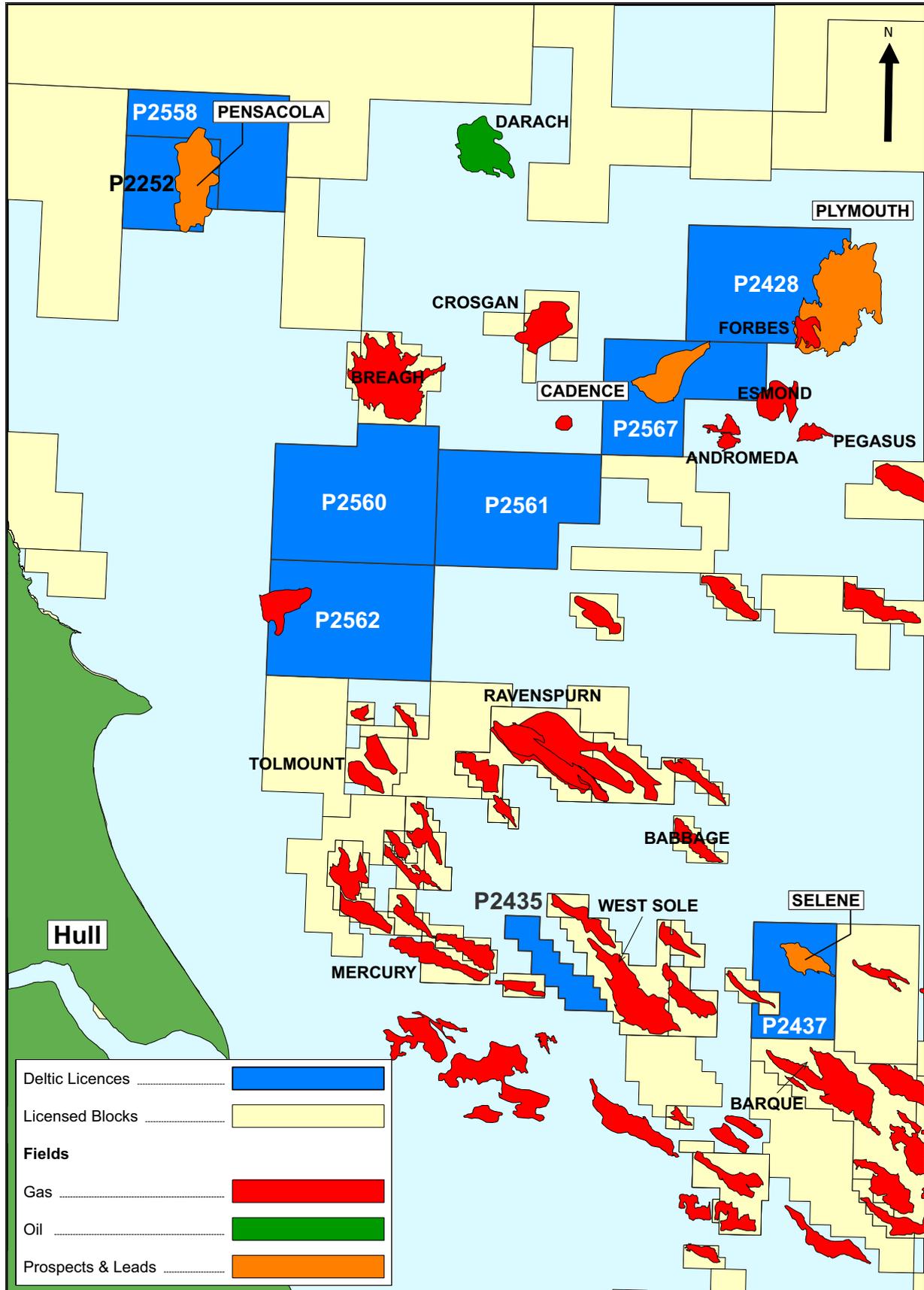
Licence Ref:	Block ID	Deltic Equity	Project ID	Discovery (D) Prospect (P) Lead (L)	Net Prospective Resource (MMBOE)				GCoS %
					P90 Low	P50 Best	P10 High		
P2352	22/24f & 22/25g	100%	Dewar - Forties	P	10	20.8	38.2	40	
			Tesla - Pentland	D	To be determined - mean STOIP estimated @ 24 mmboe				
P2542	22/17a	100%	Syros		To be determined				

Andrew Nunn
Chief Operating Officer

22 April 2022

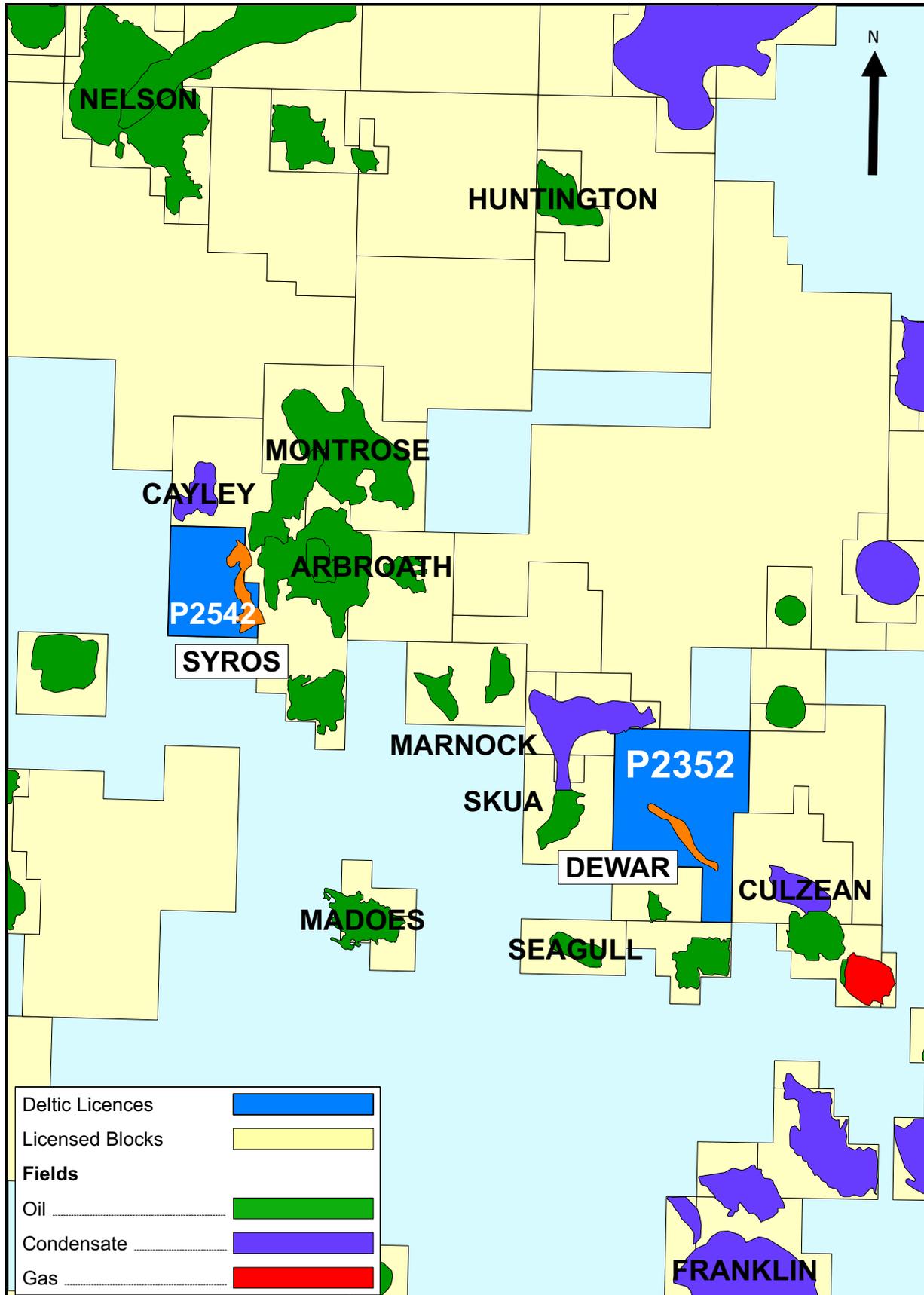
Operational Review

Our Locations - Southern North Sea



Operational Review

Our Locations - Central North Sea



Environment Social and Governance

Priorities and Supporting Policy Framework

As a responsible and diligent investor in hydrocarbon exploration and appraisal assets, the Company recognises that it is in the best interest of our investors to incorporate Environmental, Social and Governance aspects into our investment analysis, decision-making and portfolio management processes. In January 2020, the Company introduced a specific ESG Policy to support our existing Environment and Occupational Health and Safety Policies.

The Company supports the 2050 Net Zero Emissions target set out in law by the UK government and the ambitious OGUK Roadmap 2035 which aims to see the E&P industry in the UK reach Net Zero well ahead of general UK targets. These targets acknowledge the significant role that natural gas will play in achieving Net Zero and Deltic's gas focussed exploration portfolio has the potential to underpin the vital role that natural gas will undoubtedly play in blue hydrogen production over the next two to three decades.

During 2021, we formalised the data capture and reporting procedure for the Company's Scope 1 and Scope 2 emissions associated with our operated assets which is in line with the methodology employed by our key partners. Deltic's adopted reporting process is based on the UK governments Streamlined Energy and Carbon Reporting (SECR) which implements the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ("the 2018 Regulations") and aligns with relevant emissions reporting requirements required by the NSTA.

In addition to formalising the process of measuring and reporting our existing emissions, Deltic commissioned Crondall Energy to review the potential development options and technologies which would ensure the alignment of any future production activities associated with our Southern North Sea gas assets with the Oil and Gas UK's 2035 road map and the UK Government's Net Zero 2050 targets. The study looked at options ranging from simple efficiency through design, use of onboard renewables on production facilities and electrification to various export vectors from offshore (ie. gas, electricity, hydrogen and ammonia) and the potential for full cycle production including blue hydrogen production and carbon capture and storage. The report concluded that a range of scalable options is available to develop the portfolio in line with Net Zero goals depending on the magnitude and location of future exploration success.

Health & Safety Performance

The health and safety of our staff, contractors and other stakeholders is a key focus as we continue to grow the business and our operational scope. There were no reportable incidents or LTI's reported in conjunction with the Company's activities in 2021.

The Company records health and safety performance and statistics in compliance with the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR).

	2021	2020	2019
First Aid Incidents	0	0	0
Lost Time Injuries (1-7 days)	0	0	0
RIDDOR Reportable	0	0	0
Fatalities	0	0	0
Estimated Total Work Hours	9,064	9,390	10,095

Climate Related Emissions and Energy Performance

As a non-producing office based organisation with no operated offshore activity in the 2021 reporting period, the magnitude of climate related emissions associated with the Company's activities is limited. NSTA mandatory reporting of Fugitive Methane Emissions, Scope 1 and 2 emissions per barrel of oil equivalent production and Carbon Intensity Statements are not relevant to the Company at this stage of its development, however the Company will undertake to monitor and report its annual total Scope 1 (direct from gas combustion on site and vehicle fleet) and Scope 2 (indirect from electricity purchased) until such time that the NSTA defined metrics are applicable.

Currently the Company has a negligible Scope 1 emissions footprint and Scope 2 emissions are limited to electricity required to support office based activities at our registered office.

Environment Social and Governance continued

	Reporting Units	2021	2020
Direct GHG Emissions (Scope 1) ^a	kgCO ₂ e	0	0
Indirect GHG Emissions (Scope 2) ^b	kgCO ₂ e	5,939	6,186
Total Scope 1 & 2 Emissions	kgCO ₂ e	5,939	6,186
Carbon Intensity	kgCO ₂ /boe	N/A	N/A
Methane Intensity	%	N/A	N/A
Energy Consumption	kWh	27,974	26,534

a) We report GHG emissions energy consumption from our managed operations in the UK

b) Emissions from the purchase of electricity for our managed operations based on UK Government published conversion factors for the relevant year

c) Since 20th January 2020 our Fixed Business Plan uses 100% renewable electricity

Scope 3 emissions reporting, which covers all other indirect emissions generated by the activities of the organisation, will be implemented by the Company before mandatory reporting comes into effect in 2025.

Other Emissions to Air and Water

No other potential emissions to air and water associated with Deltic's operations have been identified or reported.

Financial Review

All major expenditure in the last five years has been focussed on the development of the Company's portfolio of conventional North Sea assets in accordance with the Company's investing policy, in addition to on-going administrative expenditure.

Loss for the year

The Company incurred a loss for the year to 31 December 2021 of £1,935,052 (2020: £1,665,575), which includes a gain of £298,173 (2020: nil) recognised on the farm out of Licence P2428 (Cupertino Prospect), Licence P2567 (Cadence Prospect) and Licences P2560/P2561/P2562 (Breagh South Area) to Capricorn Energy PLC and is included as other operating income in the Income Statement for the year. A charge of £288,551 (2020: nil) is recognised resulting from the write down on relinquished intangible assets following the decision to relinquish Licences P2384 (Manhattan Prospect) and P2424 (Cortez Prospect).

Administrative expenses of £1,912,987 (2020: £1,699,344) were incurred during the year reflecting an increased level of activity across the Company and its portfolio of assets. Finance income of £2,905 (2020: £59,818) decreased due to lower interest-bearing deposits on surplus funds. Finance costs of £34,592 (2020: £26,049) represent the interest charge on a lease liability recognised.

Financial position

The Company's cash was £10,092,205 at 31 December 2021 (2020: £11,968,858) with the year-on-year decrease in cash being explained below.

The increase in intangible assets to £2,203,118 (2020: £1,430,915) reflects the development of the Company's exploration portfolio and in particular progress towards drilling Licence P2252 (Pensacola Prospect), offset by the relinquishment of P2384 (Manhattan Prospect) and P2424 (Cortez Prospect), and the gain recognised on the proceeds from farm-out of Licences P2428 (Cupertino Area), P2567 (Cadence Prospect) and P2560/P2561/P2562 (Breagh South Area). The Company was fully carried from the point of farm out for costs associated with Licences P2428, P2567, P2560, P2561 and P2562.

Property, plant and equipment of £385,240 (2020: £496,542) includes a right of use asset relating to the office lease with a net book value of £269,767 (2020: £350,697). Total current liabilities, which include short-term creditors, accruals and lease liabilities increased to £1,030,143 (2020: £246,041).

The decrease in total equity to £11,663,005 (2020: £13,437,735) mainly represents the loss for the year and other movements set out in the Statement of Changes in Equity.

Cash flow

In the year to 31 December 2021, the net cash outflow from operating activities was £1,623,057 (2020: £1,368,118). The net cash outflow from investing activities was £136,781 (2020: £458,740), comprising £853,744 (2020: £358,672) related to

expenditure on exploration assets, £5,895 (2020: £159,886) relating to expenditure of property, plant and equipment, and £719,953 (2020: nil) receipt of proceeds from exploration licence farm-in, and interest received of £2,905 (2020: £59,818). The net cash outflow from financing activities was £116,815 (2020: £53,684), comprising the principal portion of lease liabilities and interest paid.

Consequently, in the year to 31 December 2021, the Company experienced a net cash outflow of £1,876,653 (2020: £1,880,542).

Closing cash and cash equivalents

As at 31 December 2021, the Company held cash and cash equivalents totalling £10,092,205 (2020: £11,968,858).

Shareholders' equity

As at 31 December 2021, there were 1,405,964,855 (2020: 1,405,964,855) ordinary shares in issue. Additionally, a total of up to 128,840,450 (2020: 94,840,450) new ordinary shares may be issued pursuant to the exercise of share options.

Going concern

The Directors have assessed the Company's ability to continue as a going concern. Although the oil and gas industry faces a period of change under the current geopolitical environment, the Company does not anticipate any negative issues impacting its ability to operate as a going concern. Having taken the decision to raise funds in 2019 the Company is currently well funded with no debt. Based on the cash and cash equivalents balance at year end and the Company's commitments, the Directors are of the opinion that the Company has adequate financial resources to meet its committed Pensacola exploration programme, based upon anticipated drilling costs per the planned work schedule, and working capital requirements, and accordingly will be able to continue and meet its liabilities as they fall due for a minimum of 12 months from the date of signing these financial statements.

Key performance indicators

At this stage in its development, the Company is focusing on the development of its North Sea gas and oil assets, applying for additional licences, maintaining and extending existing licences, as well as the evaluation of various oil and gas opportunities that may arise. The Directors closely monitor and manage the levels of overheads and other administrative expenditure, exploration expenditure, cash and deposit balances, as set out above. As and when the Company's exploration licences move into production, other key performance indicators (KPIs) will become relevant and will be measured and reported as appropriate.

Sarah McLeod
Chief Financial Officer

22 April 2022

Business Risks

Principal business risks

The Directors have identified the following current principal risks in relation to the Company's future performance. The relative importance of risks faced by the Company can, and is likely to change, with progress in the Company's strategy and developments in the external business environment. The Directors have considered the potential impact of the geopolitical environment and have concluded there are no material risks associated to the Company. The Directors have also considered whether the COVID pandemic presents a risk to the business and have again concluded that the risks are not significant.

Financial

The Company's core risk is that its ability to effectively implement its business strategy and to continue as a going concern over time depends on its ability to raise additional funds. The need for and amount of any additional funds required is currently unknown and will depend on numerous factors related to the Company's current and future activities. The Company is likely to seek additional funds, through equity, or partnership arrangements, as it has successfully done in the past. There can be no assurance that any such equity, debt or joint venture financing will be available to the Company in a timely manner, on favourable terms, or at all. Any additional equity financing will dilute current shareholdings. If adequate funds are not available on acceptable terms, the Company may not be able to take advantage of opportunities, as well as possibly resulting in the delay or indefinite postponement of the Company's activities. Following the fundraising in June 2019, the Company is in a strong financial position for 2022 and accordingly, the financial statements are prepared under a going concern basis.

Strategic

Strategy risk

The Company's strategy may not deliver the results expected by shareholders. The Directors regularly monitor the appropriateness of the strategy, taking into account both internal and external factors, and the progress in implementing the strategy, and modify the strategy as may be required based on developments. Key elements of this process are regular strategy reviews, monthly reporting, and regular Board meetings.

Competition risk

The addition of exploration licences to the Company's portfolio is subject to competition from other companies. Many of the Company's larger competitors have greater financial and technical resources and are able to devote more to the development of their business. The Company mitigates this risk by choosing where and when to deploy its business development resources.

Operational

Exploration and development risk

Activities within the Company's licences may not result in commercial development or otherwise realise value. There is no certainty of success from the existing portfolio of licences. The Company seeks to mitigate the exploration risk through the experience and expertise of the Company's specialists, and the selection criteria used by the Company when identifying prospective areas for licence applications. The Company also has an objective to seek additional exploration and development assets, in order to diversify the Company's portfolio of assets and hence risk.

Other business risks

In addition to the current principal risks identified above and general business risks, the Company's business is subject to risks inherent in hydrocarbon exploration, development and production activities. There are a number of potential risks and uncertainties which could have a material impact on the Company's long-term performance and could cause actual results to differ materially from expected and historical results.

The Directors regularly monitor such risks, using information obtained or developed from external and internal sources, and will take actions as appropriate to mitigate these. Effective risk mitigation may be critical to the Company in achieving its strategic objectives and protecting its assets, personnel and reputation. The Company assesses its risk on an ongoing basis to ensure it identifies key business risks and takes measures to mitigate these. Other steps include regular Board review of the business, monthly management reporting, financial operating procedures and anti-bribery management systems. The Company reviews its business risks and management systems on a regular basis, and through this process, the Directors believe they have identified the principal risks.

Section 172 statement

Section 172 of the Companies Act 2006 requires Directors to take into consideration the interests of stakeholders and other matters in their decision making. The Directors continue to have regard to the interests of the Company's employees and other stakeholders, the impact of its activities on the community, the environment and the Company's reputation for good business conduct, when making decisions. In this context, acting in good faith and fairly, the Directors consider what is most likely to promote the success of the Company for its members in the long term. We explain in this annual report, and reference below, how the Board engages with stakeholders.

Likely consequence of any decision in the long term

The Chairman's and Chief Executive's Statements at pages 1-4 in this Annual Report, set out the Company's long-term rationale and strategy.

Interests of Employees

The Company's Corporate Governance Statement at pages 18-20 of this Annual Report sets out under board responsibilities the processes in place to safeguard the interests of employees.

As a result of the work-from-home direction from the UK Government that was in force for part of 2021, provision has been made for remote-working by employees. The Board has also considered how employee working practices will develop beyond the COVID crisis - in particular, how more flexible and efficient ways of working seen during 2020/2021 could be retained.

Further information is also provided in the Environment Social and Governance statement at pages 12-13 of this Annual Report.

Foster business relationships with suppliers, joint venture partners and others

Potential suppliers and joint venture partners are considered in the light of their suitability to comply with the Company's policies.

Impact of operations on the community and environment

The Company has no current operations that impact upon the community or environment. However, the Company has a commitment to ensure future operations are conducted with as limited as possible environmental impact.

The Company regularly reviews its Health, Safety & Environment ('HSE') and other policies and works responsibly with suppliers, and performance is monitored on an on-going basis.

Maintain a reputation for high standards of business conduct

The Corporate Governance section of this Annual Report at pages 18-20 sets out the Board and Committee structures and extensive board and committee meetings held during 2021, together with the experience of executive management and the Board and the Company's policies and procedures.

Act fairly between stakeholders

The Board regularly reviews the Company's principal stakeholders and how it engages with them. This is achieved through information provided by management and by direct engagement with stakeholders themselves.

Investing Policy

In addition to the development of the North Sea gas licences the Company has acquired to date, the Company proposes to continue to evaluate other potential oil and gas projects in line with its investing policy, as it aims to build a portfolio of resource assets and create value for shareholders. As disclosed in the Company's AIM Admission Document in May 2012, the Company's substantially implemented Investment Policy is as follows:

The proposed investments to be made by the Company may be either quoted or unquoted; made by direct acquisition or through farm-ins; either in companies, partnerships or joint ventures; or direct interests in oil & gas and mining projects. It is not intended to invest or trade in physical commodities except where such physical commodities form part of a producing asset. The Company's equity interest in a proposed investment may range from a minority position to 100% ownership.

The Board initially intends to focus on pursuing projects in the oil & gas and mining sectors, where the Directors believe that a number of opportunities exist to acquire interests in attractive projects. Particular consideration will be given to identifying investments which are, in the opinion of the Directors, underperforming, undeveloped and/or undervalued, and where the Directors believe that their expertise and experience can be deployed to facilitate growth and unlock inherent value.

The Company will conduct initial due diligence appraisals of potential projects and, where it is believed further investigation is warranted, will appoint appropriately qualified persons to assist with this process. The Directors are currently assessing various opportunities which may prove suitable although, at this stage, only preliminary due diligence has been undertaken.

It is likely that the Company's financial resources will be invested in either a small number of projects or one large investment which may be deemed to be a reverse takeover under the AIM Rules. In every case, the Directors intend to mitigate risk by undertaking the appropriate due diligence and transaction analysis. Any transaction constituting a reverse takeover under the AIM Rules will also require Shareholder approval.

Investments in early stage and exploration assets are expected to be mainly in the form of equity, with debt being raised later to fund the development of such assets. Investments in later stage projects are more likely to include an element of debt to equity gearing. Where the Company builds a portfolio of related assets, it is possible that there may be cross holdings between such assets.

The Company intends to be an involved and active investor. Accordingly, where necessary, the Company may seek participation in the management or representation on the Board of an entity in which the Company invests with a view to improving the performance and use of its assets in such

ways as should result in an upward re-rating of the value of those assets.

Given the timeframe the Directors believe is required to fully maximise the value of an exploration project or early stage development asset, it is expected that the investment will be held for the medium to long term, although disposal of assets in the short term cannot be ruled out in exceptional circumstances.

The Company intends to deliver Shareholder returns principally through capital growth rather than capital distribution via dividends, although it may become appropriate to distribute funds to Shareholders once the investment portfolio matures and production revenues are established.

Given the nature of the Investing Policy, the Company does not intend to make regular periodic disclosures or calculations of its net asset value.

The Directors consider that as investments are made, and new investment opportunities arise, further funding of the Company will be required.

This strategic report contains certain forward-looking statements that are subject to the usual risk factors and uncertainties associated with the oil and gas exploration and production business. Whilst the Directors believe the expectation reflected herein to be reasonable in light of the information available up to the time of their approval of this report, the actual outcome may be materially different owing to factors either beyond the Company's control or otherwise within the Company's control but, for example, owing to a change of plan or strategy. Accordingly, no reliance may be placed on the forward-looking statements.

On behalf of the Board

Mark Lappin
Chairman

22 April 2022

Graham Swindells
Chief Executive Officer

22 April 2022

Corporate Governance

Chairman's Introduction

As Chairman of the Company, I provide leadership, ensuring that the Board is performing its role effectively, and has the capacity, ability, structure and support to enable it to continue to do so.

As an AIM quoted company, the Company has chosen to follow the Quoted Companies Alliance's ("QCA") Corporate Governance Code 2018 (the 'QCA Code') published in April 2018. The Board recognises the value and importance of high standards of corporate governance and believes that this provides the most appropriate framework for a company of our size and stage of development.

This Governance section of the Annual Report provides an update on our Corporate Governance policy, and includes the Audit Committee Report, Remuneration Committee Report and the Directors' Report. In these reports we set out our governance structures and explain how we have applied the QCA Code and where we have departed from the code during the year. The QCA Code is set out in detail on the Company's website at www.delticenergy.com/investor-relations/corporate-governance, including an explanation as to how the Company addresses the ten key governance principles defined in the QCA Code.

In May 2019, the Company appointed me as independent non-executive Chairman. My extensive Oil & Gas technical and commercial experience including the three years I previously served as an independent non-executive director of the Company underpin my effectiveness in this role, as the Company enters its next stage of development.

Corporate Governance Statement

Board responsibilities

The Board is responsible to the Company's shareholders for the leadership, control and management of the Company. It is responsible for the long-term success of the Company and for ensuring its appropriate management and operation in pursuit of its objectives.

The Board is in constant communication and meets regularly. Its responsibilities include:

- Setting the Company's strategy
- Determining policies and values
- Establishing and maintaining the Company's system of internal control and reviewing effectiveness annually
- Identifying the major business risks faced by the Company and determining appropriate risk management
- Investing decisions
- Fundraising decisions
- Management appointments

Whilst there is a formal schedule of matters specifically reserved for approval by the Board, the two executive directors have been given responsibility for specific functional aspects of the Company's affairs.

The Board seeks to maintain the highest standards of integrity and probity in the conduct of the Company's activities. These values are enshrined in the written policies and working practices adopted by all employees. An open culture is encouraged within the Company, with regular communications to staff regarding progress and staff feedback being regularly sought. This is especially important as a small company, in order to fully harness its human capital in pursuit of the effective development of the Company's assets, and so achieve the objectives and strategy set out in the Strategic Report and to seek to mitigate the risks and uncertainties described in the Business Risks section of the Strategic Report. The executive directors work closely with the small number of employees, so the Board is well placed to assess its culture. The Board are prepared to take appropriate action against unethical behaviour, violation of company policies or misconduct.

Composition of the Board

The Board currently comprises five Directors, of whom two are executive and three are non-executive. The Directors are all identified on page 23, together with a summary of their current and past experience, skills and personal qualities.

Non-executive Chairman

As Chairman, Mark Lappin oversees the adoption, delivery and communication of the Company's corporate governance model and is responsible for ensuring that it is maintained in line with appropriate practice and policies agreed by the Board. He is also the Company's leading ambassador, which includes presenting the Company's aims and policies to investors and other outside parties. He promotes active communication with shareholders and other stakeholders, including speaking regularly with investors and other stakeholders. He chairs the AGM and as chairman of the Board, he chairs Board meetings, ensuring that the Board regularly reviews the Company's strategy. He also oversees the composition and structure of the Board which involves regularly reviewing the overall size of the Board, the balance between executive and non-executive, age, experience, skills and personalities of the Directors.

Corporate Governance

continued

Non-executive Directors

The three Non-executive Directors (Mark Lappin, Peter Cowley and Peter Nicol) have a responsibility to challenge independently and constructively the performance of management and to help develop proposals on strategy. They each sit on the Remuneration and Audit committees, enabling them to have a role in determining the pay and benefits of the executive directors, to review internal control and financial reporting matters, and to have a direct relationship with the external auditors.

Independence and Commitments

The three Non-executive Directors are considered by the Board to be independent of management. The Board believes that they continue to demonstrate an independence of character in the performance of their roles as Non-executive Directors. Their director's fees are fixed, and they do not benefit from share option awards.

The Directors are expected to attend Board meetings, meetings of Board Committees of which they are members, annual general meetings, and any other shareholder meetings convened from time to time.

All Directors have disclosed any significant commitments outside their respective duties as Directors and confirmed that they have sufficient time to discharge their duties.

Appointments

The Board believes there is an appropriate balance of skills, knowledge and personal qualities on the Board, which provides a wide range of expertise on issues relating to the Company's mission, operations, strategies and its standards of conduct. The Chairman of the Board monitors the suitability of the Board's composition on a continuing basis and will make recommendations to the Board as and when appropriate.

Board support and external advice

Internal management is available to the Board to ensure all Board and Committee meetings are conducted properly and procedures are in place for distributing meeting agendas and reports so that the Directors receive the appropriate information to be discussed in a timely manner. The Directors each receive reports which include monthly finance and management results and operational updates from the Chief Executive Officer, the Chief Operating Officer and the Chief Financial Officer. Board minutes are taken by internal management and circulated for approval at the next meeting. The Company Secretary assists the Board by maintaining statutory registers and filings and assisting with organising shareholder general meetings.

Aside from the Directors' stated roles, the Board members do not have any particular internal advisory responsibilities. Where it considers it necessary to do so, the Board and Board committees may utilise external professional advisers to provide advice and guidance on any matter where they consider it prudent to seek such advice, at the Company's expense. No such external advice was sought during the year.

Board performance evaluation

The Board evaluates its performance as a whole, informally on an ongoing basis. This falls under the overall responsibility of the Chairman, taking into account the Financial Reporting Council's Guidance on Board Effectiveness. There have been no recommendations concerning the Board structure arising from the Company's Board appraisals over the year ended 31 December 2021.

Board meetings

The Board meets formally a minimum of eleven times a year, excluding Board committee meetings. The table below sets out the total number of meetings held by the Board and its Committees and records of attendance by each member eligible to attend during the year ended 31 December 2021:

	Board meetings		Audit committee ¹		Remuneration committee ¹	
	Possible	Attended	Possible	Attended	Possible	Attended
G C Swindells	12	12	2	2	-	-
A J Nunn	12	12	-	-	-	-
S M McLeod	12	8	2	2	-	-
P N Cowley	12	12	2	2	4	4
M S Lappin	12	12	2	2	4	4
P W Nicol ²	2	2	1	1	2	2

¹ Only Non-executive Directors are entitled to vote in the meetings of these Board Committees.

² Appointed on 17 November 2021.

Corporate Governance

continued

Other senior members of the management team and external advisors will attend, at the invitation of the Board, and as appropriate to the matters under discussion.

Board committees

The Board has established an audit committee, remuneration committee and AIM compliance committee with formally delegated duties and responsibilities, as described below. Each committee's terms of reference are included on the Company's website.

Audit committee

The audit committee is responsible for monitoring the integrity of the Company's financial statements, reviewing significant financial reporting issues, reviewing the effectiveness of the Company's internal control and risk management systems, monitoring the effectiveness of the internal audit function and overseeing the relationship with the external auditors (including advising on their appointment, agreeing the scope of the audit and reviewing the audit findings).

The audit committee comprises Peter Nicol, Peter Cowley and Mark Lappin and was chaired by Peter Cowley until 17 November 2021 when Peter Nicol was appointed as the chair. The audit committee aims to meet at appropriate times in the reporting and audit cycle and otherwise as required. The audit committee also meets regularly with the Company's external auditors.

Remuneration committee

The remuneration committee is responsible for determining and agreeing with the Board the framework for the remuneration of the Chairman and the executive directors and, within the terms of the agreed framework, determining the total individual remuneration packages of such persons including, where appropriate, bonuses, incentive payments and share options or other share awards. The remuneration of Non-executive Directors is a matter for the chairman and the executive members of the Board. No Director is involved in any decision as to his or her own remuneration.

The remuneration committee comprises Peter Cowley, Peter Nicol and Mark Lappin and is chaired by Peter Cowley. The remuneration committee meets at least twice a year and otherwise as required.

AIM compliance committee

The AIM compliance committee is responsible for ensuring that the Company complies with its obligations under the AIM Rules for Companies ("AIM Rules") and the Market Abuse Regulation (Regulation EU 596/2014) ("MAR") and, in particular makes timely and accurate disclosure of all information that is required to be disclosed to meet its disclosure obligations arising from the admission of its shares to trading on AIM and, under MAR.

The AIM compliance committee comprises Graham Swindells, Mark Lappin, Andrew Nunn and Sarah McLeod. The AIM compliance committee meets as and when required, in order to undertake its responsibilities.

Share dealing code

The Company has adopted a share dealing code for the Directors, persons discharging managerial responsibilities and applicable employees of the Company for the purpose of ensuring compliance by such persons with the provisions of the AIM Rules relating to dealings in the Company's securities (including, in particular, Rule 21 of the AIM Rules and MAR). The Directors consider that this share dealing code is appropriate for a company whose shares are admitted to trading on AIM.

On behalf of the Board

Mark Lappin
Chairman

22 April 2022

Audit Committee Report

Overview

The audit committee met twice during the year. The external auditor, BDO LLP, also attended the meetings at the invitation of the audit committee chairman.

Financial reporting

The audit committee monitored the integrity of the annual financial statements and reviewed the significant financial reporting issues and accounting policies and disclosures in the financial reports. The external auditor attended the audit committee meetings as part of the full year accounts approval process. The process included the consideration of reports from the external auditor identifying the primary areas of accounting judgements and key audit risks identified as being significant to the 2021 financial statements.

Audit committee effectiveness

Although no formal review of the effectiveness of the audit committee has been undertaken, the Board and the chairman of the audit committee believe this to be satisfactory. The chairman of the audit committee will continue to assess whether such a formal review would be appropriate or otherwise, however, it is currently not considered necessary.

External audit

The audit committee is responsible for managing the relationship with BDO LLP, the Company's external auditor since being appointed in 2012. The objectivity and independence of the external auditors is safeguarded by reviewing the auditors' formal declarations, monitoring relationships between key audit staff and the Company and reviewing the non-audit fees payable to the auditor. Non-audit services are not performed by the auditor if this would have a material effect on, or relevance to, the production of the Company's financial statements and/or involve taking decisions or making significant subjective judgements that should be the responsibility of management. During the year, amounts paid to BDO LLP for audit services totalled £35,500 (2020: £22,500) and £2,000 (2020: £3,495) for non-audit services. These non-audit services were performed by a team separate from the audit team, did not involve any subjective judgements and a member of the Company's management was identified as taking responsibility for the services provided.

Internal audit

In light of the size of the Company and its current stage of development, the committee did not consider it necessary or appropriate to operate an internal audit function during the year.

Peter Nicol

Chairman, Audit committee

22 April 2022

Remuneration Committee Report

The remuneration committee reviews the scale and structure of the executive directors' remuneration and the terms of their service contracts.

The remuneration and terms and conditions of appointment of the Non-executive Directors are set by the Board.

The remuneration committee met four times during 2021 in consideration of: changes in remuneration, share option awards, bonus awards and 2021 objectives.

During the year there were no changes to the Company's pay and employment conditions and all director salary changes and bonuses were approved by the remuneration committee. A major independent, executive reward company, Mercer Kepler undertook a benchmarking exercise during 2019 on the Company's senior executive and board's remuneration and this was used in determining appropriate salaries and bonuses.

Although no formal review of the effectiveness of the remuneration committee has been undertaken, the Board and the chairman of the remuneration committee believe this to be satisfactory. The chairman of the remuneration committee will continue to assess whether such a formal review would be appropriate or otherwise.

Peter Cowley
Chairman, Remuneration committee

22 April 2022

Board of Directors and Senior Management

There is an appropriate breadth of experience, skills and personal qualities covering the key aspects of the business including technical, operational and financial. It is the responsibility of each Director to keep skills up to date with the assistance of the Chairman who has a core responsibility in addressing the development needs of the Board as a whole, with a view to enhancing its overall effectiveness.

Mark Lappin

Non-Executive Chairman

Mark has more than 35 years of experience in the oil and gas industry. Mark joined Deltic Energy as non-executive director in 2016 and became Chairman in May 2019. Prior to that Mark was Technical Director at Cuadrilla and Subsurface Director for UK and Netherlands at Centrica. Mark began his career at Phillips Petroleum and has held senior technical and commercial roles with ExxonMobil and Dart Energy. Mark is also a Visiting Professor at University of Strathclyde Centre for Energy Policy in Glasgow.

Mark's extensive technical, commercial and senior management experience in the oil and gas sector ensures that he has the ability to support the executive directors, challenge strategy and decision-making, scrutinise performance and to perform his role as Non-Executive Chairman as the Company enters its next stage of development. Mark is also a member of the Company's audit, remuneration and AIM compliance committees.

Graham Swindells

Chief Executive Officer

Graham Swindells joined the Company in 2013 as Chief Financial Officer and became Chief Executive Officer in 2018. He joined the Company from Ernst & Young where he was a Director in Public Company M&A. Graham graduated from the University of Glasgow with a Bachelor of Accountancy Degree and after qualifying as a Chartered Accountant spent two years at PricewaterhouseCoopers specialising in corporate recovery and restructuring. He subsequently specialised in corporate finance, becoming a director in corporate finance at Arbutnot Securities during which time he focused on advising and broking small and mid-cap public companies across various sectors, but with a particular focus on natural resources. Graham is chairman of the Company's AIM compliance committee.

Graham's professional, commercial and finance experience ensures that he has the necessary ability to develop and implement the Company's strategy, undertake fundraising, and oversee the management of the Company.

Andrew Nunn

Chief Operating Officer

Andrew Nunn joined the Company in 2014 and later that year was appointed to the Board as Chief Operating Officer. Andrew is a Chartered Geologist with over 20 years of experience working on exploration, mining and geo-environmental projects in Europe, Australasia and Africa. For the last 10 years he has worked on a wide variety of UK and European conventional and unconventional gas projects with a primary focus on Carboniferous aged reservoirs. Andrew's previous role was as Exploration Manager for Dart Energy. He holds a B.Sc. (Hons) in Economic Geology and an M.Sc. in Environmental Management. Andrew became a Director of the Oil and Gas Independents' Association (OGIA) in February 2020. Andrew is a member of the Company's AIM compliance committee.

Andrew's technical and operational experience and professional qualifications ensure that he has the necessary

ability to lead and manage the Company's technical development and operational matters.

Sarah McLeod

Chief Financial Officer

Sarah joined Deltic as Chief Financial Officer in January 2020. Sarah has 20 years of experience in the international oil and gas industry. She previously held the position of Group Financial Controller at New Age. Sarah spent 10 years with ConocoPhillips in a variety of senior financial and strategic roles and also two years with Maersk Oil. She started her career with Deloitte, spending six years in its oil and gas team during which time she qualified as a Chartered Accountant.

Sarah's professional qualifications, finance and industry experience ensures that she has the necessary ability to manage the Company's financial matters.

Peter Cowley

Non-Executive Director

Peter Cowley is a geologist with over 50 years of international experience in the minerals industry and has been involved in the discovery and development of a number of gold mines in Africa. Peter was previously Managing Director of Ashanti Exploration Limited, Group Technical Director of Cluff Resources Plc, CEO of Banro Corporation and is currently President and a Director of Loncor Resources Inc. He holds M.Sc. and M.B.A. degrees and is a Fellow of I.M.M.M. Peter is chairman of the Company's Remuneration Committee and member of the Audit Committee.

Peter's many years of technical experience and senior management positions in publicly listed companies ensure that he has the ability to support the executive directors, challenge strategy and decision-making, and to scrutinise performance.

Peter Nicol

Non-Executive Director

Peter Nicol joined the Company on 17th November 2021. Peter has 40 years of experience in the energy sector. He was previously Head of Oil & Gas at GMP Securities Europe, Global Sector Director of Oil & Gas Research at ABN Amro & Head of European Oil & Gas Research at Goldman Sachs. Peter is a non-executive director of exploration focussed Touchstone Exploration Inc. and Eco (Atlantic) Oil & Gas Ltd, both of which are AIM quoted. He is also an independent director of ERC Equipose Limited. Peter started his career with British National Oil Corporation and holds a Bachelor of Science in Mathematics & Economics from Strathclyde University. Peter is chairman of the Company's Audit Committee and member of the Remuneration Committee.

Peter's wealth of energy, financial, city and public company experience will be invaluable to Deltic as it progresses to the next stage in development, and ensures he has the ability to support the executive directors, challenge strategy and decision-making, and to scrutinise performance.

Report of the Directors

The Directors present their report with the financial statements of the Company for the year ending 31 December 2021.

Principal Activity

The Company's principal activity is the exploration, evaluation and development of mineral exploration targets, with a principal focus on the development of its gas and oil licences in the Southern and Central North Sea.

Review of Business

The Company changed its name in the prior year from Cluff Natural Resources Plc to Deltic Energy Plc.

Further details of the Company's business and expected future development are also set out in the Strategic Report starting on page 1, commencing with the Chairman's Statement.

Dividends

No dividends will be distributed for the year ended 31 December 2021 (2020: nil).

Directors

The Directors of the Company during the year and their beneficial interest in the ordinary shares and share options of the Company at 31 December 2021 are set out below:

	Ordinary shares		Share options	
	2021	2020	2021	2020
G C Swindells	2,394,836	2,394,836	48,654,096	38,654,096
A J Nunn	806,724	806,724	48,654,096	38,654,096
M S Lappin	1,174,887	1,174,887	-	-
P N Cowley	1,018,489	1,018,489	-	-
P W Nicol	-	-	-	-
	5,394,936	5,394,936	97,308,192	77,308,192

Director's Remuneration

The following table sets out an analysis of the pre-tax remuneration for the year ended 31 December 2021 for the individual Directors who held office in the Company during the year.

	2021	2021	2021	2021	2021	2020
	Salaries and fees	Bonus payments	Pension	Benefits in Kind	Total	Total
	£	£	£	£	£	£
G C Swindells	214,101	113,201	21,410	4,639	353,351	260,500
A J Nunn	200,725	106,128	20,073	2,829	329,755	245,468
M S Lappin	50,000	-	-	-	50,000	49,166
P N Cowley	25,417	-	-	-	25,417	24,583
P W Nicol	3,654	-	-	-	3,654	-
	492,897	219,329	41,483	7,468	762,177	579,717

Report of the Directors continued

Share options

The share-based payment of £140,192 (2020: £126,404) to Directors represents the share-based expense relating to unvested share options during the year.

The following share options table comprises share options held by Directors who held office during the year ended 31 December 2021:

	Options held at 31 December 2020	Options granted in period	Options exercised in period	Options held at 31 December 2021	Exercise price (p)	Exercisable from	Exercisable to
G C Swindells	-	10,000,000	-	10,000,000	2.05	22 Sept 2022	22 Sept 2031
	20,000,000	-	-	20,000,000	1.75	8 July 2022	8 July 2029
	9,000,000	-	-	9,000,000	2.32	7 June 2019	7 June 2028
	2,200,000	-	-	2,200,000	3.75	30 April 2015	30 April 2024
	7,454,096	-	-	7,454,096	1.325	10 June 2017	10 June 2026
A J Nunn	-	10,000,000	-	10,000,000	2.05	22 Sept 2022	22 Sept 2031
	20,000,000	-	-	20,000,000	1.75	8 July 2022	8 July 2029
	8,200,000	-	-	8,200,000	2.32	7 June 2019	7 June 2028
	3,000,000	-	-	3,000,000	3.88	6 Sept 2015	22 May 2024
	7,454,096	-	-	7,454,096	1.325	10 June 2017	10 June 2026

Further details of share-based payments are set out in note 21.

Financial Instruments

Details of the use of financial instruments by the Company are contained in the Strategic Report and note 19 of the financial statements.

Subsequent Events

Events subsequent to 31 December 2021 are set out in note 22 to the financial statements on page 53.

Business Risks

A summary of the principal and general business risks can be found in the Strategic Report on page 15 and in note 19 to the financial statements.

Key Performance Indicators

At this stage in its development, the Company is focusing on the development of its North Sea gas and oil assets, applying for new licences, maintaining and extending existing licences, as well as the evaluation of various oil and gas opportunities. The Directors closely monitor certain financial information, in particular the levels of overheads and other administrative expenditure, exploration expenditure and cash and deposit balances, as set out in the Financial Review. As and when the Company moves into production, other financial, operational, health and safety and environmental KPIs will become relevant and will be measured and reported as appropriate.

Disclosure of Information to Auditors

So far as the Directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

The auditors, BDO LLP, have expressed their willingness to continue in office as auditors, and a resolution to re-appoint them will be proposed at the Annual General Meeting.

On behalf of the Board

Graham Swindells
Chief Executive Officer

22 April 2022

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market (AIM).

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with UK adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- Subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the on-going integrity of the financial statements contained therein.

Independent Auditor's Report to the members of Deltic Energy Plc

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and its loss for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Deltic Energy Plc (the 'Company') for the year ended 31 December 2021 which comprise the Income Statement, the Statement of Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of 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.

Conclusions relating to going concern

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.

We have determined going concern to be a key audit matter and our response to this and our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting is disclosed in the key audit matters section of this report.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Overview

	2021	2020
Carrying amount of exploration and assets	✓	✓
Going concern	✓	X
Key audit matters		
Materiality	Financial statements as a whole £130,000 based on 1% of total assets (2020: £60,000 based on 1.75% of total assets, adjusted for cash balances outside working capital requirements.)	

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

Independent Auditor's Report

continued

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that 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.

Key audit matter	How the scope of our audit addressed the key audit matter
<p>Carrying amount of exploration and evaluation assets</p> <p>Refer to accounting policy on page 39 and disclosure in note 10</p> <p>During 2021, the Company announced farm-out agreements with Capricorn Energy Plc in respect of its licences P2428, P2567, P2560, P2561 and P2562 as described in note 10.</p> <p>The Company announced during 2021 that it would relinquish licences P2384 and P2424. Management accordingly recognised a write down of the full amount of costs capitalised in association with these licenses (note 10).</p> <p>Management's impairment review at the reporting date did not note any further indications of impairment.</p> <p>Given the inherent judgement involved in the assessment of whether there are indications of impairment to the carrying amount of exploration and evaluation assets, we considered the carrying amount of exploration assets to be a key audit matter.</p>	<ul style="list-style-type: none"> We reviewed the licence documentation to satisfy ourselves that the licences remained valid at 31 December 2021, as well as confirmed the dates of expiry and licence obligations. We checked the agreements with Capricorn in respect of licences P2428, P2567, P2560, P2561 and P2562 to confirm the terms of the farm out agreements. The accounting entries made to intangible assets and to the statement of comprehensive income regarding the gain on farm-out were reviewed for compliance with the Company's accounting policy. We evaluated the impairment review by considering factors such as: the licence status and expiry date together with the history of licence extensions; the required work programme including the associated commitments and obligations; and internal and external feasibility studies. We considered the progress of the Company's technical work to date on its licences, together with planned and budgeted works, against the licence extension obligations and due dates. We obtained evidence to confirm the relinquishment of licences P2384 and P2424 during the year, and reviewed the appropriateness of the accounting entries made to intangible assets and the impairment charge to the statement of comprehensive income. <p>Key observations:</p> <p>We found management's assessment that there were no indicators of impairment at the reporting date to be appropriate.</p> <p>We consider the recognition and amount of the write down of costs recognised in respect of licences P2384 and P2424 to be appropriate.</p>

Independent Auditor's Report

continued

Key audit matter

Going concern

(Refer to disclosure on page 37)

The Company is in the exploration phase of its licenses and is not currently generating revenue.

Accordingly the Directors must assess whether the Company has sufficient cash balances to meet the cost of its operations for at least twelve months from the date of approval of the financial statements.

We have highlighted going concern as a key audit matter as a result of the estimates and judgements required to be made by the Directors in their going concern assessment and the effect on our audit strategy.

How the scope of our audit addressed the key audit matter

- We obtained the Directors formal assessment of the Company's going concern position, which included cash flow forecasts for the period up to 30 June 2023.
- We compared the Company's plans for exploration activities as stated in their assessment against the information obtained from discussion with the Company's senior geological staff.
- We reviewed the terms of the Company's exploration licenses for any committed works.
- Planned costs for general and administrative expenditure were compared to prior year actual costs, and expected developments.
- The sensitivity of cash flows included in the forecast was reviewed, in particular the potential for overrun on the expected share of well drilling costs for the Pensacola well.
- We checked that, other than the Pensacola well drilling, planned exploration costs which are not included in the forecast are discretionary.
- We discussed the impact of the ongoing Covid 19 pandemic, with the Directors.

Key observations:

These are set out in the Conclusions related to going concern section of our audit report.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Independent Auditor's Report continued

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Parent company financial statements	
	2021	2020
Materiality	£130,000	£60,000
Basis for determining materiality	Based on 1% of total assets. We have not included an adjustment to the cash balances in the current year, as the balances are expected to be used for working capital requirements.	Based on 1.75% of total assets, adjusted for cash balances outside of working capital requirements'.
Rationale for the benchmark applied	We consider total assets to be the financial metric of the most interest to shareholders and other users of the financial statements given the Company's status as an oil and gas exploration company and therefore consider this to be an appropriate basis for materiality.	We consider total assets to be the financial metric of the most interest to shareholders and other users of the financial statements given the Company's status as an oil and gas exploration company and therefore consider this to be an appropriate basis for materiality.
Performance materiality	£97,500	£45,000
Basis for determining performance materiality	75% of materiality for the financial statements as a whole. This is based on our overall assessment of the control environment and the low level of expected misstatements.	75% of materiality for the financial statements as a whole. This is based on our overall assessment of the control environment and the low level of expected misstatements.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £6,500 (2020: £3,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

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

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report

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.

Independent Auditor's Report

continued

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

Matters on which we are required to report by exception

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

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

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

Extent to which the audit was capable of detecting irregularities, including fraud

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 legal and regulatory frameworks that are applicable to the Company. We determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting framework (UK adopted international accounting standards, the Companies Act 2006, AIM rules and the QCA Corporate Governance Code), and terms and requirements included in the Company's exploration and evaluation licences.
- We gained an understanding of how the Company is complying with those legal and regulatory frameworks by making inquiries to management, and those responsible for legal and compliance procedures. We corroborated our inquiries through our review of board minutes and other supporting documentation.
- We performed procedures to verify the title and carrying value of Company's exploration licences as described in the Key Audit Matter.
- We tested the appropriateness of journal entries made throughout the year by applying specific criteria to detect possible irregularities or fraud.
- We assessed and challenged key areas of judgement and estimation made by management, including their assessment of the going concern position of the Company, and their assessment of indications of impairment to the Company's exploration and evaluation assets.
- We communicated identified laws and regulations throughout our team, and remained alert to any indication of non-compliance throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent Auditor's Report continued

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

Jack Draycott (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor
London, UK

22 April 2022

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

Income Statement

for the year ended 31 December 2021

Continuing operations	Notes	2021 £	2020 £
Administrative expenses:			
Write down on relinquished intangible assets	10	(288,551)	-
Other administrative expenses		(1,912,987)	(1,699,344)
Total administrative expenses		(2,201,538)	(1,699,344)
Other operating income	10	298,173	-
Operating loss		(1,903,365)	(1,699,344)
Finance income	4	2,905	59,818
Finance costs	5	(34,592)	(26,049)
Loss before tax	6	(1,935,052)	(1,665,575)
Income tax expense	8	-	-
Loss for the year		(1,935,052)	(1,665,575)
Loss per share from continuing operations expressed in pence per share:			
Basic	9	(0.14)p	(0.12)p

Statement of Comprehensive Income

for the year ended 31 December 2021

	2021 £	2020 £
Loss for the year	(1,935,052)	(1,665,575)
Other comprehensive income	-	-
Total comprehensive expense for the year attributable to the equity holders of the Company	(1,935,052)	(1,665,575)

The notes on pages 37 to 53 form part of the financial statements.

Balance Sheet

as at 31 December 2021

	Notes	2021 £	2020 £
Assets			
Non-current assets			
Intangible assets	10	2,203,118	1,430,915
Property, plant and equipment	11	385,240	496,542
Other receivables	12	37,422	37,422
Total non-current assets		2,625,780	1,964,879
Current assets			
Trade and other receivables	12	190,398	53,887
Cash and cash equivalents		10,092,205	11,968,858
Total current assets		10,282,603	12,022,745
Total assets		12,908,383	13,987,624
Capital and reserves attributable to the equity holders of the Company			
Shareholders' equity			
Share capital	13	7,029,824	7,029,824
Share premium		20,296,030	20,296,030
Share-based payment reserve	21	1,150,700	990,378
Accumulated retained deficit		(16,813,549)	(14,878,497)
Total equity		11,663,005	13,437,735
Liabilities			
Current liabilities			
Trade and other payables	15	931,148	153,436
Lease liabilities	17	98,995	92,605
Total current liabilities		1,030,143	246,041
Non-current liabilities			
Lease liabilities	17	215,235	303,848
Total non-current liabilities		215,235	303,848
Total liabilities		1,245,378	549,889
Total equity and liabilities		12,908,383	13,987,624

The financial statements of Deltic Energy Plc, registered number 7958581, were approved by the Board of Directors on 22 April 2022 and were signed on its behalf by:

Graham Swindells
Chief Executive Officer

The notes on pages 37 to 53 form part of the financial statements.

Statement of Changes in Equity

for the year ended 31 December 2021

	Share capital £	Share premium £	Share-based payment reserve £	Accumulated retained deficit £	Total equity £
Balance at 1 January 2021	7,029,824	20,296,030	990,378	(14,878,497)	13,437,735
Comprehensive income for the year					
Loss for the year	-	-	-	(1,935,052)	(1,935,052)
Total comprehensive loss for the year	-	-	-	(1,935,052)	(1,935,052)
Contributions by and distributions to owners					
Share-based payment	-	-	160,322	-	160,322
Total contributions by and distributions to owners	-	-	160,322	-	160,322
Balance at 31 December 2021	7,029,824	20,296,030	1,150,700	(16,813,549)	11,663,005
Balance at 1 January 2020	7,029,824	20,296,030	842,644	(13,212,922)	14,955,576
Comprehensive income for the year					
Loss for the year	-	-	-	(1,665,575)	(1,665,575)
Total comprehensive loss for the year	-	-	-	(1,665,575)	(1,665,575)
Contributions by and distributions to owners					
Share-based payment	-	-	147,734	-	147,734
Total contributions by and distributions to owners	-	-	147,734	-	147,734
Balance at 31 December 2020	7,029,824	20,296,030	990,378	(14,878,497)	13,437,735

The notes on pages 37 to 53 form part of the financial statements.

Statement of Cash Flows

for the year ended 31 December 2021

	2021 £	2020 £
Cash flows from operating activities		
Loss before tax	(1,935,052)	(1,665,575)
Finance income	(2,905)	(59,818)
Finance costs	34,592	26,049
Gain from farm-out of licence interest	(298,173)	2,783
Depreciation	115,355	106,029
Amortisation	5,625	6,712
Loss on disposal of property, plant and equipment	1,842	-
Write down on relinquished intangible assets	288,551	-
Share-based payment	160,322	147,734
	(1,629,843)	(1,436,086)
Decrease/(increase) in other receivables	(136,511)	38,269
Increase in trade and other payables	143,297	29,699
Net cash outflow from operating activities	(1,623,057)	(1,368,118)
Cash flows from investing activities		
Purchase of intangible assets	(853,744)	(358,672)
Purchase of property, plant and equipment	(5,895)	(190,108)
Property, plant & equipment landlord contributions	-	30,222
Proceeds from exploration licence farm-in	719,953	-
Interest received	2,905	59,818
Net cash outflow from investing activities	(136,781)	(458,740)
Cash flows from financing activities		
Payment of principal portion of lease liabilities	(82,223)	(27,635)
Interest paid	(34,592)	(26,049)
Net cash outflow from financing activities	(116,815)	(53,684)
Decrease cash and cash equivalents	(1,876,653)	(1,880,542)
Cash and cash equivalents at beginning of year	11,968,858	13,849,400
Cash and cash equivalents at end of year	10,092,205	11,968,858

The notes on pages 37 to 53 form part of the financial statements.

Notes to the Financial Statements

for the year ended 31 December 2021

1. Accounting Policies

Basis of preparation

The financial statements have been prepared in accordance with UK adopted International Accounting Standards ('IAS'), as adopted by the EU and with those parts of the Companies Act 2006 applicable to companies reporting under International Financial Reporting Standards ('IFRS').

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and factors that are believed to be reasonable under the circumstance, the result 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 this estimate. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed later in this note.

Operating loss is stated after charging and crediting all items excluding finance income and expenses.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period or in the period of revision and future periods if the revision affects both current and future periods.

Going concern

The Directors have assessed the Company's ability to continue as a going concern. Although the oil and gas industry faces a period of change under the current geopolitical environment, the Company does not anticipate any negative issues impacting its ability to operate as a going concern. Having taken the decision to raise funds in 2019 the Company is currently well funded with no debt. Based on the cash and cash equivalents balance at year end and the Company's commitments, the Directors are of the opinion that the Company has adequate financial resources to meet its committed Pensacola exploration programme, based upon anticipated drilling costs per the planned work schedule, and working capital requirements, and accordingly will be able to continue and meet its liabilities as they fall due for a minimum of 12 months from the date of signing these financial statements.

Adoption of new and revised International Financial Reporting Standards

The Company has adopted the following standards, amendments to standards and interpretations which are effective for the first time this year. These have not had a material effect on the reported income or net assets of the Company.

	Effective period commencing on or after:
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform - Phase 2	1 January 2021
Amendment to IFRS 16: Covid 19- Related Rent Concessions	1 June 2020

Standards effective in future periods

Certain new standards, amendments and interpretations to existing standards have been published that are relevant to the Company's activities and are mandatory for the Company's accounting periods commencing after 1 January 2022 or later periods and which the Company has decided not to early adopt. These include:

	Effective period commencing on or after:
Amendments to IAS 1: Classification of Liabilities as Current or Non-current & Disclosures of Accounting Policies	1 January 2024
Amendments to IAS 8: Definition of Accounting Estimates	1 January 2023
Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; Annual Improvements 2018-2020	1 January 2022

Management anticipates that all relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement.

There are no standards and interpretations in issue but not yet adopted that the Directors anticipate will have a material effect on the reported income or net assets of the Company for the year ended 31 December 2022 based on current activities.

Notes to the Financial Statements

for the year ended 31 December 2021

1. Accounting Policies (continued)

Share-based payments

Equity-settled share-based payments to employees and Directors are measured at the fair value of the equity instrument. The fair value of the equity-settled transactions with employees and Directors is recognised as an expense over the vesting period. The fair value of the equity instruments is determined at the date of grant, taking into account market-based vesting conditions and non-vesting conditions. The fair value of goods and services received is measured by reference to the fair value of options.

The fair values of share options are measured using an appropriate valuation methodology. The expected life used in the models is adjusted, based on management's best estimate of the effects of non-transferability, exercise restrictions and behavioural considerations.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees (or other beneficiaries) become fully entitled to the award ("the vesting date").

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

The Income Statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee, as measured at the date of modification.

Where an equity-settled award (share options) is cancelled, it is treated as if it had vested on the date of cancellation if it had not yet fully vested, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Where an equity-settled award is forfeited, the cumulative charge expensed up to the date of forfeiture is credited to the Income Statement. Upon expiry of an equity-settled award, the cumulative charge expensed is transferred from the Share-based payment reserve to the Accumulated retained deficit.

Impairment of exploration assets

Exploration and evaluation assets are reviewed regularly for indicators of impairment following the guidance in IFRS 6 'Exploration for and Evaluation of Mineral Resources' and tested for impairment where such indicators exist.

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

- Whether the period for which the Company 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;
- Whether substantive expenditure on further exploration for and evaluation of mineral resources in a specific area is neither budgeted nor planned;
- Whether exploration for and evaluation of reserves in a specific area have not led to the discovery of commercially viable quantities of mineable material and the Company has decided to discontinue such activities in the specific area; and
- Whether sufficient data exists to indicate that although a development in a specific area is likely to proceed, the carrying amount of the exploration and evaluation assets is unlikely to be recovered in full, from successful development or by sale.

Notes to the Financial Statements

for the year ended 31 December 2021

1. Accounting Policies (continued)

If any such facts or circumstances are noted, the Company, as a next step, perform an impairment test in accordance with the provisions of IAS 36. In such circumstances the aggregate carrying value of the exploration and evaluation asset 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. The Company assesses each licence as a separate cash-generating unit. In accordance with the provisions of IFRS 6 the level identified for the purposes of assessing the Company's exploration and evaluation assets for impairment may comprise one or more cash-generating units.

Any impairment arising is recognised in the Income Statement for the year.

Leases

The Company assesses whether a contract is or contains a lease, at inception of the contract.

Leases with an original term not exceeding 12 months and low value leased items continue to be accounted as previously, with amounts payable being charged to the Income Statement on a straight-line basis over the lease term.

The Company recognises a right-of-use asset and a corresponding lease liability with respect to all other lease arrangements in which it is the lessee. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

The lease liability is presented as a separate line in the Balance Sheet.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter of the lease term and useful life of the underlying asset.

The depreciation starts at the commencement date of the lease.

Provisions

Provisions are recognised when the Company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic resources will result, and that outflow can be reliably measured.

Exploration and evaluation assets

Pre-licence costs associated with exploring or evaluating prospects are written off as incurred to the Income Statement.

Notes to the Financial Statements

for the year ended 31 December 2021

1. Accounting Policies (continued)

All costs associated with exploring and evaluating prospects within licence areas, including the initial acquisition of the licence are capitalised on a project-by-project basis pending determination of the feasibility of the project. Costs incurred include appropriate technical and administrative expenses but not general overheads. When a decision is made to proceed to development, the related expenditures will be transferred to proven projects. Where a licence is relinquished, a project is abandoned, or is considered to be of no further commercial value to the Company, the related costs are written off.

Upon farming out an exploration licence the Company, as the farmor, designates expenditure previously capitalised in respect of the licence to the partial interest retained. Cash consideration received for the farm-out is offset against the carrying value by the farmor, with any excess above the previously capitalised expenditure being accounted as a gain on disposal. Thereafter, the farmor capitalises its own share of subsequent expenditure and does not recognise the share of expenditure incurred by the farmee.

The recoverability of exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of reserves and future profitable production or proceeds from the disposition of recoverable reserves.

Intangible exploration and evaluation assets are not depreciated and are carried forward, subject to the provisions of the Company's impairment of exploration and evaluation policy, until the technical feasibility and commercial viability of extracting hydrocarbons are demonstrable. At such point exploration and evaluation assets are assessed for impairment and any impairment charge is recognised before reclassification of the assets to a category of property, plant and equipment.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation. Depreciation is provided on a straight-line basis at rates calculated to write off the cost less the estimated residual value of each asset over its expected useful economic life. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset were already of the age and in the condition expected at the end of its useful life.

The annual rate of depreciation for each class of depreciable asset is:

Leasehold improvements	over lease term
Office lease	over lease term
Fixtures & fittings	15%
Computer equipment	25%

The carrying value of property plant and equipment is assessed annually and any impairment is charged to the income statement.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable result for the year. Taxable profit differs from profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company'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 statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and 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.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

Notes to the Financial Statements

for the year ended 31 December 2021

1. Accounting Policies (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Cash and cash equivalents

Cash comprises cash on hand and demand deposits with banks.

Cash equivalents comprise bank deposits held for the purpose of meeting short-term cash commitments that are subject to an insignificant risk of changes in value and are readily convertible into known amounts of cash, subject to a notice period up to a maximum of 95 days.

Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

In the periods presented the Company does not have any financial assets categorised as FVTPL or FVOCI.

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items.

Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions:

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, trade and other receivables fall into this category of financial instruments.

Notes to the Financial Statements

for the year ended 31 December 2021

1. Accounting Policies (continued)

The Company assesses the expected credit losses on a forward-looking basis, defined as the difference between the contractual cash flows and the cash flows that are expected to be received, associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables only, the simplified approach permitted by IFRS 9 is applied, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Losses are recognised in the income statement. When a subsequent event causes the amount of impairment to decrease, the decrease in impairment is reversed through the income statement.

Classification and measurement of financial liabilities

The Company's financial liabilities include trade and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method.

All interest-related charges are included within finance costs or finance income.

Jointly Operations

The Company is party to joint oil and gas licences which are unincorporated joint arrangements. There is a contractual agreement that sets out the terms of the relationship over the relevant activities of the Company and at least one other party.

The Company has a legal degree of control over these joint operating arrangements through Joint Operating Agreements. The Company classifies its interests in joint arrangements as Joint Operations: where the Company has both the rights to assets and obligations for the liabilities of the joint arrangement.

The Company accounts for its share of assets, liabilities, income and expenditure of Joint Operations in which it holds an interest, classified in the appropriate Balance Sheet and Income Statement headings. The Company's revenue and cost of sales include revenues and operating costs associated with the Company's interest.

A list of the Company's interests in Joint Operations is given in note 16.

Equity

Financial instruments issued by the Company are treated as equity only to the extent that they do not meet the definition of a financial liability. The Company's ordinary shares are classified as equity instruments.

For the purposes of the capital management disclosures given in note 19, the Company considers its capital to be total equity.

Foreign currencies

The functional currency of the Company is Sterling. Transactions denominated in currencies other than the functional currency of the Company are recorded at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities are translated into the functional currency at the closing rates of exchange at the reporting date. Exchange differences arising from the restatement of monetary assets and liabilities at the closing rate of exchange at the reporting date or from the settlement of monetary transactions at a rate different from that at which the asset or liability was recorded are dealt with through the Income Statement.

Critical accounting estimates and judgements

The Company makes estimates and assumptions concerning the future, which by definition will seldom result in actual results that match the accounting estimate. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Judgements

Impairment of exploration and evaluation assets (note 10)

Qualifying exploration and evaluation costs are initially classified and held as intangible assets rather than being expensed. In recording costs as exploration and evaluation assets, judgement is required as to the extent to which the costs are attributable to the discovery of specific hydrocarbon resources and include both internal and external costs. Expenditure is capitalised by reference to appropriate Cash Generating Unit ('CGU') and is assessed for impairment with reference to IFRS 6 indicators of impairment. This assessment involves judgement as to the status of licences and the likelihood of renewal of licences which expire in the near future including the ability to meet licence obligations, budgets and plans for future exploration activity and expenditure, the results of exploration activity, and assessments of future recoverable values upon development.

Notes to the Financial Statements for the year ended 31 December 2021

1. Accounting Policies (continued)

Where impairment indicators are identified, an impairment test is performed which requires judgment regarding factors such as:

- (i) The timing of future development of the asset;
- (ii) Funding structures and financing costs of development;
- (iii) Commercial development opportunities for extracting value from the asset; and
- (iv) Modelling inputs such as the appropriateness of discount rates, reserve and resource estimates, oil and gas pricing predictions, etc.

The carrying value of exploration and evaluation assets were assessed for indicators of impairment at 31 December 2021. In forming this assessment, the Company considered external and internal competent person's reports, the status of the licences, the extent of ongoing exploration activity and steps to secure farm-in partners and other financing which supported the carrying value.

No indicators of impairment were identified at 31 December 2021. As detailed in note 10, following the relinquishment of Licences P2424 and P2384, an write down on relinquished intangible assets of £211,583 and £76,968 respectively being their carrying value were recognised in 2021.

Estimates

Determination of share-based payment costs (note 21)

The determination of these costs is based on financial models. The inputs to these models are based on the Directors' judgements and estimates and are not capable of being determined with precision. Estimates were required including the expected life of the option and volatility. In addition, management were required to assess the extent to which the minimum share price vesting criteria would be met and the most likely period over which those criteria would be met.

Management concluded that the vesting criteria would be met, and the most likely outcome for the share options issued during the year was that the share price vesting criteria would be met within three years for 34,000,000 share options issued during the year (2020: 2,177,420 options in three years, 2,177,420 options in four years and 2,177,418 options in five years) as detailed in note 21. In reaching this conclusion management considered factors including the historical share price performance, their assessment of possible developments with respect to licences, in particular Licence P2437 and Licence P2252 following the farm-outs to Shell and the Capricorn farm-out of Licences P2428, P2567 and P2560/P2561/P2562 .

2. Segmental Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources, assessing the performance of the operating segment and making strategic decision, has been identified as the Board of Directors.

The Board of Directors consider that the Company has only one operating segment at corporate level, therefore no additional segmental information is presented.

3. Employees

	2021	2020
	£	£
Wages and salaries	1,102,989	857,816
Short-term non-monetary benefits	20,630	17,944
Redundancy payments	-	7,855
Defined contribution pension costs	70,038	75,247
Social security costs	136,069	107,208
Share-based payment expense	160,322	147,734
	1,490,048	1,213,804

Notes to the Financial Statements

for the year ended 31 December 2021

3. Employees (continued)

	2021	2020
The average monthly number of employees during the year was as follows:		
Directors	4	4
Staff	4	3
	8	7

Key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company.

	2021 £	2020 £
Salaries and bonuses	837,224	689,944
Short-term non-monetary benefits	9,832	8,319
Defined contribution pension costs	54,591	51,062
Social security costs	105,421	88,523
Share-based payment expense	149,327	144,751
	1,156,395	982,599

Directors' remuneration is disclosed in the Directors' Report on page 24, including the remuneration of the highest-paid director.

Bonuses have been accrued in the current financial year but will be paid post year-end and therefore do not form part of the current year directors' remuneration figures reported earlier in this report.

Details regarding share options are set out in note 21 to the financial statements.

4. Finance Income

	2021 £	2020 £
Bank interest	2,905	58,951
Other interest	-	867
	2,905	59,818

5. Finance Costs

	2021 £	2020 £
Effective interest expense on lease liabilities (see note 17)	34,592	26,049

6. Loss before Tax

	2021 £	2020 £
The loss before tax is stated after charging/(crediting):		
Amortisation of intangible assets	5,625	6,712
Write down on relinquished intangible assets (see note 10)	288,551	-
Depreciation - owned assets	34,425	18,531
Depreciation - right of use leased assets (office lease)	80,930	87,498
Gain on farm-out of intangible exploration asset (see note 10)	298,173	-

Notes to the Financial Statements

for the year ended 31 December 2021

7. Auditors' Remuneration

	2021 £	2020 £
Fees payable to the Company's auditors for the audit of the Company's financial statements	34,000	22,500
Fees payable to the Company's auditors for non-audit related services	2,000	1,995
Fees payable to the Company's auditors for other audit-related services	1,500	1,500

8. Income Tax

Analysis of income tax expense

No liability to UK corporation tax arose on ordinary activities for the year.

Factors affecting the income tax expense

The tax assessed for the year is different to the standard rate of corporation tax in the UK as explained below:

	2021 £	2020 £
Loss on ordinary activities before taxation	(1,935,052)	(1,665,575)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK (19%) (2020: 19%)	(367,660)	(316,459)
Effects of:		
Capital allowances in excess of depreciation	5,733	(20,997)
Expenses not deductible for tax purposes	629	219
Adjustment in relation to share based payment	30,461	28,069
Unrelieved losses carried forward	330,837	309,168
Income tax expense	-	-

A deferred tax asset of £3,017,741 (2020: £2,686,905) in respect of accumulated trading losses of £15,882,852 (2020: £14,141,605) has not been recognised due to the uncertainty and timing of future profits.

9. Loss per Share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Due to the losses incurred during the year, a diluted loss per share has not been calculated as this would serve to reduce the basic loss per share. There were 128,840,450 (2020: 94,840,450) share options outstanding at the end of the year that could potentially dilute basic earnings per share in the future.

Basic and diluted loss per share

	2021 £	2020 £
Loss per share from continuing operations	(0.14)p	(0.12)p

The loss and weighted average number of ordinary shares used in the calculation of loss per share are as follows:

	2021 £	2020 £
Loss used in the calculation of total basic loss per share	(1,935,052)	(1,665,575)

Number of shares

	2021 Number	2020 Number
Weighted average number of ordinary shares for the purposes of basic loss per share	1,405,964,855	1,405,964,855

Notes to the Financial Statements

for the year ended 31 December 2021

10. Intangible Assets

	Exploration & evaluation & assets £	Software licences £	Total £
Cost			
At 1 January 2020	1,115,605	39,257	1,154,862
Additions	309,685	-	309,685
At 31 December 2020	1,425,290	39,257	1,464,547
Additions	1,488,159	-	1,488,159
Farm-out of licence	(421,780)	-	(421,780)
Write down on relinquished assets	(288,551)	-	(288,551)
At 31 December 2021	2,203,118	39,257	2,242,375
Amortisation and impairment			
At 1 January 2020	-	26,920	26,920
Charge for year	-	6,712	6,712
At 31 December 2020	-	33,632	33,632
Charge for year	-	5,625	5,625
At 31 December 2021	-	39,257	39,257
Net Book Value			
At 31 December 2021	2,203,118	-	2,203,118
At 31 December 2020	1,425,290	5,625	1,430,915
At 1 January 2020	1,115,605	12,337	1,127,942

The net book value of exploration and evaluation assets at 31 December 2021 and 2020 relates solely to the Company's North Sea Licences.

Aggregate cash proceeds arising from the farm-out of five Licences (P2428, P2567, P2560, P2561 and P2562) to Capricorn during the year amounted to £719,953. An amount of £421,780 was deducted from exploration and evaluation assets, being the previously capitalised expenditure relating to that licence. The surplus of the proceeds over the carrying value amounted to £298,173 and was recognised as a gain on disposal of the partial interest and included as other operating income in the Income Statement for the year.

A charge of £288,551 (2020: nil) is recognised resulting from the write down of relinquished intangible assets following the decision to relinquish Licences P2384 (Manhattan Prospect) and P2424 (Cortez Prospect).

Additions of £1,488,159 (2020: £309,685) differ to the cash flows in the Statement of Cash Flows owing to an increase in trade and other payables of £634,415 (2020: £48,987 decrease) relating to intangible assets.

Notes to the Financial Statements

for the year ended 31 December 2021

11. Property, Plant and Equipment

	Leasehold improvements £	Office lease £	Fixtures and fittings £	Computer equipment £	Total £
Cost					
At 1 January 2020	-	139,767	7,854	19,226	166,847
Additions	86,452	404,650	42,463	24,477	558,042
Disposals	-	(139,767)	(7,655)	(5,783)	(153,205)
At 31 December 2020	86,452	404,650	42,662	37,920	571,684
Additions	1,317	-	3,138	1,440	5,895
Disposals	-	-	-	(4,121)	(4,121)
At 31 December 2021	87,769	404,650	45,800	35,239	573,458
Depreciation					
At 1 January 2020	-	106,222	6,507	6,805	119,534
Charge for year	7,583	87,498	3,226	7,722	106,029
Disposals	-	(139,767)	(6,638)	(4,016)	(150,421)
At 31 December 2020	7,583	53,953	3,095	10,511	75,142
Charge for year	18,344	80,930	6,663	9,418	115,355
Disposals	-	-	-	(2,279)	(2,279)
At 31 December 2021	25,927	134,883	9,758	17,650	188,218
Net Book Value					
At 31 December 2021	61,842	269,767	36,042	17,589	385,240
At 31 December 2020	78,869	350,697	39,567	27,409	496,542
At 1 January 2020	-	33,545	1,347	12,421	47,313

The office lease category reflects a right of use asset relating to the office premises occupied by the Company.

Following the execution of the break clause in the previous registered office, during the prior year, the Company moved to new smaller office premises, entering into a new lease and relinquishing the previous office lease. As a result of which the fully depreciated right of use lease asset for the previous office was disposed.

12. Trade and Other Receivables

	2021 £	2020 £
Current:		
Trade receivables	81,585	3,655
Other receivables	31,848	192
Other tax receivables	-	6,438
Prepayments	76,965	43,602
	190,398	53,887
Non-current:		
Rental deposit	37,422	37,422
Total receivables	227,820	91,309

During the year, no impairments were recognised.

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Notes to the Financial Statements

for the year ended 31 December 2021

13. Share Capital

Allotted, issued and fully paid

Year ended December 2021		Number	£
At beginning of the year	Ordinary shares of 0.5 pence each	1,405,964,855	7,029,824
Issue of shares		-	-
At end of the year	Ordinary shares of 0.5 pence each	1,405,964,855	7,029,824

Year ended December 2020		Number	£
At beginning of the year	Ordinary shares of 0.5 pence each	1,405,964,855	7,029,824
Issue of shares		-	-
At end of the year	Ordinary shares of 0.5 pence each	1,405,964,855	7,029,824

14. Reserves

Reserves	Description and purpose
Share capital	Nominal value of shares issued.
Share premium	Amount subscribed for share capital in excess of nominal value.
Share-based payment reserve	Fair value of share options issued.
Accumulated retained deficit	Cumulative net losses recognised in the statement of comprehensive income.

Details of movements in each reserve are set out in the Statement of Changes in Equity on page 35.

15. Trade and Other Payables

	2021	2020
	£	£
Current:		
Trade payables	254,875	50,197
Social security and other taxes	222,324	30,188
Joint operations payable	256,860	-
Other payables and accruals	197,089	73,051
	931,148	153,436

The Directors consider that the carrying amounts of trade and other payables approximate to their fair value.

Joint operations payable represents £256,860 (2020: nil) relating to exploration assets.

16. Joint Operations

The Company has entered into the following unincorporated Joint Operations, which are included within the Company's financial statements:

Name of Project	Principal Activities	Company Interest
P2252 Pensacola	Oil and gas exploration	30%
P2437 Selene	Oil and gas exploration	50%
P2428 Cupertino/Richmond/Plymouth	Oil and gas exploration	40%
P2567 Cadence	Oil and gas exploration	40%
P2435 Blackadder	Oil and gas exploration	25%
P2258 Pensacola North	Oil and gas exploration	30%
P2560/P2561/P2562 Breagh Area	Oil and gas exploration	30%

At the balance sheet date there were no contingent liabilities or contingent assets in respect of any of the Joint Operations other than those disclosed in these financial statements in notes 15.

At the balance sheet date there were capital commitments of £881,481 (2020: nil) relating to Pensacola drilling long leads. (2020: nil). These amounts are contained within approved joint venture work programmes for 2022.

Notes to the Financial Statements

for the year ended 31 December 2021

17. Lease Arrangements

Right of use assets

The Company uses leasing arrangements for its office for which a right of use asset is included in property, plant and equipment.

When a lease begins, a liability and right of use asset are recognised based on the present value of future lease payments.

The movements in the right of use asset are presented under the office lease category in note 11.

Lease liabilities

	2021	2020
	£	£
Amounts payable at 1 January	396,453	25,787
Additions	-	398,301
Effective interest expense	34,592	26,049
Lease payments	(116,815)	(53,684)
Amounts payable within one year at 31 December	98,995	92,605
Amounts payable after year at 31 December	215,235	303,848

During the prior year, the Company moved to new office premises, entered into a new lease and relinquished the previous office lease. As a result of which in the prior year the fully depreciated right of use lease asset for the previous office has been disposed and a new right of use lease asset recognised.

18. Related Party Disclosures

Parties are considered to be related if one party is under common control or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Key management personnel are considered to be the Directors of the Company and Persons Discharging Managerial Responsibility. Disclosure regarding remuneration of key management is provided in note 3.

There were no related party transactions for the year. During the prior year, Graham Swindells, the Company's Chief Executive Officer, purchased 1,500,000 ordinary shares at an average market price of 0.81 pence. Sarah McLeod, the Company's Chief Financial Officer, purchased 579,942 at a market price of 0.86 pence.

19. Financial Instruments

Principal financial instruments

The principal financial instruments used by the Company from which the financial risk arises are as follows:

	2021	2020
	£	£
Financial assets		
Cash and cash equivalents – all amounts held in Sterling:		
Cash at bank	10,092,205	11,968,858
	10,092,205	11,968,858
Rental deposit	37,422	37,422
Trade receivables	81,585	3,655
Other receivables	31,848	192
	10,243,060	12,010,127
Financial liabilities		
Trade payables	254,875	50,197
Other payables & accruals	453,949	73,051
Lease liabilities ¹	314,230	396,453
	1,023,054	519,700

¹ £98,995 of the lease liability is payable within one year and £215,235 is payable greater than one year.

Notes to the Financial Statements

for the year ended 31 December 2021

19. Financial Instruments (continued)

General objectives and policies

The overall objective of the Board is to set policies that seek to reduce as far as practical without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are:

Policy on financial risk management

The Company's principal financial instruments comprise cash and cash equivalents, other receivables, trade and other payables. The Company's accounting policies and methods adopted, including the criteria for recognition, the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability and equity instrument are set out in note 1 - "Accounting Policies".

The Company does not use financial instruments for speculative purposes. The carrying value of all financial assets and liabilities approximates to their fair value.

Derivatives, financial instruments and risk management

The Company does not use derivative instruments or other financial instruments to manage its exposure to fluctuations in foreign currency exchange rates, interest rates and commodity prices.

Foreign currency risk management

The Company has very limited transactional currency exposures as all projects currently undertaken are based in the UK.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties. The Company's exposure and the credit ratings of its counterparties are monitored by the Board of Directors to ensure that the aggregate value of transactions is spread amongst approved counterparties.

The Company applies IFRS 9 to measure expected credit losses for receivables, these are regularly monitored and assessed. Receivables are subject to an expected credit loss provision when it is probable that amounts outstanding are not recoverable as set out in the accounting policy. The impact of expected credit losses was immaterial.

The Company's principal financial assets are cash and cash equivalents and other receivables. Cash and cash equivalents include amounts held on deposit with financial institutions, including deposits subject to notice periods of no more than 95 days.

The credit risk on liquid funds held in current accounts available on demand and notice account deposits is limited because the Company's counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

No financial assets have indicators of impairment.

The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets recorded in the financial statements.

Borrowings and interest rate risk

The Company currently has no borrowings.

The Company's principal financial assets are cash and cash equivalents and other receivables. Cash equivalents include amounts held on deposit with financial institutions. The effect of variable interest rates is not significant.

Liquidity risk

During the year ended 31 December 2021, the Company was financed by cash raised through equity funding in the 2019. Funds raised surplus to immediate requirements are held as short-term cash deposits in Sterling.

The maturities of the cash deposits are selected to maximise the investment return whilst ensuring that funds will be available as required to maintain the Company's operations.

In managing liquidity risk, the main objective of the Company is to ensure that it has the ability to pay all of its liabilities as they fall due. The Company monitors its levels of working capital to ensure that it can meet its liabilities as they fall due.

Notes to the Financial Statements for the year ended 31 December 2021

19. Financial Instruments (continued)

The table below shows the undiscounted cash flows on the Company's financial liabilities as at 31 December 2021 and 31 December 2020 on the basis of their earliest possible contractual maturity.

	Total £	Within 2 months £	Within 2 - 6 months £	Within 6 - 12 months £	Within 1 - 2 years £	Within 2 - 5 years £
At 31 December 2021						
Trade payables	254,875	254,875	-	-	-	-
Other payables & accruals	453,949	-	453,949	-	-	-
Lease liabilities	354,740	-	64,250	60,490	96,537	133,463
	1,063,564	254,875	518,199	60,490	96,537	133,463
At 31 December 2020						
Trade payables	50,197	50,197	-	-	-	-
Other payables & accruals	73,051	36,629	36,422	-	-	-
Lease liabilities	481,937	8,946	57,761	60,490	124,740	230,000
	605,185	95,772	94,183	60,490	124,740	230,000

20. Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, to provide returns for shareholders and to maintain an optimal capital structure to manage the cost of capital effectively. The Company defines capital as being share capital plus reserves. The Board of Directors monitor the level of capital as compared to the Company's commitments and, where necessary, adjusts the level of capital as is determined to be necessary by issuing new shares.

The Company was financed by equity in the year ended 31 December 2021 following equity fundraising completed in 2019. Based on the cash and cash equivalents balance at year end and the Company's commitments, the Company has adequate financial resources to cover its budgeted exploration and development programme and meet its other operational obligations as they fall due within the going concern period.

The Company is subject to an externally imposed capital requirement of maintaining a minimum of £50,000 authorised share capital, which it has met in both reporting periods presented.

21. Share-Based Payments

The Company share options are equity-share-based payments as defined in IFRS 2. This standard requires that a recognised valuation methodology be employed to determine the fair value of share options granted. The total share-based payment charge for the year has been derived through applying the Black Scholes model.

Share options

The Company's Share Option Plan pursuant to which options over ordinary Shares may be granted to Directors and employees of the Company, commenced on 4 May 2012. On 31 July 2014, an Enterprise Management Incentives Plan (EMI Plan) was adopted and options held by employees under the Share Option Plan became governed by the EMI Plan at that date.

Any employed Director or employee of the Company is eligible to receive grants under the EMI Plan. Non-executive Directors are not eligible to receive grants. Options are non-transferable except in the case of an option holder's death, in which case the outstanding options may be exercised by the personal representatives of the option holder.

The maximum number of ordinary Shares in respect of which options can be granted under the EMI Plan is 20 per cent. of the Company's issued ordinary share capital, including all awards made over the 10 years preceding the date of the grant. This limit also includes any rights granted under any other employee share incentive arrangements operated by the Company but excludes rights that: (i) have lapsed, been forfeited or released; (ii) will be met by the transfer of shares already in issue; or (iii) are granted to replace an award over shares in a Company acquired by the Company.

The Board of Directors has absolute discretion to grant options, subject to any time vesting or performance conditions that it outlines. The grant of options will be evidenced by an option agreement.

34,000,000 options were granted during the year to 31 December 2021 under the scheme (2020: 6,532,258) and no options expired (2020: nil).

Notes to the Financial Statements

for the year ended 31 December 2021

21. Share-Based Payments (continued)

No share options were exercised during the current or prior year.

The Company recognised a total share-based payment expense of £160,322 for the year ended 31 December 2021 (2020: £147,734) in respect of share options.

The inputs to the Black-Scholes model for options issued in the current and prior year were as follows:

Black Scholes Model	22 September 2021
Share Price	2.05p
Exercise price	2.05p
Expected Volatility	71.77%
Risk Free Rate of Interest	0.4331%
Expected Dividend Yield	0.00%
Expected Life	6.5 years
Number of options issued	34,000,000

Black Scholes Model	15 June 2020	15 June 2020	15 June 2020
Share Price	0.675p	0.675p	0.675p
Exercise price	1.55p	1.55p	1.55p
Expected Volatility	62.22%	62.22%	62.22%
Risk Free Rate of Interest	(0.0095)%	(0.0095)%	(0.0095)%
Expected Dividend Yield	0.00%	0.00%	0.00%
Expected Life	6.5 years	7.0 years	7.5 years
Number of options issued	2,177,420	2,177,420	2,177,418

Under the terms of the options granted during the year, 11,333,333 options (2020: 2,177,420 options) will vest following the share price reaching 2.56p (2020: 2.06p) for 30 consecutive days at any time prior to expiry of the options, 10 years from the grant date, but no earlier than three years after the grant date.

A further 11,333,333 options (2020: 2,177,420 options) will vest following the share price reaching 3.07p (2020: 2.57p) for 30 consecutive days at any time prior to expiry of the options, 10 years from the grant date, but no earlier than three years after the grant date.

The remaining 11,333,333 options (2020: 2,177,418 options) will vest following the share price reaching 3.58p (2020: 3.10p) for 30 consecutive days at any time prior to expiry of the options, 10 years from the grant date, but no earlier than three years after the grant date.

The fair value includes the effect of this vesting condition. Management determined that the above options would be most likely to vest at the earliest possible dates, being three years, four years and five years from grant date as detailed above. The fair value of the options is therefore being amortised over those time periods.

Expected volatility was determined based on the historic volatility of the Company.

Notes to the Financial Statements

for the year ended 31 December 2021

21. Share-Based Payments (continued)

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows:

Year ended December 2021	Number of options	WAEP P
Outstanding at the beginning of the year	94,840,450	2.19
Issued	34,000,000	2.05
Outstanding at the end of the year	128,840,450	2.16
Number exercisable at 31 December 2021	22,941,942	2.54

Year ended December 2020	Number of options	WAEP P
Outstanding at the beginning of the year	88,308,192	2.24
Issued	6,532,258	1.55
Outstanding at the end of the year	94,840,450	2.19
Number exercisable at 31 December 2020	22,908,192	2.54

The weighted average remaining contractual life of options outstanding as at 31 December 2021 was 7 years (2020: 7.1 years). The range of exercise prices relating to options outstanding at 31 December 2021 was 1.33p to 8.0p (2020: 1.33p to 8.00p).

22. Subsequent Events

There were no significant events subsequent to 31 December 2021 to report.

Company Information

Directors

M S Lappin (Chairman)
G C Swindells (Chief Executive Officer)
A J Nunn (Chief Operating Officer)
P N Cowley (Non-Executive)
P W Nicol (Non-Executive)

Joint Secretary

S M McLeod
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