Company Note

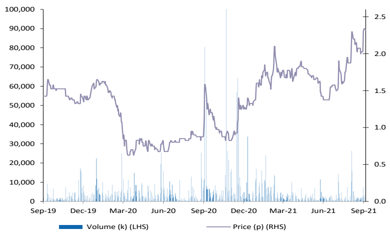
Interims

14 September 2021

Corporate

Current price	**2.325p**
Sector	**Oil & Gas**
Code	**DELT.L**
Listing	**AIM**

Share Performance



	1m	3m	12m
DELT.L	+16%	+69%	+58%

Source: Reuters Eikon, Allenby Capital

Share Data		
Market Cap (£m)		**32.7**
Shares in issue (m)		**1,406**
52 weeks (p)	High	Low
	2.34	**0.83**
Financial year end		**30 December**

Source: Company Data, Allenby Capital

Key Shareholders	
IPGL (Michael Spencer)	16.8%
Richard Sneller	10.6%
Hargreaves Lansdown	9.9%
Canaccord Genuity	7.7%
Fiske plc	4.4%
Janus Henderson	4.3%

Source: Company Data, Allenby Capital

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Equity Research

Deltic Energy plc (DELT.L)

Highly successful 2021, high-impact news potential

Deltic Energy has had a highly successful 2021 year-to-date, as indicated in the interim statement. The key events have been the well investment decision in March for the Pensacola Zechstein prospect and the farm-out deal with Cairn Energy (CNE.L) in August over five licences in the Carboniferous/Zechstein fairway, towards the northern margin of the Southern North Sea Basin (SNS). The farm-outs firstly with Shell in 2019 and then Cairn have validated Deltic's strategic focus on the Carboniferous fairway along with its technical capabilities. Importantly, they have also provided visibility on the road to monetisation. We see excellent scope for some high-impact news flow in the coming months. Scheduled and potential developments include a well investment decision on the highly prospective Selene prospect by end 2021, Pensacola drilling in Q2 2022 and a Cairn 3-D seismic shoot over licence P2428 in September/October 2021. Deltic is comfortably financed through at least Pensacola drilling.

- **P2252 (Pensacola):** The licence lies approximately 75 km east of the Tees estuary in relatively shallow water of about 60m. Shell is the operator with a 70% interest. Deltic has a 30% interest and since the well decision in late March has been financing its share of licence and well costs. These are estimated at £4m by Deltic plus a further £1.5m for testing in a success case. Pensacola is a Zechstein carbonate reef prospect analogous to the ONE-Dyas/Spirit Darach discovery approximately 40 km to the east. With P50 prospective resources of 309 bcf gross the resource base is highly meaningful. The GCOS (geological chances of success) was substantially increased following Shell's 3-D seismic survey in Q3 2019 from 20% to 55% which is very high pre-drilling. Pensacola well planning along with the site survey are now underway. A commercial discovery at Pensacola would clearly be transformational for Deltic.

- **P2437 (Selene):** P2437 is located c.100 km east of the Humber estuary in the prolific and well-established Leman Sandstone fairway. The licence is owned 50:50 by Shell and Deltic and will be operated by the latter until a final well decision is made. Deltic believes that Selene is the largest untested structure in the Leman fairway. It has meaningful P50 prospective resources of 270 bcf gross and a GCOS of 70%, a very high probability pre-drilling. Crucially, Selene is close to underutilised Shell owned infrastructure which is linked to the Bacton terminal on the Norfolk coast. Following delays on the final investment decision, Deltic believes that the earliest a Selene exploration well could be drilled is late 2022. Shell is scheduled to finance 75% of well costs. Deltic estimates its share of well costs at £4.5m (gross well costs $25m).

- **Cairn farm-in:** The Cairn farm-in involves two licences in the heart of the Carboniferous/Zechstein fairway of the SNS and three to the south of Ineos's Breagh field. Cairn will become the operator of the licences following expected regulatory approval at end September. Its working interest will be 60% for P2428 and P2567 which contain the most advanced projects Cupertino and Cadence and 70% for the other three licences. The farm-ins involve free-carry work programmes until the drill or drop decision. Near-term, the key aspect of the work programme is the P2428 3-D seismic shoot. This has commenced. Cairn will pay $1m for licence back costs and will finance 70% of well costs for the two most advanced projects. There will, therefore, be an element of free-carry which Deltic puts at $2.5m/well.

Year End: 31 December					
(£'000)	**2018**	**2019**	**2020**	**2021E**	**2022E**
EBITDA	(1,653)	(1,589)	(1,587)	(1,601)	(1,619)
NET CASH	1,426	13,849	11,969	9,242	276)

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

Please refer to the last page of this communication for all required disclosures and risk warnings.

P2478-Cupertino Area

Licence P2428 is the initial focus of the Cairn joint-venture with new seismic acquisition over the Plymouth prospect having commenced on 11th September. The licence acreage is located approximately 40 km to the west of the Cygnus gas field and about 20 km north of Spirit Energy's proposed development of the Pegasus discovery.

Deltic has previously reported three independent prospects within the licence area.

- The Cupertino prospect, a low relief dip and fault closed structure in Carboniferous Scremerston Sandstone. The Scremerston forms reservoir rocks elsewhere in the fairway including the Breagh gas field and the Crosgan discovery.

- Richmond, a Leman Sandstone prospect, which has been described by Deltic as geologically similar to the giant Cygnus gas field (Neptune Energy and Spirit Energy) to the east

- The Plymouth prospect, a large Zechstein carbonate reef structure which is believed by Deltic to be an analogue of the Pensacola and Crosgan prospects located about 60 km to the WNW and 30 km to the west respectively. The Plymouth prospect will initially be the primary exploration target.

Using legacy reprocessed 2-D seismic, Deltic has estimated P50 prospective resources for the Plymouth prospect of 282 bcf with a GCOS of 19%. The Cupertino and Richmond prospects have combined P50 recoverable resources of approximately 580 bcf which provides significant scale and optionality on the licence. The 3-D seismic data acquisition over P2428 will improve the joint-venture's geological understanding of the three prospects. It should also increase the GCOS and help identify potential drilling locations on the Plymouth structure. The final processed 3-D data set for P2428 is expected to be delivered by mid-2022. We believe the free-carry on the seismic alone is worth in excess of $5m.

Based on the terms of the licence, the Cairn-Deltic joint-venture will need to make a drill or drop decision by end-September 2023. This timing looks very plausible at this juncture, given that the 3-D seismic survey has already begun. We believe the earliest that a well could be drilled on Cupertino targeting the Plymouth prospect would be late 2023. This assumes about three months for evaluation work post seismic and a year or so for well permitting and planning. Deltic's share of gross well costs of $25m is likely to be about $7.5m.

P2567-Cadence Area

P2567 lies immediately to the south-west of P2428 and west of the Pegasus field. It contains multiple prospects in both the Triassic and Carboniferous sandstones. The latter is likely to be the initial focus of the Deltic-Cairn joint-venture and contains the Cadence and Cordova prospects. Cadence is a large dip and fault sealed structure with reservoir potential in multiple sandstones. Cordova, by comparison, is a Base Permian Unconformity trap similar to the nearby Pegasus (Spirit Energy) and Andromeda (Spirit Energy) discoveries. Combined P50 prospective resources for the licence, which is spread across a number of independent prospects, have been estimated by Deltic at 1,124 bcf. The GCOS for the prospects range from 16% to 37% which is typical for this part of the North Sea.

Legacy 3-D seismic covers 100% of the licence area. Deltic expects that technical work over the coming months will focus on the reprocessing of the legacy 3-D seismic to improve sub-surface image quality. This will be followed by the detailed technical evaluation of the previously identified prospectivity. The latest the OGA can be informed about drilling intentions is early September 2023. Given the legacy 3-D seismic is available, the lead time to drilling could be shorter than for P2428. Cairn may, we believe, conceivably undertake a broader sequential drilling programme on the Carboniferous fairway in 2023/24.

South of Breagh

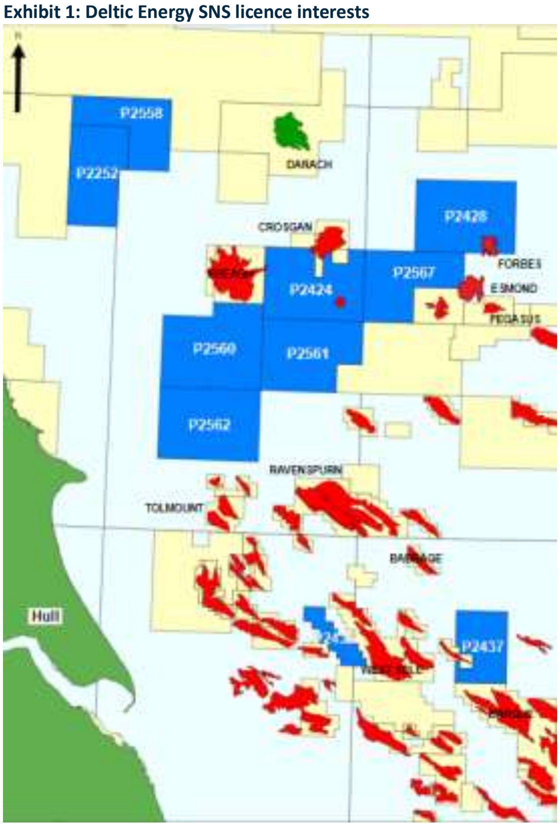
The South of Breagh Cairn farm-out deal includes three licences, P2560, P2561 and P2562. These are located in a zone of the Carboniferous fairway between the Breagh field (Ineos) in the north and the Tolmount field (Harbour energy HBR.L, formerly Premier Oil and Chrysaor) in the south. All three licences contain early-stage projects.

Surprisingly perhaps given their proximity to Breagh and Tolmount, little exploration has been undertaken South of Breagh. Deltic, however, believes that the zone has significant potential in the Carboniferous sandstones, Permian Leman sandstones and the Permian Zechstein carbonates. The initial work programme for South of Breagh is likely to focus on reprocessing legacy 2-D and 3-D seismic data.

Blackadder

Deltic has a 25% working interest in the Parkmead (PMG.L) operated P2435 which contains the Blackadder prospect and the Bob technical discovery. The licence is located in the heart of the SE-NW trending Leman sandstone fairway approximately 50 km due west of P2437 (Selene). All work commitments were completed on P2435 in 2019 since when the licence has effectively been on care and maintenance. Against the background of the powerful recovery in natural gas prices in 2021, Deltic has suggested that in conjunction with Parkmead it is interested in resurrecting the Blackadder project. Phase A runs until September 30, 2022.

Exhibit 1: Deltic Energy SNS licence interests



Source: Company

Dewar

Deltic has a 100% working interest in P2352 which contains the Dewar prospect and is situated in the CNS (Central North Sea) Graben, a prolific oil and gas condensate producing province. The Dewar prospect is based on a Forties sandstone channel lies about 240 km east of Aberdeen. High quality 3-D seismic has been shot over the licence. Significantly, the Dewar prospect is supported by a clear amplitude versus offset (AVO) anomaly. Water depths in the vicinity of Dewar are modest in exploration terms at about 90m. Jack-up rather than more expensive semi-submersible rigs can therefore be used for drilling. Deltic has put dry-hole costs at £17-20m.

Dewar has significant P50 prospective resources of 39.5mm barrels and is relatively low-risk with a GCOS of 39.5%. It is located only 5 km south-east of the BP operated Eastern Trough Area Project (ETAP) central processing facility. ETAP includes nine fields which according to industry reports contains reserves of over 500mm boe. Deltic commissioned a commercial feasibility study in 2019 which suggested that a Dewar project would be 'highly economic.' Key positives are critical-mass in terms of resources and proximity to infrastructure.

A farm-out process was commenced for Dewar in July 2019. After some initial interest, the coronavirus unfortunately intervened. Deltic, however, believes that following the strong recovery in Brent over the past year to $70/barrel plus farm-in interest in Dewar could be rekindled in the coming months. According to Deltic, Dewar is drill ready.

Exhibit 2: Deltic Energy CNS interests

Source: Company

Syros

In the 32nd Licensing Round Deltic added significantly to its CNS interests with the award of the 100% owned P2542 licence. This is situated about 40 km north-west of Dewar on the western flank of the Montrose-Arbroath high, an established hydrocarbon producing zone. P2542 contains the Jurassic Fulmar sandstone Syros prospect which has been identified using 3-D seismic. Immediately to the north of P2542 is Repsol's Cayley gas field.

As yet, Syros has no assigned prospective resources. Deltic has however indicated that technical work has commenced on evaluating P2542. The aim is to commence farm-out marketing in mid-2022.

Commodity price backdrop

Natural gas markets around the world have changed out of all recognition over the past year and the North Sea has been no exception. Rather than there being supply surpluses there are now acute supply deficits. As of early September 2021, the UK NBP (National Balancing Point) benchmark was trading at £1.40/therm or $19.3/mm Btu. This compares with a mere £0.28/therm or $3.65/mm Btu a year previously and is easily at least a 20-year high for the NBP. In an increasingly integrated world for natural gas, the NBP marker is also very similar to the Dutch TTF, the northern European benchmark and indeed international LNG prices. One effect of the rise in natural gas prices in Europe has been a surge in wholesale power costs. Interestingly, gas prices in Europe currently are comfortably above parity with oil on a thermal equivalent basis. A gas price of $19/mm Btu is equivalent to about $114/barrel.

Natural gas market tightness reflects a cocktail of strong demand, supply constraints and historically low inventories. On the supply side in Europe the underlying driver appears to be a decline in pipeline supplies from Russia reflecting in part technical issues and in part strong Russian domestic demand. LNG supplies in Europe are also tight reflecting in particular robust demand for power generation requirements during the northern hemisphere summer and possibly attempts to cut back on emissions from coal-fired power stations. European natural gas demand, we believe, has been boosted in recent months by a powerful combination of the following:

- The reopening of economies in the wake of the easing of the coronavirus crisis.
- Seasonally hot conditions during the summer months which has raised power usage for air conditioning.
- A decline in renewables power generation reflecting light winds associated with predominate high-pressure systems.
- The phasing out of coal-fired power stations. The combination of this plus the renewables issue has meant that there has been no alternative to using more gas-fired power generation.

We believe European gas prices are likely to continue to be buoyed near-term given apparently depleted inventories and a scramble for supplies ahead of winter in the northern hemisphere. Seasonally cold winter conditions could indeed continue to exert upward pressure on natural gas prices. Conversely, a mild winter could take some of the steam out of the gas market.

While the spot market is certainly interesting presently for existing producers the forward curve is arguably of greater relevance when making a long-term investment decision on new gas production facilities. Looking at the NBP forward curve we note that it is in marked backwardation (near-term prices higher than those further along the curve) through 2024 with a drop from $19/mm Btu to $9/mm Btu. The curve then dips down more moderately to $7.5/mm Btu in 2028. Importantly, however, prices at the backend of the curve, we believe, still imply comfortable levels of profitability even after allowing for capital costs. Now is an auspicious time to be seeking joint-venture partners for natural gas exploration and development projects.

Exhibit 3: NBP price trend

Source: Refinitiv

Financials

As expected, Deltic's financial position remains comfortable in relation to its near to medium-term spending commitments. At end June 2021 the cash position was £11.1m. In our August 13 note we suggested cash was about £10.9m at end July and we think at end August it may have been around £10.7m. Note, following the finalisation of the Cairn farm-in agreement at end September Deltic will receive $1m or about £715,000. Cash usage will, however, probably increase in the closing months of the year reflecting Pensacola licence and well preparation costs. This will clearly become a more significant factor in 2022.

We are retaining our 2021 and 2022 end-year cash forecasts of £9.24m and £276,000 respectively. The former reflects an outflow from operations of £724,000 plus capital spending of £2.0m. The forecast for 2022 reflects outflows of £1.46m for operations and £7.5m for capital spending. The latter reflects not only the Pensacola but also a Selene well. Our capital expenditure split for 2022 is: Pensacola £2.50m, Selene £4.50m and other £0.50m. In the absence of Selene drilling and assuming no preparatory work capital spending in 2022 would be nearer £3.0m. The implied end 2022 cash position on this basis would be £4.8m.

Exhibit4: Summary Financials (£'000), Y/E 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	755	8
PBT	(1,590)	(1,659)	(2,360)	(1,666)	(961)	(1,726)
Taxation	-	-	-	-	-	-
Net Income	(1,590)	(1,659)	(2,360)	(1,666)	(961)	(1,726)
Comprehensive Loss	(1,590)	(1,659)	(2,360)	(1,666)	(961)	(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 (report) p	(0.46)	(0.35)	(0.24)	(0.32)	(0.07)	(0.12)

CASH FLOW	2017	2018	2019	2020	2021E	2022E
Net Loss for the year	**(1,590)**	**(1,660)**	**(2,360)**	**(1,666)**	**(961)**	**(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)**	**(724)**	**(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)**	**(2,727)**	**(8,966)**
Net cash/(debt)	**1,017**	**1,426**	**13,849**	**11,969**	**9,242**	**276**

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	9,242	276
Total Current Assets	1,106	1,508	13,979	12,023	9,296	330
Total Assets	**1,939**	**3,191**	**15,154**	**13,988**	**13,174**	**11,596**
Non-Current Liabilities	0	0	0	304	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	0
Current Liabilities	213	396	199	246	246	246
Total Liabilities	**213**	**396**	**199**	**550**	**550**	**550**
Net assets	1,727	2,795	14,956	13,438	12,624	11,046
Net cash/(debt)	1,017	1,426	13,849	11,969	9,242	276
Shareholder Equity	1,727	2,795	14,956	13,438	12,624	11,046
Total Equity & Liabilities	**1,939**	**3,191**	**15,154**	**13,988**	**13,174**	**11,596**

Source: Company data, Allenby Capital forecasts

Valuation

We are leaving our success case valuation unchanged from our August 13, 2021, note. The valuation on this basis is £425m or 30.3p/share. The success case valuation is based on the P50 prospective resource base for the five leading projects and a valuation quotient applicable for projects post commercial discoveries but pre-development. The five leading projects are: Pensacola, Selene, Dewar, Plymouth and Cadence.

Our risked valuation has been downgraded from £222m or 15.8p/share at the time of the August 13 note to £196.5m or 14.0p/share. The downgrade reflects Delta's decision to relinquish licence P2424. The licence has significant resource potential but the prospects were considered by Deltic to be high-risk with the currently available seismic data sets.

Exhibit 5: Risked valuation

Projects	Licence	Location/ geology	WI	Gross un-risked P50 resources		Net un- risked P50 resources		GCOS	Net risked P50 resources		Valuation quotient		Net risked valuation	
			%	bcfe	mmboe	bcfe	mmboe	%	bcfe	mmboe	$/boe	$m	£m	p/share
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
Plymouth	P2428	SNS PZ	40	282	47	113	19	19	21	4	3.5	12.5	9.1	0.6
Cadence	P2567	SNS Csst	40	600	100	240	40	22	53	9	3.5	30.8	22.5	1.6
Total leading projects				**817**	**136**	**347**	**58**		**193**	**32**		**204.2**	**149.0**	**10.6**
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	P2428	SNS Csst,Plsst,PZ	40	613	102	245	41	23	56	9	2.5	23.5	17.2	1.2
Other	P2435	SNS PLsst	25	135	23	34	6	54	18	3	2.0	6.1	4.4	0.3
Other	P2567	SNS Tr, C sst	40	524	87	210	35	22	46	8	2.5	19.2	14.0	1.0
Total				**1,587**	**265**	**603**	**101**		**169**	**28**		**65.0**	**47.4**	**3.4**
Total all licences				**2,404**	**401**	**950**	**158**		**362**	**60**		**269.1**	**196.5**	**14.0**

Source: Company data, Allenby Capital forecasts 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 assume a farm-down from 100%

Working interests for 2428 and P2567 takes into account the Cairn farm-in

Working interest for P2435 is the actual status as of September 2021

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 6: 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
Plymouth	40	113	18.8	5.00	94.0	69	4.9
Cadence	40	240	40.0	5.00	200.0	146	10.4
Total		**699**	**116.6**		**288.8**	**425**	**30.3**

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 Deltic's share of drilling costs.

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