Cluff Natural Resources Plc
Annual Report & Accounts 2019

CNR CLUFF NATURAL RESOURCES

Contents

Chairman's Statement

Let's start with 'the big picture': access to affordable, plentiful energy and industrial feedstocks from the rocks beneath our feet has been a driving force underpinning the development of wealthy and resilient societies since the industrial revolution. However, human activities associated with industrialisation and intensive agriculture are also the driving forces behind global climate change.

To help combat global climate change, the UK Government has adopted the recommendations of the Climate Change Committee and committed the UK to an ambitious transition which is designed to result in the UK having no net contribution to climate change emissions by 2050.

But there needs to be more honesty in the debate as 'net zero 2050' for a society that contributes less than 2% of global carbon dioxide cannot come 'at any cost'. Any decisions made need to preserve employment and generate prosperity in the UK. It must be recognised that these natural resources, in particular gas, are highly beneficial to society and can play a key role in facilitating and funding the transition to a lower carbon future.

Whether this involves using natural gas to generate hydrogen for heating, transport and petrochemical feedstocks or a requirement to develop carbon capture, storage and utilisation solutions for natural gas fired electricity generation, these are all superior to the narrative of just keeping hydrocarbons 'in the ground' and wishing for the emergence of a new technology to replace the fundamental role that hydrocarbons play in supporting our lifestyles.

The Board recognises the need to stay relevant as we move towards a lower carbon future and believes that the strategy of focusing on UK oil and gas exploration opportunities close to existing infrastructure ideally places the Company as part of the solution and not part of the problem. By maintaining production in the UK with ambitious targets for emissions of production and downstream use, the Company stands the best chance of meeting the challenging targets being set by Government.

Our Selene natural gas prospect is one of the largest untested natural gas prospects in the Southern North Sea and is located in an area of infrastructure which allows for a relatively low carbon intensity development and delivery to the UK based gas processing facility at Bacton. This will help displace Liquified Natural Gas ("LNG") imports from foreign sources and preserve the associated downstream industrial activity whilst at the same time improving economics for the gas from other fields in the area.

Of similar importance is the Pensacola Prospect, which represents a new type of opportunity in the northern most part of the gas basin. Particularly encouraging is the significant industry interest in this Zechstein play following a number of recent exploration successes, both onshore and offshore.

The value of these two assets has been recognised by one of the world's largest oil and gas companies in Shell and following the completion of the Company's farm-out transactions, there has been significant technical work completed on both prospects by the partnership, including the acquisition of new 3D seismic data.

We continue to work with Shell to mature these opportunities towards drilling activity, for which the Company is fully funded following the successful £15 million equity raise completed in July 2019.

Other prospects in the portfolio are being matured towards farm-out and we are confident that new licences will be awarded in the UK Oil and Gas Authority's ("OGA") 32nd Licensing Round which will provide a diversified funnel of opportunities to take through the exploration process in the years ahead.

While low commodity prices and Covid-19 have created huge challenges for the oil and gas industry as a whole, I believe that the Company remains in a comparatively strong position. Our primary focus on gas means we have limited exposure to the oil price and we remain well funded for our current requirements, including drilling. We have built an attractive portfolio of licences with no debt, and despite recent success and expansion of the licence portfolio, we have maintained modest overheads. As such, a temporary drop in commodity price may result in lower cost operations, particularly in relation to drilling.

I personally feel privileged to be a part of this venture and look forward to the coming years of exploration and development.

Mark Lappin
Chairman

15 April 2020

Chief Executive's Statement

We entered 2020 in a position of strength following what was an exceptional 2019, having achieved many of the key milestones towards our goal of becoming one of the UK's leading independent exploration focused oil and gas companies. The highlight of the year was securing two farm-outs with Shell and capitalising the business to ensure that we can meet our anticipated share of an exploration well on each of the prospects. Particularly important for the Company has been the nature of our new partner that we have attracted; Shell is a hugely successful major oil and gas company and their involvement in our assets is a strong endorsement of our Company, our technical capability and strategy.

The initial farm-out with Shell was over Licence P2252 which contains the Pensacola Prospect. Pensacola is a relatively new play for the North Sea and contains estimated P50 prospective resources of 309 BCF of recoverable gas. The farm-out was announced in February 2019 and completed in May 2019 and sees the Company fully carried through to the earlier of December 2020 or the date on which the contingent well commitment becomes firm (no later than end of November 2020). This work programme included the shooting of new broadband 3D seismic over the licence, which was successfully carried out in August 2019. Since then we have been working with Shell on processing and interpretation of this seismic data and this is progressing well. This seismic data will support the well investment decision, which under the OGA licence terms will become firm by end November this year. Only if there is overwhelming technical justification and the OGA waives the requirement will the well commitment not become firm in November.

At the same time as the Pensacola farm-out, the Company entered into an option whereby Shell could farm into Licence P2437, which contains the Selene Prospect. Shell exercised this option on 30 April 2019 and, following regulatory approval, the transaction formally completed in August 2019. The Selene farm-out included US$600,000 of initial consideration and, once a well investment decision is made, carries the Company for 75% of the cost of an exploration well up to US$25 million, with the Company maintaining a 50% interest in the licence. The Selene Prospect is an infrastructure led prospect, sitting in close proximity to producing fields, Shell's Clipper Hub and its infrastructure at the Bacton Gas Terminal. The Company continues to work closely with Shell to refine the well location to support the well investment decision.

These two transactions with Shell represent the first farm-ins that Shell has completed in the Southern North Sea for many years and we are delighted to have attracted such an established and respected partner, which speaks to the quality of our technical team at Cluff. Our partnership has already been extremely productive, and we look forward to developing a long-term relationship with Shell as we progress these licences towards drilling.

Following the two farm outs with Shell, on 1 July 2019 the Company completed a £15m (gross) equity fundraise. In addition to the majority of existing shareholders participating in the equity raise, it was particularly pleasing to have introduced a number of new institutional investors to the share register.

Following this equity raise, the Company is now fully funded for its share of drilling costs on the anticipated exploration wells on Pensacola and Selene, other licence commitments, as well as having working capital to fund the Company through to the end of 2021, based upon current plans. We would like to thank our existing shareholders for participating in this equity raise and we welcome a number of new institutional investors to the share register.

Raising these funds removes uncertainty around access to capital in the short to medium term, which is critical in the current macro environment. It allows us to drill both Pensacola and Selene with success on either of these two planned wells being transformational for the Company.

While the Dewar farm-out process remains active with strong industry interest shown, the Company anticipates that the current commodity market volatility and the Covid-19 pandemic will impact on the deliverability within the timelines previously anticipated. The Company will review the status of the farm-out process once the impacts of the Covid-19 outbreak are better understood and some relative stability has returned to commodity prices and the wider market. Notwithstanding current market conditions, Dewar remains an attractive, relatively low risk drill ready prospect with strong economics, given its close proximity to the BP operated Eastern Trough Area Project ('ETAP') infrastructure (5 kilometres), to which the Company remains committed to drilling.

The Company also continues to progress its other Southern North Sea gas licences. On Licence P2428 the Company has recently taken delivery of newly reprocessed 2D seismic data over the TCF (prospective resources) scale Cupertino prospect. The results of the reprocessing are already very encouraging, and we are currently undertaking further in-house technical work in advance of commencing a farm-out process later in the year. Given the potential scale of this prospect, Cupertino represents an extremely high impact drilling opportunity. On Licence P2424, which contains the Cortez Prospect, a 2D seismic reprocessing exercise has recently commenced. Subject to successful results from this, a farm-out process may be commenced towards or shortly after the end of the year. On Licence P2435, owned jointly with Parkmead (Cluff 25%), which contains the Blackadder Prospect, the joint venture is in the process of assessing the potential for applying modern broadband 3D seismic processing to the legacy 3D data over the licence area. If this proves to be successful, the joint venture will be well positioned to attract a partner ahead of drilling the prospect.

In November 2019, the Company submitted multiple applications for additional licences in the UK Oil & Gas Authority's 32nd UK Offshore Licensing Round. The Company's applications are focused on its core operational areas in the Southern Gas Basin and Central North Sea and are designed to be complementary to the existing portfolio. The blocks applied for contain oil and gas prospects that are consistent with the Company's strategy of growing its licence portfolio by: identifying and targeting overlooked and/or less well understood opportunities; targeting prospects in close proximity to existing infrastructure, thus enhancing the potential for commercial development; and creating value through investment in technical work, farm outs and introducing partners with a view to drilling.

Chief Executive's Statement
continued

All of the applications have been made solely by Cluff, with the exception of one which has been made jointly with an established international operator.

The blocks applied for, if awarded, will build scale with minimal near-term capital requirements and will further diversify the investment portfolio, enhancing the Company's resource base, and creating a strong pipeline of future drilling opportunities.

The OGA had originally expected that licence awards were expected to take place in Q2 2020. However, as a result of Covid-19, the OGA has now amended this timing slightly to summer 2020.

Despite the recent volatility in commodity prices and Covid-19, the Company remains in a position of strength. It has no direct exposure to oil prices, no debt and is well capitalised following its 2019 fundraising. The Company continues to exercise strict financial discipline and control, maintaining low overheads with cash outflow from operations and capitalised licence investments of £1.8 million in 2019. Consequently, as at 31 March 2020, the Company had £13.2 million of cash (unaudited) and remains funded for its share of the Selene and Pensacola wells and other licence commitments as well as, on current plans, for its expected working capital requirements through to the end of 2021.

In April 2019, the Company announced that Algy Cluff intended to retire from his role as Chairman and he stepped down formally following the Company's Annual General Meeting ('AGM') in May 2019. I wish to thank Algy for his vision in setting up and guiding the Company through its early years and wish him well for the future.

The farm-outs with Shell in 2019 represented a clear transition into a period of intensive oil and gas operations. This was therefore the right time to pass the role of Chairman to Mark Lappin whose wealth of operational experience, particularly in the North Sea, is perfectly suited to guide the business through this next exciting phase of its development. Mark has made an immediate impact in his new role and we are excited about continuing to work together to build on our recent success and enter the next stage of the Company's growth as we seek to create value for shareholders.

In January 2020, we were also pleased to announce the appointment of Sarah McLeod as Chief Financial Officer. Sarah has a wealth of industry experience following 20 years' experience in the oil and gas industry which will be invaluable to the Company as we move into the next phase of our development.

To reflect these recent changes, the Company is proposing to change the Company's name to Deltic Energy Plc with effect from the Company's AGM. This change symbolises our transition into a more advanced stage in the Company's development. The change of name is subject to shareholder approval at the forthcoming AGM.

Outlook

The Company took great strides in 2019 and positioned itself as a gas focused exploration company with an attractive portfolio of prospects with a combined P50 gas prospective resource of 2.4 TCF, gross (1.9 TCF net), equivalent to approximately 600 million barrels of oil. We are now seeking to continue to build on the success of 2019 with key value drivers to be delivered on in 2020.

The oil and gas industry is currently facing the dual challenge of recent commodity price volatility coupled with the effects of Covid-19. Fortunately, as a gas focused explorer the Company does not have direct exposure to the oil price and having taken the decision to raise funds in 2019 to protect itself from capital market volatility, is currently well funded with no debt.

However, our Company has nonetheless taken all necessary precautions to ensure optimal business continuity during the Covid-19 pandemic, which continues to evolve.

While commodity prices and Covid-19 are having a severe effect on the industry, the current downturn may present the Company with an opportunity to commit to drilling its wells at a time of relatively low cost, including advantageous rig rates, and ultimately be in a position to monetise successful drilling and discoveries at a point in the future when commodity prices are significantly higher.

We believe that the North Sea continues to have huge potential and the UK benefits from a top quartile fiscal and regulatory regime, making it one of the most attractive areas in which to do business and invest.

The Company has a number of key goals in 2020 including well investment decisions on Selene and Pensacola, the ongoing farm-out of Dewar, progression of its other gas licences and the award of additional licences in the latest UK licensing round. Achievement of each of these would be a major driver of value.

I would like to take this opportunity to thank my fellow board members and all of our employees for their hard work and dedication throughout the last year. I would also like to thank our various stakeholders, in particular our shareholders who have backed the Company and put it in a position to deliver long-term value.

Graham Swindells
Chief Executive Officer

15 April 2020

Operational Review

Completion of Shell Farm-out Process on P2252 and P2437

On 8 February 2019, the Company announced a farm-out on Licence P2252 (Pensacola) and an exclusivity agreement on Licence P2437 (Selene) to Shell U.K. Ltd.

The farm-out on Licence P2252 was formally completed on 30 May 2019 with Shell taking a 70% working interest and operatorship. In return, Shell will pay 100% of all costs associated with the licence, including the acquisition and processing of a new broadband 3D seismic survey, until the earlier of the end of 2020 or well investment decision. Costs incurred post-well investment decision will be shared along equity lines.

Following Shell exercising their option on 30 April 2019, the Selene farm-in was formally completed on 13 August 2019 with Shell taking a 50% working interest in Licence P2437 in return for cash consideration of US$600,000 and agreement to pay 75% of the costs of the proposed exploration well on Selene up to a gross cost of US$25 million. Costs incurred after completion of the well will be shared along equity lines.

The Company continues to work closely with Shell to progress the technical work which will support the well investment decisions on both licences.

P2252 – Successful 3D Seismic Acquisition Programme over Pensacola (30% CLNR)

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 reefal carbonate build-up with significant additional upside potential in the Lytham-Fairhaven prospect which is also located on the block.

The Zechstein Reef play has seen significant activity and successful drilling over the last year with Rathlin Energy announcing a significant discovery at West Newton, in East Yorkshire, where a 65 metre hydrocarbon column was announced by the operator. Offshore, ONE Dyas are reported to have recently discovered liquid hydrocarbons in the Darach Central-1 well which flowed at a rate of 3,500 barrels of oil per day, plus associated gas, per day while testing a Zechstein reef, which we believe to be analogous to the Pensacola prospect.

Since formal completion of the farm-out and transfer of operatorship to Shell at the end of May 2019, the partnership has moved rapidly into field operations with the acquisition of 3D seismic over Pensacola commencing on 4 August 2019. The survey was conducted by Shearwater GeoServices using the Polar Empress, with field operations completed on 21 August 2019, without accident or incident.

The acquired 3D data is currently being processed by Shell with preliminary analysis expected shortly and final pre-stack depth migration (Pre-SDM) products due to be delivered during the summer of 2020. Early feedback from Shell indicates that the data acquired is of high quality and a significant improvement on the legacy data is expected once the processing has been completed.

This timeline is in line with previous guidance issued by the Company and the licence conditions imposed by the Oil and Gas Authority including a contingent exploration well which the partnership committed to at the time the farm-in was agreed and will involve a well investment decision before the end of 2020. Pensacola currently carries a geological chance of success of 20% but this is likely to be revised following interpretation of the recently acquired 3D seismic data.

The Company is fully carried through the seismic acquisition and processing work programme.

P2437 – Supporting Shell's Well Investment Process on Selene (50% CLNR)

Licence P2437, located in the Southern North Sea, was awarded to the Company in the OGA's 30th UK Offshore Licencing Round with an effective date of 1 October 2018 and with Shell exercising their option to farm into the licence on 30 April 2019. The primary prospect on Licence P2437 is the Selene prospect which has a geological chance of success of 39% and is estimated to contain gross P50 prospective resources of 291 BCF in the well understood Leman Sandstone play.

The Selene prospect is located approximately 20 kilometres to the north of Shell owned and operated infrastructure located on the Barque gas field, which presents a low cost, low risk development option in the case of exploration success. Additional upside exists on block, including the Sloop discovery and the Endymion prospect which will be fully evaluated in due course.

Since completion of the farm-out to Shell in August 2019, the Company has continued to work with Shell to obtain and evaluate all the available data for the Selene prospect with the aim of making a well investment decision at the earliest possible opportunity.

The Company has a partial carry on the proposed Selene exploration well with Shell paying 75% of the well costs up to an aggregate cap of US$25 million.

Operational Review
continued

P2428 – Delivery of Newly Reprocessed 2D Seismic Data over Cupertino (100% CLNR)

Licence P2428 is located in the Southern North Sea and contains the TCF (prospective resources) scale, early Carboniferous Cupertino lead with newly recognised potential in the younger Rotliegend-Leman Sandstone play.

The reprocessing of approximately 850 line kilometres of legacy 2D seismic data to pre-stack depth migration (pre-SDM) was completed with new data delivered at the end of November 2019. This reprocessing effort has resulted in a significant improvement in image quality and the interpretation and integration of this new data set into our regional models will continue in the first half of 2020.

The Company aims to commence a farm-out process during 2020 but recognises that the acquisition of modern broadband 3D seismic over the area would likely be required prior to a well investment decision being made. This project has a longer lead time than others within the portfolio, but given the potential scale of the opportunities, in both the Carboniferous and the Leman Sandstone, the project is of significant interest to the Company and we expect it to form one of the key high impact drilling opportunities within the portfolio in the coming years.

P2424 – 2D Seismic Reprocessing over Cortez (100% CLNR)

Licence P2424 is located in the Southern North Sea and contains the early Carboniferous Cortez prospect that has many similarities to the adjacent Breagh gas field and Crosgan gas discovery. The prospect is currently imaged on a combination of good quality reprocessed 3D and older legacy 2D seismic data and efforts over the last 12 months have been focused on improving the quality of that 2D data set, especially in light of the significant image quality uplifts seen following the reprocessing of similar vintage 2D data over Cupertino.

Reprocessing of the 2D data has recently commenced and is scheduled to take approximately 21 weeks. Once the reprocessed data has been received, it will be subject to further evaluation and if positive it is expected that a farm-out process could potentially commence during the second half of 2020.

P2435 – Blackadder Licence (25% CLNR)

Licence P2435 is located in the Southern North Sea and contains the Bob discovery and the Blackadder prospect in the Leman Sandstone. The Company continues to work with the licence operator, The Parkmead Group, to advance the licence such that a well investment decision can be made. Following work completed by the operator during 2019 the joint venture will assess the potential for applying modern broadband 3D processing to the legacy 3D data over the licence area. If this proves to be feasible, there should be a significant uplift in image quality, which would further de-risk the opportunity, and increase the probability of attracting an additional licence partner, prior to making a well investment decision.

P2352 – Dewar Farm-out Process (100% CLNR)

Licence P2352, located in the Central North Sea, was awarded to the Company in the OGA's 30th UK Offshore Licencing Round with an effective date of 1 October 2018. The primary prospect on Licence P2352 is the Dewar prospect which is estimated to contain gross P50 prospective resources of 39.5 mmbbl in a Forties Sandstone channel. The Dewar prospect is supported by a clear amplitude versus offset (AVO) anomaly and has a geological chance of success of 41%.

In the event of exploration success, the Dewar prospect is a highly attractive commercial proposition as it is located approximately 5 kilometres east of BP's Eastern Trough Area Project (ETAP) Central Processing Facility. A recent commercial feasibility study commissioned by Company indicated that the project could have a post-tax NPV10 of £555M and a post-tax IRR of 123%, in a P50 prospective resource scenario.

Following completion of the various subsurface workflows, including the AVO study, and a commercial feasibility study, the farm-out process on Central North Sea Licence P2352 commenced in the second half of 2019. Despite what remains a challenging market for exploration lead farm-out activity the Company has received significant interest in the Dewar prospect.

Overall feedback on the prospect and technical work completed to date, has been very positive however, getting prioritisation within larger organisations remains a challenge as exploration budgets across the industry are still significantly constrained. Feedback also indicates that the 32nd Offshore Licencing Round has also impacted the Dewar farm-out process, with many companies having limited resource to assess new opportunities during the application processing period and are also waiting to see the results of the 32nd Round, during the summer of 2020, before taking decisions on further exploration opportunities.

While the Dewar farm-out process remains active, the Company anticipates that the current commodity market volatility and Covid-19 will impact on the deliverability of this farm-out within the timelines previously communicated. The Company will review the status of the farm-out process once the impacts of the COVID-19 outbreak are better understood and some relative stability has returned to commodity prices and the wider market.

Operational Review
continued

The Company believes that Dewar is a low risk exploration opportunity and is confident that exploration success would transform this prospect into a highly valuable and easily monetizable development opportunity, given its location relative to various infrastructure options such as ETAP. Given this major prospective value uplift, which could be realised through the drill bit, the Company will also consider alternative routes to getting the Dewar exploration well funded in parallel with the ongoing farm-out process.

32nd Offshore Licensing Round

Following success in the previous major offshore licensing round in 2018 when the Company was awarded six licences, the Company is pleased to confirm that it has submitted multiple applications for additional licences in the UK Oil & Gas Authority's latest 32nd UKCS Offshore Licensing Round.

The Company's applications are focused on its current core operational areas in the Southern North Sea gas basin and Central North Sea and are designed to be complementary to the existing portfolio. The blocks applied for contain oil and gas prospects that are consistent with the Company's strategy of organically growing its licence portfolio to provide a balance of near and longer-term drilling opportunities.

All of the applications have been made solely by the Company, with the exception of one which has been made jointly with an established international operator.

The OGA guidance indicates that licence awards are likely to take place in summer 2020. Further announcements will be made in due course.

Success in this licensing round would further expand, enhance and diversify the Company's existing portfolio. The Board views the blocks applied for as being highly prospective with many containing undeveloped discoveries and exploration upside which could significantly enhance both the pipeline of potential drilling opportunities and the overall prospective resources associated with the Company's portfolio.

Portfolio and Resource Summary – February 2020

The Company's current licence portfolio and prospect inventory, as of the end of February 2020, is summarised below:

Licence Ref:	Block ID	CLNR Equity	Project ID	Discovery (D) Prospect (P) Lead (L)	Net Prospective Resource (BCF) P90 Low	P50 Best	P10 High	GCoS %
P2252[1]	41/5a, 41/10a & 42/1a	30%	Pensacola – Zechstein Reef	P	35	93	170	20
			Lytham – Permian	P	16	37	73	49
			Lytham – Carboniferous	P	4	13	45	30
			Fairhaven – Zechstein	P	5	14	29	43
P2437	48/8b	50%	Sloop – Leman	D	4	9	19	100
			Selene – Leman	P	53	146	344	39
			Endymion – Leman	L	18	24	31	27
			Rig & Jib – Leman	L	6	15	29	35
P2424	42/14 & 42/15b	100%	Furasta – Bunter	D	7	18	30	100
			Burbank – Bunter	P	70	200	567	32
			Cortez – Carboniferous	L	24	107	433	29
			Cortez South – Carboniferous	L	129	331	732	28
P2428	43/7 & 43/8	100%	Cupertino – Scremerston	L	69	262	914	21
			Cupertino – Fell Sandstone	L	147	558	2089	30
P2435[2]	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

[1] Operated by Shell

[2] Operated by Parkmead

Operational Review
continued

Licence Ref:	Block ID	CLNR Equity	Project ID	Discovery (D) Prospect (P) Lead (L)	Net Prospective Resource (MMBOE) P90 Low	P50 Best	P10 High	GCoS %
P2352	22/24f & 22/25g	100%	Dewar – Forties	P	10.5	39.5	80.5	40
			Tesla – Pentland	D	To be determined – mean STOIIP estimated @ 24 mmboe			
P2384	22/19f	100%	Manhattan Complex	L	To be determined			

COVID-19 Statement

In light of the current COVID-19 pandemic, the Company has taken a number of steps to protect its workforce while at the same time ensuring that business continuity, including subsurface workflows and outsourced seismic reprocessing, is maintained over the coming months.

Prior to the outbreak, the Company had the facilities in place to allow remote working for most members of staff. This capability has been enhanced to ensure that the Company can now operate effectively over an extended period of time without requiring regular access to Cluff's physical offices.

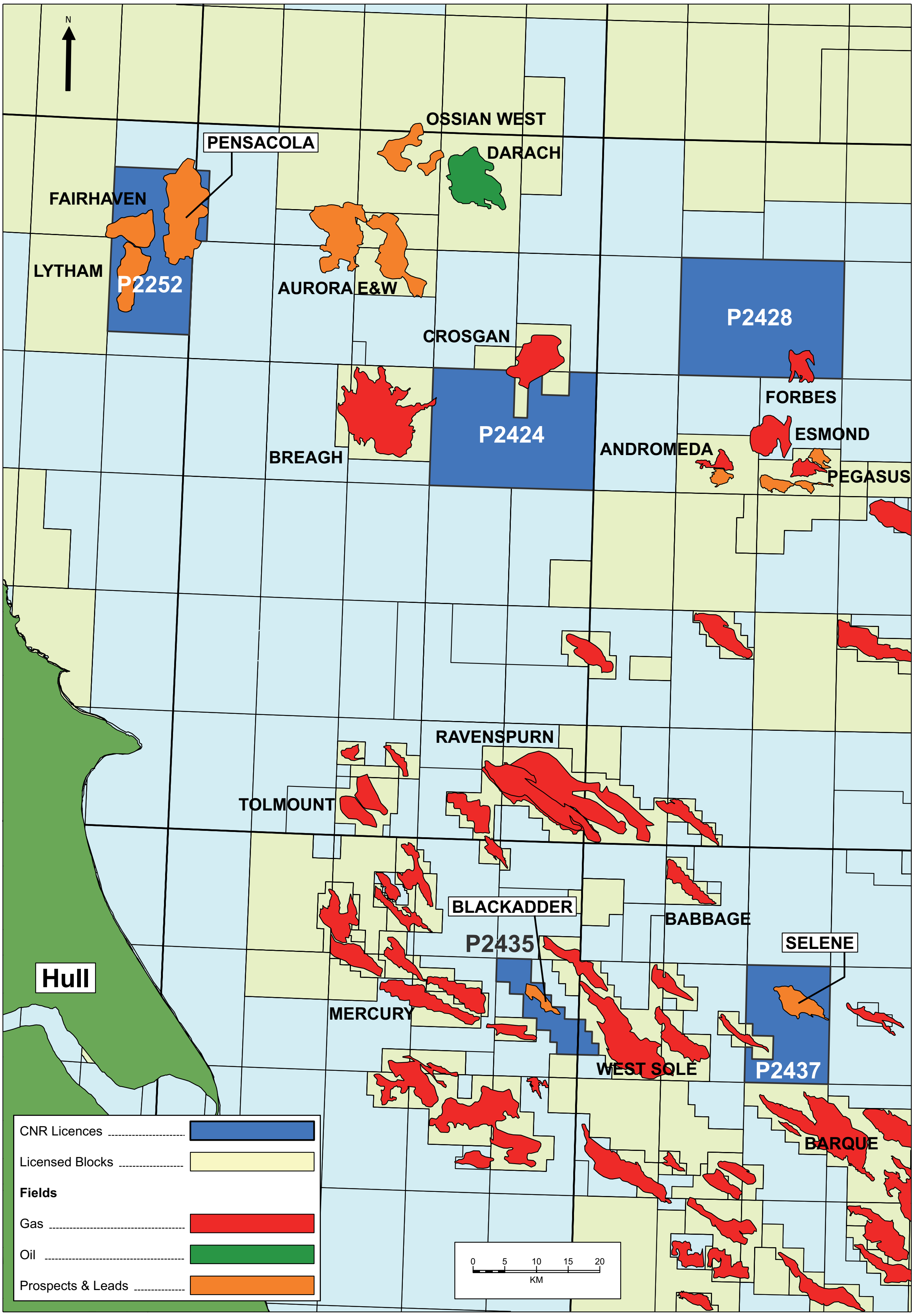
This ensures that key technical workflows associated with ongoing subsurface evaluations are generally unaffected. The Company's contractors, who are currently undertaking seismic reprocessing work, required under the terms of the existing licences, have also put in place procedures to work effectively over the coming months in order to ensure that these projects are delivered within their original schedules.

The Company remains well capitalised with no debt to service and is fully funded for its proposed work programme with £13.2 million of cash (unaudited) as at the end of March 2020. This is sufficient for the Company to meet its expected working capital requirements and work programme costs, including participation in the two wells with Shell, until the end of 2021. Expenditure associated with discretionary and non-critical path technical workflows will be constantly reviewed and re-scheduled as required to ensure the sustainability of the business in the medium term.

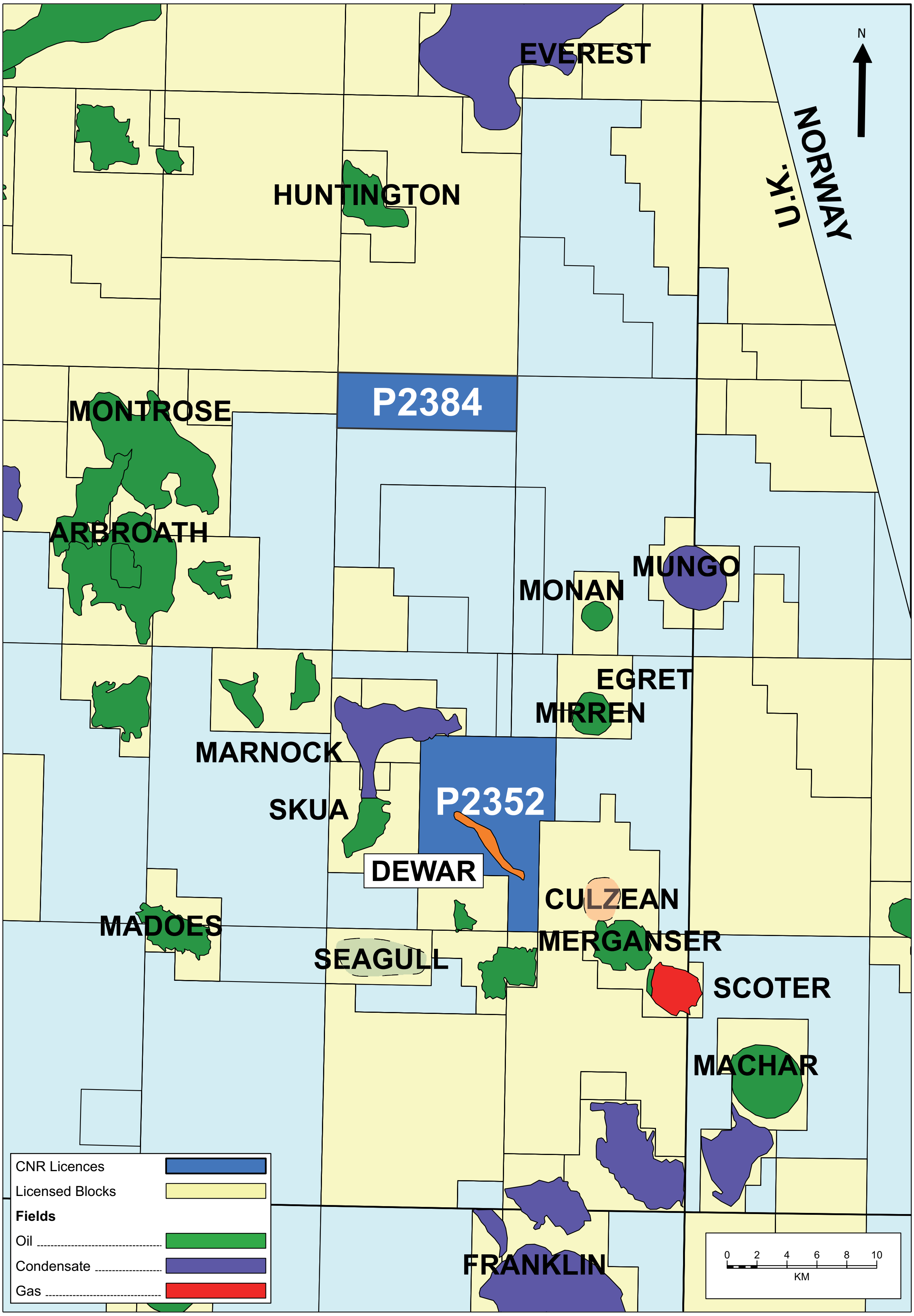
A J Nunn
Chief Operating Officer

15 April 2020

Operational Review
Our Locations - Southern North Sea



Operational Review
Our Locations - Central North Sea



Financial Review

All major expenditure in the last five years has been focused 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 2019 of £2,360,248 (2018: £1,660,153), which included a £801,307 (2018: £nil) charge resulting from the impairment of intangible assets following the relinquishment of Licence P2248 (see note 10 to the financial statements).

The other administrative expenses of £1,709,069 (2018: £1,661,121) related primarily to technical and administrative expenditure. These were slightly higher than the previous year, mainly as a result of increased expenses relating to the OGA's 32nd Licensing Round applications and an increased non-cash share-based payment expense, offset by a decrease in other remuneration costs.

Finance income of £71,020 (2018: £968) increased owing to surplus funds placed in interest-bearing deposits, following the equity fundraising that was completed in July 2019. Finance costs of £28,763 (2018: £nil) represents the interest charge on a lease liability recognised, following the adoption of IFRS 16 in 2019.

Financial position

The Company's cash and cash equivalents position was £13,849,400 at 31 December 2019 (2018: £1,425,986) with the year-on-year increase in cash and cash equivalents being explained below.

The decrease in intangible assets to £1,127,942 (2018: £1,617,087) is mainly due to the impairment of £801,307 and a £362,264 disposal, reflecting the cumulative expenditure incurred on Licence P2437 prior to its farm-out to Shell, offset by further direct investment in all the North Sea licences totalling £684,161. Property, plant and equipment of £47,313 (2018: £11,788) includes a right of use asset relating to the office lease with a net book value of £33,545 which reflects the initial recognition of lease liabilities as a result of the adoption of IFRS 16 in 2019, for which the details are explained in note 1, net of the impact of a subsequent exercise of a lease break clause (see notes 11 and 16). Total liabilities, which include short-term creditors, accruals and lease liabilities, decreased to £198,656 (2018: £395,580). The increase in total equity of £12,160,742 is due to the placing and subscription of new ordinary shares for gross proceeds totalling £15,141,096, offset by the loss for the year, and other movements set out in the Statement of Changes in Equity on page 29.

Global economic uncertainty

The Company is in a position of relative strength in these uncertain global economic times. The Company has no direct exposure to oil prices, has no debt and is well capitalised following a fundraising in July 2019. The Company remains funded for its share of the Selene and Pensacola wells, its other licence commitments and, on current plans, for its working capital requirements through to the end of 2021.

Cash flow

In the year to 31 December 2019, the net cash outflow from operating activities was £1,412,879 (2018: £1,522,575). The net cash outflow from investing activities was £372,389 (2018: £674,729), comprising £895,647 (2018: £665,565) related to expenditure on exploration assets, offset by £470,135 cash proceeds from the farm-out of Licence P2437 to Shell and interest received of £59,549 (2018: £968). The net cash inflow from financing activities was £14,208,682 (2018: £2,606,623), comprising total cash received (net of expenses) of £14,348,495 from the issue of new ordinary shares, of which £14,207,400 related to the fundraising completed in July 2019 and £141,095 related to share options exercised during the year, partially offset by lease payments comprising capital and interest portions totalling £139,813 (2018: £nil). The lease payments were presented in cash flows from operating activities in previous years, prior to the adoption of IFRS 16 in 2019.

Consequently, in the year to 31 December 2019, the Company experienced a net cash inflow of £12,423,414 (2018: £409,319).

Equity fundraising

On 6 June 2019, following the completion of the farm-out of Licence P2252 (containing the Pensacola prospect) to Shell, and Shell's exercise of its option to farm into Licence P2437 (containing the Selene prospect), the Company announced that it had raised £15 million, before expenses. This was through the aggregate placing and subscription of 857,142,857 new ordinary shares of 0.5p each at 1.75 pence per share. The placing was with new and existing institutional and private investors, and the subscription was by certain directors and senior management of the Company. The main purpose of this placing and subscription was to fund the Company's share of well costs on the Selene and Pensacola prospects, and to invest in advancing its other North Sea licences and potential future licence awards. The shares were allotted and admitted to trading on AIM on 1 July 2019. Following the completion of this placing and subscription there were 1,405,964,855 ordinary shares in issue. The Company is now fully funded for both well work plans and working capital requirements until the end of 2021.

Financial Review
continued

Closing cash and cash equivalents

As at 31 December 2019, the Company held cash and cash equivalents totalling £13.85 million (2018: £1.43 million).

Shareholders' equity

As at 31 December 2019 there were 1,405,964,855 (2018: 538,173,289) ordinary shares in issue. Additionally, a total of up to 88,308,192 (2018: 58,956,901) new ordinary shares may be issued pursuant to the exercise of share options.

Subsequent events

Refer to note 21 to the financial statements for details of events subsequent to 31 December 2019.

Going concern

The Directors have assessed the Company's ability to continue as a going concern. Although the oil and gas industry is currently facing the dual challenge of recent commodity price volatility coupled with the effects of Covid-19, fortunately, as a gas focused explorer the Company does not have direct exposure to the oil price and, having taken the decision to raise funds in 2019 to protect itself from capital market volatility, 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 budgeted exploration programme 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 investments move into production, other KPIs will become relevant and will be measured and reported as appropriate.

Sarah McLeod
Chief Financial Officer

15 April 2020

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, although these risks are currently similar to last year.

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 stronger financial position for the 2019 year-end compared to 2018 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. The geological chance of success across all licences remain the same as in the prior year (see page 6 and 7).

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.

Business Risks
continued

Section 172 statement (continued)

Likely consequence of any decision in the long term

The Chairman's and Chief Executive's Statements at pages 1-3 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 15-17 of this Annual Report sets out under board responsibilities the processes in place to safeguard the interests of employees.

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 15-17 sets out the Board and Committee structures and extensive board and committee meetings held during 2019, 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

15 April 2020

Graham Swindells
Chief Executive Officer

15 April 2020

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.cluffnaturalresources.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 have 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 four Directors, of whom two are executive and two are non-executive. The Directors are all identified on page 20, 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 major 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 two Non-executive Directors (Mark Lappin and Peter Cowley) have a responsibility to challenge independently and constructively the performance of management and to help develop proposals on strategy. They 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 two 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 2019.

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 2019:

	Board meetings		Audit committee[1]		Remuneration committee[1]	
	Possible	Attended	Possible	Attended	Possible	Attended
J G Cluff[2]	5	5	-	-	-	-
G C Swindells	18	18	1	1	-	-
A J Nunn	18	18	-	-	-	-
P N Cowley	18	14	1	1	5	5
M S Lappin	18	16	1	1	5	5

1 Only Non-executive Directors are entitled to vote in the meetings of these Board Committees.
2 Resigned on 22 May 2019.

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.

Corporate Governance
continued

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 Cowley and Mark Lappin and is chaired by Peter Cowley. 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 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

15 April 2020

Audit Committee Report

Overview

The audit committee met once 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 2019 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 £20,500 (2018: £17,681) and £7,303 (2018: £2,500) 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.

P N Cowley
Chairman, Audit committee

15 April 2020

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 five times during 2019 in consideration of: new service agreements, changes in remuneration, share option awards, bonus awards and 2020 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 the year 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 however, it is currently not considered necessary.

P N Cowley
Chairman, Remuneration committee

15 April 2020

Board of Directors

There is an appropriate breadth of experience, skills and personal qualities covering the key aspects of the business including technical, operational and financial. Although the Board are of the opinion that a lack of gender balance has not thus far impacted its capabilities, actions to address this remain under consideration. 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 Lappin has 36 years of experience in the oil and gas industry. Mark was until recently Technical Director at Cuadrilla and, prior to that, was Sub-Surface Director for UK and Netherlands at Centrica. Mark began his career as a Geophysicist at Phillips Petroleum and has held senior technical and commercial roles with Conoco Phillips, Exxon Mobil and Dart Energy.

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 May 2013 as Chief Financial Officer and became Finance Director later that year. 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 with BDO, he spent two years at PricewaterhouseCoopers specialising in corporate recovery and restructuring. He subsequently specialised in corporate finance, becoming a Director in corporate finance at Arbuthnot 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 succeeded Algy Cluff as Chief Executive on 1 March 2018. 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 May 2014 and was appointed to the Board as Chief Operating Officer in December - 2014. He is a Chartered Geologist with over 17 years of experience working on exploration, mining and geo-environmental projects in Europe, Australasia and Africa. Andrew spent 6 years working on UK and European unconventional gas projects including coalbed methane, tight gas and shale gas, most recently as Exploration Manager for Dart Energy. He holds a B.Sc. (Hons) in Economic Geology and an M.Sc. in Environmental Management. 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.

Peter Cowley

Non-Executive Director

Peter Cowley is a geologist with 48 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 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 audit and remuneration committees.

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.

Report of the Directors

The Directors present their report with the financial statements of the Company for the year ending 31 December 2019.

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

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 2019 (2018: 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 2019 are set out below:

	Ordinary shares		Share options	
	2019	2018	**2019**	2018
J G Cluff[1]	**5,909,232**	13,038,502	**8,000,000**	18,648,709
M S Lappin	**586,391**	-	**-**	-
G C Swindells	**894,836**	323,406	**38,654,096**	18,654,096
A J Nunn	**806,724**	235,294	**38,654,096**	18,654,096
P N Cowley	**1,018,489**	447,059	**-**	-
	9,215,672	14,044,261	**85,308,192**	55,956,901

1 Resigned on 22 May 2019.

Director's Remuneration

The following table sets out an analysis of the pre-tax remuneration for the year ended 31 December 2019 for the individual Directors who held office in the Company during the year.

	2019 Salaries and fees £	**2019 Bonus payments £**	**2019 Share option gains[2] £**	**2019 Pension[3] £**	**2019 Benefits in Kind £**	**2019 Total £**	2018 Total £
J G Cluff[1]	**15,699**	**-**	**157,068**	**-**	**12,486**	**185,253**	162,879
G C Swindells[3]	**168,400**	**40,000**	**-**	**16,840**	**4,024**	**229,264**	209,512
A J Nunn[3]	**157,875**	**40,000**	**-**	**15,787**	**2,256**	**215,918**	196,627
P N Cowley	**20,000**	**-**	**-**	**-**	**-**	**20,000**	20,000
M S Lappin	**32,151**	**-**	**-**	**-**	**-**	**32,151**	20,000
	394,125	**80,000**	**157,068**	**32,627**	**18,766**	**682,586**	609,018

1 Resigned on 22 May 2019
2 The gross gain on share options exercised during the year of £157,068 (2018: £nil) is the excess of the market value of shares issued over the exercise price, which resulted in no expense for the Company. The expense relating to these options was recognised prior to their vesting and charged to the Statement of Comprehensive Income in prior years.
3 Pension amounts include a total of £4,190 (2018: £nil) cash paid in lieu of equivalent pension entitlements.

J G Cluff was additionally paid consulting fees of £30,000 in 2019 (2018: £25,000).

Report of the Directors
continued

Corporate Governance

Share options

The share-based payment of £164,663 (2018: £119,175) 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 2019:

	Options held at 31 December 2018	Options granted in period	Options exercised in period	**Options held at 31 December 2019**	Exercise price (p)	Exercisable from	Exercisable to
J G Cluff[1]	2,000,000		-	**2,000,000**	8.0	23 January 2014	23 January 2023
	6,000,000		-	**6,000,000**	3.75	30 April 2015	30 April 2024
	10,648,709		(10,648,709)	**-**	1.325	10 June 2017	10 June 2026
G C Swindells	-	20,000,000	-	**20,000,000**	1.75	8 July 2022	8 July 2029
	9,000,000		-	**9,000,000**	2.32	07 June 2019	07 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	-	20,000,000	-	**20,000,000**	1.75	8 July 2022	8 July 2029
	8,200,000		-	**8,200,000**	2.32	07 June 2019	07 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

1 Resigned on 22 May 2019.

Further details of share-based payments are set out in note 20.

Financial Instruments

Details of the use of financial instruments by the Company are contained in the Strategic Report and note 18 of the financial statements.

Subsequent Events

Events subsequent to 31 December 2019 are set out in note 21 to the financial statements on page 47.

Business Risks

A summary of the principal and general business risks can be found in the Strategic Report on page 12 and in note 18 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

15 April 2020

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 Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 IFRSs as adopted by the European Union, 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 Cluff Natural Resources Plc

Opinion

We have audited the financial statements of Cluff Natural Resources Plc (the 'Company') for the year ended 31 December 2019 which comprise the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of the Company's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have identified going concern as a key audit matter based on our assessment of the significance of the risk, following the ongoing Covid-19 outbreak in 2020.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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) 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:

Carrying amount of exploration and evaluation assets

The Company's exploration assets associated with eight licences represent the principal assets on the Company's statement of financial position. (Refer to note 10).

During 2019, the Company announced farm-out agreements with Shell U.K. Limited ("Shell") in respect of its licences P2252, and P2437, as described at note 10.

The Company announced on 8 February 2019 that it would relinquish Licence P2248 unless a farm-out could be agreed by 28 February 2019. No farm-out was agreed and therefore the licence was relinquished on 29 March 2019. Management accordingly recognised an impairment of the full amount of costs capitalised in association with this licence (note 10).

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 audit.

How we addressed the key audit matter:

- We reviewed the licence documentation to satisfy ourselves that the licences remained valid at 31 December 2019, as well as to confirm the dates of expiry and licence obligations.
- We evaluated management's impairment indicator 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 checked the agreements with Shell in respect of licences P2252 and P2437 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.
- We considered the progress of the Company's technical work to date on its licences, together with budgeted works, against the licence extension obligations and due dates.
- We obtained evidence to confirm the relinquishment of Licence P2248 during the year, and reviewed the accounting entries made to intangible assets and the impairment charge to the Statement of Comprehensive income.
- We considered the adequacy of the disclosures made in the financial statements to ensure that they were consistent with both the conclusions from our audit testing and the requirements of accounting standards.

Independent Auditor's Report continued

Key audit matter (continued):

Key observations:

We considered the recognition and amount of impairment recognised in respect of Licence P2248 to be appropriate.

We found management's assessment that there were no indicators of additional impairment at the reporting date to be appropriate.

Accounting entries made in respect of farm-out agreements are considered to be correctly recorded.

Key audit matter:

Going concern

Subsequent to the reporting date, it has become apparent that the Covid-19 outbreak will have a significant impact on the global economy. Restrictions have been imposed by governments such as reduced freedom of movement for individuals, and there have been associated adverse effects such as reduced oil prices.

Notwithstanding the recent equity fundraise that the Company completed, we consider going concern to be key audit matter.

How we addressed the key audit matter:

- We held discussions with management to obtain their assessment of the impact of the outbreak on the Company, including operational matters such as the ability of staff to work remotely.
- Management have updated their going concern assessment, including cash flow forecasts up to June 2021.
- We challenged the assumptions made in the cash flow forecasts, and our audit work included the following:
  - o we reviewed licence agreements to confirm that committed expenditure is included in the forecasts;
  - o we compared forecast overheads with historic actual overheads; and
  - o we reviewed the terms of the farm out agreements.
- We reviewed the disclosures in the annual report regarding Covid-19, and ensured these were consistent with management's going concern assessment.

Our application of materiality

	Materiality for FY	Basis for materiality
FY 2019	£50,000	1.75% of total assets, adjusted for cash balances outside of working capital requirements
FY 2018	£55,000	1.75% of total assets

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. 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.

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 is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at £37,500 (2018: £41,250) which represents 75% (2018 75%) of the above materiality levels.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of £2,500 (2018: £2,750). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

We carried out a full scope audit of the Company whose principal operations and corporate head office function is located in the UK. Our audit approach is risk based and we set out above the risks that had the greatest impact on our audit strategy and scope.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report and accounts 2019 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

Independent Auditor's Report
continued

Corporate Governance

Opinions on other matters prescribed by the Companies Act 2006
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.

Matters on which we are required to report by exception
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.

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 by the Company, 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 set out on page 23, 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.

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

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 and 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

15 April 2020

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

Income Statement
for the year ended 31 December 2019

Continuing Operations	Notes	2019 £	2018 £
Administrative expenses:			
Impairment of intangible assets	10	**(801,307)**	-
Other administrative expenses		**(1,709,069)**	(1,661,121)
Total administrative expenses		**(2,510,376)**	**(1,661,121)**
Other operating income	10	**107,871**	-
Operating loss		**(2,402,505)**	(1,661,121)
Finance income	4	**71,020**	968
Finance costs	5	**(28,763)**	-
Loss before tax	6	**(2,360,248)**	(1,660,153)
Income tax expense	8	**-**	-
Loss for the year		**(2,360,248)**	(1,660,153)
Loss per share from continuing operations expressed in pence per share:			
Basic and diluted	9	**(0.24)p**	(0.35)p

Statement of Comprehensive Income
for the year ended 31 December 2019

	2019 £	2018 £
Loss for the year	**(2,360,248)**	(1,660,153)
Other comprehensive income	**-**	-
Total comprehensive expense for the year attributable to the equity holders of the Company	**(2,360,248)**	(1,660,153)

The notes on pages 31 to 47 form part of the financial statements.

Balance Sheet
as at 31 December 2019

	Notes	2019 £	2018 £
Assets			
Non-current assets			
Intangible assets	10	**1,127,942**	1,617,087
Property, plant and equipment	11	**47,313**	11,788
Other receivables	12	**-**	53,688
Total non-current assets		**1,175,255**	1,682,563
Current assets			
Other receivables	12	**129,577**	82,265
Cash and cash equivalents		**13,849,400**	1,425,986
Total current assets		**13,978,977**	1,508,251
Total assets		**15,154,232**	3,190,814
Capital and reserves attributable to the equity holders of the Company			
Shareholders' equity			
Share capital	13	**7,029,824**	2,690,866
Share premium		**20,296,030**	10,286,493
Share-based payment reserve	20	**842,644**	749,487
Accumulated retained deficit		**(13,212,922)**	(10,932,012)
Total equity		**14,955,576**	2,794,834
Liabilities			
Current liabilities			
Trade and other payables	15	**172,869**	395,980
Lease liabilities	16	**25,787**	-
Total liabilities		**198,656**	395,980
Total equity and liabilities		**15,154,232**	3,190,814

The financial statements of Cluff Natural Resources Plc, registered number 7958581, were approved by the Board of Directors on 15 April 2020 and were signed on its behalf by:

Graham Swindells
Chief Executive Officer

Financial Statements

The notes on pages 31 to 47 form part of the financial statements.

Statement of Changes in Equity
for the year ended 31 December 2019

	Share capital £	Share premium £	Share-based payment reserve £	Accumulated retained deficit £	Total equity £
Balance at 1 January 2019	2,690,866	10,286,493	749,487	(10,932,012)	2,794,834
Comprehensive income for the year					
Loss for the year	-	-	-	(2,360,248)	(2,360,248)
Total comprehensive loss for the year	-	-	-	(2,360,248)	(2,360,248)
Contributions by and distributions to owners					
Issue of share capital	4,338,958	10,802,138	(79,338)	79,338	15,141,096
Expenses of issue	-	(792,601)	-	-	(792,601)
Share-based payment	-	-	172,495	-	172,495
Total contributions by and distributions to owners	4,338,958	10,009,537	93,157	79,338	14,520,990
Balance at 31 December 2019	**7,029,824**	**20,296,030**	**842,644**	**(13,212,922)**	**14,955,576**
Balance at 1 January 2018	1,980,300	8,390,436	627,838	(9,271,859)	1,726,715
Comprehensive income for the year					
Loss for the year	-	-	-	(1,660,153)	(1,660,153)
Total comprehensive loss for the year	-	-	-	(1,660,153)	(1,660,153)
Contributions by and distributions to owners					
Issue of share capital	710,566	2,039,434	-	-	2,750,000
Expenses of issue	-	(143,377)	-	-	(143,377)
Share-based payment	-	-	121,649	-	121,649
Total contributions by and distributions to owners	710,566	1,896,057	121,649	-	2,728,272
Balance at 31 December 2018	**2,690,866**	**10,286,493**	**749,487**	**(10,932,012)**	**2,794,834**

The notes on pages 31 to 47 form part of the financial statements.

Statement of Cash Flows
for the year ended 31 December 2019

	2019 £	2018 £
Cash flows from operating activities		
Loss before tax	**(2,360,248)**	(1,660,153)
Finance income	**(71,020)**	(968)
Finance costs	**28,763**	-
Income from farm-out of licence interest	**(107,871)**	-
Depreciation	**110,469**	2,893
Amortisation	**9,735**	4,943
Impairment of intangible assets	**801,307**	-
Share-based payment	**172,495**	121,649
	(1,416,370)	(1,531,636)
(Increase)/decrease in other receivables	**(17,106)**	6,933
Increase in trade and other payables	**20,597**	2,128
Net cash outflow from operating activities	**(1,412,879)**	(1,522,575)
Cash flows from investing activities		
Purchase of intangible assets	**(895,647)**	(665,565)
Purchase of property, plant and equipment	**(6,426)**	(10,132)
Proceeds from farm-out of exploration licence interest	**470,135**	-
Interest received	**59,549**	968
Net cash outflow from investing activities	**(372,389)**	(674,729)
Cash flows from financing activities		
Proceeds of share issue	**15,141,096**	2,750,000
Expenses of share issue	**(792,601)**	(143,377)
Payment of principal portion of lease liabilities	**(111,050)**	-
Interest paid	**(28,763)**	-
Net cash inflow from financing activities	**14,208,682**	2,606,623
Increase in cash and cash equivalents	**12,423,414**	409,319
Cash and cash equivalents at beginning of year	**1,425,986**	1,016,667
Cash and cash equivalents at end of year	**13,849,400**	1,425,986

The notes on pages 31 to 47 form part of the financial statements.

Notes to the Financial Statements
for the year ended 31 December 2019

1. Accounting Policies

Basis of preparation

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

On 27 September 2019, the Company incorporated a subsidiary, Deltic Energy Limited, a company incorporated in England and registered at 5-8 The Sanctuary, London, SW1P 3JS. This subsidiary has been dormant from the date of incorporation. As it is not material for the purpose of giving a true and fair view, the Company has not consolidated its subsidiary, taking advantage of the exemption available under the Companies Act 2006 section 405, and has therefore not prepared consolidated financial statements.

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 is currently facing the dual challenge of recent commodity price volatility coupled with the effects of Covid-19, fortunately, as a gas focused explorer the Company does not have direct exposure to the oil price and, having taken the decision to raise funds in 2019 to protect itself from capital market volatility, 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 sufficient funds to cover its budgeted exploration programme and working capital requirements, and accordingly it 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, therefore they continue to adopt the going concern basis of accounting in the preparation of 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.

	Effective period commencing on or after:
IFRS 16: Leases	1 January 2019
Annual Improvements to IFRSs (2015-2017 Cycle)	1 January 2019

Other than the adoption of IFRS 16, none of the new amendments have had a material impact on the financial statements of the Company.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and for all leases (subject to exemptions) a right of use asset and lease liability to be recognised in the statement of financial position, with depreciation of the right of use asset and the finance charge on the lease liability reflected in the statement of comprehensive income.

The Company has applied IFRS 16 for the first time for the period beginning 1 January 2019 and has elected not to restate comparative information but to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to equity at the date of initial application. The requirements of IFRS 16 extend to the Company's operating leases for land & buildings.

Notes to the Financial Statements
for the year ended 31 December 2019

1. Accounting Policies (continued)

The operating lease commitments at 31 December 2018 may be reconciled to the initial lease liability as follows:

	1 January 2019 £
Minimum operating lease commitment at 31 December 2018	442,740
Undiscounted lease payments	442,740
Less: effect of discounting using the incremental borrowing rate as at the date of initial application	(65,172)
Lease liabilities for leases classified as operating type under IAS 17	377,568
Lease liabilities as at 1 January 2019	377,568

A right of use asset has been recognised equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Balance Sheet immediately before the date of initial application. The full impact of the implementation of this standard is set out below:

- Recognition of a lease liability and right of use asset, the initial impact of which is a new £377,568 lease liability, a £380,498 increase in property, plant and equipment, a £34,953 decrease in other receivables and a £32,023 decrease in other payables.
- A new finance expense reflecting the lease finance charge, amounting to £28,763 in the current year.
- Increased annual depreciation of property, plant and equipment for the duration of the lease, amounting to £106,222 in the current year.
- There is no operating lease rental expense for the current year.
- In the Statement of Cash Flows for the current year, lease payments totalling £139,813 are reflected under financing activities, whilst in the prior year these are included under operating activities.

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 2020 or later periods and which the Company has decided not to early adopt. These include:

	Effective period commencing on or after:
IAS 1: Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020

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 2020 based on current activities.

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.

1. Accounting Policies (continued)

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.

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 Group has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

Policy applicable from 1 January 2019

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.

Notes to the Financial Statements
for the year ended 31 December 2019

1. Accounting Policies (continued)
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.

Policy applicable prior to 1 January 2019
Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease") amounts payable under the lease are charged to the Income Statement on a straight-line basis over the lease term.

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.

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.

1. Accounting Policies (continued)

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.

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.

Notes to the Financial Statements
for the year ended 31 December 2019

1. Accounting Policies (continued)

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.

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.

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 2019

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 2019. 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.

As detailed in note 10, following the relinquishment of Licence P2248, an impairment charge of £801,307 (being its carrying value) was recognised in 2019. No other indicators of impairment were identified at 31 December 2019.

Estimates

Determination of share-based payment costs (note 20)

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 was that the share price vesting criteria would be met within three years for 13,333,332 options, four years for 13,333,334 options and five years for a further 13,333,334 options as detailed in note 20. 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.

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

	2019 **£**	2018 £
Wages and salaries	**645,913**	607,639
Short-term non-monetary benefits	**25,380**	38,747
Termination payments	**-**	50,404
Defined contribution pension costs	**39,582**	35,115
Social security costs	**101,355**	83,139
Share-based payment expense	**172,495**	121,649
	984,725	936,693

	2019	2018
The average monthly number of employees during the year was as follows:		
Directors	**4**	5
Administrative	**3**	3
	7	8

Notes to the Financial Statements
for the year ended 31 December 2019

3. Employees (continued)

Key management personnel remuneration

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

	2019	2018
	£	£
Salaries and bonuses	**474,125**	496,000
Payments in lieu of pension entitlements	**4,190**	-
Short-term non-monetary benefits	**18,766**	32,285
Termination payment	**-**	50,000
Consulting fees	**30,000**	25,000
Defined contribution pension costs	**28,437**	30,733
Social security costs	**82,787**	71,566
Share-based payment expense	**164,663**	119,175
	802,968	824,759

Directors' remuneration is disclosed in the Directors' Report on page 21, including the remuneration of the highest-paid director.

Details regarding share options are set out in note 20 to the financial statements.

4. Finance Income

	2019	2018
	£	£
Bank interest	**71,008**	968
Other loan interest (see note 17)	**12**	-
	71,020	968

5. Finance Costs

	2019	2018
	£	£
Effective interest expense on lease liabilities (see note 16)[1]	**28,763**	-

1 This reflects the adoption of IFRS 16 the from 1 January 2019 only, with no restatement of comparatives.

6. Loss before Tax

	2019	2018
	£	£
The loss before tax is stated after charging/(crediting):		
Other operating lease rentals – land and buildings	**-**	128,174
Amortisation of intangible assets	**9,735**	4,943
Impairment of intangible assets (see note 10)	**801,307**	-
Depreciation – owned assets	**4,247**	2,893
Depreciation – right of use leased assets (office lease)	**106,222**	-
Gain on farm-out of intangible exploration asset (see note 10)	**(107,871)**	-

7. Auditors' Remuneration

	2019	2018
	£	£
Fees payable to the Company's auditors for the audit of the Company's financial statements	**20,500**	17,681
Fees payable to the Company's auditors for non-audit related services	**6,073**	2,000
Fees payable to the Company's auditors for other audit-related services	**1,230**	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:

	2019	2018
	£	£
Loss on ordinary activities before taxation	**(2,360,248)**	(1,660,153)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK (19%) (2018: 19%)	**(448,447)**	(315,429)
Effects of:		
Capital allowances in excess of depreciation	**(429)**	(1,478)
Expenses not deductible for tax purposes	**2,375**	1,838
Adjustment in relation to share based payment	**32,774**	23,113
Unrelieved losses carried forward	**413,727**	291,956
Income tax expense	**-**	-

A deferred tax asset of £2,377,737 (2018: £1,964,010) in respect of accumulated trading losses of £12,514,406 (2018: £10,336,896) has not been recognised due to the uncertainty and timing of future profits.

9. Loss per Share

The Company has issued share options over ordinary shares both of which could potentially dilute basic earnings per share in the future. Further details are given in note 20.

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 88,308,192 (2018: 58,956,901) share incentives outstanding at the end of the year that could potentially dilute basic earnings per share in the future.

Basic and diluted loss per share

	2019	2018
Loss per share from continuing operations	**(0.24)p**	(0.35)p

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

	2019	2018
	£	£
Loss used in the calculation of total basic and diluted loss per share	**(2,360,248)**	(1,660,153)

Number of shares

	2019	2018
	Number	Number
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**979,603,077**	475,394,019

Notes to the Financial Statements
for the year ended 31 December 2019

10. Intangible Assets

	Exploration & evaluation assets £	Software licences £	Total £
Cost			
At 1 January 2018	769,624	17,969	787,593
Additions	825,391	21,288	846,679
At 31 December 2018	1,595,015	39,257	1,634,272
Additions	684,161	-	684,161
Farm-out of licence	(362,264)	-	(362,264)
Deduction – licence relinquished	(801,307)	-	(801,307)
At 31 December 2019	**1,115,605**	**39,257**	**1,154,862**
Amortisation and impairment			
At 1 January 2018	-	12,242	12,242
Charge for year	-	4,943	4,943
At 31 December 2018	-	17,185	17,185
Charge for year	-	9,735	9,735
Impairment	801,307	-	801,307
Deduction – licence relinquished	(801,307)	-	(801,307)
At 31 December 2019	-	**26,920**	**26,920**
Net Book Value			
At 31 December 2019	**1,115,605**	**12,337**	**1,127,942**
At 31 December 2018	1,595,015	22,072	1,617,087
At 1 January 2018	769,624	5,727	775,351

The net book value of exploration and evaluation assets at 31 December 2019 and 2018 relates solely to the Company's North Sea Licences.

Following the failure of the preferred bidder on Licence P2248 to demonstrate the necessary financial capacity to fund the forward work programme within a timeframe that was acceptable to the OGA, the Company relinquished the licence with effect from 29 March 2019. As a consequence, the exploration asset relating to Licence P2248 was fully impaired and an impairment charge of £801,307 is included in the Income Statement for the year.

Aggregate cash proceeds arising from the farm-out of Licence P2437 to Shell during the year amounted to £470,135. An amount of £362,264 has been 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 £107,871 and has been recognised as a gain on disposal of the partial interest and included as other operating income in the Income Statement for the year.

Additions of £684,161 (2018: £846,679) differ to the cash flows in the Statement of Cash Flows owing to a decrease in trade and other payables of £211,486 (2018: £181,114 increase) relating to intangible assets.

11. Property, Plant and Equipment

	Office lease £	Fixtures and fittings £	Computer equipment £	Total £
Cost				
At 1 January 2018	-	6,522	3,862	10,384
Additions	-	1,332	8,999	10,331
Disposals	-	-	138	138
At 31 December 2018	-	7,854	12,999	20,853
Additions	-	-	6,227	6,227
Recognition upon adoption of IFRS 16 (see note 16)	380,498	-	-	380,498
Deductions[1]	(240,731)	-	-	(240,731)
At 31 December 2019	**139,767**	**7,854**	**19,226**	**166,847**
Depreciation				
At 1 January 2018	-	4,541	1,493	6,034
Charge for year	-	1,039	1,854	2,893
Disposals	-	-	138	138
At 31 December 2018	-	5,580	3,485	9,065
Charge for year	106,222	927	3,320	110,469
At 31 December 2019	**106,222**	**6,507**	**6,805**	**119,534**
Net Book Value				
At 31 December 2019	**33,545**	**1,347**	**12,421**	**47,313**
At 31 December 2018	-	2,274	9,514	11,788
At 1 January 2018	-	1,981	2,369	4,350

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

1 The deductions from the office lease reflects a reduction in liability upon exercise of a break clause (see note 16).

12. Trade and Other Receivables

	2019 £	2018 £
Current:		
Other receivables	**11,471**	315
Other tax receivables	**20,834**	9,516
Rental deposit	**53,688**	-
Prepayments	**43,584**	72,434
	129,577	82,265
Non-current:		
Rental deposit	**-**	53,688
Total receivables	**129,577**	**135,953**

Following exercise of the lease break clause, the rental deposit is repayable to the Company at the end of the break period on 1 June 2020, subject to deduction of any remaining dilapidations liability.

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 2019

13. Share Capital

Allotted, issued and fully paid

Year ended December 2019		Number	£
At beginning of the year	Ordinary shares of 0.5 pence each	**538,173,289**	**2,690,866**
Issue of shares		**867,791,566**	**4,338,958**
At end of the year	Ordinary shares of 0.5 pence each	**1,405,964,855**	**7,029,824**

Year ended December 2018		Number	£
At beginning of the year	Ordinary shares of 0.5 pence each	396,060,199	1,980,300
Issue of shares		142,113,090	710,566
At end of the year	Ordinary shares of 0.5 pence each	538,173,289	2,690,866

On 20 April 2018, the Company announced that it had raised approximately £750,000, before expenses, through the subscription of 46,875,000 new ordinary shares at 1.6 pence per share. The shares were allotted and admitted to trading on AIM on 26 April 2018.

On 27 June 2018, the Company announced that it had raised approximately £2,000,000, before expenses, through the aggregate placing and subscription of 95,238,090 new ordinary shares at 2.1 pence per share. The shares were allotted and admitted to trading on AIM on 4 July 2018.

On 6 June 2019, the Company announced that it had raised approximately £15 million, before expenses, through the aggregate placing and subscription of 857,142,857 new ordinary shares at 1.75 pence per share. The shares were allotted and admitted to trading on AIM on 1 July 2019.

On 13 February 2019, the Company announced the exercise by Mr JG Cluff of options over 10,648,709 new ordinary shares at an exercise price of 1.325 pence per share. The shares were allotted and admitted to trading on AIM on 15 February 2019.

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 29.

15. Trade and Other Payables

	2019	2018
	£	£
Current:		
Trade payables	**69,348**	268,970
Social security and other taxes	**25,704**	36,230
Other payables and accruals	**77,817**	90,780
	172,869	395,980

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

Financial Statements

16. Lease Arrangements

Disclosure applicable under IFRS 16 (following its adoption)

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

	2019
	£
Recognition of office lease liability upon adoption of IFRS 16	**377,568**
Effective interest expense	**28,763**
Lease payments	**(139,813)**
Adjustment upon exercise of break clause	**(240,731)**
Amounts payable within one year at 31 December	**25,787**

Following a decision during the year to move offices, the Company exercised a lease break clause. As a result, the discounted lease liability was recalculated as at the date of exercising the lease break option and the lease liability has been reduced accordingly by £240,731. This is also reflected as a reduction in the right of use asset within property, plant and equipment (see note 11).

Disclosure applicable under IAS 17 prior to adoption of IFRS 16

Operating lease commitments

Minimum lease payments under non-cancellable operating leases fall due as follows:

	2019	2018
Land and buildings:	**£**	£
Less than one year	**-**	139,813
Between one and five years	**-**	302,927

During 2018, £128,174 was recognised as an expense in the Income Statement in relation to the operating lease.

17. 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. Disclosure regarding remuneration of key management is provided in note 3.

On 25 January 2019, the Company made a loan to a director, JG Cluff, of £10,000 bearing interest at 2.5% per annum, with a term of two months. He repaid the principal and interest totalling £10,012 to the Company on 11 February 2019.

During the year, JG Cluff exercised 10,648,709 share options at an exercise price of 1.325p per share (see note 3). No share options were exercised during the prior year.

Mark Lappin, the Company's Non-Executive Chairman, subscribed for 571,430 new ordinary shares in a subscription of new ordinary shares on 6 June 2019 (the "Subscription"), which represented an amount of £10,000.03 at the Subscription's issue price of 1.75 pence per new ordinary share (the "Issue Price"). Graham Swindells, the Company's Chief Executive Officer, subscribed for 571,430 new ordinary shares in the Subscription, which represented an amount of £10,000.03 at the Issue Price. Andrew Nunn, the Company's Chief Operating Officer, subscribed for 571,430 new ordinary shares in the Subscription, which represented an amount of £10,000.03 at the Issue Price. Peter Cowley, a Non-Executive Director of the Company, subscribed for 571,430 new ordinary shares in the Subscription, which represented an amount of £10,000.03 at the Issue Price.

IPGL Limited, a substantial shareholder of the Company, subscribed for 171,428,571 new ordinary shares in a placing of new ordinary shares on 6 June 2019, which represented an amount of £2,999,999.99 at the placing's issue price of 1.75 pence per new ordinary share.

18. Financial Instruments

Principal financial instruments

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

	2019 £	2018 £
Financial assets		
Cash and cash equivalents – all amounts held in Sterling:		
Cash at bank	**242,364**	1,425,986
Short-term bank deposits[1]	**13,607,036**	-
	13,849,400	1,425,986
Rental deposit	**53,688**	53,688
Other receivables	**11,471**	315
	13,914,559	1,479,989
Financial liabilities		
Trade payables	**69,348**	268,970
Other payables & accruals	**77,817**	90,780
Lease liabilities	**25,787**	-
	172,952	359,750

1 Short-term bank deposits comprise deposits that are available upon giving notice ranging from 32 to 95 days.

The financial liabilities are all payable within one year.

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.

18. Financial Instruments (continued)

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 2019, the Company was financed by cash raised through equity funding. 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.

The table below shows the undiscounted cash flows on the Company's financial liabilities as at 31 December 2019 and 31 December 2018 on the basis of their earliest possible contractual maturity.

	Total £	Within 2 months £	Within 2 -6 months £
At 31 December 2019			
Trade payables	**69,348**	**69,348**	**-**
Other payables & accruals	**77,817**	**-**	**77,817**
Lease liabilities	**26,409**	**-**	**26,409**
	173,574	**69,348**	**104,224**
At 31 December 2018			
Trade payables	268,970	268,970	-
Other payables & accruals	90,780	-	90,780
	359,750	268,970	90,780

19. 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 2019 following equity fundraising completed in July 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 until the end of 2021. Further funding will be required to allow the Company to continue to implement its strategy beyond this period. It is the intention of the Directors that the Company should continue to be financed by equity as appropriate to maintain a robust net asset position to support its business and maximise shareholder value.

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.

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for the year ended 31 December 2019

20. 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.

40,000,000 options were granted during the year to 31 December 2019 under the scheme (2018: 18,200,000) and no options expired (2018: nil).

During the year, JG Cluff exercised 10,648,709 share options at an exercise price of 1.325p per share. No share options were exercised during the prior year.

The Company recognised a total share-based payment expense of £172,495 for the year ended 31 December 2019 (2018: £121,649) 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	8 July 2019	8 July 2019	8 July 2019
Share Price	1.75p	1.75p	1.75p
Exercise price	1.75p	1.75p	1.75p
Expected Volatility	69.73%	69.73%	69.73%
Risk Free Rate of Interest	0.4933%	0.4933%	0.4933%
Expected Dividend Yield	0.00%	0.00%	0.00%
Expected Life	6.5 years	7.0 years	7.5 years
Number of options issued	13,333,332	13,333,334	13,333,334

Black Scholes Model	7 June 2018	7 June 2018	25 September 2018	25 September 2018
Share Price	2.32p	2.32p	2.08p	2.08p
Exercise price	2.32p	2.32p	2.00p	2.00p
Expected Volatility	65.74%	65.74%	67.92%	67.92%
Risk Free Rate of Interest	1.0529%	1.0529%	1.1858%	1.1858%
Expected Dividend Yield	0.00%	0.00%	0.00%	0.00%
Expected Life	5.5 years	6.0 years	5.5 years	6.0 years
Number of options issued	8,600,000	8,600,000	500,000	500,000

Notes to the Financial Statements
for the year ended 31 December 2019

20. Share-Based Payments (continued)

Under the terms of the options granted during the year, 13,333,332 options will vest following the share price reaching 2.33p for 30 consecutive days at any time prior to expiry of the options, 10 years from the grant date, plus a further holding period of two years, but no earlier than three years after the grant date. A further 13,333,334 options will vest following the share price reaching 2.91p for 30 consecutive days at any time prior to expiry of the options, 10 years from the grant date, plus a further holding period of two years, but no earlier than 4 years after the grant date. The remaining 13,333,334 options will vest following the share price reaching 3.5p for 30 consecutive days at any time prior to expiry of the options, 10 years from the grant date, plus a further holding period of two years, but no earlier than 5 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 3 years, 4 years and 5 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.

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

Year ended December 2019	Number of options	WAEP P
Outstanding at the beginning of the year	**58,956,901**	**2.41**
Exercised	**(10,648,709)**	**1.33**
Issued	**40,000,000**	**1.75**
Outstanding at the end of the year	**88,308,192**	**2.24**
Number exercisable at 31 December 2019	**22,908,192**	**2.54**

Year ended December 2018	Number of Options	WAEP p
Outstanding at the beginning of the year	40,756,901	2.46
Issued	18,200,000	2.30
Outstanding at the end of the year	58,956,901	2.41
Number exercisable at 31 December 2018	27,556,901	1.81

The weighted average remaining contractual life of options outstanding as at 31 December 2019 was 7.9 years (2018: 7.5 years). The range of exercise prices relating to options outstanding at 31 December 2019 was 1.325p to 8p (2018: 1.325p to 8p).

21. Subsequent Events

There were no significant events subsequent to 31 December 2019.

Company Information

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G C Swindells (Chief Executive)
A J Nunn (Chief Operating Officer)
P N Cowley (Non-Executive)

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