Company Note

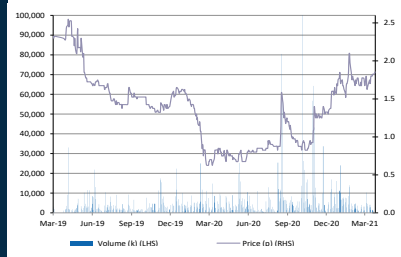
Finals

20 April 2021

Corporate

Current price	**1.825p**
Sector	**Oil & Gas**
Code	**DELT.L**
AIM	**AIM**

Share Performance



	1m	3m	12m
— DELT.L	10.7	9.1	124.8

Source: Thomson Reuters, Allenby Capital

Share Data		
Market Cap (£m)		**25.7**
Shares in issue (m)		**1,406**
52 weeks (p)	High	Low
	2.10	**0.68**
Financial year end		**30 December**

Source: Company Data, Allenby Capital

Key Shareholders	
IPGL (Michael Spencer)	16.8%
Richard Sneller	10.2%
Hargreaves Lansdown	9.7%
Canaccord Genuity	7.8%
Fiske plc	5.3%
Janus Henderson	4.3%

Source: Company Data, Allenby Capital

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Deltic Energy plc (DELT.L)

Successful year and promising outlook

The past year has been highly successful for Deltic. The key highlight was the irrevocable decision by the Shell/Deltic JV at the end of March to drill the Pensacola Zechstein prospect. This decision was an important validation of Deltic's technical capabilities. We would also identify three other important developments. These are the upgrade to the chance of success on Selene, the de-risking of the Cupertino and potentially the Cortez prospects and the award of six licences under the UK's 32nd Licencing Round, including one jointly with Shell. Deltic now believes it has the largest exploration acreage in the prolific Carboniferous sandstone and Permian Zechstein fairway of the SNS (Southern North Sea Basin). Over the next 18 months the potential for positive news flow is excellent. Pensacola is scheduled to be drilled by Shell in May 2022 and we believe Selene will follow shortly thereafter. Further farm-outs are possible.

- **Pensacola prospect**: Pensacola located on P2252 is approximately 75 km east of the Tees estuary on the SE-NW trending Carboniferous sandstone and Zechstein reef fairway of the SNS. It lies in relatively shallow water of about 60m which facilitates the use of low-cost jack-up rigs. Shell is the operator with a 70% interest. Deltic has a 30% interest and from early April will finance its share of licence and well costs. These have been previously estimated by Deltic at £4m. Pensacola is considered by Deltic to be analogous to the ONE-Dyas/Spirit Darach discovery approximately 40 km to the east. This flowed oil (3,500 b/d) and gas under test. Pensacola's P50 prospective resources are 309 bcf and the GCOS (geological chance of success) is 55%. It therefore has critical mass and is low risk pre-drilling. Licence P2258 (Shell 70% and Deltic 30%) located immediately to the north of P2252 is believed by Deltic to contain an extension of the Pensacola prospect.

- **Selene prospect**: Selene, located on P2437, lies about 100 km ENE of the Humber estuary in the SE-NW trending Permian Leman sandstone fairway of the SNS. Jack-up rigs can also be used in this zone. P2437 is owned 50:50 by Deltic and Shell. Operatorship is retained by Deltic until the well decision. According to Deltic, Selene is the largest untested structure in the prolific Leman fairway. P50 prospective resources are put by Deltic at 271 bcf while the GCOS of 70% is as high as can be expected pre-drilling. A key attraction of Selene to Shell is proximity to under-utilised infrastructure. It is situated about 20 km north of Shell's Barque field which in turn is linked to the Clipper Hub and then to the Shell operated Bacton terminal on the Norfolk coast. Capacity was increased at Bacton in 2017 by 20%. Selene is scheduled to be drilled in 2022 as part of a broader Shell programme in the SNS. Deltic's share of well costs is likely to be about £4.5m. Deltic has a partial free-carry on Selene given that Shell finances 75% of first well costs up to $25m.

- **Pensacola/Selene work programme:** The Pensacola work programme is focused on well planning and design. The other key tasks before well spudding are a site survey, the rig contract, OCTG procurement and rig mobilisation. Drilling will take about 40 days for both the Pensacola and Selene wells. Depending on the exact nature of Shell's drilling schedule in 2022, it could be cost effective to drill Pensacola and Selene sequentially.

Year End: 31 December					
(£'000)	**2018**	**2019**	**2020**	**2021E**	**2022E**
EBITDA	(1,653)	(1,589)	(1,587)	(1,601)	(1,619)
NET CASH FLOW	409	12,423	(1,940)	(3,457)	(8,966)
NET CASH	1,426	13,849	11,969	8,512	(454)

Allenby Capital acts as Nomad & Broker to Deltic Energy plc (DELT.L).

Cortez and Cupertino

Located in heart of Carboniferous and Zechstein fairway: Cortez and Cupertino are two relatively early-stage exploration projects located on P2424 and P2428 respectively in the heart of the Carboniferous sandstone and Permian Zechstein reef fairway. The fairway hosts some of the largest UK SNS gas fields such as Breagh (Ineos), Cygnus (Neptune Energy) and Pegasus (Spirit Energy). Both Cortez and Cupertino are potentially large Carboniferous prospects. A formal farm-out process was commenced on the Cupertino block in December 2020. According to Deltic significant interest has been shown by established operators working in the UK Continental Shelf.

P2428 contains three play types: P2424 lies immediately east of the Breagh field and contains the Cortez and Cortez South leads. On its southern boundary, P2428 is situated about 20 km north of Pegasus and a similar distance north east of P2424. It contains the Cupertino Carboniferous Scremerston and the Richmond Leman sandstone and Plymouth Zechstein carbonate prospects. Considerable evaluation work has been undertaken on both Cortez and Cupertino over the past year or so based on reprocessed legacy 2-D seismic.

Upgrade of Cupertino Carboniferous lead to prospect: In the case of Cupertino, the previous lead was upgraded to prospect and significantly the Richmond and Plymouth prospects were identified for the first time. Cupertino is a four-way dip closed structure. Significantly, the Scremerston sandstones provide reservoir rocks elsewhere in the Carboniferous fairway, including at Breagh. Deltic puts P50 prospective resources at Cupertino at a highly meaningful 379 bcf or 63mm boe. The GCOS is estimated by Deltic at 26% which is normal at this stage of evaluation without the benefit of 3-D seismic.

Leman play: The Richmond prospect overlays Cupertino and is primarily a Leman sandstone play with upside in the Carboniferous. Deltic hypothesizes that gas is trapped in the Carboniferous by the BPU (Base Permian Unconformity) boundary structure. It sees analogies with the three-way dip and fault structure of Richmond and the Cygnus field. Deltic's estimate of P50 prospective resources for Richmond is 243 bcf while the GCOS in the dominant Lehman formation is given as 20%.

Zechstein play: Plymouth is a Zechstein reef play which Deltic believes is analogous to Pensacola. Deltic estimates P50 prospective resources of 282 bcf while the GCOS is given as 19%. Further de-risking of Plymouth and the Richmond and Cupertino prospects will require 3-D seismic. Deltic believes that a potential joint-venture partner would initially focus on obtaining high quality 3-D data.

Evaluation of reprocessed Cortez 2-D seismic: Work on Cortez has focused on reprocessing legacy 2-D seismic on the western part of licence P2424. In total, 650 km lines of data have been reprocessed to pre SDM (stack-depth migration) standards. Deltic obtained the data in December a few months later than expected due to use of more advanced techniques to improve pre-salt imaging and covid-related inefficiencies. Work has commenced on the re-interpretation and integration of the new seismic data with the primary focus on the Cortez South prospect. This is similar to the Cupertino and Cadence Carboniferous sandstone prospects on contiguous licences to the east. Deltic currently estimates that Cortez South has P50 prospective resources of 331 bcf while the GCOS is put at 28%. After evaluation of the reprocessed data and the construction of a geological model, including Cupertino, Deltic believes the latter is capable of enhancement. We believe Cortez could evolve as a farm-out candidate by late 2021 or early 2022.

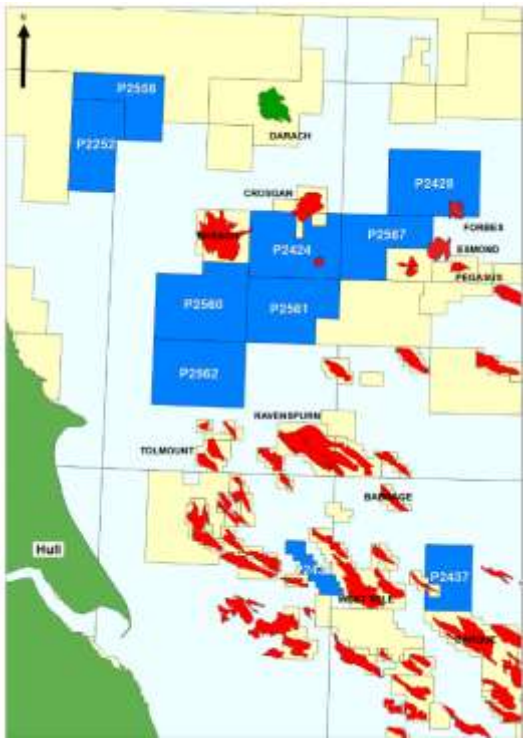
Strategic position in the Carboniferous-Zechstein fairway

Unparalleled central Carboniferous-Zechstein acreage: Following the 32nd Licencing Round, Deltic has established a major strategic exploration position in the heart of the Carboniferous-Zechstein fairway towards the northern margin of the SNS Basin. This reflects the award of three contiguous licences, P2560, P2561 and P2561 broadly to the

south of the Breagh field and P2567 to the east of licence P2424 which was obtained in an earlier licencing round. P2567 contains the Carboniferous Cadence prospect and was a reacquisition of acreage. The contiguous area is 2,730 km² and extends broadly from the Tolmount gasfield in the south west, to Breagh in the north and towards Cygnus and Pegasus in the east. We believe this acreage position is unparalleled in the central Carboniferous-Zechstein fairway.

The area between Breagh and Tolmount fields is an underexplored part of the SNS Basin. Deltic, however, believes the zone has potential in the Carboniferous and Leman sandstones and the Zechstein carbonates. Apparently, there is also a significant legacy seismic dataset available that should respond well to modern re-processing techniques.

Exhibit 1: Deltic's SNS licence interests



Source: Company

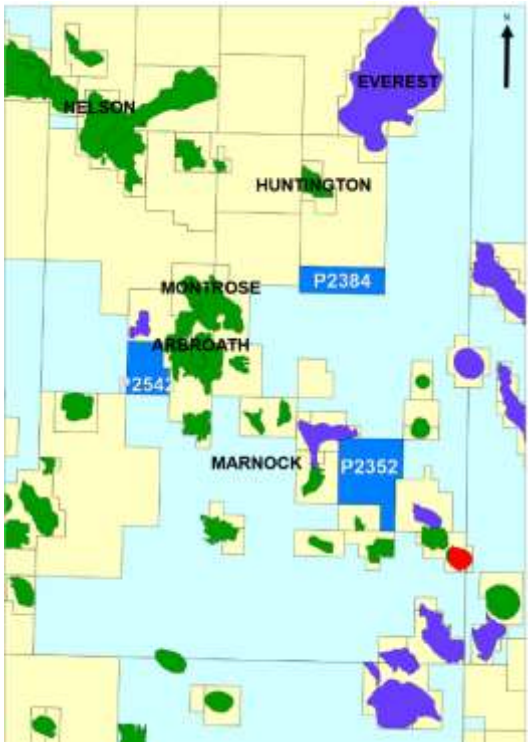
Dewar

Third most advanced project: Deltic has a 100% interest in licence P2352 which contains the Dewar liquids prospect. Located in the prolific Central Graben oil province about 300 km east of Aberdeen, it is Deltic's third most advanced project. A farm-out process commenced in July 2019 and initially attracted some interest. Not surprisingly, however, interest rapidly dissipated in 2020 with the collapse in oil prices. As a result, the farm-out has been put on hold, although Deltic is optimistic that with the rebound in oil prices in recent months farm-out interest will resurface. We regard Dewar as a relatively low-risk liquids play with adequate critical-mass and good proximity to infrastructure. This includes the adjacent BP operated Eastern Trough Area Project.

Significant P50 liquids and relatively low-risk: Deltic estimates P50 prospective resources for Dewar at 39.5mm barrels while the GCOS is put at 41%. This implies relatively low risk pre-drilling. The Central Graben is prospective for oil and gas in Palaeocene Forties, Jurassic Pentland and Triassic Skagerrak sandstones. Based on data from previous drilling and modern 3-D seismic, Deltic created a new geological model for the promising Dewar Forties sandstone prosect in 2019.

P2542 close proximity to large Glengorm discovery: In the 32nd Licencing Round Deltic obtained licence P2542 in the Central Graben about 200 km east of Aberdeen and around 50 km north west of Dewar. The licence is in a well-established oil and gas producing area and lies on the flanks of the Arbroath-Montrose high between the Glengorm discovery (CNOOC/Total) and the Carnoustie and Montrose fields. It contains the Syros prospect which will be evaluated during Phase A of the licence. Note, the Glengorm discovery announced in January 2019 is one of the largest in the UK sector of the North Sea in recent years with recoverable gas and condensate resources, according to the operator, of 250mm boe (1,500 bcfe). Significantly, the operator has also referred to similarities with Total's Culzean project immediately to the south east of Dewar.

Exhibit 2: Deltic's Central Graben licence interests



Source: Company

Blue hydrogen potential

Hydrogen produced cheaply from natural gas but with an emissions penalty: Hydrogen is currently used primarily in the production of ammonia and in petroleum refining (hydrocracking). The key application for ammonia is in the production of fertilizers. Given its ability to produce electricity in conjunction with oxygen in a fuel cell and its reactivity in the presence of catalysts at high temperatures, hydrogen is seen by many as a means of furthering a decarbonisation and electrification strategy. The problem is producing hydrogen cost effectively and without emissions. Presently, around 95% of hydrogen is produced using either natural gas or coal as a feedstock. Natural gas is typically the feedstock of choice using the steam reforming process. Hydrogen can be produced cheaply ($1-1.75/kgH) by this method but significant amounts of carbon dioxide are emitted. This is the so-called black hydrogen.

The electrolysis of water provides an alternative but is extremely expensive: In principle, hydrogen can be produced through the electrolysis of water but this is power intensive and extremely expensive ($6+/kgH). Hydrogen produced by this method is not surprisingly known as green. Note here, the issue is not simply one of cost but also electricity supply assuming the use of renewables as the energy source. At the margin renewables only generate small quantities of power which is one of their key drawbacks.

Blue hydrogen produced from natural gas with CCS potentially provides an answer: The answer to the apparent dilemma appears to be so-called blue hydrogen. This is effectively a compromise between economic and emission objectives. Blue hydrogen continues to be produced via the steam reforming or similar process but the carbon emissions are captured and stored underground (CCS). The process will be clearly more expensive ($1.5-2,25/kgH) than black hydrogen but much cheaper than the green variety. It will not, however, be entirely emission free. Compared with black hydrogen, the blue variety will cut CO2 emissions by about 90%.

A blue hydrogen hub requires reliable gas supplies and midstream pipeline infrastructure: To establish a viable base for producing blue hydrogen at least two requirements will need to be met. These are a reliable supply of preferably internationally competitively priced gas and an established distribution network. The former requirement probably necessitates a nearby, logistically convenient source of supply. As far as distribution is concerned, existing natural gas pipelines can provide a solution. Captured CO2 could be reinjected into North Sea wells.

Bacton gas terminal would make an ideal blue hydrogen hub: Significantly, in a recent study the OGA (Oil and Gas Authority) has suggested that the Shell operated Bacton terminal would provide an ideal hydrogen production hub having both the links upstream to gas fields and midstream/downstream to markets in South East England and the Midlands. Interestingly, BP has recently announced its intention to create a blue hydrogen hub on Teesside. Another obvious location for a hub would be Humberside given its access to gas via existing infrastructure and the concentration of process industries in the area, including steel at Scunthorpe. By the 2030s we believe that blue hydrogen production will be a major market for North Sea gas.

Financials

2020

No great surprises: There were no great surprises on the financial front in the recent 2020 preliminary statement announcement. The cash position at 2020 year-end was £11.97m, down from £13.85m a year earlier. The cash outflow for the year of £1.88m reflected £1.37m relating to operations and £0.51m to project-related and financing activities. The project-related outflow appears reasonable considering the work programme. Significantly, income statement administrative expenses in 2020 at £1.70m were marginally down on the £1.71m of a year earlier despite the costs associated with two takeover approaches. G&A has been successfully held in check over the past year by the move to smaller lower cost office space and the tighter control of contractor costs.

2021/22

End March cash of £11.5m: Deltic has reported a cash position at end March 2021 of £11.52m. The cash outflow averaging £0.15m/month since end 2020 was therefore slightly less than the average for 2020 of £0.16m. It should be noted, however, that from the beginning of April Deltic will be responsible for its share of P2252 licence and Pensacola project costs. The average cash outflow is therefore likely to accelerate in the coming months. We believe that Deltic is adequately financed for the planned Pensacola and Selene wells assuming that drilling is undertaken by early in the third quarter.

End 2021 cash forecast of £8.5m: We look for a cash position at end 2021 of £8.5m which is up £0.5m compared with our March 29, 2021 note reflecting a reassessment of Pensacola outlays between 2021 and 2022. The cash forecast assumes G&A of £1.72m, up 1% on the previous year and £2.0m for project related outlays. The latter reflects £1.5m for Deltic's share of Pensacola licence and project costs and £0.5m for other project-related spending.

Hefty cash outflow in 2022 of £9m reflecting two wells: For 2022 we are looking for a Deltic cash outflow of almost £9m. This reflects carryover financing of the Pensacola well of £2.50m, Selene well costs of £4.50m, other project related spending of £0.50m and an operational outflow of £1.48m. The overall outflow would imply theoretical net debt at 2022 year-end of £0.45m. This compares with net debt of £0.27m given in our March 29 note with the variance reflecting a slightly higher G&A assumption.

Exhibit 3: Summary financials (£000s)						
Year end: 30 December						
INCOME STATEMENT	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**
Administrative Expenses	(1,592)	(1,661)	(1,709)	(1,699)	(1,716)	(1,734)
Impairment charge	0	1	(801)	0	0	0
Operating Profit	**(1,592)**	**(1,660)**	**(2,510)**	**(1,699)**	**(1,716)**	**(1,734)**
Finance Income/other	1	1	150	34	25	8
PBT	**(1,590)**	**(1,659)**	**(2,360)**	**(1,666)**	**(1,691)**	**(1,726)**
Taxation	-	-	-	-	-	-
Net Income	**(1,590)**	**(1,659)**	**(2,360)**	**(1,666)**	**(1,691)**	**(1,726)**
Comprehensive Loss	**(1,590)**	**(1,659)**	**(2,360)**	**(1,666)**	**(1,691)**	**(1,726)**
EBITDA	**(1,473)**	**(1,653)**	**(1,589)**	**(1,587)**	**(1,601)**	**(1,619)**
Avg. Shares Basic (m)	343.9	475.4	979.6	1,406.0	1,406.0	1,406.0
EPS (reported) p	**(0.46)**	**(0.35)**	**(0.24)**	**(0.32)**	**(0.12)**	**(0.12)**
CASH FLOW	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**
Net Loss for the year	(1,590)	(1,660)	(2,360)	(1,666)	(1,691)	(1,726)
Change in receivables	54	7	(17)	38	0	0
Change in payables	(10)	2	21	30	0	0
Depreciation	5	8	120	113	115	115
Other	0	(2)	651	(31)	(25)	0
Share Based Payments	114	122	172	148	148	148
Net Operating cash flow	**(1,428)**	**(1,523)**	**(1,413)**	**(1,368)**	**(1,454)**	**(1,463)**
Acquisition of PPE	(2)	(10)	(6)	(160)	(3)	(3)
Exp and Eval assets additions	(224)	(665)	(896)	(359)	(2,000)	(7,500)
Other	1	0	(80)	(54)	0	0
Proceeds from farm-out			470	0	0	0
Proceeds from issue of shares	962	2,607	14,348	0	0	0
Net cash flow	**(691)**	**409**	**12,423**	**(1,940)**	**(3,457)**	**(8,966)**
Net cash/(debt)	**1,017**	**1,426**	**13,849**	**11,969**	**8,512**	**(454)**
BALANCE SHEET	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**
Intangible assets	775	1,617	1,128	1,431	3,382	10,885
Property, Plant & Equipment	4	12	47	497	496	381
Other	54	54	0	37	0	0
Total Non-Current Assets	**833**	**1,683**	**1,175**	**1,965**	**3,878**	**11,266**
Receivables	89	82	130	54	54	54
Cash & Cash Equivalents	1,017	1,426	13,849	11,969	8,512	500
Total Current Assets	**1,106**	**1,508**	**13,979**	**12,023**	**8,566**	**554**
Total Assets	**1,939**	**3,191**	**15,154**	**13,988**	**12,444**	**11,820**
Non-Current Liabilities	0	0	0	304	304	
Trade payables	112	269	173	153	153	153
Other payables	100	127	26	93	93	93
ST debt	0	0	0	0	0	954
Current Liabilities	**213**	**396**	**199**	**246**	**246**	**1,200**
Total Liabilities	**213**	**396**	**199**	**550**	**550**	**1,200**
Net assets	**1,727**	**2,795**	**14,956**	**13,438**	**11,894**	**10,316**
Net cash/(debt)	**1,017**	**1,426**	**13,849**	**11,969**	**8,512**	**(454)**
Shareholder Equity	1,727	2,795	14,956	13,438	11,894	10,316
Total Equity & Liabilities	**1,939**	**3,191**	**15,154**	**13,988**	**12,444**	**11,820**

Source: Company; Allenby Capital

Valuation

Risked and success case valuations: We continue to show valuation on two bases. One is on a risked basis across the portfolio for those projects and licences where prospective resources have been defined. We risk using the geological chance of success for each project. Usually, we would also dilute for prospective share issues but given that Delta has already raised equity to finance the Pensacola and Selene wells we have left this step out of the calculations. The other approach applied is a success case estimation for the three leading projects, Pensacola, Selene and Dewar. The underlying valuations reflect the P50 prospective resources for each project and a subjectively determined dollar denominated valuation quotient based on our understanding of the marketplace for comparable exploration plays. Note, we make no allowance for balance sheet cash in the valuations given that this earmarked for specific projects and will soon be expended.

Modest downgrade due to a more conservative assessment of recovery factors at Selene: Looking firstly at the risked approach across the portfolio, our Deltic absolute valuation is £214m based on an exchange rate of £1=$1.37. Using the current number of shares in issue this translates into 15.2p/share. This reflects a substantial premium to the mid-April 2021 share price of 1.825p. Our current valuation reflects a downgrade from the 16.4p/share given in our March 29 report mainly reflecting a reassessment of P50 resources for the Selene prospect. Net un-risked resources here have been reduced from 173 bcfe to 135 bcfe (net risked down from 121bcfe to 95 bfce). This stems from Deltic taking a more conservative view of recovery factors after an in-depth analysis of fields with similar reservoir characteristics to Selene.

Our new success case valuation for the three leading prospects is £211m or 15.0p/share assuming an exchange rate of £1=$1.37. This compares with £234m or 16.6 p/share previously on the same exchange rate basis. The downgrade reflects the same factor as for the risked calculation.

Exhibit 4: Revised risked valuation

				Gross un-risked		Net un- risked			Net risked		Valuation		Net risked	
		Location/	WI	P50 resources		P50 resources		GCOS	P50 resources		quotient		valuation	
Projects	**Licence**	**geology**	**%**	**bcfe**	**mmboe**	**bcfe**	**mmboe**	**%**	**bcfe**	**mmboe**	**$/boe**	**$m**	**£m**	**p/share**
Three leading projects														
Pensacola	P2252	SNS, PZ, Csst	30	310	52	93	16	55	51	9	5.0	42.6	31.1	2.2
Selene	P2437	SNS, PLsst	50	270	45	135	23	70	95	16	5.0	78.8	57.5	4.1
Dewar	P2352	CNS, Pal Fsst	50	237	40	119	20	40	47	8	5.0	39.5	28.8	2.1
Total leading projects				**817**	**136**	**347**	**58**		**193**	**32**		**160.9**	**117.4**	**8.4**
Other projects														
Other	P2252	SNS, PZ, Csst	30	213	36	64	11	44	28	5	2.0	9.3	6.8	0.5
Other	P2437	SNS, PLsst	50	102	17	51	9	40	21	3	2.0	6.9	5.0	0.4
Other	P2424	SNS Trsst, Csst	50	656	109	328	55	32	105	17	2.0	35.0	25.5	1.8
Other	P2428	SNS Csst, Plsst, PZ	50	895	149	447.5	75	23	103	17	2.0	34.3	25.0	1.8
Other	P2435	SNS, PLsst	25	135	23	34	6	54	18	3	2.0	6.1	4.4	0.3
Other	P2567	SNS Trsst, Csst		1,124	187	562	94	22	124	21	2.0	41.2	30.1	2.1
Total				**3,125**	**521**	**1,486**	**248**		**398**	**66**		**132.8**	**96.9**	**6.9**
Total all licences				**3,942**	**657**	**1,833**	**305**		**591**	**99**		**293.6**	**214.3**	**15.2**

Source: Company; Allenby Capital

Exchange rate: £1=$1.37

Per share calculations based on 1405.96m shares in issue

Note: Working interests for P2252 and P2437 take into account the Shell farm-in

Working interests for P2352, P2424 and P2428 assume a farm-down from 100%

Working interest for P2435 is the actual status as of November 2020.

SNS is Southern North Sea, CNS is Central North Sea.

PZ is Permian Zechstein, Csst is Carboniferous sandstone; PLsst is Permian Leman sandstone; Pal Fsst is Paleocene Forties sandstone; Trsst is Triassic sandstone

Exhibit 5: Valuation success case

	Working interest post farm-in	Net un-risked P50 resources		Valuation quotient	Net un-risked valuation		
Prospect	**%**	**bcfe**	**mmboe**	**$/boe**	**$m**	**£m**	**p/share**
Pensacola	30	93	15.5	5.00	77.5	57	4.0
Selene	50	135	22.5	5.00	112.5	82	5.8
Dewar	50	119	19.8	5.00	98.8	72	5.1
Total		**347**	**57.8**		**288.8**	**211**	**15.0**

Source: Company; Allenby Capital

Note: Conversion 6,000 cf/boe, exchange rate £1=$1.37, Dewar working interest assumes a farm-down from 100%, working interests for Pensacola and Selene are post the Shell farm-outs, per share calculation based on 1,405.96m shares in issue, Dewar per share not diluted for CLNR share of drilling costs.

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