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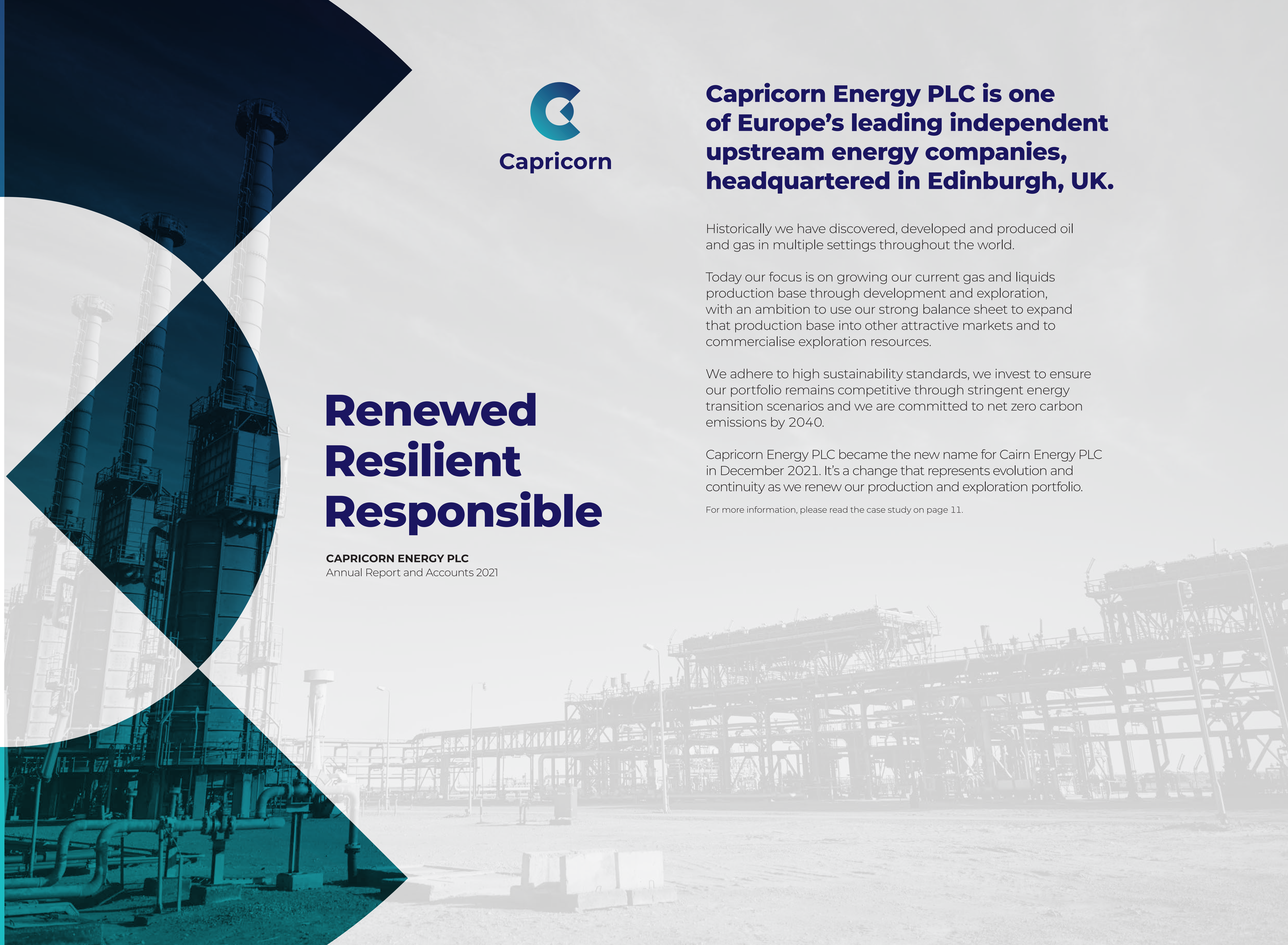
Capricorn Energy PLC Annual Report and Accounts 2021



Capricorn

Capricorn Energy PLC is one of Europe's leading independent upstream energy companies, headquartered in Edinburgh, UK.

Historically we have discovered, developed and produced oil and gas in multiple settings throughout the world.

Today our focus is on growing our current gas and liquids production base through development and exploration, with an ambition to use our strong balance sheet to expand that production base into other attractive markets and to commercialise exploration resources.

We adhere to high sustainability standards, we invest to ensure our portfolio remains competitive through stringent energy transition scenarios and we are committed to net zero carbon emissions by 2040.

Capricorn Energy PLC became the new name for Cairn Energy PLC in December 2021. It's a change that represents evolution and continuity as we renew our production and exploration portfolio.

For more information, please read the case study on page 11.

Renewed Resilient Responsible

CAPRICORN ENERGY PLC
Annual Report and Accounts 2021

Renewed

Active portfolio management, a diversified and extended production base and positioned for further growth

P32

Responsible

We continue to develop our responsible approach, announcing an accelerated commitment to delivering net zero operations by 2040 or earlier. During the year, we have maintained our enduring focus on meeting our commitments to the stakeholders and communities where we operate.

P40

Resilient

Fiscal discipline, balance sheet strength and energy transition relevance. Our strategy has positioned the business for long-term value creation, whilst building on a track record of shareholder returns.

P10

CARBON BALANCE DETAILS
TBC – KB

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2021 Highlights

Net working interest oil and gas production averaged (boepd)[1]

~36,500

1 Egypt production from completion of acquisition to 31 December 2021.

Year end Group cash

US$314m

Egypt oil and gas sales revenue

US$56m

Returned or committed to return to shareholders

Up to US$957m

Commitment to return up to a further US$700m announced in September 2021

Tax refund from Government of India

US$1.06bn

received in Q1 2022

Acquisition of Egypt Western Desert assets

US$323m

net to Capricorn

Accelerated net zero target

2040

or earlier in scope 1 & 2 equity emissions

Contents

Strategic Report

Our Portfolio

Capricorn holds a balanced portfolio of development, production and exploration assets, with interests in the following countries: the UK, Egypt, Israel, Mauritania, Mexico and Suriname. We are active portfolio managers looking at transforming the asset portfolio to ensure that we have line of sight on long-term cash flow generation and growth potential. Portfolio details as at 31 December 2021.

Key	Onshore	Offshore
Exploration		
Development		
Production		

Mexico
4 licences
2,183 km² acreage

Suriname
1 licence
13,080 km² acreage

Mauritania
1 licence
7,300 km² acreage

UK
9 licences
4,941 km² acreage

Egypt
3 licences and
11 development leases
16,211 km² acreage

Israel
8 licences
2,700 km² acreage

A Transformational Year

Some 18 months ago, the Board supported management's strategic ambition to focus on short capital cycle, infrastructure-led exploration and selective frontier opportunities. For 2021, we tasked the Management Team with executing that strategy and establishing those building blocks.

Nicoletta Giadrossi
Chair

"Despite the pandemic and associated lockdowns, our people have demonstrated steadfast commitment and have carried out a huge amount of complex work remotely that would normally have been done face to face."

The tax refund from the Government of India of more than one billion dollars was a very positive outcome for our shareholders. India has a special place in our Company's history and we can be very proud of the wonderful legacy asset which we created in India, which will continue to provide a significant economic and social contribution to the country for decades to come. Successful resolution of this matter allows the Company to continue its strategy of returning value to shareholders; and with significant retained balance sheet strength, Capricorn is well positioned to further expand the business and build a low cost, sustainable production base.

The acquisition from Shell of the Western Desert portfolio in Egypt was the first step in building out a longer-life production portfolio with attractive growth opportunities, that can deliver diversified and consistent cash flow streams. The shift in our philosophy from frontier-focused to infrastructure-led exploration, offers a lower risk profile with the potential for fast-track monetisation, leveraging many of Capricorn's key competencies and continuing to add reserves and resources.

The other key feature of our refocused strategy is to place an even greater emphasis on our sustainability criteria. This has always been present in Capricorn's approach, but it is now even more at the forefront of our decision-making, both in terms of how we shape our portfolio and in the way that we operate. We have significantly strengthened the team with key appointments in this area and ensured that we have sufficient expertise to support our strategic framework.

The Board has made these issues a priority over the past year. Our decarbonisation strategy, the progress that we are making against our roadmap, and how this might be accelerated are on the agenda at each Board meeting. I see our job as creating the space for the Management Team to deliver our sustainability roadmap – this is a key component and decision criterion in our growth strategy. We are aware that this is not a process with a short time frame, but one that will continue to develop over the coming years, and it is one that the Board has made an absolute priority to address.

Few other E&P companies have been able to weather the cyclicality of our markets with such resilience or have been able to continue to make investments that have generated rewards for shareholders in the same way as Capricorn. I believe we have also been able to create strong partnerships in the communities where we have been present, whether in India, Senegal, or now in Egypt and elsewhere, to create value not just for shareholders but for society. This is a core part of Capricorn's model.

We engaged widely and transparently with our investors last year on this and other topics, with a focus on making sure they understood and supported our position and strategy. We have been grateful for a stable shareholder base over recent years which has supported our model of creating, monetising and returning value to investors, as well as to the communities we operate in.

We have also ensured that we have looked after our people. Despite the pandemic and associated lockdowns, our people have demonstrated steadfast commitment and have carried out a huge amount of complex work remotely that would normally have been done face to face. I would like to thank them for their efforts, which have demonstrated the resilient culture and adaptability of the Company. One of our areas of priority for the coming year will be a focus on diversity and inclusion. We operate in a global industry and in many different countries, and it is important to ensure that we benefit from the diverse perspectives that people bring.

As we look to the future, we will seek to continue to scale up production and invest where we believe we can make a difference, at the same time effectively deploying our decarbonisation strategy and exploring opportunities to support the development of technologies in areas aligned with our core skillsets.

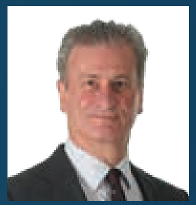
We will continue to deliver the strategy that we have set out: building and scaling production to create a business with stable cash flows, a sustainable profile, and the opportunity and means to continue to create value for our stakeholders.

Nicoletta Giadrossi
Chair

Positioned for growth and expansion

We are positioning ourselves for growth and expansion, but doing so in a way that is disciplined, sustainable and reflects the changing energy mix requirements globally.

CEO's Review



In 2021, Capricorn actively managed its asset portfolio to refocus on cashflow generation from sustainable production with shorter capital cycles and resilience to volatile hydrocarbon prices supported by infrastructure-led exploration. We retain the balance sheet strength to further build out this strategy in 2022.

In Q1 2021, we announced the acquisition of Shell's Western Desert assets in Egypt, which completed in Q3 2021. These assets provide low-cost production, owned infrastructure, near-term production growth, exploration potential and an attractive combination of fixed price gas into growth markets with oil price exposure. In a country with strong and growing domestic demand and a supportive regulatory and fiscal environment, production performance since completion has been very encouraging.

Also in Q1 2021, we announced the disposal of our UK North Sea producing interests as they began to enter long term decline. The terms of the sale to Waldorf Production provide Capricorn with continued exposure to oil price and production performance through contingent payments due to the Group over the next four years.

We continued the high-grading of our exploration portfolio during the year, reinforcing our focus on shorter capital cycle, lower-cost infrastructure-led opportunities, whilst limiting our capital allocation to the remaining more frontier positions.

Capricorn continued its track record of returning value to shareholders, with commitments made during 2021 to return nearly US$1bn of cash to shareholders. In Q1 2021 we paid a special dividend of US$257m following completion of the sale of our Senegal interests to Woodside. Following resolution of the Indian tax dispute we committed to return US$500m by way of a tender offer to close in April 2022, and up to a further US$200m by way of an ongoing share buyback programme. In total the Company will have returned to shareholders more than US$5.5bn in the last 15 years.

To ensure portfolio resilience and relevance through a changing energy mix, in Q3 2021 we accelerated our net zero target for Scope 1 and 2 equity emissions to 2040, at the latest. Capricorn has invested in its internal capability to progress its transition strategy, making key senior appointments, and the business has concluded agreements for an initial investment in high-quality, verified carbon credits as part of our offsetting strategy. Capricorn has tested the resilience of its producing assets against the IEA's STEPS, SDS and NZE scenarios. Based on the economic assumptions we apply, these tests show that our production portfolio is capable of generating value in a climate scenario aligned with 1.5 degree warming. We apply a conservative set of assumptions to screen new opportunities, including a range of internal carbon prices, to support the ongoing relevance of our portfolio as we build our future platform for sustainable cashflow and growth.

India Tax Refund and Return of Capital

Following the resolution in 2021 of the India tax dispute, Capricorn received a tax refund of US$1.06 billion from the Government of India in Q1 2022. A circular issued in early March details the shareholder resolutions required in connection with the proposed shareholder return of up to US$700 million, comprising a US$500m tender offer and US$200m ongoing share repurchase programme.

Outlook

As we look to further build out our resilient platform for sustainable cashflow and growth, Capricorn will use its balance sheet strength to pursue value accretive acquisition opportunities where these meet our strict criteria for capital allocation, value and energy transition relevance. Following strong initial performance in Egypt, our focus there during 2022 will be on delivering continued production growth and prioritising near term liquids rich opportunities to maximise value from these assets. Exploration drilling this year will take place in the UK, Mexico and Egypt and focus primarily on shorter capital cycle, infrastructure-led opportunities, with limited capital allocation to more frontier locations. Capricorn will continue to make progress on the decarbonisation of its assets in support of our net zero by 2040 target.

Board Changes

Capricorn announced in Q1 2022 the appointment of Luis Araujo as an independent non-executive director with effect from 11 May 2022.

Simon Thomson
Chief Executive Officer

"2021 was a transformational year for Capricorn; we continued to successfully reshape our portfolio and achieved a positive resolution of our Indian tax dispute. From the proceeds of asset sales and the Indian tax refund we have committed to nearly US$1 billion of capital returns to shareholders in 2021 and 2022. We acquired an attractive portfolio of low breakeven oil and gas production in Egypt, where we are already delivering production growth and emission reductions, and which has significant further opportunities for value creation. We also retain the balance sheet capacity to further expand the production base through value-accretive acquisitions. We look forward to continuing to deliver our strategic aims in 2022 with a strong commitment to safety, social responsibility and our pathway to net zero carbon emissions by 2040."

Focused on growth, returns and fiscal discipline

In a year of significant change, we have ensured we remain positioned for success. Whilst we may have changed our name to Capricorn, our purpose is unchanged. We will continue to pursue a differentiated business model of creating, adding, and realising value for shareholders, against a backdrop of sustainable cash flow generation and growth. Our unerring focus remains on returns, growth and ongoing fiscal discipline.

Simon Thomson
Chief Executive Officer

We will also continue to actively manage our portfolio to ensure that we have the right balance of assets for continued value creation, across the energy life cycle: from exploration and development to production.

Portfolio Renewal
The past year witnessed a fundamental portfolio renewal. We swapped risked development in Senegal and declining production assets in the UK North Sea for current production and future growth opportunities in Egypt and in the UK. Crucially, we also retained a strong balance sheet and the financial flexibility that we have always prioritised in our strategic delivery.

I am particularly excited by the prospects for our assets in Egypt, which offer attractive growth opportunities for Capricorn and its shareholders – but that is just the start as we aim to build the asset base in the coming months and years. The assets we have acquired provide a material production base from a gas-weighted portfolio that also benefits from attractive liquids production. They offer near-term, low-cost production, owned infrastructure, numerous emissions reduction opportunities, and significant medium and longer-term exploration, all in a region with a stable fiscal environment and strong demand growth.

Positioned for Growth
Overall, the Egyptian portfolio provides a platform for long-term sustainable cash flow generation and growth that we plan to build on over the coming months and years. Our flexibility and agility leave us well positioned to take advantage of further opportunities to acquire assets with similar potential. This is a core part of the strategy to sustainably scale our production operations to provide cash for reinvestment, fund further returns to shareholders, and support ongoing selective exploration activity.

Our approach to exploration is another key driver of success. Over the past year, we have refined and high-graded the portfolio. Our initial focus will primarily be on Egypt, which, alongside the UK, offers the potential for infrastructure-led opportunities where discoveries can be quickly developed and monetised. Elsewhere, we look forward to building on our exploration success offshore Mexico. Whilst we retain exposure to potentially transformational exploration, principally in Suriname and Mauritania, we do not have the burden of material capital or well commitments. We have the agility to refine and adapt our programme in accordance with our strategy of focusing on the most valuable resources.

"I'm particularly excited by the prospects for our assets in Egypt, which offer attractive growth opportunities for Capricorn and its shareholders."

Sustainability Commitment
In considering how we build our portfolio, we focus increasingly on energy transition considerations. Capricorn's business must remain relevant and resilient, and in the past year we have taken significant steps to ensure this is achieved. First of all, we have accelerated our commitment to net zero to 2040 or earlier, setting a target for our ambitions and actions. Secondly, we have developed greater internal capability to drive our energy transition agenda with key senior appointments alongside the robust processes we are developing to ensure we monitor and deliver against our commitments. We are determined to continue our progress on decarbonisation. Our TCFD reporting this year sets out in more detail our plans and assesses the resilience of the business against transition scenarios.

Regardless of whether we are exploring or producing, wherever we operate we do so with the highest standards of responsibility and transparency.

We continue to prioritise the health, safety, security, and well-being of our people and remain committed to protecting the environment and supporting communities in the areas where we operate, in alignment with the UN Sustainable Development Goals. We always aim to ensure that our host communities and countries experience a positive impact as a result of our presence.

A Clear Focus
We are pleased that we have now successfully resolved the tax issue with the Government of India. We are proud of everything that we achieved during our time in the country. We invested significantly in India and built a business that has generated billions of dollars of revenue for stakeholders in India, as well as thousands of jobs and significant social benefits, while also creating significant material value for our own shareholders.

The conclusion to our India story, as well as allowing us to continue with our differentiated strategy of returning value to shareholders, provided the right time for us to look to the future with a new name. Whilst our name has changed to Capricorn, our mission and focus remain the same. We are in a strong position to build on our successful track record. We remain focused on delivering value responsibly across all our operations. Capricorn is exceptionally well placed to move forward with a renewed portfolio, a strong financial position, and with the potential to create and return more value for all our stakeholders.

A NEW NAME, A NEW PLACE

On 13 December 2021, the Company changed its name to Capricorn.

The change follows an agreement at the time of the Cairn India IPO to ultimately change the name, and with the Company's participation in the India tax refund process, the time was right to put in place the change as we scale our resilient business for the future.

With many of our subsidiary and operating companies having used the Capricorn name for some time, it is an established and respected name across our global operations. This maintains stakeholder confidence in our long-standing reputation for respect, relationships and responsibility.

In the next year, Capricorn will also prepare to move our headquarters to a new location in Edinburgh. From early 2023, we will be based in 1 Haymarket Square, an outstanding new place for colleagues to work, and boasting world class transport links, energy efficiency and environmental credentials, including: holding an Energy Performance Certificate 'A' rating; roof-mounted photovoltaic panels which generate a proportion of the electrical demand; and high-performance air-handling, lighting and reduced water consumption systems.

Our Strategy

Our strategy as a responsible energy producer is to ensure maximum financial flexibility through active management of our portfolio. By maintaining a balance sheet that is resilient to periods of volatility, we are able to target high quality resources and continually renew the portfolio to ensure relevance through the energy transition, and meet our commitment to net zero by 2040 or earlier. Ultimately, this strategic focus has enabled us to differentiate our business by enabling significant capital returns to shareholders.

Selective Exploration

Core area exploration to sustain production

Select transformational exploration

Balance Sheet Flexibility

Capital structure resilient to price shocks

Controllable and flexible capital programme

Shareholder Returns

Key differentiator

Competition for capital between reinvestment and returns

Sustainable Cash flow Base

Diversify and extend production base

Ensure low full-cycle break-even economics

Portfolio Management

Monetise for returns and reinvestment

Flexible and balanced capital allocation

Our emphasis on proactive portfolio management means we maintain control of our own destiny by optimising capital allocation and ensuring the right asset balance at any point in time. This enables us to return cash to shareholders. In 2021, we returned or committed to return nearly US$1bn. We weigh reinvestment in the business against returning cash to shareholders when considering capital allocation.

Proactive portfolio management also enables us to invest in growing, diversifying and sustaining the cash flow-generating asset base. We target long-life, full-cycle portfolios with low break-even costs to best position us to support future shareholder returns.

Renewing and building the portfolio is delivered in a way that maintains balance sheet flexibility. A resilient capital structure provides protection against volatility and discipline in portfolio choices ensures control over our capital programme.

Exploration remains core to our future strategy. New discoveries support future cash flows through organic reserves replacement, with the potential for transformational events to create further shareholder value. Our exploration focus is on advantaged resources that can remain competitive through stringent energy transition scenarios and will move quickly to commercialisation.

Against the backdrop of a global energy system in transition, we are positioning ourselves for sustainable growth, in line with a commitment to net zero by 2040, and with financial and operational discipline.

Executing our Strategy Responsibly

Working responsibly means delivering value in a safe, secure and environmentally responsible manner for all our stakeholders. Our sustainability strategy underpins efforts to: protect the environment and transition to more sustainable energy sources; support society by creating value for employees, suppliers, shareholders and communities; and use sound governance structures to ensure we conduct our business ethically and manage risks effectively.

Our long-established Business Principles are integrated into our systems and processes. They determine how we work, helping us to behave responsibly to people, to the environment and to society.

Responsible Governance

BUSINESS PRINCIPLES

- We manage risk and seek to continually improve.
- We behave honestly, fairly and with integrity.

RELEVANT MATERIAL ISSUES

5 10 11 15 18

Read more about our material corporate responsibility issues on pages 24 and 25

CONTRIBUTION TO SDGS

10 Reduced inequalities · 16 Peace, justice and strong institutions · 17 Partnerships for the goals

Read more on pages 80-83

Risks

We seek to identify and effectively manage the risks that are most significant to our business. These are recorded in a risk register which, along with stakeholder engagement, help us to prioritise issues.

Read more on pages 49-55

Behaving Responsibly to the Environment

BUSINESS PRINCIPLES

- We take a precautionary approach to our effect on the environment.
- We strive to prevent and minimise our impact on the environment.

Read more on page 56

RELEVANT MATERIAL ISSUES

23 25 26 28 29

RELEVANT

7 · 12 · 13 · 14 · 15 · 17

Behaving Responsibly to People

BUSINESS PRINCIPLES

- We develop the potential of our people.
- We foster a workplace that respects personal dignity and rights, is non-discriminatory and provides fair rewards.
- We provide a healthy, safe and secure work environment.

Read more on page 60

RELEVANT MATERIAL ISSUES

37

RELEVANT

3 · 5 · 8

Behaving Responsibly to Society

BUSINESS PRINCIPLES

- We seek to make a positive social impact in every area where we work.
- We respect the rights and acknowledge the aspirations and concerns of the communities in which we work.

Read more on page 64

RELEVANT MATERIAL ISSUES

51 53

RELEVANT

1 · 2 · 3 · 4 · 9 · 12 · 13 · 16

External Frameworks

CDP · EITI · GRI · IFC · SASB · TCFD

Our Business Model

Our business model is to invest in assets across the oil and gas life cycle in order to create, add and deliver value for stakeholders.

The cash flow from production assets funds further growth in exploration and development activity alongside overall strategic delivery. Assets can be monetised at different stages of exploration, development and production in order to optimise the portfolio and create the opportunity for further cash returns to shareholders, as we have demonstrated historically in India and Senegal. We focus on reducing carbon emissions in our operations and targeting resources that can be relevant through the global changing energy mix.

OUR STRENGTHS AND CAPABILITIES

#1 Agile portfolio management

Capricorn has consistently managed its portfolio to enter or remain in assets with exploration and production growth and exit assets at an opportune time and at attractive prices or where allocated capital is no longer justified to provide the targeted returns.

We have executed our strategic choices both in the exploration arena and also the production arena. During 2021, we returned capital following the sale of our interest in the Sangomar project in Senegal, whilst also exiting the Kraken and Catcher assets, where production decline had occurred. We retain exposure to both reservoir out-performance and oil price through an uncapped earn-out provision in these North Sea producing assets.

#2 Collaborative partnerships

We work in joint ventures across the E&P spectrum, partnering with companies that share our values and vision. In 2021, we entered Egypt in partnership with Cheiron, a private Egyptian company, and together acquired the BADR Petroleum Company (Bapetco) Western Desert assets from Shell. This provides Capricorn with owned infrastructure including export pipelines and substantial reserves, existing production and exploration potential. We aim to invest to grow production, reserves and new resources, working closely with host governments and state oil companies, which are also key partners.

We have deep experience of working in collaborative partnerships, both as operator and as non-operator and are looking to add partners to our joint ventures in Mauritania and Suriname.

#3 Exploration and production expertise and experience

Capricorn has the skills and capabilities within the organisation to deploy across the full E&P asset life cycle. The exploration portfolio is continuously high-graded to ensure we are focused on our 'advantaged resources' exploration criteria: rapid pace from discovery to production, a clear alignment to ESG priorities, flexible commitments which can allow us to react to market dynamics, and resources that can be discovered, developed and produced competitively in a lower oil demand future. The same applies in the production arena, where we focus on delivering cash-generative production growth with low operating costs and lower emissions, and adding reserves cost effectively through developments, improved reservoir management and new well drilling and completion.

Our people provide the necessary expertise and resources to deliver the work programmes agreed within our joint ventures, and to operate successfully across the oil and gas life cycle. Over the last decade, the Company has operated multiple 2D & 3D seismic and geotechnical surveys, drilled over 20 exploration and appraisal wells onshore and in mid- and deepwater settings and has successfully participated in development planning to take five major projects to development phase, converting over three quarters of a billion barrels to reserves (gross, 100% basis). Through these projects, our subsurface, engineering, HSSE, commercial & legal and financial teams have worked together and further developed their skillsets and capabilities for future application. Since 2017, we have delivered production within market guidance for four consecutive years.

#4 Responsible culture

Our established, highly experienced and respected leadership team is committed to working responsibly to deliver the Company's strategy. We never compromise our Operating Standards. Our focus on delivering value in a safe, secure and environmentally and socially responsible manner is a key strategic objective, measured through our key performance indicators. Contractors and suppliers are required to work to the same high standards as our employees, adhering to our Core Values of Building Respect, Acting Responsibly and Nurturing Relationships.

WHY CAPRICORN ENERGY?

Our expertise and agility

We have the ability to move quickly and responsibly to pursue opportunities, underpinned at all times by our financial flexibility. We see and realise value where others may not.

Our established track record of creating significant growth and value was demonstrated most recently through our basin opening discoveries offshore Senegal. We continue to pursue transformational value opportunities today, through exploration activities in Suriname and Mauritania.

Our experience

With more than 30 years' experience as an operator and partner at all stages of the upstream oil and gas life cycle, we have successfully discovered and developed oil and gas reserves in a number of international locations in partnership with host governments.

We have a track record of safe and effective operations and extensive experience operating both onshore and offshore, in shallow and deep water locations, in remote and frontier locations and in benign and harsh weather environments. Our industry experience has included opening new oil basins, creating value through exploration success, and taking assets to production and development. Egypt is the latest new country entry for the Company, as we seek to ramp up production and enhance organic reserves replacement through a significant exploration programme.

Our responsible approach

We commit to working responsibly across all our activities. This means working in a safe, secure, environmentally and socially responsible manner.

Our approach to working responsibly is embedded throughout our business in our management systems and enshrined in our policies and principles. We operate to industry-leading, international standards in health, safety and environmental management. We never compromise our standards and we look for partners who share our commitment to international good practice, ensuring projects are managed in a responsible and respectful manner. During 2021, we announced our commitment to net zero Scope 1 and 2 equity emissions by 2040 or earlier.

CREATING VALUE RESPONSIBLY FOR STAKEHOLDERS

We are committed to making a positive contribution, wherever we operate, by delivering tangible benefits to our stakeholders. This includes the value distributed through salaries, taxes, payments to authorities, contractors and suppliers, capital spending and social investment.

Investors	Oil and gas sales revenue	US$56.2m
Employees	Employee salaries and benefits	US$49.4m
Business partners and suppliers	Payments for capital expenditure	US$89.4m
Governments and regulators	Payments to governments	US$24.6m
Local community/ interest groups	Social investment	US$0.6m

For more information please see our Sustainability Report: www.capricornenergy.com/working-responsibly

Industry Review 2021

Business Context

"The industry context for Capricorn has rarely been so exciting. We are faced with an array of attractive investment opportunities in responsible upstream energy and in emerging new energies."

2021 saw a major international focus on climate change, carbon emissions and energy transition at COP26 in Glasgow in November. Whilst international commitments still fall short of those deemed by scientific consensus to be required to limit global warming to 1.5 degrees compared to pre-industrial levels, the conference delivered several important policy developments. **Ben Conley, Capricorn's Strategy and Business Development Director**, examines how these are likely to have significant implications for the energy industry and how Capricorn is working on the twin challenges of energy transition and energy security.

Methane pledges, ramp-ups in national defined contributions and a further push to remove fossil fuel subsidies will all have a strong impact on oil and gas companies' strategies. Furthermore, investor momentum for energy transition will be bolstered by the Glasgow Financial Alliance for Net Zero (GFANZ) commitment to invest over US$130 trillion of private capital to support the transformation of the global economy for net zero.

Capricorn's commitments to deliver net zero by 2040 at the latest and to eliminate flaring by 2030 are well aligned with the targets and ambitions embedded in the COP26 pledges. Our portfolio is resilient and will continue to generate shareholder value even in the IEA's net zero 1.5 degree scenario. We test that our investments will generate returns exceeding a 10% IRR using commodity and carbon price assumptions as onerous as those associated with IEA's net zero scenario, as described in our TCFD reporting.

The path to a reliable and affordable decarbonised energy system is likely to be far more complex than many simple current analyses imply, with significant geopolitical and socioeconomic implications. Capricorn makes its investment decisions mindful of the long-term mega-trends, but also conscious that for many nations, energy security is of paramount concern and that reliable energy provision is a prerequisite to the economic development necessary for decarbonisation.

The thesis that recent upstream capacity underinvestment will limit supply that we described in our 2020 overview has proved valid and has dominated hydrocarbon commodity prices throughout 2021.

The combination of industry players making amends for earlier procyclical misallocation of capital and the reduction of equity capital supply to the upstream industry has seen non-OPEC supply failing to meet recovering demand levels. Pricing behaviour should elicit an oil and gas supply side response. However, thus far there is little evidence for this. Some forecasters are aligning around a view that the market clearing oil price to provide meaningful new non-OPEC supply will be closer to US$80/bbl than to US$60/bbl and that the underinvestment thesis is now set to dominate the mid part of the decade.[1,2,3] Certain forecasters also question OPEC's ability to respond, citing several members' failure to meet current quotas, as evidence for mid-term oil prices rising above US$100/bbl.[4] These price forecasts, coupled with record coal pricing seen in 2021 demonstrate the scale of the challenge to decarbonise and the time required to develop viable alternatives.

As well as the requirement to scale up capture of renewable energy sources, we believe that the debate is maturing around the role of the responsible production of hydrocarbons. Investors and stakeholders increasingly recognise that the transition will require hydrocarbon-derived energy and thus recognise the critical role of responsible operators in ensuring that these resources are produced as efficiently as possible. Rystad recently claimed that 10MMbpd production by 2030 will be required from new field sanctions within a net zero 2050 scenario.[5] The Oxford Energy Institute's favoured 1.5 degree scenario sees a huge ramp-up in renewable capacity, but also a significant expansion in global gas supply particularly in markets like Asia's which currently rely on coal for 50% of power provision.[6]

As outlined elsewhere in this report, Capricorn is taking steps to increase energy production from our upstream operations in Egypt but at the same time reduce the associated emissions both on an absolute and an emissions intensity basis. Investigations are also ongoing to use renewable power sources both for upstream operations and for provision of energy to local markets. We see numerous other opportunities to acquire high-quality upstream assets from legacy operators, where there are opportunities to create material stakeholder value, while preferentially producing lower emissions resources, electrifying upstream operations, and capturing and sequestering emissions.

Delivering safe and reliable operations in non-OECD jurisdictions will be a critical enabler to the development of future renewable energy sources. At present, the cost of capital for energy investments in many emerging economies limits the large-scale development of renewable resources. Indeed, excluding China, the majority of 2020 global renewable energy investment was targeted at OECD economies[7], yet to achieve a decarbonised energy system in line with a 1.5 degree global warming scenario, rapid growth in renewable capacity in emerging economies will be critical. Responsible operators that can deliver reliable returns from non-OECD upstream energy investments will be key enablers to reducing the effective cost of capital for non-OECD renewable investments. Working with lenders, initiatives such as GFANZ, or leveraging OECD sovereign balance sheets to underpin non-OECD PPAs, companies with the licence to operate responsibly will be a critical component of delivering climate ambitions.

The industry context for Capricorn has rarely been so exciting. We are faced with an array of attractive investment opportunities in responsible upstream energy and in emerging new energies. At the same time, we see large numbers of asset divestments and relatively few companies able and willing to deliver the challenges of energy security and decarbonisation.

1 Bernstein Energy: When will we see a supply response? An outlook for medium term oil prices; 2/12/21.
2 Bloomberg; consensus price forecasts.
3 Woodmac; Macro Oils long-term 2021 to 2050.
4 JP Morgan, The J.P. Morgan Global Energy Outlook; 9/12/21.
5 Energy; Net Zero by 2050, what will it take.
6 Oxford Energy Institute: https://www.oxfordenergy.org/wpcms/wp-content/uploads/2021/07/Energy-Transition-Modelling-the-Impact-on-Natural-Gas-NG-169.pdf
7 Bloomberg New Energy Finance; Climatescope; 14/12/21.

CASE STUDY

TRADEWATER PARTNERSHIP

We have invested in the development of greenhouse gas emissions avoidance projects in partnership with Tradewater – a US-based company focused on finding, collecting, and destroying the most potent greenhouse gases, such as chlorofluorocarbon (CFC) and hydrochlorofluorocarbon (HCFC) refrigerants.

Our investment will help develop identification and collection networks for these gases in developing countries around the world and will yield 250,000 tonnes of high-quality carbon offset credits over the next five years from the destruction of old refrigerants.

Our carbon offset strategy is aligned with the International Carbon Reduction and Offset Alliance (ICROA) and Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) principles and is focused on the acquisition of high-quality carbon credits, verified by Verra or Gold Standard. Carbon credits are not older than 2016 and can be either portfolio or project-based. We will aim to retire the oldest carbon credits first. It is important that carbon offset projects demonstrate strong co-benefits, supporting socioeconomic development, health, protecting water quality or biodiversity. We aim to align our carbon offset strategy with the UNSDG goals and Capricorn's Code of Ethics.

In addition to our investment with Tradewater, we have also acquired portfolio-based carbon offsets, which include REDD+ (Reduction of Deforestation and Forest Degradation) projects in Guatemala and Cambodia, as well as landfill gas extraction projects in Brazil and Turkey.

Task force on Climate-related Financial Disclosures (TCFD) Report

Capricorn Energy's climate-related financial disclosures made in the 2021 Annual Report are consistent with the TCFD's recommendations and recommended disclosures, in line with the Financial Conduct Authority's LR9.8.6 requirement. We have analysed the impact of transition risks of climate change on our portfolio using scenario analysis, and we are working to fully assess the potential impact of the physical risks of climate change on our assets.

We are continuing to develop good practices and standards for transparency in line with TCFD recommendations. Our latest reporting includes 11 TCFD-recommended disclosures across four areas.

Valentina Kretzschmar
Energy Transition Director
appointed August 2021

Governance

Disclose the organisation's governance around climate-related risks and opportunities

Capricorn attaches high importance to climate change considerations at Board level and throughout the organisation, together with our broader environmental, societal and governance responsibilities. These matters are standing agenda items at each Board meeting, and also comprise an important KPI in the determination of Management Variable Remuneration. Climate-related risks and opportunities are presented at the Executive Committee, the Group Risk Management Committee and the Management Team meeting for discussion and challenge.

During the year, the Board and Executive Committee's discussions included:

– reviewing and approving investment for the reduction of diesel power generation and gas flaring in Egypt;
– reviewing and supporting longer term plans for electrification of Egypt operations and carbon capture and sequestration;
– assessing the carbon abatement potential of all business development opportunities reviewed for investment and ensuring compatibility with the Group's net zero target;
– assessing the "advantaged resources" criteria for all exploration new venture opportunities to ensure that investment targets resources that will be competitive in a future with lower oil demand and higher carbon prices;
– receiving regular updates from the Energy Transition Director on stakeholder objectives and regulatory developments in the area of climate change and energy transition policies;
– approving the acceleration of the Group's net zero carbon emissions target date from 2050 to 2040; and
– approving the acquisition of 490,000 tonnes of high quality carbon offsets, including nature-based, landfill gas and sequestration of refrigerant gases.

a) Describe the Board's oversight of climate-related risks and opportunities

Climate-related risks are recognised as a major concern for the planet, as well as the future of the oil and gas industry. Addressing these risks is one of the highest priorities for our business. The Board takes full responsibility for the governance of climate-related risks and opportunities.

With effect from 3 March 2022, a new committee, the Sustainability Committee, has been established with all Board Directors as members. These areas are considered within every Board decision and, therefore, are a key element of each Board meeting, but establishing a committee dedicated to these matters will further embed the importance within the Board and wider organisation. The energy transition and Capricorn's role in it is of particular importance to the Board and the formation of this new committee will allow it further dedicated time.

Overall responsibility for the system of risk management and internal control and reviewing the effectiveness of such systems rests with the Board. Principal climate-related risks and opportunities are reviewed at each Board meeting, so at least five times per year.

Capricorn uses risk registers, described in the Risk Management section below, to report climate-related risks and opportunities and associated mitigation measures. Reporting of these risks within the organisation is structured so that risks are escalated through various internal management groups, to relevant Board committees and to the Board itself. Climate-related risks and opportunities are discussed, as noted, during risk discussions but also when considering annual work programmes and budgets, acquisitions and divestments and when considering annual performance objectives.

b) Describe management's role in assessing and managing climate-related risks and opportunities

Capricorn's CEO, who is also part of the Executive Committee, takes ultimate responsibility and accountability for the Company's ESG policy, including climate-related strategy and targets. The Chair of Capricorn's Board is the Director responsible at the Board level.

Capricorn's Executive Committee reviews climate and energy transition issues, concerning both Capricorn's own position and risk management, and international policy and stakeholder drivers. The Management Team also performs a quarterly review of the Group risk register and associated controls and actions. This offers management an opportunity to agree on and challenge the principal climate-related risks and opportunities.

In August 2021, Capricorn appointed an Energy Transition Director, who took responsibility for the development of the Company's climate change and energy transition strategy and reporting. The Energy Transition Director reports to the CFO and provides regular updates to the Executive Committee, as well as the Board.

The Energy Transition Director is responsible for monitoring the fast-changing external environment, including the regulatory and technological spheres. Climate-related risks and opportunities are discussed on a regular basis with the Company's senior leadership.

The Energy Transition Director is responsible for ensuring the Company remains on track to fulfil its net zero target by 2040. This includes overseeing Capricorn's carbon emissions from existing assets and ensuring that screening of new opportunities is in line with the Company's net zero commitments.

The Energy Transition Director is also responsible for TCFD reporting, including scenario modelling to assess the impact of transition risks of climate change on Capricorn's portfolio.

The Energy Transition Director works closely with other functions in the Company – such as Business Development, Exploration, Legal and HSE – to identify and assess any climate-related risks and opportunities. An Energy Transition Advisor, working as part of the Strategy and Business Development team was also appointed in July 2021 to help develop commercially viable decarbonisation projects at the asset level.

Energy transition is being embedded into Capricorn's culture, as climate impact becomes a key strategic consideration across different business functions. For example, screening of new opportunities is underpinned by resilience testing against transition risks of climate change, including the application of internal carbon pricing across all potential investments.

We also include energy efficiency and carbon emissions as a differentiating factor in selecting contractors for drilling, marine and aviation services. The most polluting products and services are eliminated from the tender process.

Internally, we established our Eco-Team in 2019 with a dual focus: to identify opportunities to reduce our carbon footprint within our office environment, for example paper consumption and recycling; and also to educate and encourage colleagues to reduce their personal impact on the climate. In 2021, the Eco-Team partnered with a local provider, Pawprint, to allow colleagues to use their carbon footprint mapping app. In addition, in April 2022 to support staff in reducing their personal impact on the climate, we are introducing salary exchange for the purchase of electric vehicles.

We recently signed a lease to move our Edinburgh headquarters into the city's Haymarket 1 development. The new building has been considered through the lens of sustainability – both regarding the construction and operational carbon footprint of the building and the impact on employees' commuting and other activities.

Management
Executive Committee plus Senior Leadership (including the Energy Transition Director): meets tri-weekly and regularly updates on any new climate-related developments.

Executive Committee: meets every two months, with strategic updates from the Energy Transition Director.

Board
Meets every two months

Regular updates provided by the Management Team, including the Energy Transition Director's briefing.

Risk Management

Disclose how the organisation identifies, assesses, and manages climate-related risks

a) Describe the organisation's processes for identifying and assessing climate-related risks

The Group's framework for risk management promotes a bottom-up approach to risk management with top-down support and challenge. Climate-related risks and opportunities and the associated mitigation measures and action plans are maintained in a series of risk registers at Group, asset, function and project level. The Group uses a number of tools to identify climate-related risks including, but not limited to, HAZIDs, social impact assessments and environmental hazard identification (ENVIDs). Risks identification sessions are typically completed with project teams and risks are uploaded to the Group's risk software tools which assign ownership for the risks.

Climate-related risks are classified in alignment with TCFD's description of physical and transition risks:

Transition risks – risks related to the transition to a lower carbon economy including policy and legal, technology, markets and reputational risks.

Physical risks – risks related to the physical impacts of climate change including event-driven risks such as changes in the severity and/or frequency of extreme weather events.

TCFD Reporting continued

The Group has established impact criteria which assigns a score of one to five for impact and probability of occurrence. This drives the overall assessment of the risk and will determine if the risk is within the appetite limits. Further information is included in the risk disclosure page and the Materiality Matrix on page 25.

b) Describe the organisation's processes for managing climate-related risks

The Group applies one of the 4Ts to each risk: Tolerate, Treat, Transfer or Terminate.

All risks categorised as 'Treat' are required to have actions assigned to them to reduce the impact or likelihood of the risk occurring. Reporting of these risks within the organisation is structured so that risks are escalated through various internal management, Board committees and to the Board itself for challenge and oversight. Future challenges and costs to achieving pathway to Net Zero 2040 risk has been identified as a principal risk. Further information on the risk, appetite level, impacts and mitigations can be found on pages 51 to 52.

c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management

Climate-related risks are captured at various levels within the Group and in line with the Group process for risk management. All projects, be it a drilling project, an acquisition opportunity or a new country entry, are required to maintain a risk register. Project teams are multi-disciplined which ensures that all categories of risk, including climate-related risks, are identified, assessed and managed.

There is also a dedicated Energy Transition risk register which identifies the strategic climate-related risks as well as the aggregated climate-related project risks. This risk register is maintained by the Energy Transition Director and the Strategy and Energy Transition Advisor and is reviewed quarterly. This ensures all climate-related risks are integrated into the Group's overall risk management processes and will be presented and challenged at various forums within the Group.

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material

a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term

In developing our strategy, Capricorn's Board and leadership team consider a wide range of opportunities and risks across three discrete time horizons:

Short term (to 2025): the next three years are defined by detailed business and financial plans, which are performance-managed in delivery of our 2025 targets.

Medium term (to 2030): looking out to the end of the decade and the duration of the Paris Agreement enables us to consider our progress towards the long-term targets and adjust the course of action if required.

Long term (post-2030): we use a scenario planning approach – IEA's Stated Policies Scenario (STEPS), Sustainable Development Scenario (SDS) and Net Zero Emissions (NZE) scenarios – to account for a wide range of uncertainties in the post-2030 period. Our aim is to ensure we have a resilient portfolio, which will deliver value to key stakeholders in the most ambitious climate scenario of limiting the global temperature increase to 1.5 degrees compared to pre-industrial levels.

Capricorn considers the following risks to be key climate-related risks in the short, medium and long term.

Type	Climate-related Risk	Capricorn's Response
Transition Risks	**Policy and legal (medium to long term)**	
	– Implementation of carbon pricing mechanisms in both compliance and non-compliance markets. – Changes in legislation and country policy.	– In line with IEA and other energy companies, in the EU and UK compliance markets we use carbon prices of US\$100/tCO_2e and US\$110/tCO_2e in 2030, respectively. For other regions, where carbon price is not currently applicable, we use our internal carbon pricing assumptions starting at US\$28/tCO_2e in 2022, rising to US\$51/tCO_2e in 2030. – Use of long-term oil price assumptions that consider the demand effects of global carbon taxation. – Ongoing efforts to decarbonise operations. – Ongoing monitoring of policy and legislation development in countries of interest.
	Technology (medium to long term)	
	– Increasing costs of transition to lower-emission technology. – Substitution of existing products and services with lower emissions options.	– Implementation of decarbonisation technologies at the field level in Egypt. – Increase in gas production within the portfolio, with decarbonisation options including carbon-capture, utilisation and storage (CCUS) and solar for in-field use. – Funding of Heriot-Watt University research scholarships. – Application of inherently lower emission equipment and contractor services.
	Market (medium to long term)	
	– Decline in oil demand and oil price. – Faster than expected shift away from gas, leading to lower gas prices. – Changing market sentiment as consumers switch away from fossil fuels. – Access to capital.	– Low-cost portfolio to generate value in a 1.5 degree scenario. – Embed low oil and gas prices, as well as carbon prices when screening for new investments. – Consider diversification into clean technologies, such as solar and geothermal. – Ensure strong balance sheet, low leverage, strong free cash flow generation.
	Reputation (short term)	
	– Public perception of the oil and gas industry is changing. – Lack of trust in the oil and gas industry's net zero ambitions.	– Maintain transparency relating to all ESG issues. – Comply with the highest reporting standards. – Ensure continued engagement with external stakeholders.
Physical Risks	**Chronic (long term)**	
	– Rising mean temperatures. – Rising sea levels. – Increased extreme weather events. – Rising water stress including conflicting uses and availability.	– Water resource and resilience studies in Egypt, including a planned in-house water challenge. Given the recent acquisition of assets in Egypt, we are currently assessing the impact of physical risks of climate change by working through the findings of Regional Climate Models (RCMs). – We help our communities adapt to physical risks, for example, through our investment in a mangrove rehabilitation project in Suriname to prevent coastal erosion and improve biodiversity.

TCFD Reporting continued

Capricorn has recognised and is currently working on scoping and implementing a number of climate-related opportunities.

Type	Climate-related Opportunities	Capricorn's Response
Energy Source/ Resilience (short to medium term)	– Use of lower-emission sources of energy. – Shift toward decentralised energy generation. – Use of supportive policy incentives. – Use of new technologies. – Participation in carbon market.	– In Egypt, we plan to replace diesel generators with cleaner-burning gas generators, electrify well sites and downhole pumps using centralised power generation, and integrate solar power to reduce our reliance on diesel and gas. – We are actively pursuing opportunities in carbon capture, utilisation and storage (CCUS) in Egypt and other jurisdictions, and we have invested in the NECCUS project, which is examining industrial carbon capture projects in Scotland. – We are actively engaged in voluntary carbon markets. We have acquired a portfolio of high quality carbon offsets, including nature-based, landfill gas and refrigerant gases sequestration.
Resilience (long term)	– Resource substitutes/diversification.	– We are evaluating clean energy diversification opportunities, including solar, geothermal and CCUS.
Products and Services (short to medium-term)	– Development and/or expansion of low emission goods and services (short term).	– To minimise energy use in drilling operations and associated activities without compromising safety or cost, we assess the fuel consumption of rigs, vessels and helicopters as part of the tender process. Lower energy consumption – and therefore emissions – could provide a point of differentiation if other technical and commercial considerations are comparable. We have already trialled this approach when tendering vessels for geophysical and geotechnical survey work in the UK and Mauritania. We will strive to align our supply chain products and services with our own emission reduction target of net zero by 2040
Resource Efficiency (short to medium-term)	– Use of more efficient production and distribution processes (short to medium term). – Use of recycling (short term). – Move to more efficient buildings (short term).	– We seek to continuously improve the performance of our operating assets, reducing their carbon intensity, including elimination of flaring from our operations in Egypt. We are also promoting efficient operations with our contractors and planning improved management of vessels and other assets during our drilling operations to further improve the energy efficiency or our products. – Working internally to identify opportunities to reduce our carbon footprint within our office environment, for example paper consumption and recycling. – Our new office building has been considered through the lens of sustainability – both regarding the construction and operational carbon footprint of the building and the impact on employees' commuting and other activities.

b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning
Capricorn is fully incorporating climate change-related risks into its investment decision making. Our capital allocation decisions are made using rigorous planning assumptions, informed by climate change and energy transition scenario analysis. We carefully consider the environmental performance of assets and opportunities as part of our screening process, underpinned by our net zero commitment. This commitment also drives our decarbonisation strategy in Egypt, as described in the table above.

All new oil and gas opportunities are screened at US$50/bbl flat Brent oil price and US$6/mcf global gas price (adjusted for certain regional markets). We also consider a range of other scenarios as part of our opportunity screening process. We apply carbon prices across all our scenarios. For countries that already have an established carbon pricing mechanism – such as the EU and the UK – we use carbon prices of US$100/t$CO_2$e and US$110/tCO_2e by 2030, respectively. For other regions, where regulatory carbon pricing mechanisms are not currently applicable, we use our internal carbon pricing assumptions starting at US$28/t$CO_2$e in 2022, rising to US$51/tCO_2e in 2030.

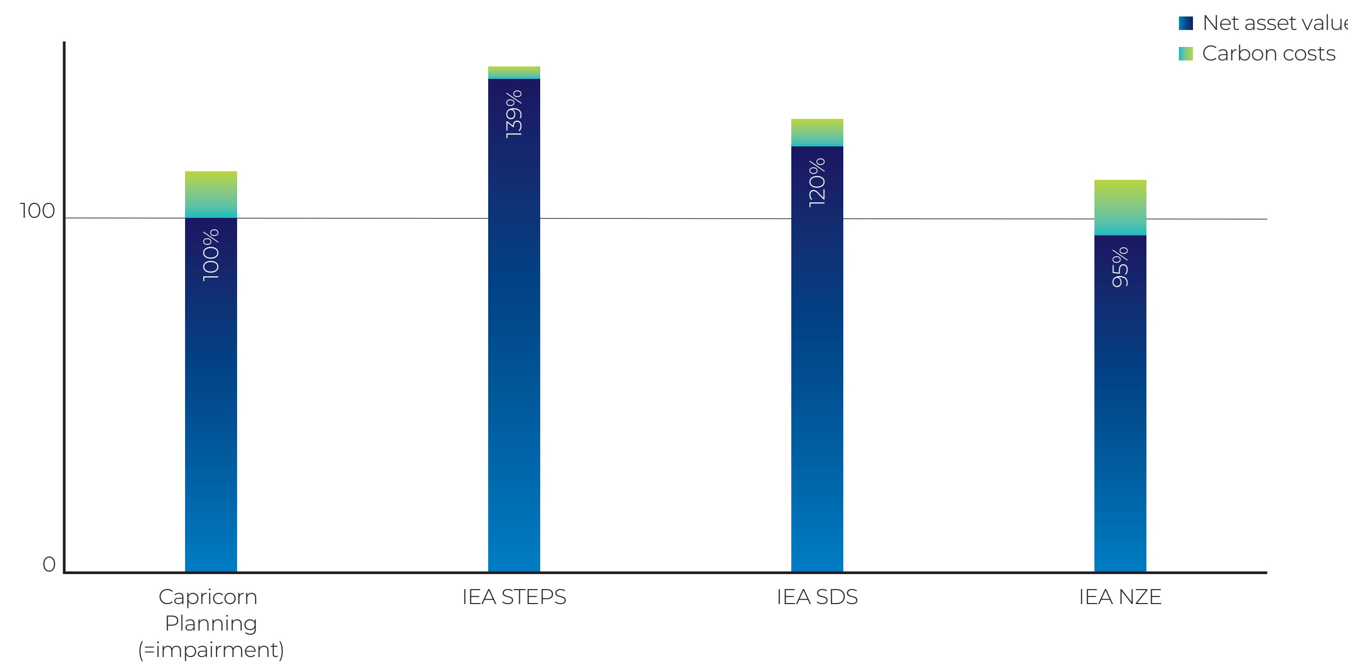
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario
The findings of the recently conducted scenario analysis exercise, which tested the resilience of Capricorn's Egypt portfolio against IEA's STEPS, SDS and NZE scenarios, showed that our assets will generate value in the most ambitious climate scenario, aligned with a 1.5 degree warming. This gives us confidence that our valuation and planning assumptions are robust and that we will continue to create value for all key stakeholders – even in the most aggressive carbon reduction scenario.

Capricorn's assumptions, used for our financial planning and balance sheet impairment testing include US$55/bbl (flat) oil price, US$6/mcf gas price (long term, inflated at 2% from 2025) and carbon prices of US$28/t$CO_2$e in 2022, increasing to US$51/t$CO_2$e in 2030. Carbon prices were applied to Scope 1 and 2 emissions from Capricorn's Egypt operations.

The scenario analysis shows that our Egypt portfolio, when modelled using IEA's NZE assumptions delivers 95% of the value we derive for our financial planning purposes net of carbon costs. Our portfolio outperforms our planning scenario by 20% in the SDS scenario.

At COP26 in Glasgow, many countries committed to more stringent nationally-determined contributions (NDCs), but if adhered to collectively, these are still forecast to fall short of the required actions to meet the 1.5 degree goal, and based on analysis by the IEA and Wood Mackenzie are aligned with a 2 degree pathway.

Egypt: Asset Value relative to Capricorn Planning Case NAV including Carbon costs



IEA scenarios: STEPS assumes policies and targets announced by governments are enacted and estimates an average temperature rise of 2.7°C (up to 3.3°C). SDS sees an accelerated transition to a low-carbon world and projects a 66% chance to limit temperature rise to 1.8°C and a 50% chance to limit it to 1.65°C. NZE scenario is aligned with the Science Based Targets Initiative (SBTI), limiting the global warming to 1.5°C by 2100 compared to pre-industrial levels.

Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material

Capricorn's principal metrics and targets used to assess and manage climate-related risks and opportunities are presented in the table below.

TCFD recommended disclosures	Risks and opportunities identified	Metrics and targets, where
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Transition and physical risks, including policy, market and long-term chronic effect of global warming. Opportunity to invest in clean projects, with carbon pricing risk-adjusted returns fully recognised. Participation in carbon market. Improved resilience of the existing portfolio.	– Net zero, with 2030 and 2040 targets set for Scope 1 and 2 emissions on an equity basis, pages 34 and 56. – Remuneration policy with embedded climate related targets, pages 114-117. – Pro-active engagement with our employees to increase awareness and help deliver net zero, page 19. – Key assumptions: commodity prices for opportunity screening and financial planning, page 22. – Carbon price, page 22.
	Rising water stress including conflicting uses and availability.	– Capricorn's environmental impact, pages 56-59.
b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	Measurement and disclosure of GHG emissions from Scope 1, 2 and 3 help emissions management and creation of a clear pathway to net zero. Risks include exposure to carbon price due to changes in policy, as well as significant reputation risks if emissions are not managed.	– Scope 1 and 2 on an operational and equity basis, page 57. – Scope 3 (categories 6 and 11), page 57. – TCFD climate-related risk and management, page 19.
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Summary of targets aimed at helping achieve our net zero strategic goal. Given the dynamic nature of Capricorn's portfolio, we will use 2022 as a baseline year on the journey to carbon neutrality.	– 2030 and 2040 targets and planned progress, pages 56-57. – Scope 1 and 2 and planned progress, pages 56-57. – Scope 3 and planned progress, pages 56-57. – Flaring and planned progress, page 59.

Identifying Material Corporate Responsibility Issues

To manage risk effectively and to operate with the support of our stakeholders, we need to understand the corporate responsibility issues that matter to them and are most significant to our business.

We do this by conducting an annual assessment which considers and classifies relevant issues, determined from international reporting frameworks including IPIECA[8], GRI[9] and SASB[10]. Issues are classified to indicate their importance to Capricorn based on risk and their importance to stakeholders based on stakeholder and investor engagement.

The results of this materiality assessment are presented to the Board on an annual basis and reviewed in detail by Executive Board members.

The issues identified as material to both stakeholders and Capricorn are shown in the matrix on page 25. We address the issues deemed to be of 'high', 'significant' and 'medium' importance in our Sustainability Report at www.capricornenergy.com/working-responsibly.

8 IPIECA Oil and Gas Industry Voluntary Guidance on Sustainability Reporting, 3rd edition, 2016.
9 Global Reporting Initiative.
10 Sustainability Accounting Standards Board.

What's Important to our Stakeholders

The 60 issues identified as material to both stakeholders and Capricorn are shown in the matrix below. This represents their relative positions after any adjustments were made to our assessment of the 'importance to stakeholders', in line with expert review.

Governance

1. Advocacy and Lobbying
2. Anti-Competitive Behaviour
3. Business Partners Alignment on Sustainability Issues
4. Capricorn ABC Practices
5. Climate Change Policy and Planning (including Global Energy Transition)
6. Contractors' and Suppliers' ABC Practices
7. Data Protection
8. Decommissioning
9. Fines and Prosecutions
10. Funding
11. Government ABC Practices
12. Ineffective Whistleblowing
13. Investment (Home and Overseas)
14. JV Partners and Funding
15. Management of Material Issues
16. Operations in Sensitive and Complex Locations
17. Remuneration
18. Reserves Valuations and Capital Expenditure
19. Sustainability Governance
20. Tax and Payments to Governments

Environment

21. Biodiversity and Sensitive Areas
22. Discharges to Air, Sea, Land and Sound
23. Energy Use and Alternative Sources
24. Freshwater Use
25. GHG Emissions (Including Venting and Flaring)
26. Materials Use
27. Product Stewardship
28. Reuse, Recycle and Waste Management
29. Use of Local Resources

People

30. Anti-Discrimination
31. Assets Security
32. Contractor Selection, Capacity and Leadership
33. Cyber Security
34. Equal Pay, Equal Opportunity
35. Human Capital Development
36. Infectious Diseases
37. Major Accident Prevention
38. Office Security
39. Personnel Security and Travel
40. Talent Management
41. Workplace Health and Well-Being
42. Workplace Safety

Society

43. Anti-Discrimination (Beyond Employees)
44. Community Health
45. Cultural Heritage
46. Demonstrating Value Created
47. Economic or Physical Displacement
48. Freedom of Association
49. Grievances and Grievance Mechanisms
50. Human Rights Management
51. Indigenous Peoples' Rights
52. Local Community Stakeholders
53. Local Content and Local Procurement
54. Local Energy Access
55. Local Hiring Practices
56. Local Workforce Development
57. Modern Slavery
58. Security and Human Rights
59. Social Investment
60. Working Conditions/ Ts and Cs

Importance to Capricorn (based on risk) \ Importance to Stakeholders	Insignificant	Low	Medium	Significant	High
High			23	10	25
Significant		38	3, 13, 17, 24, 31, 47	11, 15, 18, 26, 28, 29, 37, 51, 53	5
Medium			2, 32, 48, 54, 55	4, 6, 7, 9, 14, 16, 20, 21, 22, 30, 33, 35, 36, 39, 40, 41, 42, 44, 45, 46, 50, 52, 56, 57, 58, 59, 60	
Low			1, 12, 27, 49	8, 19, 34	
Insignificant				43	

Theme Governance Environment People Society
Materiality High Medium Low

Stakeholders and S172 Statement

Understanding what matters to our stakeholders is fundamental to enabling us to operate. The Board is committed to engaging closely with the Company's diverse range of stakeholders and taking their views into account.

Supporting S172

The Directors of Capricorn Energy PLC, and those of all UK companies, must act in accordance with a set of general duties. The Companies (Miscellaneous Reporting) Regulations 2018 require directors to explain how they considered the interests of key stakeholders and the broader matters set out in Section 172 of the Companies Act 2006. This includes considering the interests of other stakeholders which may affect the long-term success of the Company.

The Board fully recognises the need to balance the contrasting and, at times, conflicting interests of various stakeholder groups, whilst focusing on the Company's purpose, values and strategic priorities in key decision-making. In 2020 and 2021, we have had to operate in the unprecedented context created by the COVID-19 pandemic; however, understanding the aims and concerns of stakeholders has helped us identify and prioritise issues most material to the business.

The Directors of Capricorn Energy PLC consider, both individually and together, that they have acted in accordance with their duties codified in law, which include their duty to act in the way in which they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in Section 172(1) of the Companies Act 2006.

We outline below how the Directors have had regard to the matters set out in S172(1) (a)-(f) of the Companies Act 2006 when discharging their duties, and the effect of that on certain decisions that have been taken.

STAKEHOLDER	WHY IT IS IMPORTANT TO ENGAGE?	HOW MANAGEMENT AND/OR DIRECTORS ENGAGED	WHAT WERE THE KEY TOPICS OF ENGAGEMENT	EXAMPLES OF THE IMPACT OF SUCH ENGAGEMENT AND RESPONSES TAKEN	COVID-19 CONSIDERATIONS
Investors	– Their views influence our strategic and operational decision-making – We are dependent on shareholders for access to funding – We are accountable to our shareholders	– Undertaking a full investor programme including: · Holding 59 investor meetings including one to ones and attending roadshows/conferences · Conducting regular financial reporting · Responding in a timely manner to investor and analyst enquiries · As the AGM in 2021 was a closed meeting in accordance with UK and Scottish Government guidance regarding COVID-19, offering shareholders the opportunity to submit any questions by email in advance of the meeting · Post-AGM correspondence to discuss vote outcomes	– ESG matters including energy transition – Board composition including committee set-up – Strategy and performance – Corporate governance	– Regular reviews of corporate objectives – Board committee structure changes (as discussed on page 91) – Launch of the Diversity and Inclusion strategy – Improved transparency regarding bonus scheme disclosures	– Investor meetings were held either through virtual communications platforms or in person when safe to do so due to the restrictions in place in response to the COVID-19 pandemic – The Board is committed to communicating in an open and transparent manner with all investors, and places a clear importance on shareholder engagement. Communication and transparency around Capricorn's COVID-19 strategic response and business continuity has been paramount
Governments	– We are responsible to them for compliance with local and/or international laws – Their permissions are required for us to access acreage and operate	– Meetings with Heads of State, UK and Country Ambassadors, Ministers and Civil Servants	– Legal Compliance – ESG matters – Major accident prevention – Investment and economic growth	– Continued monitoring of responsible performance at Board meetings and annual review of CRMS and objective KPI setting – Implementation of enhanced incident reporting system – Reviewing feedback and commentary from government and regulatory bodies regarding performance expectation (see our responsible approach in respect of Mauritania discussed on page 65) – KPIs include performance against leading and lagging indicators for health, safety and environmental protection and are reviewed at all Board meetings	– We continue to monitor controls and advice set out by host governments in our operating locations and multi-national organisations such as the WHO, which assisted in shaping and implementing our nine-step plan to ensure all critical activities of the business were unaffected by the pandemic
Business partners, peers and contractors	– We are reliant on viable partners in joint ventures – We are commercially responsible to contractors, suppliers and partners – Their performance directly impacts our financial, operational and responsible performance	– Due to the COVID-19 pandemic, large portions of the engagement throughout 2021 were carried out using virtual technologies and included meetings with partners, peers and contractors with Board members and senior executives in addition to regular joint venture and operations planning meetings – Maintaining membership of industry bodies – Active management of key projects and assets (including alignment of project deliverables)	– Policies and standards – Industry reputation – Investment opportunities for growth – Long-term relationships – ESG matters	– Careful selection of contractors (discussed on page 63) – Continued membership of IOGP Security Committee (performance against IOGP benchmarks discussed on page 62) – Actively engage with all JV partners early to establish good working relationships (discussed on page 82 in the context of Egypt)	– Where required and with the help of local partners and contractors, survey work and vessel inspections have been managed remotely. To ensure that best practice is followed, we also monitor how non-operating partners have conducted drilling campaigns during the pandemic

Stakeholders and S172 Statement continued

STAKEHOLDER	WHY IT IS IMPORTANT TO ENGAGE?	HOW MANAGEMENT AND/OR DIRECTORS ENGAGED	WHAT WERE THE KEY TOPICS OF ENGAGEMENT	EXAMPLES OF THE IMPACT OF SUCH ENGAGEMENT AND RESPONSES TAKEN	COVID-19 CONSIDERATIONS
Local communities and interest groups	– We have an ethical responsibility to maximise social and economic benefit and to minimise impact on livelihoods and the environments in which we operate	– Community meetings – Reviews of social investment strategies aligned with UNSDGs – Senior management visits – Media monitoring – Promoting use of stakeholder engagement registers	– Protection of resources and livelihoods – Community development and social investment – Access to employment and business opportunities – Transparency of payments to government – Biodiversity	– Community investment focus to include adaption to climate change – Continued membership of the Extractive Industries Transparency Initiative (EITI) – Continued dialogue with Invest in Africa to build skills and capacity among SMEs – Implementation of targeted stakeholder engagement plans to support activity in Mauritania – Social investment in Mexico and Suriname to support community biodiversity efforts (discussed on page 41)	– As part of our efforts to support the communities where we operate, we continue to monitor the COVID-19 situation in these countries – Additionally, in 2021 we made a US$50,000 donation to Fundación para la Salud (Funsalud), a healthcare not-for-profit organisation in Mexico, to support its comprehensive COVID-19 relief efforts
Employees	– We are dependent on employees' performance and that of the wider workforce – We have a legal and ethical responsibility for their well-being – They bring a diverse perspective to the identification of opportunities and ways of working	– Regular staff meetings – Monthly 'pulse' surveys – Biannual Employee Voice Forum (EVF) meetings (discussed on page 85) – Working practice focus groups – General Meetings – Exit interviews	– Strategy – Ways of working – Lessons learned from projects – Internal communication – Remuneration and benefits	– Enhanced structure for internal communications – Gained direct insight into the views of staff on COVID-19 impacts which facilitated the adoption of hybrid working arrangement on a trial basis – Continuing the development and delivery of health and well-being initiatives including the appointment of a new well-being programme provider	– Throughout the various rule changes, our dedicated Return to Office Steering Committee continued to provide guidance to staff members, undertaking risk assessments and implementing required protocols to ensure a safe return for office-based employees at the appropriate time – Following a thorough staff consultation process, the Group is trialling a hybrid working model, and new health and well-being initiatives help our staff to feel motivated and supported both in their work and home lives

A differentiated strategy

We will continue our differentiated strategy of creating, adding and ultimately returning value to shareholders. During 2021 we committed to a returns programme of nearly US$1bn, and we retain the balance sheet capacity to expand the portfolio to deliver further value growth.

>US$5.5bn

Returned to shareholders in the past 15 years

Commitment to shareholders

We continue to see a commitment to shareholder returns as being a strong differentiator in our E&P investor offering. Since 2007, we have returned, or have committed to return more than US$5.5bn from monetisation of exploration and production successes through a combination of special dividends, tender offers and share repurchase programmes.

Value-focused growth, supported by balance sheet strength

2021 was a hugely transformational year during which we successfully realised significant value from previous investments and sought to return that value to shareholders as well as rebuild the business for the future.

James Smith
Chief Financial Officer

The last couple of years have been a period of very active portfolio management. The starting point was to sell out of the development-heavy side of the asset base in Norway and Senegal in 2020, and we followed that with the sale of our UK assets, which again were big offshore developments with a relatively short plateau that were moving into the decline phase.

Those sales released significant capital and over the course of the year we took steps to refocus the business, bearing in mind the shape we want the Company to take over a long-term horizon. That means concentrating on assets generating significant cash flows with much shorter capital cycles than perhaps we have invested in previously, as the speed with which companies bring hydrocarbons to market is becoming increasingly important.

Agile Portfolio Management

Unlike the situation in Senegal, where we were facing several years of significant capital expenditure before generating positive cash flow, in Egypt we have immediate line of sight on sustainable cash flows as well as reinvestment opportunities to grow and sustain the production base while ensuring that as a company we remain flexible and resilient. We are pleased to be in a position to manage the portfolio rapidly whilst remaining flexible and resilient as a company, and thereby to create and realise value with an agility that others may not have.

Key to preserving this agility is a prudent approach to managing the balance sheet, which has always been part of Capricorn's DNA. We have always worked hard to ensure never to be overleveraged or to place ourselves in a position where we have too many committed calls on our capital, either of which can be hugely damaging to equity value when there are commodity price shocks. We approve all our investment decisions and develop our business plan using economic criteria that can be robust through the industry price cycles.

"In Egypt we have immediate line of sight on sustainable cash flows as well as reinvestment opportunities to grow and sustain the production base while ensuring that as a company we remain flexible and resilient."

CASE STUDY

RESOLUTION OF INDIA DISPUTE SUPPORTS SHAREHOLDER RETURNS

In March 2022, Capricorn sought shareholder approval for a US$500m tender offer and a share repurchase programme of up to US$200m.

The planned return of up to US$700m follows the tax refund of US$1.06bn by the Government of India. The refund represents the value of the assets seized in 2014.

The tax dispute was resolved following the introduction of new legislation by the Government of India which was approved by India's parliament in August 2021. The Company agreed to comply with the rules of the new legislation, accept the refund and withdraw all litigation actions.

Capricorn is proud of its legacy in India, having discovered and developed world-class oil and gas assets, and invested in supporting the successful development of the communities and economies where the Company operated. We are very pleased that this issue has now been concluded. India has a special place in our Company's history, and we are grateful for the constructive engagement with the Government of India on this matter.

A Focus on Value

This resilient economic decision-making drives the entire way in which we run our business. We have always focused on economic and value targets as opposed to operational ones. It is not helpful to concentrate solely on growing production or reserves, if that production is not generating any value for the business or its shareholders. That is why we are focused on actively managing the portfolio rather than chasing headline production growth at any cost.

Keeping value at the core of strategic delivery is particularly important in a world where the implications of the energy transition are becoming ever more important. We know that the path to decarbonisation is not going to be a smooth one, so we have to be prepared for future volatility, to manage risks and opportunities and ensure that we are focused on low breakeven projects that can ensure our portfolio remains competitive and sustainable within a changing global energy mix.

Emissions reduction

We also manage our carbon profile and recognise the cost that arises from that. Whether it is a direct regulatory cost or a reputational one, it is a factor that is central to how to allocate our capital across our business, and it is the reason why we are now investing considerably in reducing our carbon emissions in the future. This year, we tested the resilience of Capricorn's Egypt portfolio against the IEA's[1] STEPS[2], SDS[3] and NZE[4] scenarios. Based on the economic assumptions we apply to our portfolio, these tests show that our production assets are capable of generating value in a climate scenario aligned with 1.5 degree warming.

As we look to that future, Capricorn is in a strong financial position with significant firepower to increase our scale further if we see opportunities to create value, and a firm commitment to continue our focus on creating returns for shareholders.

1 International Energy Agency.
2 Stated Policies Scenario.
3 Sustainable Development Scenario.
4 Net Zero Emissions by 2050.

Measuring Our Progress

Strategic objectives are set annually to monitor delivery of our strategy. These are measured by Key Performance Indicators (KPIs) set by the Board. Our risk management process identifies the principal risks to the delivery of our strategic objectives.

Strategic objective: ESG and HSSE

2021 KPIs

- Achieve lagging HSSE indicators measured against IOGP targets.
- Achieve a number of specified leading indicators that support Company policies and standards in relation to HSSE and corporate responsibility; focusing on matters identified in our materiality matrix, governance and people.
- Develop our understanding of CCUS application and opportunity identification, including required carbon pricing.
- Recording, tracking and reporting our Scope 1 and 2 emissions.
- Agree, establish and track social investment across the group that help deliver a positive impact on the communities with which we work.
- Communicate our climate change performance and our processes for governance, risk management and target-setting to stakeholders in a transparent and consistent manner.

Key Risks

- Future challenges and costs to achieving pathway to Net Zero 2040.
- Lack of adherence to health, safety, environment and security policies.
- Misalignments with JV operators.
- Fraud, bribery and corruption.

2021 PROGRESS

Operated activities, including surveys, have resulted in zero incidents and spills. Multiple road transport trips in higher risk countries have been managed with zero injuries and high potential incidents through a full understanding of road risks. The stretch goal was, therefore, met.

Project 1: The requirements of the Corporate Major Accident Prevention Policy were re-emphasised to required persons and is included in HSSE inductions for new start employees and appropriate contractors. For a full score to have been achieved, further roll-out of major accident hazard leadership awareness would have been completed;

Project 2: Significant improvements were made in the application of the Capricorn Project Delivery Process (CPDP) to exploration projects; a register was developed detailing all ongoing capital and other projects, and for contracted services, inspections were made by Capricorn or specialised companies of all vessels, rigs and helicopters contracted to ensure they meet the required standards. A full score would have required documentation of QA/QC processes for all other operations. This is due to be completed in 2022;

Project 3: A D&I strategy was created and discussed within the organisation prior to formal presentation to staff during the year and launched prior to year end; and

Project 4: A biodiversity screening tool was applied to multiple NV projects as well as Egypt exploration; East Orkney and Diadem surveys, conducted in UK waters, were accompanied by assessments of the environment through standard UK studies and forms, with permits granted on time; detailed environmental studies were conducted in Mauritania to inform an early baseline survey that mobilised in January 2022 to inform the project on seabed/canyon bed locations. For a full score, further progress in the 'Assess' stage was required.

CCUS screening and application was matured during 2021 with a presentation given to the Board in December outlining possible options for participation in Egypt and the UKCS. The 'Identify' stage was therefore successfully completed and these projects are now in the 'Assess' stage. Scope 1 and 2 equity emissions were included in our Sustainability Report.

Energy efficiency and emissions clauses have been incorporated into all contract awards (including for operations at Diadem drilling in the UKCS). However, in 2021, it proved difficult to demonstrate emissions improvement in our operated projects as: (i) activity levels were very low; (ii) there was only one technically acceptable, available vessel for the East Orkney GeoTech survey; and (iii) there was only one commercially viable vessel in the required window for the Diadem site survey.

Investments were made in Mexico, Suriname and the UK that have resulted in environmental, medical and educational benefits to the communities and areas where we work. This has included a US$50,000 donation in each of Mexico and Suriname to help alleviate the challenges of the COVID-19 pandemic through the purchase of medical and test equipment for local hospitals, benefitting over 1,000 people. In our mangrove rehabilitation project, six sediment trapping units have been built and remote monitoring has been established using satellite images of mangrove sites. In Mexico, since 2020, the turtle conservation project has patrolled 6,000km of beaches and resulted in 80,896 hatchings in 2021. In the UK, we continue to support three PhD students as part of the Clean Energy scholarship and contribute to 27 research projects.

Strategic objective: ESG and HSSE continued

2022 KPIs

- Achieve a number of specified leading indicators that support Company policies and standards in relation to governance, people and society.
- Achieve lagging HSSE indicators derived from IOGP targets.
- Environmental – Outline a roadmap and deliver opportunities to achieve Scope 1 and Scope 2 emissions reductions versus our short, medium and long-term net zero targets. This will include asset improvement initiatives, energy efficiency measures, and engineered and natural carbon offset programmes.
- Social – Agree, establish and track social investment across the Group that helps deliver a positive impact on the communities with which we work.
- Governance – Communicate our climate change strategy, performance and carbon pricing and our processes for governance, risk management, and target setting.
- Governance – Improve our approach to Diversity & Inclusion.

2021 PROGRESS

Our climate change score through the Carbon Disclosure Project (CDP) remained static at B- and discussions are planned to understand what further is required to improve the rating. We continue to work closely with partners on emission reduction projects as well as progressing clean energy projects and the purchase of the highest quality carbon offsets.

Water: for the first time, we participated in the CDP Water Security questionnaire. We continue to work with our partners and on our operated activities on water extraction and disposal, notably in Egypt where we are working on both exploration and production assets with our partners. We are aware of the criticality of water resources in water scarce regions and factor this into our exploration and operational plans.

TCFD: an EY internal audit showed that "Capricorn achieved an average coverage rating of 100% across the 11 recommended disclosures, with an average quality score of 56%. This compares to an average coverage score of 79% and average quality score of 49% across UK energy companies included in the tool."

SASB: to improve the quality and transparency of our reporting, we have assessed and aligned our reporting against the Sustainability Accounting Standards Board (SASB) Oil & Gas – Exploration & Production Sustainable Accounting Standard.

Past performance in KPI category

Remuneration

Weighting
(as % of allocated proportion of maximum opportunity)
17.5%

Bonus awarded
15.75%

Pages 114-117 – Read more: Remuneration Report

Measuring Our Progress continued

Strategic objective: Financial Performance

2021 KPIs

- Demonstrate balance sheet strength reflected in achievement of a pre-identified funding plan.
- India recovery of proceeds.

Key risks

- Volatile oil and gas prices.
- Inability to repatriate full amount of refund due under India legislation.
- Political and fiscal uncertainties.
- Diminished access to debt markets.

2022 KPIs

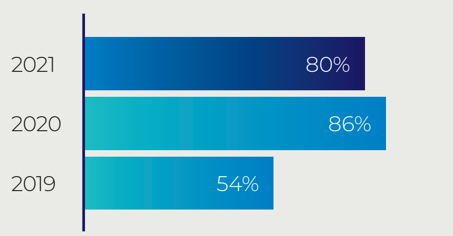
- Maintain financial strength and flexibility.
- Debt liquidity covenants or applicable facility tests will not be breached.
- An executable funding plan will be presented and approved by the Board as part of the annual strategy review (June 2022) or shortly thereafter or associated with any approved acquisition.

2021 PROGRESS

All financial tests set out as part of the funding plan were met and all liquidity and covenant tests were satisfied.

The Group initiated a number of enforcement proceedings in several jurisdictions during H1 2021 to expedite the recovery of the sums due under the December 2020 UK-India Bilateral Investment Treaty arbitration award made in the Group's favour on the tax issue. Subsequently, in H2 2021, the Government of India introduced the Taxation Laws (Amendment) Bill 2021, which allowed the refund to Capricorn of taxes previously collected in India. The Group's participation in the scheme introduced in this legislation resulted in resolution of the issue and the expected Indian tax refund of INR79 billion was paid and net proceeds of US$1.06 billion received by the Group in February 2022.

Past performance in KPI category



Remuneration

Weighting
(as % of allocated proportion of maximum opportunity)
25%

Bonus awarded
20%

Page 118-119 – Read more: Remuneration Report

Strategic objective: Exploration and new ventures

2021 KPIs

- Mature 'Advantaged' prospects achieving commercial thresholds that can be considered for future exploration drilling.
- Conduct our operated and non-operated exploration and appraisal activities successfully, on time and on budget.
- Add new commercial resources to replace reserves and grow value.

Key risks

- Lack of exploration success.

2022 KPIs

- Mature our key exploration projects for planned drilling in 2022/23 in Egypt, UK and Mauritania.
- Conduct our operated and non-operated exploration and appraisal activities (surveys and drilling) successfully, on time and on budget.
- Add new commercial resources through E&A drilling, coupled with conceptual development studies.

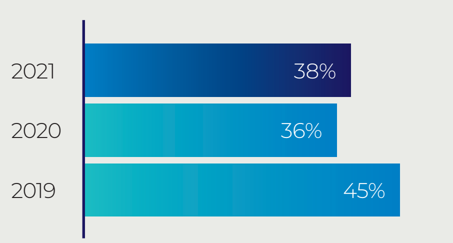
2021 PROGRESS

Several prospects in South Abu Sennan, onshore Egypt, were matured in 2021 and classified as 'drill-ready'. They are anticipated to be drilled in H2 2022. Dauphin in Mauritania C7, was re-captured as Operator, and is of significant scale. The prospect would offer significant net potential resources well in excess of the target goal of 40 mmbbls.

All projects executed in 2021 met their original basis of design objectives. The Diadem site survey, East of Orkney GeoTech survey and UK MNSH 3D seismic survey (all operated) were delivered on time and budget. The Mexico Block 10 wells, Saasken and Sayulita (non-operated), were delivered on time and under budget. The Egypt onshore wells, TAMR-1 and NUMB-5 were delivered but over budget and, therefore, did not score.

No additional resources have been booked versus the 2021 opening position.

Past performance in KPI category



Remuneration

Weighting
(as % of allocated proportion of maximum opportunity)
20%

Bonus awarded
7.5%

Page 116-117 – Read more: Remuneration Report

Strategic objective: Production performance

2021 KPIs

- Deliver net production within guidance targets.
- Deliver operating costs within guidance targets.
- Convert resources to reserves.

Key risk

- Volatile oil and gas price.
- Reserves downgrade or impairment.
- Misalignments with JV operators.

2022 KPIs

- Sanction incremental development investment to convert WI 2C Resources and 2P Undeveloped Reserves into WI 2P Producing Reserves.
- Deliver Net production (10%) and operating cost/boe (5%) targets within public market guidance in relation to Egypt.
- Deliver operating cost/boe targets within public market guidance in January 2022 in relation to Egypt.

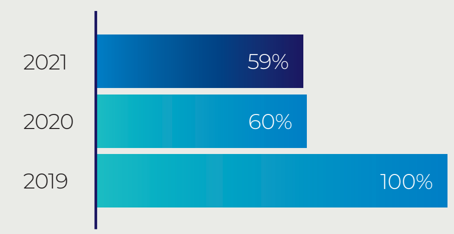
2021 PROGRESS

Out-turn production for 2021 from these fields was approximately 18,300 bopd, significantly above the target of 17,500 bopd. Additionally, the out-turn production performance for the acquired Egyptian assets (36.5 kboepd WI in 2021) was within guidance issued to the market on announcement of the transaction (33-38 kboepd).

As our interests in Kraken and Catcher were sold in Q4, the operating costs were calculated on a 10+2 forecast basis and broadly resulted in the target scoring (US$22.8/bbl).

Reserves additions during 2021 were relatively modest, associated with infill wells planned at Catcher prior to sale and onshore Egypt. Scoring was above threshold (+1.3 mmbbls) but below target.

Past performance in KPI category



Remuneration

Weighting
(as % of allocated proportion of maximum opportunity)
20%

Bonus awarded
11.75%

Page 118-119 – Read more: Remuneration Report

Strategic objective: Corporate projects

2021 KPIs Key risks

- Develop and execute corporate projects to enhance the portfolio, consistent with the Group Risk Appetite Statement.

Key Risks

- Failure to secure business development opportunities.

2022 KPIs

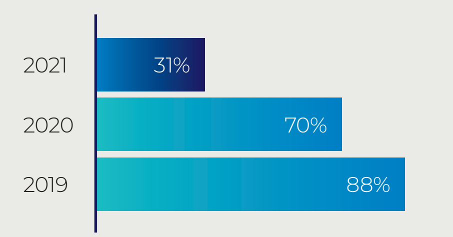
- Projects identified (including acquisitions & divestments) and agreed with the Board of strategic significance during the calendar year.

2021 PROGRESS

No corporate projects were concluded as originally targeted and no score was achieved in this element of the corporate projects KPI.

Sale of the UK Kraken and Catcher assets was announced in March 2021 and concluded in Q4 with firm and uncapped contingent elements of consideration agreed, achieving a full score for this element of the corporate projects KPI.

Past performance in KPI category



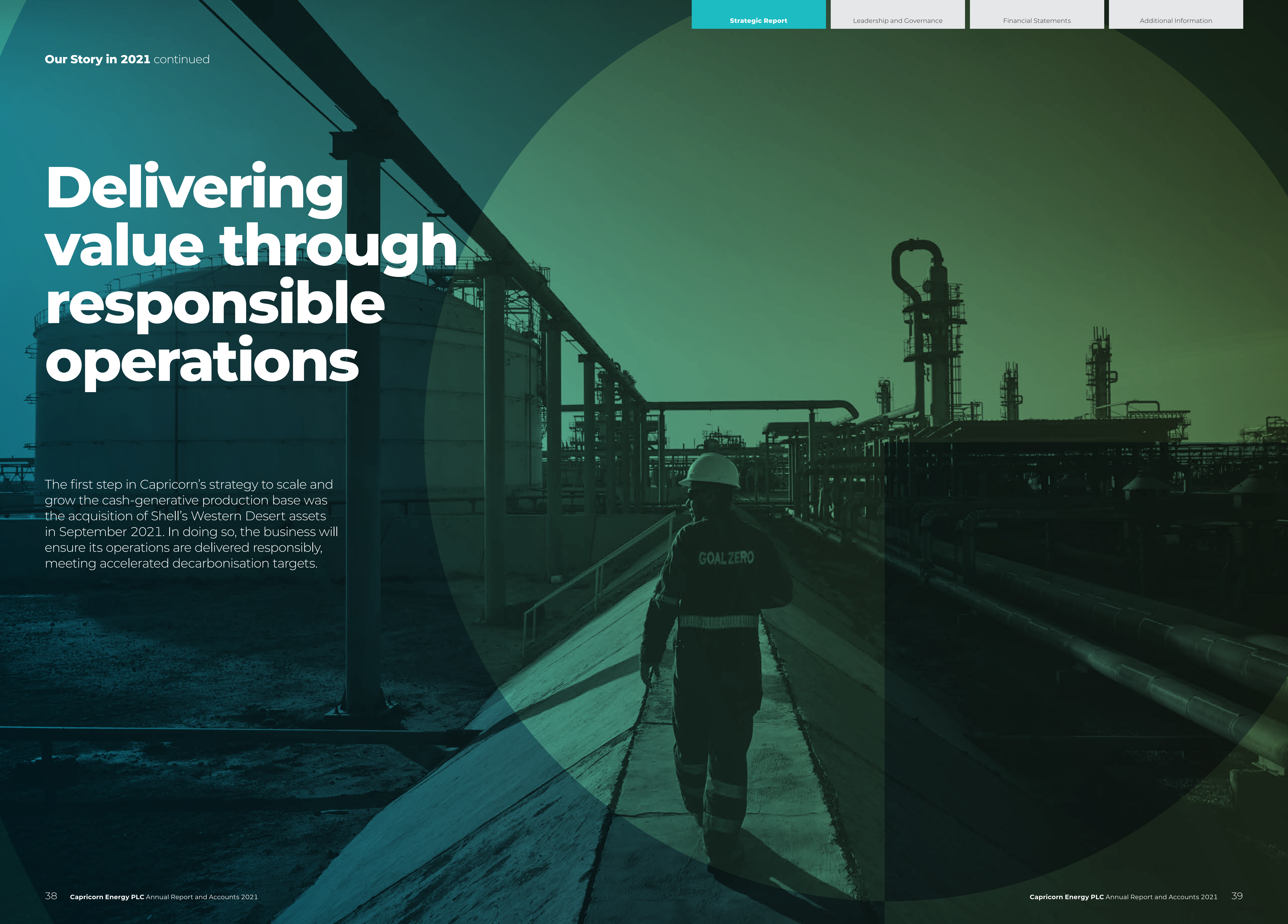
Remuneration

Weighting
(as % of allocated proportion of maximum opportunity)
17.5%

Bonus awarded
5.5%

Page 118-119 – Read more: Remuneration Report

Further information on the 2022 KPI weightings and scoring metrics can be found in the Directors Remuneration Report pages 128-129.



Delivering value through responsible operations

The first step in Capricorn's strategy to scale and grow the cash-generative production base was the acquisition of Shell's Western Desert assets in September 2021. In doing so, the business will ensure its operations are delivered responsibly, meeting accelerated decarbonisation targets.

Responsible and sustainable production growth

We have been reshaping Capricorn's portfolio with a focus on delivering cash-generative production growth. At Capricorn we don't focus on increasing production at all costs; we will only pursue investments if we can be clear about the capital required, the cash flow and associated value that we can create.

Paul Mayland
Chief Operating Officer

We are excited about the potential for Egypt, which is attractive on a number of fronts. The acquisition of the Western Desert assets brings us low-cost production, owned infrastructure, and development, near field and exploration opportunities in a proven petroleum province. The assets we have acquired have been managed well from a safety and integrity perspective but there has been a lack of investment in sustaining and growing the production. We see significant potential to grow reserves, production and cash flow, and add value by new well drilling and completion, production optimisation and improved reservoir management. These should be impactful in the short to medium term with success on the new exploration concessions, underpinned by new 3D seismic, providing the possibility of further growth in the longer term.

We completed our planned sale of the North Sea assets in Q4 2021 whilst retaining upside exposure to reservoir performance and oil price in future years. Net production for the Catcher and Kraken assets in 2021 was again within market guidance, resulting in a deferred consideration due payable in 2022 to Capricorn from Waldorf Production, the new acquirer. This is the fourth consecutive year from these North Sea assets that Capricorn has delivered production within market guidance and we will look to continue this excellent trend with the Egypt assets and any future assets acquired through business development initiatives.

Decarbonising Operations
Egypt is the first step in rebuilding the portfolio. We are looking at additional business development opportunities that will drive scale and broaden the production base further, with a focus on those that are compelling from a reserves and production growth perspective, and have appropriate fiscal terms, balanced with manageable, above ground risks.

Part of our consideration is to look at opportunities where there is the potential to make a meaningful impact by bringing down carbon emissions. This is our plan in Egypt, where the approach this year will be to ensure we can establish a clear baseline that will allow us to see where improvements are possible by developing a carbon abatement cost curve, and what positive differences we can make over the next three years.

As a key part of our decision-making, we consider where we can reduce emissions within our operations, for instance by moving away from diesel generation towards gas turbines and potentially renewables, for power generation. These may require upfront capital expenditure but will lead to future operating cost reductions as well as a reduction in carbon emissions.

Net Zero Goal
Egypt has a growing population and an expanding economy. Like many other countries it has a determination to play its role in achieving the Paris climate goals which means it will go through its own decarbonisation journey, and of course, Egypt is host to COP27 in 2022.

We were the first UK independent to commit to the World Bank Zero Routine Flaring target and we are encouraged that both the UK and Egyptian governments are co-signatories to this global initiative. We intend to devote significant efforts to this in Egypt. Furthermore, as part of our longer-term decarbonisation plans, we have also appointed an Energy Transition Director to progress our overall net zero plans, to assess how we can best achieve our net zero goal by 2040 or earlier.

Safety
The environment is only one factor in responsible operations. Safety of our people is of course, our number one priority. Operated activity has been lower during the pandemic but a number of site and seismic surveys have been successfully and safely conducted and this follows on the back of an excellent pre-pandemic operated drilling programme in three countries, which completed in early 2020

STRATEGY IN ACTION

In 2021, Capricorn entered Egypt for the first time, as part of its strategy to diversify and grow the sustainable cash-generative production base, and replace reserves through successful infrastructure-led exploration. Eleanor Rowley, Managing Director, Egypt outlines the benefits of operating in Egypt and the strategic priorities for the Egyptian business.

Egypt has a voracious appetite for energy, with a population (with a median age of 25) of over 100 million people. The oil and gas industry here has undoubtedly helped supply affordable energy for decades, whilst also providing much-needed foreign investment. These fundamentals underpin the Egyptian Government's pragmatism towards supporting the industry, whilst they seek to build out strongly in both wind and solar, renewable energy sources that Egypt is blessed with. The largely business-friendly approach of the regulatory authorities has encouraged continual reinvestment in Egypt by majors such as Eni, Shell and BP, and has also encouraged many smaller players to enter Egypt through a mix of bid round, farm-in and acquisitions, such that deal flow has typically remained high relative to many other countries.

Looking at Capricorn's objectives in Egypt, there are three key pillars to ensure our success over the next year:
- Continue and enhance the good safety record of Bapetco, the operating company jointly owned by the Egyptian General Petroleum Corporation (EGPC), Cheiron and Capricorn, and build out a programme of GHG reduction and other environmental improvements
- Increase production
- Conduct a successful exploration campaign

Whilst the first two of these objectives are led by our well-respected Egyptian partner Cheiron, as Operator, exploration is ours to shape in our three operated blocks, with nine commitment wells to drill over the next few years. In initial discussions with the authorities, they have all referred to our strong exploration history and are looking forward to new successes in the Western Desert. The Exploration team are working hard to put us in the best position to have exploration success during this first campaign.

As a country and culture in which to operate, one word you could use to describe Egypt, and Cairo in particular, is vibrant. You feel the energy as soon as you get off the plane. The combination of population density and culture makes this a city that never sleeps. The climate and people are warm, full of generosity, and something very special about Egyptians is their great sense of humour.

The needs of the individual are rarely paramount here, you are part of something bigger. Coming from the West where there is a culture of individualism you feel this difference strongly from conversations with colleagues about their priorities and choices, to random acts of kindness and community on the street.

Egypt has an ancient and rich history and Egyptians are renewing their connection to it with the inauguration of the Grand Egyptian Museum, due next year and several new or revamped museums opening in Cairo including the National Museum of Egyptian Civilisation. Alongside this recognition of their history, there is a sense of looking forward and there is a proliferation of infrastructure projects – from road building to new cities that is on a scale not witnessed in the last 20 years. For example, the New Cairo part of the city, out to the east, has probably doubled or tripled in size since 2016. All of this activity and preparation for the future is bringing a certain sense of optimism, alongside the reality of the challenges

associated with taking care of a population growing by 1 million people every few months.

Relationships are the foundation of everything in Egypt and Capricorn, with our emphasis on the 3Rs, one of these of course being relationships, is well placed to thrive here. It is important to place relationships close to the top of our list of priorities on a daily basis as we build and grow our business.

without incident. It is a credit to the teams that have delivered these outcomes with the appropriate vigilance and focus on safety, with a total recordable injury rate (TRIR) of 0 per million hours worked.

Delivering for Communities
We are also very mindful of the impact that we have on the societies where we operate. We always look to ensure that our supply chain has a high level of national content. In Mexico around 90% of the goods and services that we have used were sourced in the country, which is beneficial for local communities as well as for the environment.

We also look at where Capricorn can make an impact with social investment programmes that can make a difference and are aligned with our values. For instance in Senegal, we supported The Hunger Project, an initiative to build strong local communities, which was very successful. And in Mexico and Suriname, recognising the importance of the coastal waters where we operate, we are involved in a number of initiatives to protect marine life, and the coastal environment. In addition to being aligned with our values of respect, responsibility and relationships (3Rs), these projects are always well received and appreciated locally and help to enhance our reputation.

High quality, infrastructure-led exploration

We have high-graded our portfolio for the future and are focused on quality investments in infrastructure-led exploration alongside select emerging and frontier opportunities.

Focused on discovering and commercialising new resources with pace

"Using existing infrastructure enables us to optimise the development and ensure there is as short a time as possible between exploration and first production."

We have a two-fold approach to exploration. The first is infrastructure-led exploration, where value is derived from a clear path to commerciality and short cycle time, and the second is aimed at select frontier opportunities where scale drives what could be potentially transformative value creation.

Eric Hathon
Exploration Director

Infrastructure-led exploration offsets nearby infrastructure, so that we have a clear and rapid pathway to commerciality with success. It is critical to have a clear view to monetisation before we even begin exploring. Using existing infrastructure enables us to optimise the development and ensure there is as short a time as possible between exploration and first production. As we go through the energy transition this is particularly important as discovered resources that can be brought to market sooner have a greater value and will generate greater returns. Utilising infrastructure which is already in place, whilst applying the latest production technologies, further limits the environmental footprint.

This infrastructure-led approach is one of the reasons that the Western Desert assets in Egypt are particularly attractive. It is a mature basin where the opportunity to make value-adding discoveries, even with modest volumes, is high and the path to commercialisation is relatively rapid. All the operating elements are in place, which is very positive from an advantaged resources standpoint. The opportunities in our exploration portfolio are close to existing fields and infrastructure, giving us the ability to move quickly with success.

The same approach is true of our drilling plans for the North Sea. We are targeting areas that are close to existing facilities so that smaller discoveries can be quickly tied back in a way that is commercially advantageous.

Exciting Positions
We are at a slightly earlier stage in Mexico, but we apply the same principles. We have enjoyed two discoveries with the operator Eni and we can see a number of further opportunities where the geology looks very similar. This means that while the risk is not eliminated, it is reduced significantly. It also means that we can look at developing the critical mass that will allow for a hub development and the tieback of individual discoveries to create an economically attractive development.

Capricorn has historically been known for frontier exploration and while our exposure is lower than it has been previously, we retain exciting positions in Suriname and Mauritania, where we have considerable flexibility in terms of our commitments and the potential for world-class accumulations.

Minimising Resource Carbon Footprint
In exploration, we are acutely attuned to the energy transition, and it is a key factor in our decision-making. As the world seeks to decarbonise, we are keenly focused on the type of hydrocarbon we are targeting in addition to the economics. We closely evaluate the CO_2 footprint of every potential venture through the cycle. It is also a big driver in how we select the vendors and suppliers we work with, because the lowest cost solution is not always the one that makes the most commercial sense. We now require our partners to show us how they are limiting their own carbon footprint, for instance in the vessels that they use.

This means that before we even start an exploration venture we are thinking about the environmental impacts. We know that the need for oil and gas is finite. We also know it remains critical to providing energy for people globally. Our job is to find and produce new accumulations in a way which minimises the carbon footprint and environmental impact.

The Right Portfolio for Value Creation
As we enter 2022, we have high-graded our portfolio in line with current conditions and are focused on high-quality investments in infrastructure-led exploration in the UK and Egypt where we focus on near-term value creation, and on select emerging and frontier opportunities. We have the potential to create significant value against the backdrop of our advantaged resources exploration criteria, and with a clear focus on alignment with our stringent ESG priorities. We firmly believe that we have the right portfolio with the right potential for material reserve addition and value creation for shareholders.

STRATEGY IN ACTION

Capricorn's exploration activity is based on rigorous technical and commercial assessment, with any evaluation of resources and prospectivity always taking into account energy transition relevance. Laura Bornatici, Chief Geophysicist, explains how strategy works in practice.

Our exploration strategy is implemented through robust processes executed by a skilled geoscience community and fuelled by optimal data. Rigorous assurance procedures support our decision analysis allowing us to compare opportunities and to execute projects efficiently, with controlled cost exposure.

Our recent entry into the UK Mid North Sea High area with our partner Deltic Energy, is a good example of our exploration strategy in action. It is very much an infrastructure-led opportunity, which meets our advantaged resources criteria. If successful, exploration here can open an under-explored segment of a proven petroleum system. The project has a clear path to commerciality, with an initial commitment to acquire 3D seismic, which will de-risk prospectivity and inform a drilling decision, for limited capital exposure. The opportunity will be evaluated at each critical step through our rigorous procedures to assist the decision process. Exploration is by nature high risk, but we aim to mitigate risk via the acquisition of the optimal datasets, without eroding value.

Additionally, this project has the potential to bring material gas resources which can help extend the life of existing infrastructure. This could support UK domestic production of a key energy source for power generation through the energy transition, as well as potentially providing feedstock for the nascent hydrogen economy.

Costs to prove commerciality will be managed via a phased exploration programme that allows us to assess critical risks with an exit strategy in the event risk exceeds future value. A critical element of advantaged resources is minimising the carbon emissions associated with the development of every opportunity.

Our approach is rigorous, yet agile and flexible. This is enabled by an expert geoscience community. Our diverse team leverages the strong technical competence that we nurture via our development programme. Our wide range of experiences and skillsets allow us to quickly evaluate opportunities. We know subsurface competences will play an essential role in the energy transition, and we are widening our area of expertise in this area. This will allow us to be adaptable and responsive to different opportunities and scenarios while continuing to support the energy transition.

Risk Management

Successful and sustainable implementation of our strategy requires strong corporate governance and effective risk management. We deliver this through a comprehensive framework of business policies, systems and procedures that enable us to assess and manage risk effectively.

Managing business risks
Managing risks and opportunities is essential to Capricorn's long-term success and sustainability. All investment opportunities expose the Group to political, commercial and technical risk and Capricorn maintains exposure to these risks at an acceptable level in accordance with its appetite for risk.

Capricorn's risk management framework provides a systematic process for the identification and management of the key risks and opportunities which may impact the delivery of the Group's strategic objectives. KPIs are set annually and determining the level of risk the Group is willing to accept in the pursuit of these objectives is a fundamental component of Capricorn's risk management framework. As outlined below, this integrated approach to the management of risk and opportunity plays a key role in the successful delivery of the Group's strategy.

Capricorn's system for identifying and managing risks is embedded from the top down in its organisational structure, operations and management systems and accords with the risk management guidelines and principles set out in ISO 31000, the International Standard for Risk Management. The Group's risk management structure is set out below. This framework for risk assessment applies to all risk types including operational, health and safety, environmental, climate change, financial and reputational.

Risk Governance
Overall responsibility for the system of risk management and internal control and reviewing the effectiveness of such systems rests with the Board. Principal risks, as well as progress against key projects, are reviewed at each Board meeting and at least once a year the Board undertakes a risk workshop to review the Group's principal risks.

The Group's framework for risk management promotes a bottom-up approach to risk management with top-down support and challenge. The risks associated with the delivery of the strategy and work programmes and the associated mitigation measures and action plans are maintained in a series of risk registers at Group, asset, function and project level. Reporting of these risks within the organisation is structured so that risks are escalated through various internal management and Board committees, and to the Board itself.

Group's risk management framework

Outline the strategy
Set a sustainable strategy to achieve Capricorn's near-and longer-term goals.

Define strategic objectives
Set clear strategic objectives in the form of KPIs.

Define risk appetite
Determine the level of risk the Group is willing to accept in the pursuit of its strategic objectives and document this in the Group Risk Appetite Statement.

Identify key risks
Identify key risks to the achievement of strategic objectives and associated opportunities, through discussions at Board, Risk Management Committee, Management Team, Regional and functional levels.

Apply risk assessment process
Apply the Group risk assessment process to ensure the ongoing management of key risks to our objectives.

Deliver strategic objectives
Delivery of strategic objectives through informed risk-based decision making.

Risk governance framework

Top-down: Oversight, accountability, monitoring and assurance

The Board
- Holds overall responsibility for the Group's risk management and internal control systems
- Sets strategic objectives and defines risk appetite
- Sets the tone and influences the culture of risk management
- Completes robust assessment of principal risks

Risk Management Committee (RMC)
- Executive Committee chaired by CEO in 2021
- Responsibility for setting the direction for risk management
- Facilitates continual improvement of the risk management system

Audit Committee
- Chaired by Non-Executive Director in 2021
- Monitors and reviews the scope and effectiveness of the Company's systems of risk and internal control
- Reviews principal risks and output from the RMC meetings

Management Team
- Chaired by COO in 2021
- Performs a quarterly deep-dive review of the Group risk register and assesses risk actions, control effectiveness and risk ownership

Asset/Project/Function level
- Risk identification, assessment and mitigation completed at asset, project and functional level
- Risk management system embedded and integrated throughout the Group
- Risk culture influencing all business activities

Bottom-up: identification of risks and mitigating actions for assets, projects and functions

Viability Statement

Strategy, Business Model and Context
The Group's strategy and business model are described on pages 12-15 of this report.

2021 saw a steady rise in commodity prices throughout the year primarily as a result of a global supply shortage and an increase in demand recovery from the COVID-19 pandemic.

Following the sale of the Sangomar development in Senegal at the end of 2020, the Group was able to return a significant amount of these proceeds to shareholders via a special dividend at the beginning of the year.

In March the Group announced the disposal of its producing assets in the North Sea, and the acquisition of a portfolio of assets in the Western Desert, onshore Egypt.

The North Sea assets were approaching their natural decline phase and the disposal avoided exposure to future decommissioning costs, increased short-to-medium-term liquidity and strengthened our ability to pursue strategic goals. Additional uncapped contingent consideration receivable over the next five years further strengthens our balance sheet and provides cash flow for future opportunities.

The Egypt acquisition diversified our asset base and brings with it low-cost production, near-term development opportunities and exploration upside potential. The Egypt portfolio is also gas-weighted, adjusting Capricorn's hydrocarbon split towards gas in a region with strong demand growth, creating a more balanced energy mix.

The acquisition was funded by a new reserve-based lending facility and junior debt facility together with existing cash balances. After an initial period of increased investment, the Egyptian portfolio should generate free cash flow that the Group will reinvest into its wider portfolio of opportunities. The reserve-based lending facility associated with the North Sea producing assets was cancelled.

In assessing its capital programme over the viability period the Group will also consider opportunities for portfolio management to ensure that the allocation of capital is optimised over that period.

In December 2020, Capricorn was awarded damages of US$1.2billion plus interest and costs in respect of its claim against the Government of India under the UK-India Bilateral Investment Treaty in connection with the Government of India's application to Capricorn of the retrospective tax amendment introduced by the Finance Act 2012.

During 2021, a scheme was introduced in Indian legislation to amend the retrospective tax amendment allowing the refund of taxes previously collected from Capricorn in India. Having considered the risks associated with ongoing litigation, Capricorn entered into undertakings to participate in the scheme in November, agreeing to forgo its rights under the arbitration award, and received the refund of US$1.06bn on February 24 2022. This receipt enables the Group to return significant capital to shareholders via a US$500m tender offer and the commencement of a share repurchase programme of up to US$200m in early 2022, with the remainder retained to further enhance the producing asset base.

Assessment Process and Key Assumptions
The Group's financial outlook is assessed primarily through its annual business planning process. This process includes a Board strategy session, led by the Executive Committee, at which the performance of and outlook for the business are assessed and capital allocation decisions are made. The outputs from the business planning process include a set of key performance objectives, the Group Risk Matrix, the anticipated future work programme and a set of financial forecasts that consider the sources of funding available to the Group against the capital requirements of the anticipated future work programme (the base plan).

Key assumptions which underpin the annual business planning process include forecast oil and gas prices, forecast cost levels for oil and gas services and capital projects, production profiles, operating costs of the producing assets, the availability of debt under the Group's lending facilities and the Group's ability to access further capital to support other projects.

The Board recognises that the long-term work programme is dependent on the results of future exploration or appraisal activity and that it is the Group's strategy to actively manage its licence portfolio to optimise its planned capital allocation. Consequently, reflecting this inherent variability in the longer-term work programme the Board has determined that three years is the appropriate period over which to assess the Group's prospects.

Viability
The principal risks and uncertainties that affect the Board's assessment of the Group's viability in this period are:
- operational performance of its producing assets;
- delays to and/or cost overruns in planned capital activities;
- the effect of volatile oil and gas prices on the business and our partners' and other stakeholders' financial position;
- a lack of availability and/or increased cost of debt facilities to fund our capital programme and execute our strategy, resulting from providers of capital limiting their exposure to oil and gas projects; and
- the results of any exploration or appraisal activities.

The base plan incorporates assumptions that reflect these principal risks as follows:
- projected operating cash flows are calculated using a range of production profiles and oil and gas prices, including stringent downside scenario testings;
- material budget contingencies and allowances are included in cost estimates for any drilling and development projects;
- lack of exploration or appraisal success would impede the delivery of Capricorn's strategy but is not expected to affect the Group's ability to fund its committed work programme.

The Board also considers further scenarios around the base plan. These primarily reflect a more severe impact of the principal risks, both individually and in aggregate, as well as the additional capital requirements that would result from future exploration or appraisal success or the acquisition of new assets.

The Directors consider the impact that these principal risks could, in certain circumstances, have on the Company's prospects within the assessment period, and accordingly assess the opportunities to actively manage its licence portfolio and planned capital allocation as well as to bring in additional sources of funding at key milestones in asset development. Ultimately, if this culminated in a failure to fund the Group's share of costs associated with an ongoing project, this may result in the forfeiture of its interest in that licence.

Based on the actions available to them, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

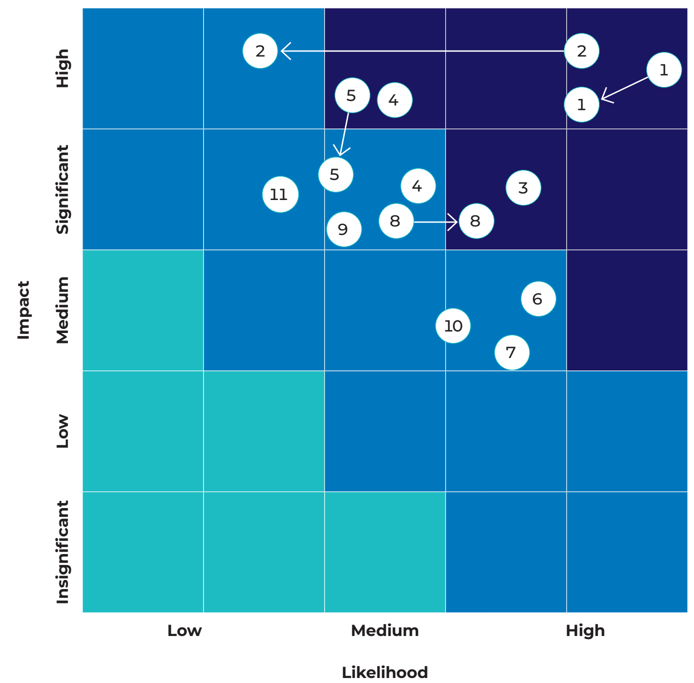
Risk Management continued

Responding to the Changing Risk Environment in 2021
As part of our goal to seek continual improvement of the risk management process, the following tasks were completed in 2021:

- the Board completed a risk workshop which focused on the Group Risk Appetite Statement and its alignment with the delivery of the Group's strategic objectives. The objective of the workshop was to confirm the Group continued to deliver the strategy in alignment with the tolerance levels set within the Group Risk Appetite Statement;
- the rollout of the new risk management and incident management software solution continued throughout 2021. The new solution is now fully embedded throughout the organisation and is being used to manage risks for all corporate, operational and project risks. The solution has facilitated improved reporting on all risks to the Group and has provided a more systematic process for the management of risks, controls and actions across the business;
- the Management Team conducted a quarterly review of the risks, mitigations and actions identified on the Group risk register to ensure ownership for the risks, mitigations and actions were clearly assigned and implementation dates for actions were tracked;
- the Group Code of Ethics was reviewed and updated. Arabic and French versions were developed for our operations in Egypt and Mauritania. Compliance certificates were also completed by key staff members and contractors confirming compliance with the Group's Code of Ethics;
- several activities were completed to enhance our bribery and corruption controls across the business including the completion of country specific risk assessments for Egypt and Mauritania which supplemented the overarching Group risk assessment already in place;
- a compliance dashboard was maintained to assess compliance with several key regulations impacting the Group including the UK Bribery Act, the General Data Protection Regulation (GDPR), the corporate criminal offence for the failure to prevent the facilitation of tax evasion (CCO), the Group's corporate major accident prevention policy (CMAPP) and modern slavery. The dashboard was presented at each Risk Management Committee meeting and annually to the Audit Committee as part of the year end control assessment. There were no material weaknesses identified;
- the IT department continued safeguarding its end user estate through the roll out of critical system and security patches to ensure any outside threats were made known and home workers were protected. Additional security controls were also implemented to protect against any malicious COVID-19 spam and phishing attempts;
- EY, the Group's internal auditor, delivered the annual internal audit plan which considered several risk areas identified from the risk register. Topics covered in 2021 included cyber security, the risk and assurance process, ESG and sustainability reporting and the mergers and acquisitions process. The Group has been working throughout the year to implement the identified improvements; and
- to ensure awareness, understanding and compliance on important governance, regulatory and security topics, mandatory e-learning was also implemented across the Group, which included comprehensive modules on bribery and corruption, CMAPP, CRMS, human rights, modern slavery, cyber security, cyber fraud and tax evasion.

Principal Risks to the Group in 2021-2022

The following pages provide a summary overview of the principal risks to the Group at the end of 2021, the potential impacts, the mitigation measures, the risk appetite and the KPIs or strategic objectives the risks may impact.



	Risk	Viability
1	Volatile oil and gas prices	✓
2	Inability to repatriate full amount of refund due under India legislation	✓
3	Future challenges and costs to achieving pathway to net zero 2040	
4	Reserves downgrade or impairment	✓
5	Lack of adherence to health, safety, environment and security policies	
6	Lack of exploration success	✓
7	Political and fiscal uncertainties	
8	Failure to secure business development opportunities	
9	Misalignments with JV operators	
10	Diminished access to debt markets	✓
11	Fraud, bribery and corruption	

Emerging Risks
Within the Group's risk assessment framework, emerging risks are considered as part of the identification phase. These are risks that cannot yet be fully assessed, risks that are known but are not likely to have an impact for several years, or risks which are unknown but could have implications for the business moving forward.

The ESG agenda is an increasing area of focus globally and the Group completed a risk assessment workshop to identify emerging risks in this space. As oil majors gradually reduce investment in exploration activities, the Group identified the emerging risk of not being able to partner with companies that have the same values and ESG priorities as Capricorn. The Group also recognised that sourcing funding from traditional providers of capital may be more challenging because of ESG pressures.

In addition, as the Group moved to remote working in response to the pandemic, new and evolving cyber threats were identified as an emerging risk to the Group. The Group is trialling a hybrid working model which presents both risks and opportunities.

Risk Management continued

Strategic objective: Deliver exploration success

Principal risk: Lack of exploration success
Owner: Director of Exploration

Risk appetite: **High** – Exposure to exploration and appraisal failure is inherent in accessing the significant upside potential of exploration projects and this has been, and remains, a core value driver for Capricorn. The Group invests in data and exploits the strong experience of Capricorn's technical teams to mitigate this risk.

Impact	Mitigation	2021 movement	2022 KPI objectives
– Limited or no value creation – Failure of the balanced portfolio business model – Negative market reaction	Active programme for high-grading new areas through licence rounds, farm-ins and other transactions. Portfolio of prospects and leads that offer opportunities with a balance of geological and technical risks. Highly competent team applying a thorough review process to prospects and development opportunities, and a team of geoscientists with a track record of delivering exploration success. Exploration Leadership Team in place to undertake peer reviews and assurance.	**This risk remained static in 2021.** In Block 10 in the Sureste basin, an oil find was confirmed on the Eni-operated Saasken-1 exploration well (15% non-operated WI) during Q1 2020, with Operator preliminary estimates of 200 to 300 million barrels of oil in place. In Q3 2021, an oil find was confirmed on the non-operated Sayulita exploration well (15% WI) in Block 10. Preliminary estimates by Operator, Eni, indicate the discovery may contain 150 to 200 million barrels of oil in place. The exploration wells in the North Matruh concession and the North Um Baraka concession in Egypt were unsuccessful. The completion of the Saasken-2 appraisal well on Block 10 Mexico confirmed that the original Saasken discovery reservoir did not extend into neighbouring Block 9 and this resulted in an impairment of remaining exploration/appraisal costs capitalised in Block 9.	Mature our key exploration projects for planned drilling in 2022/23 in Egypt, UK and Mauritania. Add new commercial resources through E&A drilling, coupled with conceptual development studies.

Strategic objective: Corporate projects

Principal risk: Failure to secure business development opportunities
Owner: Chief Financial Officer

Risk appetite: **Medium** – Building and maintaining a balanced portfolio of current and future exploration, development and production assets is core to the Group's strategy. New opportunities must first meet the Group's strict investment criteria and successfully securing them will be dependent on the prevailing competitive environment.

Impact	Mitigation	2021 movement	2022 KPI objectives
– Failure to replenish the portfolio – Inability to replace reserves and sustain production levels	Geoscience, business development, and commercial teams work closely to review and identify new portfolio opportunities. Experience and knowledge throughout the organisation in recognising prospective opportunities. Risk assessments and due diligence process undertaken on all potential new country entries. Development of discretionary capital allocation and opportunity ranking system. Portfolio is continually reviewed and high-graded to enhance quality.	**This risk increased in 2021.** The Group has been reshaping the portfolio with a focus on delivering cash-generative production growth. The sale of the asset base in Norway and Senegal in 2020 followed by the sale of the UK assets in 2021 released significant capital, enabling investment in the sustainability of our cash flow-generating asset base. The Group assessed several opportunities in 2021 but were not successful in adding to the production base. The business development team continue to assess opportunities which expand and diversify the Group's production base.	Develop and execute corporate projects to enhance the portfolio, consistent with the Group Risk Appetite Statement.

Strategic objective: ESG and HSSE

Principal risk: Lack of adherence to health, safety, environment and security policies
Owner: Chief Executive

Risk appetite: **Low** – The Group continuously strives to reduce risks that could lead to an HSSE incident to as low as reasonably practicable.

Impact	Mitigation	2021 movement	2022 KPI objectives
– Serious injury or death – Environmental impacts – Reputational damage – Regulatory penalties and clean-up costs – Physical impacts of climate change	Effectively managing health, safety, security and environmental risk exposure is the priority for the Board, Executive Committee and Management Team. HSE training is included as part of all staff and contractor inductions. Detailed training on the Group's Corporate Responsibility Management System (CRMS) has been provided to key stakeholders to ensure processes and procedures are embedded throughout the organisation and all operations. Process in place for assessing an operator's overall operating and HSE capabilities, including undertaking audits to determine the level of oversight required. Effective application of CRMS in projects. Crisis and emergency response procedures and equipment are maintained and regularly tested to ensure the Group can respond to an emergency quickly, safely and effectively. Third-party specialists in place to assist with security arrangements and travel risk assessments. Leading and lagging indicators and targets developed in line with industry guidelines and benchmarks. Findings from 'Lessons learned' reviews are implemented from other projects.	**This risk decreased in 2021.** The Group's lost time injury frequency (LTIF) for operated activity in 2021 was 0 per million hours worked. Our total recordable injury rate (TRIR) for 2021 was 0 per million hours worked. There were no recordable spills above the IOGP level to the environment. With ongoing operations in several countries in 2022, the Group will continue to work responsibly as part of our strategy to deliver value for all stakeholders.	Achieve a number of specified leading indicators that support Company policies and standards in relation to governance, people and society. Achieve lagging HSSE indicators derived from IOGP targets.

Principal risk: Fraud, bribery and corruption
Owner: Chief Executive

Risk appetite: **Low** – Capricorn is committed to maintaining integrity and high ethical standards in all the Group's business dealings. The Group has no tolerance for conduct which may compromise its reputation for integrity.

Impact	Mitigation	2021 movement	2022 KPI objectives
– Fines – Criminal prosecution – Reputational damage	Business Code of Ethics and bribery and corruption policies and procedures. Due diligence process and questionnaire developed for assessing potential third parties. Annual training programme for all employees, contractors and selected service providers. Financial procedures in place to mitigate fraud.	**This risk remained static in 2021.** There were no reportable instances of fraud, bribery or corruption. The Group operates in countries deemed high risk for bribery and corruption. A compliance programme will be implemented for each area of operation.	Achieve a number of specified leading indicators that support Company policies and standards in relation to governance, people and society.

Strategic objective: ESG and HSSE continued

Principal risk: Future challenges and costs to achieving pathway to Net Zero 2040
Owner: Chief Executive

Risk appetite

Medium – The Group recognises global commitments to achieve a transition to lower carbon sources of energy. In the near term, global demand for hydrocarbons continues to grow with hydrocarbons expected to remain the principal source of energy over the short to medium term. In the longer term, Capricorn will take investment decisions that ensure its assets remain competitive in an environment where demand for oil may be lower than today.

Capricorn's strategy is to play a responsible and competitive role in the production of oil and gas within this transition. Capricorn acknowledges the contribution its activities have on carbon emissions, and the Group continues to develop short, medium and long-term actions to minimise and mitigate this contribution and address global climate change policies and regulations.

Impact	Mitigation	2021 movement	2022 KPI objectives
– Providers of capital limit exposure to fossil fuel projects – Increasing costs – Climate-related policy changes – Reduced demand for oil – Stranded assets – Reputational damage – Retaining and attracting talent	Measuring and reporting our GHG emissions in line with the Task Force on Climate-related Financial Disclosures (TCFD) and Streamlined Energy and Carbon Reporting (SECR). Promotion of efficient energy use in activities with business partners and service providers. Consideration of climate change in investment decisions. Portfolio resilience modelling based on the International Energy Agency Sustainable Development Scenarios. Endorsement of Global Gas Flare Reduction Partnership. Alignment with UN Sustainable Development Goals. Active participation in industry initiatives. Implementation of mangrove rehabilitation in Suriname for coastline and community protection.	**This risk remained static in 2021.** There was continued and increased attention to climate change from a range of stakeholders in 2021. This attention has led, and we expect it to continue to lead, to additional regulations designed to reduce greenhouse gas (GHG) emissions. The Company is focused on reduction of Scope 1 and 2 greenhouse gas emissions and has accelerated its net zero target to 2040 or earlier, from 2050 Capricorn targets energy projects that can be developed and produced cost effectively, responsibly and in support of multiple UN Sustainable Development Goals. In Egypt, the Group plans to replace diesel generators with cleaner-burning gas generators, electrify well sites and downhole pumps using centralised power generation and integrate solar power to reduce our reliance on diesel and gas. The Group is actively pursuing opportunities in carbon capture, utilisation and storage (CCUS) in Egypt and other jurisdictions, and we have invested in the NECCUS project, which is examining industrial carbon capture projects in Scotland. Capricorn is actively engaged in voluntary carbon markets and has acquired a portfolio of high-quality carbon offsets, including nature-based, landfill gas and refrigerant gases sequestration.	Environmental – Outline a roadmap and deliver opportunities to achieve Scope 1 and Scope 2 emissions reductions versus our short, medium and long term net zero targets. This will include asset improvement initiatives, energy efficiency measures, and engineered and natural carbon offset programmes. Governance-Communicate our climate change strategy, performance and carbon pricing and our processes for governance, risk management, and target setting.

Strategic objective: Production performance

Principal risk: Reserves downgrade or impairment
Owner: Chief Operating Officer

Risk appetite

Low – Delivering operational excellence in all the Group's activities is a strategic objective for the Group and the Group works closely with all JV partners to mitigate the risk and impact of any operational delay or underperformance. Therefore, the Group has a low appetite for risks which may impact on operating cash flow.

Impact	Mitigation	2021 movement	2022 KPI objectives
– Delay or reduction in cash flow – Increased operational costs – HSE incident – Reputational damage	Work closely with operators to deliver risk mitigation plans and project solutions during ongoing commissioning. Positive and regular engagement with operators and partners to share knowledge, offer support and exert influence.	**This risk remained static in 2021.** Capricorn announced completion of the sale of its UK North Sea production interests to Waldorf Production in November 2021. Estimated 2021 annual production from these interests was approximately 18,300 bopd, towards the upper end of original guidance of 16,000–19,000 bopd. Under earn-out provisions, based on 2021 production levels and average oil prices, a payment of ~US$76m is due to be made by Waldorf to Capricorn in Q2 2022. In Egypt, working interest production across the four main concession areas of Obaiyed (Capricorn 50% WI), Badr El Din (Capricorn 50% WI), North East Abu Gharadig (Capricorn 26% WI) and Alam El Shawish West (Capricorn 20% WI) averaged ~36,500 boepd during the period from acquisition completion on 23 September to year end 2021, with ~38% of the production mix comprising oil and condensate. This was within the guidance range for WI production of 33,000–38,000 boepd announced in March 2021.	Sanction incremental development investment to convert WI 2C Resources and 2P Undeveloped Reserves into WI 2P Producing Reserves' Deliver Net production (10%) and operating cost/ boe (5%) targets within public market guidance in relation to Egypt.

Strategic objective: Production performance and exploration and new ventures

Principal risk: Misalignments with JV operators
Owner: Chief Operating Officer

Risk appetite

Medium – The Group seeks to operate assets which align with the Group's core areas of expertise but recognises that a balanced portfolio will also include non-operated ventures. The Group accepts that there are risks associated with a non-operator role and will seek to mitigate these risks by working with partners of high integrity and experience and maintaining close working relationships with all JV partners.

Impact	Mitigation	2021 movement	2022 KPI objectives
– Cost/schedule overruns – Poor performance of assets – HSE performance – Negative impact on asset value – Ability to effect change towards lowering carbon footprint – Misalignments on selection or priority of ESG goals	Actively engage with all partners early to establish good working relationships. Actively participate in operational and technical meetings to challenge, apply influence and/or support partners to establish a cohesive JV view. Application of the Group risk management processes and non-operated ventures procedure. Active engagement with supply chain providers to monitor performance and delivery.	**This risk remained static in 2021.** The divestment of Capricorn's interests in the Kraken and Catcher fields in the UK North Sea completed in Q4 2021. This sale has reduced the Group's non-operated exposure. The Egypt acquisition offers both non-operated (production) and operated (exploration) activity. The Group continues to work closely with a number of other partners in the UK, West Africa and Latin America regions.	Sanction incremental development investment to convert WI 2C Resources and 2P Undeveloped Reserves into WI 2P Producing Reserves. Deliver Net production (10%) and operating cost/ boe (5%) targets within public market guidance in relation to Egypt. Conduct our operated and non-operated exploration and appraisal activities (surveys and drilling) successfully, on time and on budget.

Strategic objective: Financial performance

Principal risk: Diminished access to debt markets
Owner: Chief Financial Officer

Risk appetite: **Low** – The Group seeks to develop and implement a funding strategy that allows a value generative plan to be executed and ensures a minimum headroom cushion from existing sources of funding is maintained.

Impact	Mitigation	2021 movement	2022 KPI objectives
– Work programme restricted by reduced capital availability – Loss of value	Disciplined allocation of capital across portfolio. Continue to assess other forms of financing and pursue claim for restoration of value for Indian investment.	**This risk decreased in 2021.** The divestment of Capricorn's interests in the Kraken and Catcher fields in the UK North Sea completed in Q4 2021. The sale provides flexibility to enhance the producing asset base while retaining exposure to oil price growth through the terms of the sale. The near term committed capital programme is significantly reduced. In February 2022, the tax case against the Government of India was resolved. The expected Indian tax refund of INR79 billion was paid and net proceeds of US$1.06 billion were received by the Group. Several financial institutions and investors have recently made policy decisions to exit oil and gas sector investment. To date, this has not affected Capricorn but if this trend accelerates there could be a future impact.	Maintaining a US$50m 'headroom' from existing sources of funds in all financial projections covering all currently committed and planned expenditure including capital funds for exploration, appraisal, incremental development and production opex. Debt liquidity covenants or applicable facility tests will not be breached.

Principal risk: Political and fiscal uncertainties
Owner: Chief Financial Officer

Risk appetite: **Medium** – The Group faces an uncertain economic and regulatory environment in some countries of operation. The Group is willing to invest in countries where political and/or fiscal risks may occur provided such risks can be adequately managed to minimise the impact where possible.

Impact	Mitigation	2021 movement	2022 KPI objectives
– Loss of value – Uncertain financial outcomes	Operate to the highest industry standards with regulators and monitor compliance with the Group's licence, Production Sharing Contract and taxation requirements. External specialist advice sought on legal and tax issues as required. Maintain positive relationships with governments and key stakeholders. Ongoing monitoring of the political and regulatory environments in which we operate. Working responsibly is an important factor in maintaining our access to funding.	**This risk remained static in 2021.** Capricorn continues to source new opportunities globally and this can be in jurisdictions deemed at higher risk of political or fiscal uncertainty.	Maintaining a US$50m 'headroom' from existing sources of funds in all financial projections covering all currently committed and planned expenditure including capital funds for exploration, appraisal, incremental development and production opex.

Strategic objective: Financial performance continued

Principal risk: Volatile oil and gas prices
Owner: Chief Financial Officer

Risk appetite: **Medium** – Exposure to commodity prices is fundamental to the Group's activities; however, the Group manages its investment programme to ensure that a threshold economic return is delivered and the business model is funded even in sustained downside price scenarios.

Impact	Mitigation	2021 movement	2022 KPI objectives
– Reduction in future cash flow – Value impairment of development projects – JV partner capital constraints	Sensitivity analysis conducted to assess robustness of Group financial forecasts for funding plan. Operators' cost initiatives delivering material cost reductions on development projects. Exploration projects are ranked based on the probability of commercial hydrocarbons and success case break-even oil price.	**This risk decreased in 2021.** The oil price has been relatively stable in 2021. However, volatility is expected to continue as the COVID-19 pandemic continues to evolve.	Maintaining a US$50m 'headroom' from existing sources of funds in all financial projections covering all currently committed and planned expenditure including capital funds for exploration, appraisal, incremental development and production opex.

Principal risk: Inability to repatriate full amount of refund due under India legislation
Owner: Owner: Chief Financial Officer

Risk appetite: **Medium** – The Group faces an uncertain macroeconomic and regulatory environment in some countries of operation. The Group is willing to invest in countries where political and/or fiscal risks may occur provided such risks can be adequately managed to minimise the impact where possible.

Impact	Mitigation	2021 movement	2022 KPI objectives
– Loss of value	Arbitration proceedings under the UK-India Bilateral Investment Treaty were largely concluded in 2018. The tribunal ruled unanimously in Capricorn's favour on 22 December 2020. Participation in the scheme introduced by recent India legislation, the Taxation Laws (Amendment) Bill 2021, allowing the refund of taxes previously collected from Capricorn in India.	**This risk decreased in 2021.** In August 2021, the Government of India cancelled the retrospective tax provision and introduced the Taxation Laws (Amendment) Bill 2021, which proposed certain amendments to the retrospective taxation measures that were introduced by the Finance Act 2012. In November 2021, Capricorn entered into undertakings with the Government of India in order to participate in the scheme introduced by recent Indian legislation, the Taxation Laws (Amendment) Bill 2021, allowing the refund of taxes previously collected from Capricorn in India. In February 2022, the tax case against the Government of India was concluded. The expected Indian tax refund of INR79 billion was paid and net proceeds of US$1.06 billion were received by the Group.	No 2022 KPI

Behaving Responsibly to the Environment

Environmental protection is fundamental to how Capricorn operates. Recognising the global challenges of climate change, biodiversity loss and the need to protect water resources, we are deepening our commitment and action, refocusing our efforts on net zero emissions by 2040 or earlier, and strengthening our approach to biodiversity and water management. We take a precautionary approach, with rigorous risk assessments and robust working methods that help us to minimise our environmental impacts without affecting our commitment to safety. At the same time, we are finding ways to decarbonise our operations and play our role in the transition to clean energy.

BUSINESS PRINCIPLES

– We take a precautionary approach to our effect on the environment.
– We strive to prevent and minimise our impact on the environment, including no net loss of biodiversity.
– We will implement our pathway to net zero carbon emissions and report on our progress.

This year, the following environmental issues were identified as being of high materiality:

- 23 Energy Use and Alternative Sources
- 25 GHG Emissions (including Venting and Flaring)
- 26 Materials Use
- 28 Reuse, Recycle and Waste Management
- 29 Use of Local Resources

See our Materiality Matrix on page 25

2021 PERFORMANCE AGAINST SUSTAINABILITY OBJECTIVES

– Revised our Climate and Energy Transition strategy.
– Developed short-, medium- and long-term sustainability objectives and targets.
– Integrated carbon pricing mechanisms and re-evaluated the resilience of our portfolio.
– Developed our understanding of carbon capture utilisation and storage applications and opportunities.
– Improved our reporting against TCFD and SASB requirements.
– Began disclosing Scope 3 emissions from the use of our products.
– Began preparatory work for 2022 and 2023 drilling programmes.
– Improved biodiversity assessment tools and disclosure of biodiversity issues.
– Began identifying and managing biodiversity and ecosystem services risks in Mauritania.
– Improved our standard water data collection and assessments.
– Improved water resilience and stress ranking and reporting.

See our Sustainability Report for more information about our SDG performance

Emissions and Energy Use

We commit to promoting the efficient use of energy, with the aim of conserving natural resources, reducing atmospheric emissions and mitigating the impacts of our operations.

In September 2021, we released our Climate and Energy Transition roadmap. This sets out our medium-term target to reduce absolute emissions by 25% by 2030, as well as our commitment to an accelerated target of net zero emissions by 2040. Achieving these will involve a hierarchy of options for avoiding, reducing, substituting and offsetting GHG emissions, which includes opportunities for carbon capture, utilisation and storage.

Residual emissions, which are hard to eliminate through operational improvements, will be offset using high-quality carbon offset projects with positive socioeconomic and biodiversity impacts. This strategy is in line with our sustainability objectives, the UN Sustainable Development Goals (SDGs) and the Taskforce on Climate-related Financial Disclosures (TCFD) - see our website for more details: www.capricornenergy.com/working-responsibly.

We are actively engaged in voluntary carbon markets and have acquired a portfolio of high-quality carbon offsets, including nature-based sequestration, landfill gas and refrigerant gas destruction.

We make annual carbon disclosure submissions to the CDP. In 2021, we submitted the Climate Change questionnaire and received a rating of B-, which falls within the 'management band'.

We report on both an operated and an equity basis. We have set out targets against equity Scope 1 and 2 emissions, taking accountability for assets beyond our operational control. Due to the dynamic nature of our evolving portfolio, we will use 2022 as the baseline against which our targets will be measured, with full year emissions from our Egypt portfolio taken into account. We also report Scope 3 emissions from business travel and from the use of products sold.

Streamlined Energy and Carbon Reporting

Emissions

Our operated annual GHG emissions arise largely from exploration and appraisal activities and, in absolute terms, vary with the duration and nature of our projects. From an operated perspective, 2021 was a year of low activity for Capricorn, with three surveys in support of planning for projects in the North Sea, and both total and normalised GHG emissions remained low.

GHG Emissions from Operated activities

	Unit	2021	2020
Scope 1 (direct) emissions from fuel combustion, flaring and waste incineration	tCO_2e		
UK		**885**	0
Capricorn total		**911***	24,440
Scope 2 (indirect) emissions (location-based) from electricity consumption in our UK, Mexico, Senegal and Egypt offices	tCO_2e		
UK		**95**	136
Capricorn total		**107***	175
Total gross Scope 1 and Scope 2 emissions			
UK		**980**	136
Capricorn total		**1,018***	24,615
Total energy consumption	kWh		
UK		**3,833,910**	592,273
Capricorn total		**3,971,755**	98,360,873
GHG intensity ratio: of Scope 1 and scope 2 emissions to 1000 hours worked	tCO_2e/ 1000 wh		
UK		**2.98**	0.44
Capricorn total		**2.86**	35.48
Scope 3 emissions from business travel	tCO_2e	**451***	336

* Figures assured by Deloitte LLP, see page 211 for further details.
Details about our data, methodologies and calculations can be found in Capricorn Emissions Methodology – Basis of Reporting Appendix on page 211 and our website.

Energy use

Direct energy use from operated assets mainly comprises diesel fuel combustion in field operations and minor electricity consumption in our offices. We seek to minimise energy use during exploration activities through planning and efficient working. As our exploration programmes vary annually, so too does energy consumption. Electricity use in 2021 was 1,719 GJ, which is 689 GJ less than in 2020, with variation during the year largely associated with local weather conditions. Our indirect energy consumption in 2021 at 1,719 GJ was lower than 2020 owing to COVID-19 restrictions.

Low-Carbon Assets and Equipment

To minimise the energy used in our exploration activities, we assess the fuel consumption of rigs, vessels and helicopters. In 2021, we added fuel efficiency to our selection criteria for tenders for operational programmes, and have implemented this approach tendering vessels for geophysical and geotechnical survey work in the UK and Mauritania.

We will strive to align our supply chain products and services with our own emissions reduction target of net zero by 2040 or earlier.

Capricorn equity emissions

The majority of our equity-based emissions were Scope 1 emissions from the Catcher and Kraken non-operated assets in the North Sea, and those from the Egypt Western Desert assets post completion in September 2021.

Our indirect (Scope 3) emissions, largely from travel, were also limited due to COVID-19 restrictions. Travel emissions increased once our Egypt transaction was completed and travel restrictions eased.

2021 Capricorn Equity Emissions

	Measure	2021
Total equity emissions	tCO_2e	**3,388,119**
Total equity CO_2e – Scope 1	tCO_2e	**146,579**
Total equity CO_2e – Scope 2	tCO_2e	**107**
Total equity CO_2e – Scope 3	tCO_2e	**3,241,433**
Equity Scope 3 from business travel	tCO_2e	**451**
Equity Scope 3 from product*	tCO_2e	**3,240,982**
Intensity (scope 1+2)**	kg/boe	**19.87**

* Scope 3 from product includes categories 9, 10, 11.
** Intensity is calculated on the entitlement basis.

Behaving Responsibly to the Environment continued

Protecting Biodiversity and the Environment

We adopt a precautionary approach to biodiversity risk management and follow the mitigation hierarchy to minimise the risks associated with both operated and non-operated opportunities. Our commitment not to operate in UNESCO World Heritage Sites was recently extended to include International Union for Conservation of Nature (IUCN) categories Ia (Strict Nature Reserves) and Ib (Wilderness Areas). All biodiversity-related commitments are covered by our Business Principles in our Code of Ethics and our Environment and Climate Change Policy.

We have increased the use of biodiversity data and continue to strengthen our capacity in biodiversity management. We are monitoring the development of the post-2020 global biodiversity framework action targets relevant to our business.

Measures we take to mitigate potential impacts include biodiversity risk screening; Environmental Baseline Surveys; Environmental and Social Impact Assessments (ESIAs) and associated environmental management and monitoring plans; and Biodiversity Action Plans in specific locations, where appropriate.

Biodiversity Risk Screening

In 2021, Capricorn reviewed several new locations with the potential to contain protected and priority areas for biodiversity conservation. The 'high' biodiversity risk in some areas informed the decision not to progress with our investment, while in others, we recommended allocating additional resources for biodiversity management.

Environmental Baseline Surveys

Environmental Baseline Surveys (EBSs) provide data about the existing environment that may be impacted by our planned activities, enabling us to assess potential impacts and define mitigations. Entry and exit surveys help to delineate our potential impact, and demonstrate that we have met our commitments under regulatory and good international industry practice. They also avoid liability for the impacts of others.

In 2021, we undertook an EBS in our Woodstock licence areas in the UK, in preparation for drilling the Diadem exploration well in 2022. We also planned a combined environmental baseline, geophysical and site survey in Mauritania, which commenced in January 2022.

More detail on biodiversity is available in our Data Appendix: www.capricornenergy.com/working-responsibly

Water, Effluents and Pollution

Water resilience in the face of climate change and growing demand is an area of increasing focus for Capricorn and our industry. We closely monitor wastewater discharges, and report on both water use and discharge. In 2021, we completed CDP's full Water Security questionnaire for the first time, earning a score of B-.

We recognise that our newly acquired production and exploration assets in Egypt are located in areas of high water stress. Therefore, we will work closely with our partners to improve the understanding and use of water resources; these will be considered in field-wide ESIAs scheduled for completion in 2022.

We also revised the health, safety and environment (HSE) criteria on our investment proposal checklist to include the need to take into account the water stress of locations when considering possible new venture activities.

Our 2021 Performance

In 2021, our use of freshwater remained low, in line with the level of operational activity undertaken during the year. 100% of water withdrawal (1,132m^3) was freshwater. Our discharges in 2021 were largely limited to domestic sources and minor discharges from offshore survey work.

In Egypt, we are working with our partners and the EGPC to verify reporting on water extraction and discharge that has been initiated by the joint venture companies. We will report equity water data in our 2022 CDP Water Security questionnaire.

For further information, please see our Sustainability Report: www.capricornenergy.com/working-responsibly

Product Stewardship

It is our responsibility to ensure all production operations and the transportation of crude oil from our non-operated production to buyers comply with regulatory requirements, as well as our own Code of Ethics and our Environment and Climate Change Policy.

We engage with our partners to ensure proper stewardship is in place via routine Operator Committee and Technical Committee meetings. Hydrocarbon sales are carried out by marketing agents on our behalf, with the gas from our non-operated assets in Egypt sold domestically to the EGPC.

CASE STUDY

ENVIRONMENTAL MANAGEMENT IN EGYPT

Alongside our partner Cheiron, Capricorn completed the purchase of Shell's Western Desert assets in September 2021. Ahead of this acquisition, due diligence was undertaken based on International Finance Corporation (IFC) Standards and good international industry practice references.

The process concluded that the assets have been managed well, with a focus on integrity, major hazard management, and health and safety. We will work with Cheiron, the Egyptian General Petroleum Corporation (EGPC) and other partners to ensure the safety culture established by BADR Petroleum Company (Bapetco) is built upon.

Reducing Emissions

Alongside Cheiron and Bapetco, we undertook a baseline study to assess our GHG emissions impact and identify reduction opportunities. The audit, conducted in late 2021, was the start of our baselining activity for these assets, with a detailed inventory of emissions planned for early 2022. The audit reviewed the accuracy of reporting in the Western Desert operating fields, the protocols used for reporting and any areas of uncertainty that need closing in 2022.

Committed to the World Bank's Zero Routine Flaring by 2030 initiative, we are working towards eliminating routine flaring from our operations by the end of this decade. Flare-reduction projects are being implemented in Egypt and additional opportunities identified. We are also replacing diesel generators with cleaner-burning gas equipment, and integrating solar power to reduce our reliance on diesel and gas. We will explore other options, including carbon capture and storage and the wider application of renewable power.

Managing Water

Managing water risks effectively is important in the Western Desert, an area of considerable water scarcity. We will focus on using freshwater efficiently and managing water discharge responsibly. This will involve enhanced understanding of water demand; quality and availability of sources; users and stakeholder vulnerabilities; environmental linkages; and discharges or abstractions affecting water resources to inform improvements.

Behaving Responsibly to People

At Capricorn, our people are the key to our success. Our employees' well-being, safety and security is one of our core values that underpins how we do business and the behaviours we expect. Our culture promotes honesty and openness, and we have programmes in place that prioritise health, safety, inclusion, well-being and security.

BUSINESS PRINCIPLES

- We develop the potential of our people.
- We foster a workplace that respects personal dignity and rights, is non-discriminatory and provides fair rewards.
- We provide a healthy, safe and secure work environment.

This year, the following people issues were identified as being of high materiality:

37 Major Accident Prevention

See our Materiality Matrix on page 25

2021 PERFORMANCE AGAINST SUSTAINABILITY OBJECTIVES

- Established our diversity and inclusion (D&I) strategy and working group, and developed tools and methods to embed D&I in the way we work.
- Delivered the next phase of our talent management programme, as we shift to a more production-based strategy.
- Continued to support staff on COVID-19 and facilitated a return to office working.
- Reviewed and updated our competency procedures in relation to health, safety and environment (HSE) and major accident safety.
- Revised our Project Delivery Process with improved integration of HSE elements.
- Completed a Corporate Responsibility Management System (CRMS) audit and closed out all findings.
- Implemented an enhanced incident reporting system across the Company.
- Reviewed our security guidelines against the latest ISO standard, and assessed information sources and providers to identify potential improvements.
- Performed a cyber security audit and held a cyber security breach emergency response exercise.
- Revised our technical competencies project and strengthened links to our Corporate Major Accident Prevention Policy (CMAPP).
- Introduced Crisis Incident Management (CIM) emergency incident software and held simulation exercises to evaluate its effectiveness.
- Revised our contractor assessment criteria in relation to emissions, energy efficiency objectives and our net zero targets.
- Set improved contractor HSE leadership expectations, including revised key performance indicators (KPIs) for forthcoming projects.
- Aligned our scoring mechanism for contractor HSE evaluations with International Association of Oil & Gas Producers (IOGP) methodologies.

See our Sustainability Report for more information about our SDG performance

Managing People and Talent

Delivering on our strategy and achieving sustainable results are only possible thanks to the skills, experience and passion of our people. Our employee processes are underpinned by our values of Building Respect, Nurturing Relationships and Acting Responsibly, as well as our High Performing Behaviours.

Proactively managing and empowering people to reach their full potential is key to business success. During 2021, we welcomed 53 new colleagues to the business, with the skills, competencies and technical knowledge required to serve our production-based business model.

Our talent management strategy continues to focus on growing our talent through such measures as active succession planning and mentoring; leadership, management and development programmes; and annual objectives and development plans.

Diversity and Inclusion (D&I)

We acknowledge diversity in all its dimensions and welcome people with differing backgrounds, skills, experiences and perspectives.

Our Group People Management Policy guides how we build D&I into all aspects of recruitment, learning and development, and remuneration and benefits. We also have policies on disability, equality and diversity, fixed-term and part-time employees, flexible working and harassment. We continue to develop metrics that promote equality of opportunity, pay and reward on a non-discriminatory basis.

Total workforce

238

(2020: 204)

Gender split

Total workforce

Male/Female

Employees: 111 / 99

Direct Contractors: 21 / 7

Management: 10 / 3

People Managers: 43 / 23

Average age of staff

44

(2020: 45)

Board members

Male/Female

2021: 5 / 3

2020: 6 / 3

2019: 6 / 3

2018: 7 / 2

2017: 8 / 2

Employment type

Employees 210 / Direct Contractors 28

Full-time 191 / Part-time 19

Our D&I ambition

To elevate our existing practices, in 2021, we developed and implemented our strategic D&I ambition:

"To nurture an inclusive and sustainable culture, where differences are encouraged, embraced and recognised as key drivers of value to all stakeholders."

We have developed a strategic framework to cultivate D&I across the business and in 2022, we will roll out activities that focus on nurturing a diverse and inclusive culture; attracting, developing and retaining the very best people; and reflecting diverse values and perspectives in our social investment decisions and practices.

Employee Engagement

So that everyone feels involved and valued by their colleagues, managers and senior leaders, we aim to create a positive, collaborative work environment that enables our people to fulfil their potential. We engage with employees through regular staff meetings, AGMs, focus groups and our intranet and, with the ongoing pandemic, we often use virtual channels to keep our people informed while working at home.

Our monthly Group-wide pulse surveys provided an annual employee engagement score of 8.3, which is +0.7 above the industry benchmark, while colleagues' concerns, ideas and suggestions are discussed at our biannual Employee Voice Forum meetings. The main themes continued to be our response to COVID-19, flexible and hybrid working practices, and plans for returning to the office.

Learning and Development

Providing our people with learning opportunities is essential to meeting the highest standards and making our business more successful. Each colleague has a personal learning 'budget' to help them to fulfil their potential, deliver our objectives and meet the changing demands of our industry.

Typically, development opportunities are offered through e-learning and classroom training, 'lunch and learn' sessions and workshops, as well as seminars, conferences, field trips and international secondments. Due to the pandemic, in-person training opportunities migrated to online delivery or were postponed.

Mandatory compliance e-learning modules delivered via the Capricorn Academy enable colleagues to improve their understanding of our processes and procedures, as well as important governance, regulatory and security topics.

For current and aspiring people managers, we have added the TalentBuilder® programme to our longstanding Management Bootcamp programme, and a Career Focus module is available for all staff.

Workplace Safety

Providing a safe working environment is a core element of working responsibly. Overall accountability for minimising risks to people and the environment remains with the Board but responsibility for implementation across the Group falls to the Management Team. All our people must apply our safe systems of work.

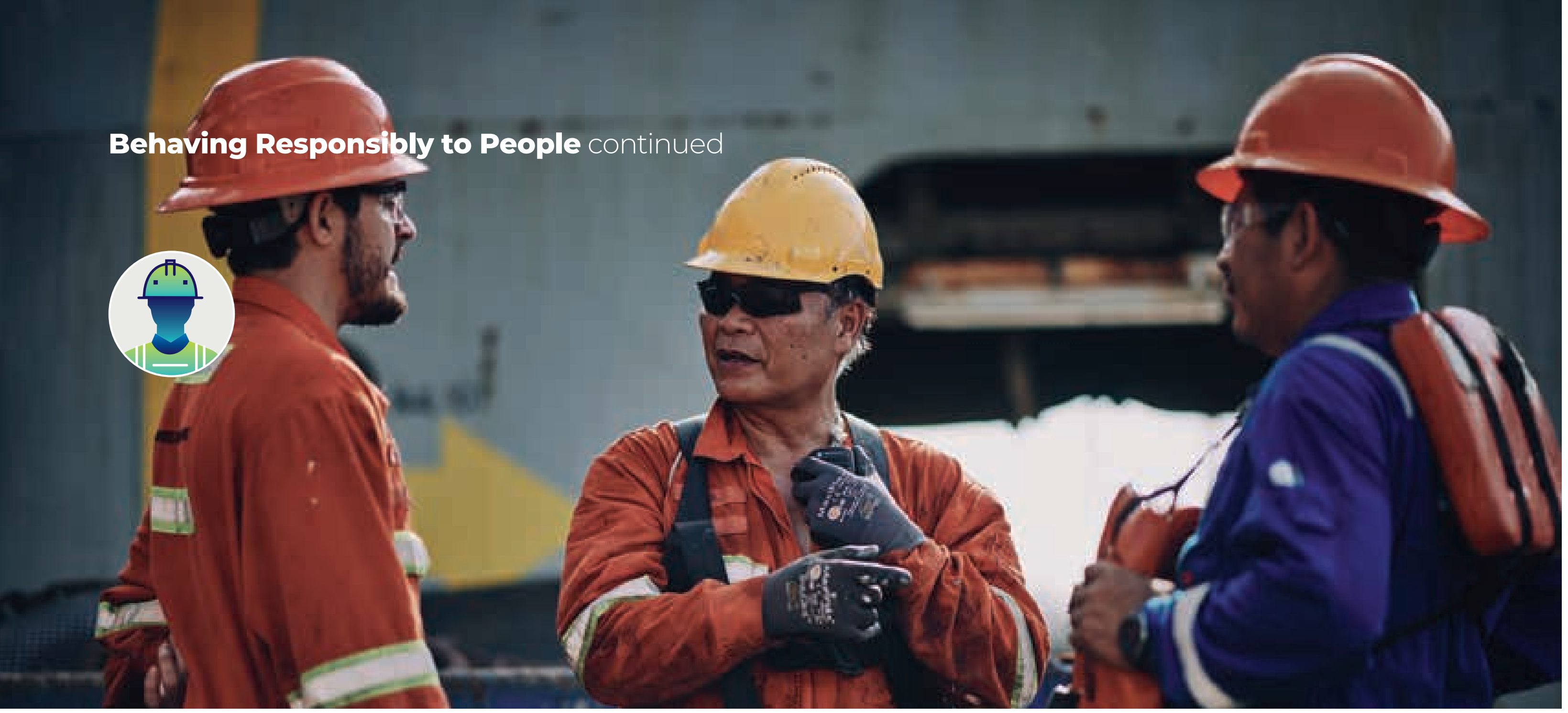
Managing day-to-day operational safety hazards involves several systems to promote safe working procedures. These are linked to those of our principal contractors where they operate key assets. Our own personnel provide clear oversight, and procedures are bridged where necessary to ensure responsibilities are understood and activities are managed effectively.

Minimising Health and Security Risks

We support all staff who could be exposed to health risks through their work. The main threat remains the potential exposure to infectious diseases, either where we have assets or during travel to prospective destinations. In locations where endemic diseases such as malaria are prevalent, we have mechanisms in place to minimise the risk, and remain vigilant to any new or re-emerging epidemics and pandemics.

We perform risk assessments before international travel, which cover inoculations and country briefings, as well as general advice on basic travel health, natural disasters, security alerts and female traveller security. Our Traveller Health and Security intranet site provides all personnel with security advice and travel management procedures for our countries of operation.

Despite the pandemic restrictions, we have continued to conduct business-critical trips to locations such as Mauritania, Egypt and Suriname, in accordance with the rules of both home and destination countries. Due to our risk assessment and mitigation procedures, including the use of virtual meetings where possible, no infectious cases were recorded as a result of business travel.



Behaving Responsibly to People continued

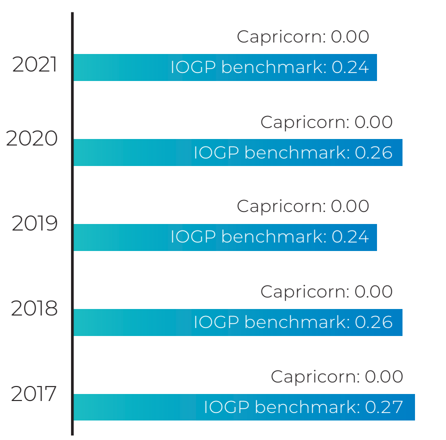
Employee Well-being

Staff well-being plays an important role across our business and never more so than during the COVID-19 lockdowns. Our health and well-being programme in the UK helps staff to understand how their behaviour and lifestyle can affect their health, explore their values and attitudes and, where appropriate, change their behaviour. Now in its third year, the programme of activities is accessible to all staff across all locations, with a focus on three areas: Getting Healthy, Maintaining Health and Regaining Health.

To promote good physical and mental health, we have run exercise and yoga sessions, walking challenges and virtual tours, as well as workshops and webinars covering meditation, anxiety and stress management, financial well-being, understanding change, and healthy eating. Our HR staff have also completed mental health first aid training to strengthen the support we provide.

Lost Time Injury Frequency (LTIF)

(Lost time injuries per million hours worked)



Capricorn total for employees and contractors.

The benchmark used is the latest available International Association of Oil & Gas Producers (IOGP) figure at the beginning of the year for the industry overall.

As restrictions eased in the UK, returning to the office became a source of concern for some. Using video briefings and other updates, we reassured staff about the risk controls in place including those relating to travel, COVID-19-safe offices, emergency procedures and expected behaviour. All personnel were given briefings and supporting materials as part of the phased return.

We are trialling hybrid working in the UK as part of our shift to more flexible working practices without impairing our ability to deliver our work programmes. Offices in Mexico and Egypt will undergo a similar process once restrictions allow.

Our 2021 Performance

With zero recordable injuries in our operated assets, our occupational safety performance exceeded our target; this was set using the IOGP benchmarks, which we use as lagging KPIs. We recognise that our operational activity in 2021 was limited to survey and environmental work in Mexico and East Orkney, as well as Mauritania in January 2022.

For 2022, we have reviewed our KPI weightings to reflect the greater level of field activities that will take place in 2022 across the portfolio.

Security

We have a duty of care to protect our people and our assets, and place high importance on protecting our investments, reputation and data. All security measures are balanced with human rights and our social responsibility considerations, and executed in accordance with international law and industry best practice. As a member of the IOGP Security Committee, we remain vigilant to emerging threats, and offer support, advice and training as necessary. New operational security guidelines were developed for release across the Company in late 2021.

While we reported no security incidents affecting our staff or premises during 2021, the impact of COVID-19 on Mexico's economy has led to an increase in kidnappings, cyber crime and violent crime. Key members of the Capricorn Mexico team now engage in weekly meetings to ensure we have the measures in place to keep our people safe.

Meanwhile, in Egypt, we are promoting safe driving practices, and we have conducted two exercises simulating road traffic accidents involving Capricorn personnel to ensure emergency teams are fully aware of what measures to take.

Major Accident Prevention

Our industry faces a number of major hazards and we have extensive safety measures and procedures in place to prevent accidents across every phase of our activities. Where it is not possible to eliminate the risks, we manage them to a level that is As Low As Reasonably Practicable (ALARP). This underpins legislation in the UK Continental Shelf and many other jurisdictions, as well as aligning with industry good practice.

Operated Assets

Our Corporate Major Accident Prevention Policy (CMAPP)1 captures the arrangements we have to address and control these risks for our operated activities. CMAAP remained unchanged in 2021 but we are planning a major review of CMAPP in 2022 as we move towards greater operated production, meeting the changing needs for major accident prevention competency.
A CMAPP training module has been incorporated into the Capricorn Academy and now forms a fundamental part of our induction process for new personnel.

1 Required under the UK Offshore Installations (Offshore Safety Directive) (Safety Case) Regulations 2015.

As part of planning for the Diadem well in 2022, we also reviewed and refreshed the Safety and Environmental Management System.

Non-Operated Assets

Depending on the activity, our equity share of the asset and the regulatory framework under which we operate, we seek to influence our joint venture partners through Operating Committee and Technical Committee meetings.

In 2021, we continued to support our partners in preventing major accidents on our non-operated assets, primarily in the UK and Egypt. We are also working to increase the level of data provided to us as a non-operating partner, to enable greater scrutiny and reporting in the area of energy efficiency, emissions, objectives and targets towards net zero.

Crisis Management and Emergency Response

We focus on prevention but, should a significant accident or incident occur, we maintain a three-tiered crisis and emergency response that supports our activities around the world.

For a quick and effective tactical response, trained local Incident Management Teams are in place in all operational locations. These are supported by Incident Response Teams in our field assets, normally provided by our contractors.

Our Crisis and Emergency Response Team (CERT) in Edinburgh provides strategic and tactical support, depending on local capability. Specialists can be called in to assist in crisis management and to prevent escalation, in accordance with the priority issues of People, Environment, Assets and Reputation (the PEAR principle).

CASE STUDY

CONTRACTOR SELECTION AND ENERGY EFFICIENCY

In reviewing our HSE tendering processes in 2021, one strategic goal was to drive energy efficiency and reduced emissions throughout the supply chain, with an initial focus on operated activities. We included energy efficiency and emissions as a differentiating factor in selecting contractors for drilling, marine and aviation services.

Average greenhouse gas (GHG) emissions were calculated for the activity to be undertaken, based on data supplied by contractors, and those with emissions greater than 10% above the average were removed from the tendering process. As well as numeric criteria, contractors are now also asked for their energy transition strategies as part of all tenders.

This method was used for contracting vessels for the geotechnical and geophysical surveys for both the Diadem and East Orkney Basin projects. It was also used in selecting the drilling contractor and aviation service provider for the Diadem project.

We will continue to drive down our own emissions towards our net zero target, as well as sending a strong message to our supply chain partners that we expect the same from our contractors. In 2022, we will enhance our GHG emissions reporting to Scope 3 emissions from our contracted activities.

Due to COVID-19 restrictions, CERT members remained ready to respond virtually and still received weekly training and operational briefings covering security, travel, health and emergency response scenarios. In September 2021, we switched to a combination of remote and in-person provision as we began the return to office working.

Supported by an independent specialist, we held four remote emergency response exercises in 2021. These simulations tested our response to scenarios such as road traffic accidents and injuries in Egypt, as well as to a cyber security attack on Capricorn. The simulations used Crisis Incident Management (CIM), our new ISO-accredited crisis and emergency management tool.

Contractors

We rely on third-party suppliers and contractors for much of the technical expertise, equipment and services we need to maintain our operational capability. The annual average number of field contractors in 2021 was 33 people, which is 12% of the total workforce and 5% of hours worked.

Selecting Contractors

Contractor performance impacts our licence to operate, so effective selection, strong working relationships and good performance are fundamental to our success. In evaluating tenders, we require suppliers to use management systems and ways of working that align with our Code of Ethics, policies, standards and procedures, where applicable.

We have improved our scrutiny of key equipment providers in terms of environmental performance as part of the tendering process. In 2021, we assessed the energy efficiency and emissions of vessels, rigs and helicopters as a differentiator in our contractor selection process.

Pre-Qualification Tools

We use specialist services in some jurisdictions to identify pre-approved vendors and examine their performance prior to tendering. For many UK projects, we use Achilles' Oil and Gas Europe platform to assess the potential contractors in the European oil and gas market. With a new well in the North Sea scheduled for 2022, we have completed the long-lead tendering process and contracting for pre-work.

We also helped Invest in Africa (IIA) to develop a similar system – the African Partner Pool – in Senegal, and have started discussions with IIA about supporting our need for sourcing contractors in Mauritania.

Behaving Responsibly to Society

We seek to make a positive difference to society, investing in efforts to support economic and community development. At the same time, we recognise that we must manage and mitigate any potential risks and impacts associated with our activities to support the communities that may be affected by our operations. Respecting and protecting human rights across our operations is a fundamental part of our integrated approach.

BUSINESS PRINCIPLES

- We seek to make a positive social impact in every area where we operate by working ethically and with integrity.
- We respect and promote the human rights of individuals, communities and indigenous peoples.
- We acknowledge the aspirations and concerns of the communities in which we work, and will respond to and address grievances fairly.

This year, the following societal issues were identified as being of high materiality:

- 51 Indigenous Peoples' Rights
- 53 Local Content and Local Procurement

See our Materiality Matrix on page 25

2021 PERFORMANCE AGAINST SUSTAINABILITY OBJECTIVES

- Applied human rights guidance in planned operations, including the availability of transparent grievance procedures.
- Delivered a specialist-run, in-house human rights 'lunch and learn' session for all staff.
- Rolled out human rights and modern slavery training to employees.
- Audited the application of modern slavery prevention requirements in selected projects.
- Agreed, established and tracked social investment across the Group to positively impact the communities with which we work.
- Reviewed and revised the criteria for selecting and assessing social investment projects, improving alignment to the United Nations Sustainability and Development Goals (UNSDGs), and developed an assessment tool.
- Applied stakeholder engagement registers to forthcoming projects and demonstrated that stakeholder engagement follows our latest guidance.

See our Sustainability Report for more information about our SDG performance

Prof. Naipal, Project Manager with Wim Kouwe, Capricorn Asset Manager at the mangrove rehabilitation project, Suriname

Human Rights Management

Policies and Guidelines

Respecting human rights is a fundamental part of our commitment to protecting our business and our stakeholders. We support internationally recognised human rights standards, have mechanisms in place for raising and addressing grievances, and include requirements on modern slavery in supplier contracts.

To ensure human rights are respected and promoted in our relationships with contractors, communities and other stakeholders, we seek to comply with international standards such as the UN Universal Declaration of Human Rights and the UN Guiding Principles on Business and Human Rights.

Our Human Rights Guidelines define how we identify, assess and manage issues at key project stages, including the assessment of potential investments. Our position on human and labour rights is integrated into our Corporate Social Responsibility (CSR) Policy and our Code of Ethics, most recently reviewed and revised in November 2021 to include our renewed strategy and linkages with the UN SDGs. Adherence to the Code is included in all tender and contract documentation.

Human Rights Training

We updated our human rights training and rolled out new e-learning modules through the Capricorn Academy in November 2021. In January 2022, we held a 'lunch and learn' session on human rights. Hosted by specialists from the Institute of Human Rights for Business, the session looked at potential human rights issues across the industry and how they could be mitigated within the Company.

Modern Slavery

We have a zero-tolerance approach to modern slavery and human trafficking, which has become a significant global issue. We do not employ forced, bonded or child labour, and take all reasonable steps to ensure that slavery, in all its different forms, does not exist in any part of our operations or supply chain.

We publish an annual Modern Slavery Statement (www.capricornenergy.com/working-responsibly) and have rolled out refresher training as an e-learning module to employees and contractors.

Assessing Our Supply Chain

We use a consistent approach for assessing proposed acquisitions and planned activities, understanding where the supply chain could represent modern slavery risks. We found no significant risks of forced or compulsory labour in our activities in 2021, but have flagged locations where vulnerabilities exist for managing projects in the future.

The standard terms and conditions within our contracts specify our zero tolerance for modern slavery, and include our right to audit suppliers and subcontracting parties. Our tender process includes specific questions about whether potential contractors, vendors and suppliers have modern slavery policies and procedures in place.

We use specialist contractors with well-developed employment practices that understand our requirements and standards. Our suppliers often use subcontractors of their own so, while our influence diminishes down the supply chain, we continue to use our leverage to promote good employment practices, address non-discriminatory behaviour and prevent child labour.

We audited the application of our modern slavery processes across selected projects in 2021 and intend to undertake a more detailed assessment of our principal contractors in 2022.

CASE STUDY

STAKEHOLDER ENGAGEMENT IN MAURITANIA

As we plan for our first operated activity in Mauritania, stakeholder engagement with local communities and organisations is front of mind. To inform this dialogue, in early 2021, we commissioned a third-party specialist to deliver a stakeholder scoping report.

This report examines considerations including the socio-economic context of Mauritania, the concerns and priorities of key stakeholders, and the history of engagement with the oil and gas sector. It also looked in detail at some of the key facets of the stakeholder landscape in Mauritania, such as the significant environmental and biodiversity importance offshore; the UNESCO-protected World Heritage Site of Parc National du Banc d'Arguin and its local Imraguen people; and the importance of the fishing industry to the national economy.

Combined with engagement with our peers and with government and authority bodies in-country, it has been instrumental in helping us to engage with stakeholders around the Environmental Baseline Survey (EBS) which commenced in January 2022.

Having presented our proposed stakeholder engagement plan for government feedback, we sought to engage with key NGOs and representatives of the local fishing communities. Information about the grievance mechanism established to support the EBS activity was shared through information leaflets provided in both French and Arabic.

Behaving Responsibly to Society continued

Security and Human Rights

Operating in complex and challenging environments, we recognise the need to maintain the safety and security of our people and operations while respecting human rights.

As part of our standard procedures, 100% of our operations are subject to human rights reviews and modern slavery assessments. Security contractors, where required, are assessed on their adherence to our principles and standards, and their activities, equipment and training also need to meet the requirements of key human rights standards and guidelines.

Before we enter a new country as an operator, our due diligence process involves human rights screening. We review key indicators from international indices such as the Global Slavery Index and the US Trafficking in Persons Report, and research the risks using specialist geopolitical advisers. We assess potential impacts through Environmental and Social Impact Assessments (ESIAs) and, where necessary, undertake a Human Rights Impact Assessment. If any current or potential issues are identified, we engage with those affected to consider how best to manage them.

Prior to proceeding with a non-operated joint venture, we check any human rights issues and identify any risks that may require management by the operator.

Delivering Social and Economic Benefits

We seek to mitigate any negative impacts and enhance the positive benefits that arise from our operations while sharing the value generated by oil and gas activities. Taking a long-term approach to social investment, we promote good practice, support a wide range of international agreements and standards such as the UN SDGs, and support capacity building in the communities where we operate.

Our social investment strategy is informed by stakeholder engagement at a community level. We have recently updated the criteria under which we select social investment projects and assess their success. These are grouped into four priority areas: community health; community economic and environmental benefit; community protection and climate adaptation; and education and innovation. We have also started applying a comparative assessment tool for potential projects, as well as a range of key performance indicators (KPIs) to demonstrate the inputs, short-term outputs and longer-term outcomes of each project.

Both the social investment criteria and KPIs are aligned with the UN SDGs, which provide an additional framework for understanding ESG risks and opportunities. This also supports the development of Impact Benefit Plans for each major project.

In Egypt, we are looking to establish social investment plans that support local and national priorities. These include Egypt Vision 2030, a sustainable development strategy targeting a better life for all Egyptians by 2030.

We have also commissioned two Social Needs Assessments across two of our operated blocks – West El Fayoum and South East Horus – in which we are due to conduct seismic surveys in 2022. These assessments will help us to understand local community concerns and needs, and opportunities to support them.

Social Management

In accordance with our Corporate Responsibility Management System (CRMS), we evaluate the potential social benefits, risks and impacts of any major activity. The scope and nature of such Social Impact Assessments (SIAs) depend on local context and regulations. Given the environmental and social interdependencies, an SIA usually forms part of an ESIA, but these are sometimes separated as a legislative requirement.

For each project, the SIA often includes a Social Management Plan (SMP). The SMP assesses the benefits and impacts of a project, with the aim of mitigating any negative impacts and providing a positive overall benefit.

No SIAs were required or undertaken in 2021, but they have been commissioned for our operated seismic programme in Egypt in 2022. We are also undertaking early preparatory work for a potential ESIA in Mauritania.

In Mexico, we are required to report annually to Secretaría de Energía (SENER), the Mexican Department of Energy, to demonstrate the implementation of our SMP. Due to its closure at the start of the pandemic, our 2019 and 2020 reports were submitted when SENER reopened in late 2021.

Local Procurement

We encourage our principal contractors to engage local personnel where appropriate skills and services exist. In line with our Operating Standards, we have set out a comprehensive process through which the 'national content' of received tender submissions will be assessed. Where applicable, contractors are required to confirm that they, and any subcontractors, will comply with the required minimum percentage of national content and associated reporting requirements.

The categorisation of local, national and international vendors depends on the definitions used within local legislation. In Suriname, for example, the national oil company (Staatsolie) provides guidance on national content. In Mexico, the methodology is based on a framework that is mandatory by law. Under our Production Sharing Contract (PSC) with the Mexican National Hydrocarbons Commission (CNH)[1], each of our key contracts carries a percentage target for local content. This is assessed during the tender process, and is monitored and reported throughout the duration of the contract.

Local Community Engagement

We aim to enhance our community development activities by understanding and addressing the needs, aspirations and concerns of the communities in which we work.

We consult with local stakeholders to identify any potential impacts associated with our activities and to acquire local knowledge to inform any future plans. This enables us to minimise risks, maximise shared economic and social benefits, and foster long-lasting relationships with community partners, governments, investors and employees.

Stakeholder engagement will be a key part of our operated exploration activity in Egypt in 2022. To support our seismic work, we will undertake extensive engagement with local communities around issues such as land access and compensation. We are also using targeted stakeholder engagement to support our early stage activity in Mauritania (page 65).

1 Comisión Nacional de Hidrocarburos.

Mangrove rehabilitation project, Weg naar Zee, Paramaribo, Suriname

Operational and Financial Review

STRATEGIC DELIVERY

- Acquisition of Shell's Western Desert production and exploration portfolio in Egypt with significant potential for production growth, operating efficiencies, exploration resources and decarbonisation.
- Retained balance sheet strength to enable further expansion of the producing asset base through investment and acquisition.
- Contingent payments receivable from recent asset sales:
  - US$76m additional consideration due in H1 2022 from UK sale;
  - further UK payments in subsequent four years dependent on oil price and production performance;
  - up to further US$100m receivable in 2023 or 2024 for Senegal sale dependent on oil price and first production timing.
- High-graded exploration portfolio now focused on shorter capital cycle, infrastructure-led opportunities.
- Portfolio resilience to energy transition scenarios: carbon reduction initiatives underway with a pathway to net zero by 2040 at the latest; portfolio value resilient under the IEA's STEPS, SDS and NZE scenarios.
- Resolution of the Indian tax dispute, resulting in receipt of a tax refund of US$1.06bn.
- Almost US$1bn committed to shareholder capital returns: US$257m special dividend in Q1 2021 following completion of Senegal asset sale; following the Indian tax refund, US$500m tender offer to close in April 2022 and ongoing share buyback programme of up to US$200m.

2021 FINANCIAL HIGHLIGHTS

- Year-end Group cash of US$314m; net cash of US$133m after debt drawn to fund the Egypt acquisition of US$181m.
- Working interest Egypt oil and gas production of ~36,500 boepd, within guidance of 33,000-38,000 boepd; net entitlement production of 1.5mmboe.
- Revenues from Egypt production of US$56m: average realised oil price of US$77.8/bbl and gas price of US$2.9/mcf (average production cost US$6.0/boe).
- Net cash generated from oil and gas production of US$185m.
- Net Group capital expenditure of US$66m.
- Operating loss US$131m (2020 Restated: US$130m operating loss) from continuing operations.
- Profit after tax of US$895m (2020: Loss of US$394m), including India tax refund.

2022 OUTLOOK

- Capital return of US$500m expected in Q2 2022 by way of tender offer to close in April, alongside ongoing share repurchase programme of up to US$200m, both subject to shareholder approval.
- Capricorn WI production to average 37,000-43,000 boepd with 2022 exit rates forecast to exceed top end of guidance range.
  - Oil and condensate expected to comprise 35%-40% of production mix.
- Production costs forecast to be US$4.5 – US$5.5 boe.
- Current estimates of 2022 capital expenditure total approximately US$200m, including:
  - Egypt production and development expenditure of US$90-110m targeted at delivering substantial production growth during 2022.
  - Egypt exploration expenditure of US$30-35m to sustain the resource base.
  - UK infrastructure-led exploration expenditure of ~US$40m, predominantly on the Jaws and Diadem wells, with no further well commitments beyond 2022.
  - Other international exploration of US$30-35m, principally in Mexico, with no further commitments beyond 2022 and any further investment contingent on farm-downs.

RESERVES

The Group 2P reserves increased during the year by 4.5 mmboe from 32.9 mmboe at Year End 2020 to 37.4 mmboe at Year End 2021 (on an Entitlement Interest basis). This was principally as a result of the sale of the UK North Sea assets (-27.2 mmboe on divestment completion) plus the acquisition of the Western Desert Assets in Egypt (39.0 mmboe added on EI basis on acquisition completion; or 94.6 mmboe on Working Interest equivalent basis), and after accounting for Capricorn production in the calendar year.

Production

Capricorn's assets in Egypt's Western Desert offer sustained production and reserves growth in an attractive, lower cost operating environment.

Egypt
Working interest production across the four main concession areas of Obaiyed (Capricorn 50% WI), Badr El Din (Capricorn 50% WI), North-East Abu Gharadig (Capricorn 26% WI) and Alam El Shawish West (Capricorn 20% WI) averaged ~36,500 boepd during the period from acquisition completion on 23 September to year end 2021, with ~38% of the production mix being oil and condensate. Oil sales averaged US$77.8/bbl and gas sales averaged US$2.9/mcf.

Before acquisition completion, two drilling rigs operated, completing exploration commitment wells and principally oil, gas, and water injection development wells with a total of 15 wells drilled in 2021. Between completion of the acquisition and 31 December 2021, production rates grew by 8%. A third drilling rig is now operating, with an additional two drilling rigs to be contracted in H1 2022 to further support increasing production and focusing on liquids-rich opportunities. A programme of up to 40 new production or injection wells is scheduled for 2022, with a number of field extension drilling opportunities also identified.

Two facilities development projects are progressing: the initial development of the Teen discovery and the enhancement of Obaiyed compression facilities to improve recovery rates. An improved baseline survey of greenhouse gas emissions is anticipated to be completed in 2022 with decarbonisation activities underway including gas replacement for diesel, centralisation of power and electrification. In- field renewables application is under evaluation and a suite of opportunities for flare reduction in support of our commitment to the World Bank's zero routine flaring by 2030 initiative have been identified.

Capricorn's working interest Egypt production for 2022 is anticipated to be 37,000-43,000 boepd with production growth through the year meaning that 2022 exit rates are expected to exceed the top end of guidance, benefiting from investment in increased production. With a focus on liquids-rich opportunities, oil and condensate are expected to comprise 35-40% of the production mix.

North Sea
Working interest production from Capricorn's interests in the UK Catcher and Kraken fields was approximately 18,300 bopd. The Company completed its sale of these interests to Waldorf Production in Q4 2021. Under contingent payment provisions in the sale terms, based on 2021 production levels and average oil prices, a payment of ~US$76m is due to be made by Waldorf to Capricorn in Q2 2022.

Uncapped further contingent consideration will be payable in respect of calendar years 2022 to 2025, based on average oil prices and production volumes (subject to minimum thresholds).

Exploration

Exploration is core to Capricorn's value strategy. Our focus is on advantaged resources that can be rapidly commercialised and that remain competitive during the energy transition.

Egypt
Capricorn's Western Desert exploration interests hold significant short-cycle exploration potential, with nine firm commitment wells and three seismic acquisition programmes across four exploration concessions planned in the next three years.

Since completion, the prospect portfolio has been matured with drilling targets identified. Capricorn will initiate its operated exploration programme in Egypt with two wells (Capricorn 50% WI) in our South Abu Sennan concession, planned for H2 2022. This is anticipated to be the start of a continuous drilling campaign across all three operated concessions, which will extend through to the end of 2023. The non-operated NUMB W1 exploration well (Capricorn 50% WI) was safely drilled in North Um Baraka in Q4 2021 by the operator Cheiron, with the well being temporarily plugged.

3D seismic acquisition will begin in Q1 2022 in the non-operated North Um Baraka concession (Capricorn 50% WI), with further 3D acquisition expected over the Capricorn-operated concessions from Q3 2022. These new, high-resolution seismic surveys will provide significantly improved imaging in prospective areas and will be particularly beneficial in imaging the deeper and under-explored Jurassic and Palaeozoic sections.

Mexico
Capricorn has interests in four blocks in the Gulf of Mexico, two as Operator: Blocks 9 (Capricorn 50% WI) and 15 (Capricorn 50% WI), and two as non-Operator: Blocks 7 (Capricorn 30% WI) and 10 (Capricorn 15% WI).

Two wells were drilled on Block 10 in 2021:
– The second commitment exploration well Sayulita-1EXP resulted in the second oil find on the licence;
– The Saasken-2DEL appraisal well, an aggressive step-out on the first oil discovery on Block 10, Saasken, made in 2020.

The Joint Venture is working to incorporate the well results into the evaluation plan for the Saasken discovery and Block 10 with the commercial potential of a cluster development being assessed. Drilling of the Yatzil prospect on Block 7, Capricorn's final commitment exploration well in Mexico, is due to spud in H2 2022.

UK
In H2 2021, Capricorn farmed into and became operator of five Southern North Sea licences: P2428 and P2567 (Capricorn 60% WI) and P2560, P2561 and P2562 (Capricorn 70% WI) with partner Deltic Energy. We completed the acquisition of nearly 700km^2 of broadband 3D seismic data over the P2428 licence and surrounding area in November 2021, which fulfils the work programme commitments for the current and next licence phases and will inform a drilling decision in the coming year.

The Jaws exploration well on licence P2380 (Capricorn 50% WI) spudded in November 2021. The well reached total depth in late January 2022, after encountering 31m of fair to good quality Jurassic reservoir sandstones, but these were water-bearing. The well will be permanently plugged and abandoned. Preparations continue to drill on the Diadem prospect in the neighbouring P2379 licence area (Capricorn 50% WI, Operator), with an expected spud in Q2 2022. A drill stem test is planned in a success case.

On licence P2468 (Capricorn 50% WI, Operator) in the East Orkney Basin, two seabed cores were obtained to help inform a decision on the acquisition of 3D seismic data in this undrilled basin.

Suriname
Capricorn operates Block 61 (100% WI), situated in the Guyana-Suriname basin, where significant discoveries continue to be made in 2021-2022. Acquisition of 3D seismic is being evaluated, which is the work commitment for the next exploration phase. Capricorn is seeking partners to participate in this next phase.

Israel
Capricorn has a 33.34% WI as Operator in eight licences offshore Israel. Evaluation of all reprocessed seismic data has been finalised with an assessment of prospectivity being undertaken ahead of a Joint Venture drill or drop decision on the licences in Q3 2022.

Mauritania
Capricorn has a 90% WI as Operator in Block C7 offshore Mauritania effective from May 2021. The licence has a two-year first exploration period. In Q4 2021, seismic reprocessing data was received and is being interpreted over the Dauphin prospect, an amplitude-supported target updip from a discovery in the same stratigraphic interval. Dauphin could contain as much as one billion barrels of recoverable oil. An environmental baseline and drilling site survey was mobilised in Q1 2022 with data gathered to inform a drilling decision ahead of the next license phase.

Balance sheet strength and financial flexibility

India Tax Dispute Resolution
In November 2021, the Group entered into statutory undertakings with the Government of India in respect of new legislation enabling the refund of retrospective taxes collected from Capricorn in India by way of asset seizures since 2014. Under the new legislation Capricorn was required to withdraw its rights under the international arbitration award and cease enforcement action. Capricorn undertook all necessary steps under the legislation and the refund of taxes of INR 79 billion (approximately US$1.06 billion) was received in February 2022. The Group has therefore recorded the tax refund as exceptional income in the results for the year ending 31 December 2021, at the year-end exchange rate.

On settlement of the INR refund, Capricorn immediately converted the amounts received into US$, recording exchange losses of US$15m. This loss is a non-adjusting post balance sheet event and will be recorded in the 2022 Income Statement.

Capricorn intends to return US$500m of the tax refund received to shareholders immediately via a tender offer and up to a further US$200m via an ongoing share buyback programme.

Business Combination: Acquisition of Egypt Western Desert Concessions
In September 2021, Capricorn, together with its consortium partner Cheiron, completed the acquisition of 11 concessions in Egypt's Western desert from Shell. There are eight exploration, development and producing concessions, across four areas, which are now operated by Cheiron, and three new exploration concessions operated by Capricorn.

The acquisition of the concessions was determined to form a business combination under IFRS 3. Assets and their related liabilities acquired are recorded at fair value.

	US$m
Consideration	**378.0**
Net book value on acquisition:	
Fair value of non-current assets acquired	390.2
Current assets and liabilities acquired	8.2
Deferred tax liabilities	(45.8)
	352.6
Goodwill arising	**25.4**

Deferred tax liabilities have been recorded on the temporary difference existing between the tax base of the non-current assets acquired and their tax base values. Goodwill has been recognised on the excess of the purchase price over the combined fair value of the assets and the subsequent deferred tax liability recognised.

The purchase price includes initial consideration of US$310.1m; deferred consideration in respect of future oil price upside through to 2025, with a fair value at acquisition of US$61.1m; US$1.8m being the fair value of amounts due of future, short-term exploration success which are capped at a maximum US$40.0m; and US$5.0m being proposed final adjustments currently under negotiation with Shell. Costs of the acquisition are charged directly to the Income Statement and included within administration charges.

The current assets and liabilities recognised through the acquisition include trade receivables of US$27.8m, inventory balances relating to production activities of US$9.6m offset by net joint operation payables of US$29.2m. Development inventory balances are included within the fair value of non-current assets in line with the Group's accounting policy.

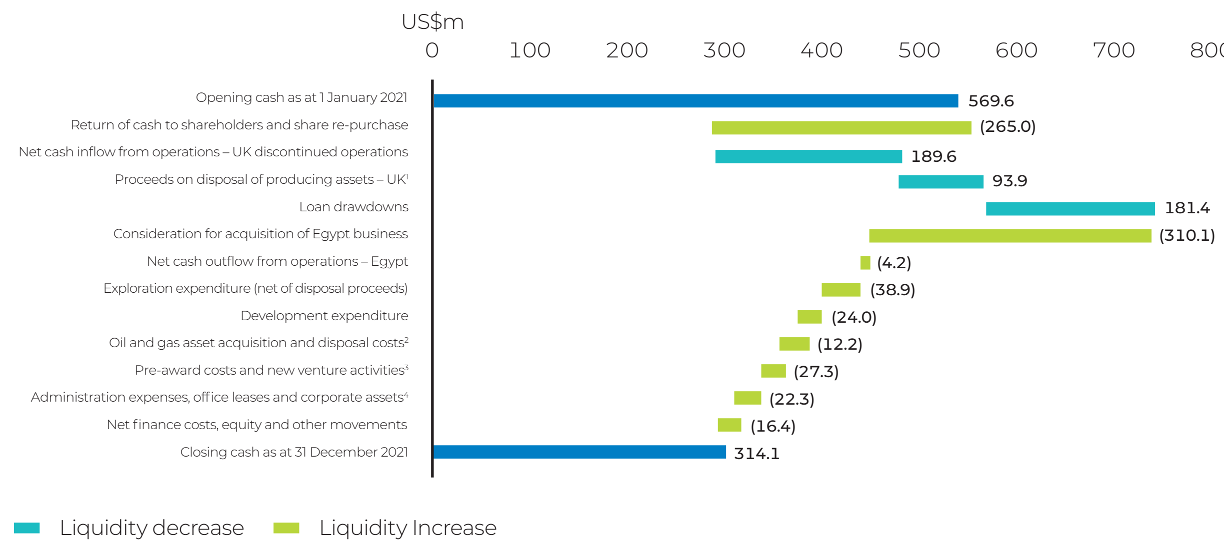
The acquisition was part funded through debt drawn of US$181.4m through two new borrowing facilities secured over the Egypt assets with the balance of US$133.7m from corporate cash balances held.

Discontinued Operations: Disposal of UK Producing assets
Capricorn completed the sale of its UK producing assets, Catcher and Kraken, in November 2021. Assets and liabilities relating to the operations to be sold were re-classified as held-for-sale with effect from the date of the transaction agreement of 8th March 2021, and results from operations and the ultimate loss on disposal presented as discontinued operations, with comparatives restated. A profit of US$25.0m was recorded on discontinued operations for the year.

This profit on discontinued operations includes profit for the year from operations of US$198.8m offset by the loss on disposal of US$173.8m. The economic effective date for the transaction was 1 January 2020, therefore the post-economic date profit recorded by Capricorn reduces proceeds due on completion and drives the ultimate loss on disposal.

Consideration at completion included cash of US$63.9m, purchaser bonds of US$30m (subsequently sold by the Group at par), and future earn-out consideration being a share of future revenues generated by oil prices in excess of US$52/bbl, subject to minimum production levels being met.

Net cash outflow for the year



1 Consideration on disposal of US$63.9m and purchaser bonds of US$30.0m, subsequently sold.
2 Costs of disposal of UK producing assets (US$1.3m), Senegal assets (US$6.0m) and acquisition costs of Egypt business (US$4.9m).
3 Cash outflows on new venture activities of US$18.6m not relating to pre-award activities are reallocated from administration costs.
4 Office lease cash outflows were US$2.2m and corporate asset cash outflows were US$2.9m.

At the date of completion, the fair value of this earn-out consideration was US$197.4m and the post completion fair value decrease of US$8.1m to 31 December 2021 is included in the profit from discontinued operations above. As the earn-out relates to the disposal of a business, rather than an asset disposal, proceeds receivable are outwith the scope of IFRS 15 allowing for recognition on the balance sheet at the year end.

The impairment charge at the date of transfer to held-for-sale resulted from changes in the tax base of the assets, from continued use to disposal, eliminating deferred tax liabilities included in the asset carrying amounts previously tested for impairment. Those deferred tax liabilities were previously offset by a deferred tax asset relating to non-asset specific tax losses, which also reverses.

Discontinued Operations: Contingent consideration on Senegal asset sale
Capricorn disposed of its interests in Senegal in 2020. Under the sale agreement, Capricorn is due further consideration of up to US$100m based on the first oil date and the prevailing oil price. At the year end, the risk-weighted fair value of this receivable was US$51.4m, however, being an asset sale, this is not held on the balance sheet given the lack of certainty over the additional revenue to be recognised.

Capricorn held cash balances of US$314.1m at 31 December 2021, representing a net cash outflow of US$255.5m over the year. Net cash inflows excluding the shareholder returns were US$9.5m. The acquisition of the Egypt business and subsequent development and production cash flows led to a cash net outflow of US$147.4m after offsetting debt drawn down. Cashflows from the UK producing assets up to the completion of the sale, together with the disposal proceeds, resulted in cash inflows of US$283.5m. Third-party transaction costs incurred in the year were US$12.2m, including US$6.0m in respect of the Senegal asset sale.

Exploration expenditure in the year of US$62.5m was offset by cash inflows of US$23.6m, resulting from working capital adjustments received on completion of the farm-down of Block 10 in Mexico.

Reconciliation of statutory cash flow to cash outflow from operations:

	US$m
Operating cash flow per statutory cash flow statement	**179.9**
Non-GAAP Adjustments:	
Cash flows relating to discontinued operations	(233.5)
Pre-award and new venture costs reallocated	27.3
Administrative costs reallocated	17.2
Acquisition costs of Egypt business reallocated	4.9
Net cash outflow from operations	**(4.2)**

Key Statistics

	Year ended 31 December 2021
Production – net WI share (boepd)	**36,459**
Sales volumes – net EI oil (bblpd)	**5,360**
Sales volume – net EI gas (mmscf)	**51,599**
Average price per bbl (US$)	**77.8**
Revenue from production (US$m)	**56.2**
Average production costs per boe (US$)	**6.0**

Continuing Operations

Exploration assets

Eastern

During the year, the Group relinquished its two operated licences and remaining non-operated licence in Côte d'Ivoire, with costs of US$15.6m charged to the Income Statement.

In Israel, costs of US$2.6m are charged as unsuccessful exploration costs.

Costs in Mauritania of US$28.9m remain capitalised as exploration activities continue.

Western

In Mexico, the farm-down of a 15% interest in Block 9 and farm-in to an equivalent 15% interest in Block 10 completed in July 2021. Capricorn paid back costs and interim period adjustments on Block 10 and together with drilling costs, total spend on this block was US$26.7m. In return, the group received back costs and interim period adjustments of US$23.6m from ENI for Block 9, which were credited against capitalised costs carried on the balance sheet.

The Saasken-2DEL appraisal well on Block 10 did not encounter hydrocarbons. Costs associated with the well were charged as unsuccessful and contingent resources were reduced. A possible Saasken discovery extension into neighbouring Block 9 was reclassified as prospective resources. Remaining capitalised costs on Block 9 have been impaired in full. Together with historic costs incurred on Block 15, which is to be relinquished, this results in a total impairment charge and unsuccessful cost write off of US$26.7m. Contingent resources booked for the successful Sayulita-1 oil discovery well on Block 10 partly offset the contingent resource reduction for Saasken.

In the UK, the Shell operated Jaws exploration well completed in January 2022 and was unsuccessful. Costs incurred on the licence of US$17.4m to 31 December, together with costs of US$5.0m on neighbouring licences now to be relinquished, have been charged to the Income Statement.

Egypt

The first exploration well drilled since completion of the acquisition on the North Um Baraka concession was unsuccessful and costs of US$2.9m expensed.

Results for the period

Post-acquisition gross profit from Egypt concessions

Production during the final quarter of the year following the acquisition has been strong, generating a gross profit before depletion charge for the period of US$43.9m, including other income of US$7.3m and Mongolia royalty interest of US$0.9m. Other income relates to the tax-gross up in Egypt, where under the concessions, each contractor's share of Income Tax payable on profit is paid by EGPC on behalf of the contractor. To achieve this result, each contractor receives a notional increase in its entitlement share of production to cover the tax charge. This production is sold on behalf of the contractor by EGPC which then settles the Income Tax liability from the proceeds. Sales and production volumes above, along with the Group's 2P reserve estimates, excluded this tax gross up production.

Total production costs of US$20.5m and depletion charges of US$31.2m are included in gross profit. Depletion charges are based on the fair value of the assets on acquisition, additions over the final quarter of the year and the costs of future capital expenditure consistent with the recovery of the current 2P reserve estimates.

Pre-award costs incurred in the year were US$15.8m and unsuccessful exploration cost write-offs noted previously total US$50.6m.

Administrative costs have increased year-on-year from US$41.1m in 2020 to US$58.2m in the current year. The increase includes US$3.1m of internal time-writing and external transaction costs associated with the Egypt business combination, increased costs with regard to the India Tax Refund settlement of US$4.0m and internal costs pursuing business development opportunities as Capricorn looks to expand its current portfolio.

Net fair value movements in the year result in a loss of US$1.7m (2020: profit of US$0.1m). The gain on the increase in the residual value of the Vedanta shares held of US$5.5m was offset by the increased fair value of the amounts due to Shell as deferred consideration in relation to the Egypt acquisition.

Net finance costs in the year to 31 December 2021 of US$64.4m include the release of remaining prepaid facility fees in connection with the Group's previous RBL facility which was cancelled during the year, and a US$54.7m historic exchange losses recycled from Other Comprehensive Income on the liquidation of non-USD functional currency subsidiaries which previously held interests in UK exploration assets.

Equity movements

Return of cash to Shareholders

Equity movements in the year include the return of cash to shareholders in January 2021 of US$257.2m following the disposal of the Senegal assets in 2020.

Share Re-purchase

In November 2021, Capricorn entered into a non-discretionary share re-purchase agreement for the buy-back of shares of up to £20.0m. As the re-purchase is non-discretionary, the full £20m (US$26.8m) was charged immediately against equity, with an accrual set up for the amounts committed. As shares are purchased, costs are offset against the accrual. At the year end, 2.7m shares had been repurchased at a cost of £5.0m (US$6.6m) leaving a remaining accrual of US$20.2m.

The agreement expired at the end of February 2022 with US$15.5m of the accrual remaining unutilised. This will be released against equity in 2022.

Outlook

Capricorn enters 2022 with a strong balance sheet, with brought forward net cash of US$133m at 31 December 2021 and US$1.06bn received from the Indian tax refund in February 2022 (of which up to US$700m is planned to be returned to shareholders). The Group continues to look for opportunities to expand its current portfolio through acquisition.

This Strategic report has been approved by the Board and is signed on their behalf by

Simon Thomson
Chief Executive
8 March 2022

Leadership and Governance

Board of Directors

Left to right:
Peter Kallos, Erik B. Daugbjerg, Nicoletta Giadrossi, Simon Thomson, James Smith, Catherine Krajicek, Keith Lough, Alison Wood

Committee membership key

- ■ Committee Chair
- A Audit Committee
- R Remuneration Committee
- N Nomination and Governance Committee
- EC Executive Committee
- RM Group Risk Management Committee
- EV Employee Voice Forum
- SC Sustainability Committee

Simon Thomson

Chief Executive (57)

Committee membership

EC RM N SC

Term of office

Simon was appointed to the Board in November 2006 as Legal and Commercial Director and became Chief Executive in July 2011.

Independent

Not applicable

Skills and experience

- LLB (Hons), Aberdeen University
- Diploma in Legal Practice, Glasgow University

Simon Thomson was appointed Chief Executive in July 2011 having been Legal and Commercial Director since 2006 and having held various posts across the organisation, including Head of Assets. Simon originally joined Capricorn in 1995.

Key external appointments

Public companies:

None

Non-public companies:

Non-Executive Director of Graham's The Family Dairy Limited

Non-Executive Director of Graham's The Family Dairy Group Limited

Non-Executive Director of Edinburgh Art Festival

James Smith

Chief Financial Officer (45)

Committee membership

EC RM SC

Term of office

James was appointed to the Board in May 2014 as Chief Financial Officer.

Independent

Not applicable

Skills and experience

- MA (Hons) in English, University of Oxford

James Smith joined Capricorn in March 2014 from Rothschild where he was a director of the Energy and Power Team with 15 years' experience advising exploration and production companies, oil majors and national oil companies on their merger and acquisition transactions and equity and debt market financing.

Key external appointments

No external appointments

Nicoletta Giadrossi

Non-Executive Chair (55)

Committee membership

N R SC

Term of office

Nicoletta was appointed as an independent Non-Executive Director in January 2017 and became Non-Executive Chair in January 2021.

Independent

Yes

Skills and experience

- BA in Mathematics and Economics, Yale University
- MBA, Harvard Business School

Nicoletta Giadrossi has held several global executive roles in energy and capital equipment. She has been: General Manager in GE Oil and Gas, Refinery & Petrochemicals Division until 2008; Vice President and General Manager, EMEA at Dresser-Rand (now Siemens) until 2012; Head of Operations in Aker Solutions Asa, and President (Europe, Africa, Middle East, Russia & India) at Technip, a role she held until 2016. Nicoletta is currently Senior Adviser, Industry and Energy, for Bain Capital Partners, Europe.

Key external appointments

Public companies:

Non-Executive Director of Brembo S.p.A

Non-Executive Director of Koninklijke Vopak N.V.

Non-Executive Director of Falck Renewables

Non-public companies:

Non-Executive Director of TecHouse AS

Non-Executive Chair of Ferrovie dello Stato Italiane SpA

Keith Lough

Non-Executive Director (63)

Committee membership

A N SC

Term of office

Keith was appointed as an independent Non-Executive Director in May 2015.

Independent

Yes

Skills and experience

- MA Economics, University of Edinburgh
- MSc in Finance, London Business School

Keith Lough is a Fellow Chartered Certified Accountant (FCCA) and has formerly held the position of Finance Director of British Energy PLC and Chief Executive of Composite Energy Ltd. Keith was also a Non-Executive Director of the UK Gas and Electricity Markets Authority from 2012 to July 2019.

Key external appointments

Public companies:

Non-Executive Chairman of Southern Water

Non-Executive Chairman of Rockhopper Exploration PLC

Non-Executive Director (and senior independent director) of Hunting plc

Non-public companies:

None

Peter Kallos

Non-Executive Director (62)

Committee membership

R N EV SC

Term of office

Peter was appointed as an independent Non-Executive Director in September 2015.

Independent

Yes

Skills and experience

- BSc (Hons) Applied Physics, Strathclyde University
- MEng Petroleum Engineering, Heriot-Watt University

Peter Kallos has held a number of posts at Enterprise Oil including Head of Business Development, CEO Enterprise Italy and General Manager of the UK business before his appointment in 2002 as Executive Vice President International and Offshore at Petro-Canada. In 2010, Peter became Chief Executive of Buried Hill Energy.

Key external appointments

Public companies:

Executive Chairman of Buried Hill Energy

Non-public companies:

None

Alison Wood

Non-Executive Director (58)

Committee membership

R A SC

Term of office

Alison was appointed as an independent Non-Executive Director in July 2019.

Independent

Yes

Skills and experience

- BA in Engineering, Economics and Management, Oxford University
- MBA, Harvard Business School

Alison Wood's previous executive roles include Group Strategic Development Director at BAE systems and Global Director of Strategy and Corporate Development at National Grid. She has also previously held a number of non-executive positions and board committee memberships, including at BTG plc, THUS plc, e2V plc and Cobham plc. Alison is currently a Non-Executive Director and Remuneration Committee Chair of TT Electronics plc and The British Standards Institution.

Key external appointments

Public companies:

Non-Executive Director of TT Electronics plc

Non-Executive Director of Oxford Instruments plc

Non-public companies:

Non-Executive Director of The British Standards Institution

Catherine Krajicek

Non-Executive Director (60)

Committee membership

A SC

Term of office

Catherine was appointed as an independent Non-Executive Director in July 2019.

Independent

Yes

Skills and experience

- BSc and MSc in Petroleum Engineering, Colorado School of Mines

Catherine Krajicek started her career with Conoco as an associate engineer and remained with the company for a total of 22 years, progressing through a variety of oil and gas technical and subsequently asset management roles in both the US and Indonesia. In 2007, Catherine left ConocoPhillips and joined Marathon Oil where she went on to hold a number of senior executive (Vice President) roles before retiring from Marathon in 2018.

Key external appointments

Public companies:

None

Non-public companies:

None

Erik B. Daugbjerg

Non-Executive Director (52)

Committee membership

R SC

Term of office

Erik was appointed as an independent Non-Executive Director in May 2020.

Independent

Yes

Skills and experience

- BA in Business Administration, Southern Methodist University, Dallas

Erik B. Daugbjerg has over 20 years' experience in both midstream and upstream oil and gas sectors in the US including founding roles at two oil and gas operators based in the Permian Basin. In 2006, Erik co-founded Pecos Operating Company, and in 2010, co-founded RSP Permian, Inc. Erik has extensive public markets experience, including delivery of acquisitions and disposals, and he played an integral role in the disposal of RSP Permian to Concho Resources, Inc in July 2018 for US $9.5 billion.

Key external appointments

Public companies:

Director of Kimbell Royalty Partners

Non-public companies:

Co-Founder of Pecos Operating Company, LLC

Responsible Governance

Delivering on our strategy, achieving our objectives and creating long-term value for our shareholders require robust, transparent corporate governance. We protect our business against existing and emerging risks through comprehensive policies and management systems, underpinned by our core values, Business Principles, Standard Operating Procedures and Corporate Responsibility Management System (CRMS).

BUSINESS PRINCIPLES

- We manage risk and seek to continually improve.
- We behave honestly, fairly, with integrity and in a sustainable manner.

This year, the following governance issues were identified as having high materiality:

5 Climate Change Policy and Planning (including Global Energy Transition)

10 Funding

11 Government ABC Practices

15 Management of Material Issues

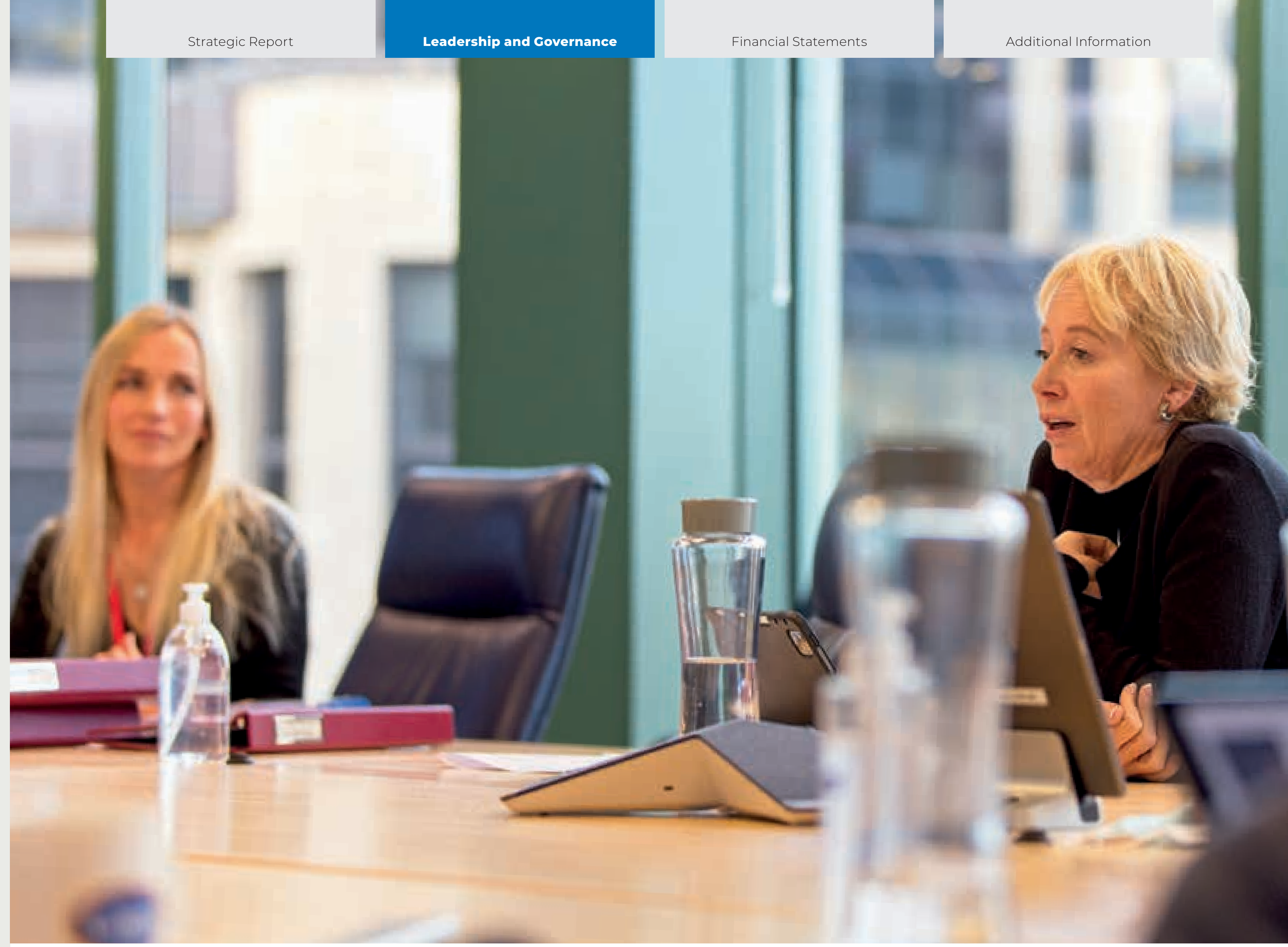
18 Reserves Valuations and Capital Expenditure

See our Materiality Matrix on page 25

2021 PERFORMANCE AGAINST SUSTAINABILITY OBJECTIVES

- Strengthened our Climate and Energy Transition roadmap, committing to net zero by 2040 or earlier.
- Improved communication about climate change for the investment community and wider stakeholders.
- Revised our processes for ESG risk management and target setting with internal and external stakeholders.
- Recorded, tracked and reported our Scope 1 and 2 equity emissions, and demonstrated 'activity normalised' reductions in operated projects.
- Adopted carbon pricing as part of our revised portfolio resilience modelling against a variety of scenarios.
- Approved the migration of our current management systems to a single Operating Management System.
- Used a range of International Energy Agency (IEA) scenarios to analyse the robustness of our Group reserves under the ongoing energy transition.
- Reviewed and revised our Code of Ethics to reflect our Company strategy.
- Refreshed our Company risk profile and risk acceptance statement.
- Completed an internal audit to examine and improve sustainability reporting.
- Assessed bribery and corruption risk within our existing assets and performed due diligence on several other opportunities.
- Reviewed our CRMS against the revised Group strategy, and performed a CRMS audit in selected projects.

See our Sustainability Report for more information about our SDG performance



Working Responsibly

At Capricorn, working responsibly means striving to deliver value for all our stakeholders in a safe, secure, and environmentally and socially responsible manner. Our sustainability strategy spans efforts to:

- protect the environment and transition to more sustainable energy sources;
- support society by creating value for our stakeholders; and
- use social governance structures to ensure we conduct our business ethically and with integrity.

We have the right values, principles and policies in place to deliver this, and we make sure our people understand and uphold them. Our comprehensive systems and standards reinforce our culture, while externally, we support agreements and frameworks that promote responsible working practices and the resilience of our business.

Code of Ethics

Our Code of Ethics describes how we do business and outlines our core values, High Performing Behaviours and Business Principles. It sets out our position on environmental and social themes, and provides guidance on issues including conflicts of interest, bribery and corruption, political contributions, tax principles and anti-competitive behaviour. Our Code of Ethics applies to everyone who carries out work for or on behalf of, or provides services to, Capricorn.

We most recently reviewed the Code in November 2021 to ensure it meets future business needs. Amendments included updated Business Principles wording, explicit references to energy transition, more transparent linkages with the United Nations Sustainability and Development Goals (UNSDGs), improved social investment criteria and an extended commitment not to operate in International Union for Conservation of Nature (IUCN) Ia and Ib category locations to protect biodiversity.

Employees are encouraged to report any non-compliance with the Code, or other concerns surrounding ethical issues, by speaking directly to their line manager, using a confidential phone line or contacting the whistleblowing charity Protect. Where appropriate, independent investigations are conducted.

Anti-Bribery and Corruption (ABC) Practices

Maintaining transparent relationships, free from bribery, fraud and corruption, with governments, authorities, contractors and suppliers is a high priority for us. Our zero-tolerance position helps us to maintain our strong culture of ethics and compliance, and protects the Group's reputation.

All entries into new jurisdictions require an ABC risk assessment to highlight exposure to potential risks and ensure the necessary level of due diligence. New venture and business development activity spans a range of locations with varying risk profiles, so it is critical to identify the level of risk in locations where corruption could impact our operations and our reputation.

Through the Capricorn Academy, we provide annual staff training on bribery and corruption. Bespoke sessions to staff in higher risk roles were delivered during the year, including a workshop in Mexico in October 2021. The Management Team and the Board continue to receive ABC training.

Transparency and Reporting

As a listed public company, we report annually in line with UK regulations. In 2021, we responded to all queries associated with our Annual Report and Accounts, and to information requests from stakeholders including investor analysts and shareholder representatives. At the Company's AGM in May 2021, the Directors' Remuneration Report, while approved, received fewer than 80% of votes in favour. We undertook a stakeholder engagement exercise following the vote. See the Directors' Remuneration Report on pages 106 to 139 for more information.

CASE STUDY

TRANSITIONING TO EGYPT

The transitioning of our Egypt assets into the Capricorn business was a complex and large-scale process.

It involved a number of important elements such as joint venture (JV) partner governance, data transfer, IT system change-out projects, commercial agreement reviews, production and exploration asset management preparation, human resource planning and governmental consents.

As Capricorn did not have a presence in Egypt, a New Country Entry (NCE) Project was also commissioned as part of the overarching transition programme. We registered our local entity with the authorities, hiring an in-country team and establishing an office.

We worked closely with our partner Cheiron (the operator of the production assets) to ensure that the success factors were in place on the change-of-control day and the consortium started strongly.

Capricorn successfully took over the operatorship of a number of the exploration concessions and quickly picked up the planning for operations in early 2022. We ensured we had the right people in Cairo to manage our business, providing a strong foundation from which to support our participation in all of the assets included in the transaction.

Although many integration workstreams will run well into 2022, the operational aspects of the production and exploration assets have been handed over to the respective teams, and the Cairo-based team are effectively managing our Egypt business under the leadership of our in-country Managing Director.

Our Sustainability Report and accompanying Data Appendix (both of which are published on our website: www.capricornenergy.com/working-responsibly) provide investors, analysts and other interested parties with comprehensive information about our performance. We apply global standards to ensure our reporting is of the highest quality and aligns with our shareholders' preferences, as well as a number of established frameworks and standards. Relevant information and regular announcements are also provided via the investors section of our website (www.capricornenergy.com/investors) and through investor meetings, all of which were held remotely during 2021.

Climate change and energy transition are considered principal risks to our business. We continue to consider the specific challenges, risks and opportunities they represent to improve our understanding and response. We have revised and improved our Climate and Energy Transition roadmap and set a clear target for achieving our net zero commitment by 2040. This year, we have reported on an operated basis in general and, for the first time, on an equity basis for greenhouse gases (GHGs).

Payments to Governments

We are committed to financial transparency and compliance in the jurisdictions where we work, many of which are complex and uncertain from a legislative perspective. As in previous years, our 2021 disclosures included the payments to governments detailed in our Extractive Industries Transparency Initiative (EITI) reporting. We also report additional payments, including VAT, payroll taxes and social security costs.

Public Policy and Lobbying

While we do not engage in party politics or make donations to political parties, candidates or lobbyists, each of our assets are responsible for engaging with host governments as part of their local Stakeholder Engagement Plan. Our wider involvement in public policy development is conducted through industry bodies such as the International Association of Oil & Gas Producers (IOGP) and regional groups including Offshore Energies UK, BRINDEX and the Association of Mexican Hydrocarbon Businesses (AMEXHI)[1].

Economics and Funding

Expanding and diversifying our production base is a strategic imperative. It helps us to add value, fund our exploration and development activity, and generate returns for shareholders. In a challenging business environment impacted by falling oil prices and COVID-19, we actively manage our portfolio of assets and work with our JV partners to allocate capital and financial resources efficiently.

Creating and Distributing Value

In 2021, we began moving our portfolio towards production and made strategic, timely and financially prudent sales of several of our assets. Taken together, these steps have enabled us to continue creating value for our global shareholders. This included the divestment of assets in Senegal, as well as Catcher and Kraken in the UK North Sea.

The sale of assets allows us to distribute value to our shareholders and makes funds available for strategic investments. Funds from the sale of our Senegal operations were reinvested into production assets in Egypt. These are onshore operations with lower production costs, production and development growth opportunities, attractive exploration potential and longer-life reserves. The Egypt assets also offer the potential to reduce our GHG emissions.

In December 2020, the international arbitration tribunal considering Capricorn's claim against the Government of India over a tax dispute found in our favour. In August 2021, the Indian Government introduced the Taxation Laws (Amendment) Bill 2021, which proposed amendments to the retrospective taxation measures introduced by the Finance Act 2012. This resolution returned ~US$1.06 billion to Capricorn, of which up to US$700 million will be returned to shareholders. The remainder will be used to further expand our portfolio of low-cost, sustainable production assets.

1 Asociación Mexicana de Empresas de Hidrocarburos.

Corporate Governance Statement

Nicoletta Giadrossi
Chair

"Good governance, combined with our responsible culture, helps to ensure that the Company continually works in line with its purpose to the benefit of its many stakeholders."

Dear Shareholder

The Capricorn Board believes that strong corporate governance practices are fundamental to the successful delivery of our strategic purpose as a responsible and sustainable upstream energy company. Good governance, combined with our responsible culture, helps to ensure that the Company continually works in line with its purpose to the benefit of its many stakeholders and each of our Directors is committed to their role in promoting these at Capricorn. Working responsibly is at the core of what we do, and we strive to deliver value for stakeholders in a safe, secure, and environmentally and socially responsible manner.

As we move through the energy transition, the importance of our culture becomes ever stronger. The Board works with integrity at all times, in an open and honest environment, setting the tone for the culture throughout the organisation. Key to our success is our people and we are proud of the behaviours that they demonstrate in undertaking their work (see pages 60-63).

During 2021, we continued to consider ESG-related matters as a priority and, with effect from March 2022, have set up a Board Sustainability Committee to support that work. More information on this committee can be found on page 91. The Board focuses on ensuring that the Company has the necessary resources in place to meet its strategic objectives and this year Capricorn developed its energy transition team to assist with this. Information on our strategy and key performance indicators can be found on pages 12 and 37. The Board continues to review and develop its framework of prudent and effective controls, enabling opportunities and risks to the implementation of the strategy to be determined and addressed. These processes are further described in the risk management section (which includes the Company's viability statement on pages 46 to 55) and the internal control statement on pages 93 to 95.

The Board understands that it should ensure effective engagement and participation with stakeholders. Our approach to stakeholder engagement during the year is set out on pages 26 to 29, which also includes a statement from our Directors in accordance with section 172 of the Companies Act 2006. Some of the key issues that were engaged on during the year are noted there.

Succession planning continues to be a strong area of focus for the Board, and throughout the year, both the Board and Nomination Committee considered the required skills and competencies at our Board, executive and senior management levels. Further information on our succession planning work can be found in the Nomination Committee Report on page 103.

Compliance with the UK Corporate Governance Code
As a company incorporated in the United Kingdom with a Premium Listing on the London Stock Exchange, Capricorn is required to report against the UK Corporate Governance Code (as published by the Financial Reporting Council and available on its website at www.frc.org.uk) (the 'Code'). This statement reports compliance with the version of the Code published in July 2018. Capricorn is fully committed to achieving compliance with the principles and provisions set out in the Code and the Board is responsible for ensuring that an appropriate framework is in place to do so.

The information in this statement (together with the Strategic Report, Audit Committee Report, Nomination Committee Report, Directors' Remuneration Report, and Directors' Report) describes the manner in which the Company has applied the main principles of governance set out in the Code and complied with the individual Code provisions. It is the Board's view that the Company has complied with the 2018 version of the Code throughout 2021.

The Board recognises that reporting in some areas will continue to evolve in future years and will continue to monitor, review and develop its governance arrangements to ensure these are effective.

During 2021, given the challenges that were being felt as a result of the ongoing global COVID-19 pandemic, a key focus of the Company remained on employee engagement. The Company's formal workforce advisory panel, established in early 2019 in line with the Code, which we refer to as the Employee Voice Forum (EVF), continued with a new Chair, Peter Kallos, following my moving to Chair of the Company. The EVF, comprising seven employees who provide a broad representative mix of regions and functions across the business, provided a good opportunity for employees to discuss, with a Non-Executive Director, issues of importance to staff during the year. These matters were then discussed at Board level, enhancing the Board's understanding of the Company's culture.

The COVID-19 pandemic once again placed emphasis on the importance of the EVF (alongside our other employee engagement mechanisms) during 2021 given that most of our employees continued to work from home for the majority of the year, having done so since March 2020. The EVF met twice during the year with the first of these meetings taking place in May 2021, and a further meeting in December 2021. The employee members also hold a pre-meeting (without the Chair present) in advance of scheduled EVF meetings in order to identify agenda items and topics for discussion. Due to the Government guidance and restrictions in place for much of 2021, these meetings were mainly held remotely by video conferencing and all forum members, or their designated alternates, were present. Employee members are also provided with summarised outputs from the Company's employee engagement surveys to assist in stimulating discussion and to help identify any other matters for prioritisation and discussion at EVF meetings. In 2021, the EVF proved to be a helpful forum for the Board to understand employee views in relation to the trial hybrid working practice put in place in the second half of the year following the long period of staff working from home. Following each meeting, the Chair reports to the Board on the matters discussed by the EVF, thereby allowing for broader Board discussion of any topics or issues identified by the workforce and appropriate consideration of these in the context of the Board's decision making.

The Board
Capricorn's business is international in scope and carries political, commercial and technical risks. Accordingly, particular attention is paid to the composition and balance of the Board to ensure that it has wide experience of the industry and regulatory environment in which Capricorn operates, and appropriate financial, operational and risk management skills. In each Board appointment, whether executive or non-executive, objectivity and integrity, as well as skills, experience, ability and diversity, are prerequisites for appointment and assist the Board in its key functions. This also applies to senior management appointments below Board level and to our succession planning.

The Company supports ongoing refreshment of the Non-Executive Directors as it brings new and diverse thinking to the Company as well as ensuring there is a healthy level of independent challenge to management. The Board's collective skills and experience equip it to direct the Company's strategy and meet its business needs as they evolve. The Board is mindful, however, that an appropriate balance between Directors who can bring a new perspective and those who provide continuity is essential for the business.

Board Changes
Following Erik B. Daugbjerg's appointment with effect from 14 May 2020 and my taking the role of Non-Executive Chair of the Company from 1 January 2021, the Board continues to consider the composition of its members and what skills or other attributes may require to be added to enhance the effectiveness of the Board.

As further detailed in the Nomination Committee Report, set out on pages 102 to 104, during its review of Board composition in 2021, the Nomination Committee, alongside the Board, determined that the Board would benefit from deepening the diversity of its membership. On 22 February 2022, the Company announced the appointment of Luis Araujo as a Non-Executive Director with effect from 11 May 2022. With many years' experience working in Brazil and other countries, Luis will bring excellent emerging market insights to the Board in addition to his other areas of expertise, including in relation to energy transition issues.

The Chair succession and handover process that took place at the end of 2020 enabled an effective and seamless transition of the leadership of the Board. Further information on Board succession planning is included in the Nomination Committee Report on page 103.

In line with Code recommendations, from 1 January 2021, I stepped down as Chair of the Remuneration Committee and retired as a member of the Audit Committee. Alison Wood was appointed Chair of the Remuneration Committee and has extensive experience in this area, having served on the Remuneration Committees of a number of other listed companies. In addition, Erik B. Daugbjerg was appointed a member of the Remuneration Committee and Catherine Krajicek was appointed a member of the Audit Committee. Further details composition of the various Board committees are detailed on pages 90-92.

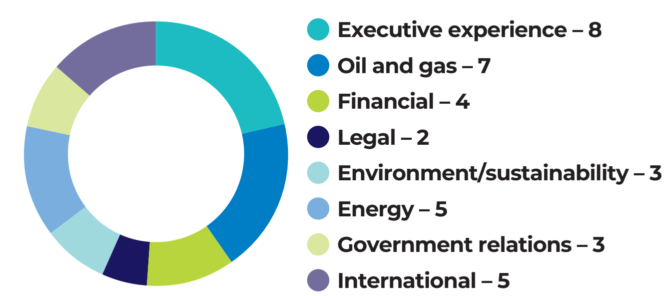
The Board currently comprises two Executive Directors and six Non-Executive Directors, including the Chair. The Directors of the Company as at the date of this statement are set out in the table below and further biographical information about our Directors is also included in the Board of Directors section on page 79.

Name	Role	Date of appointment (in current role)	Date of last re-election
Simon Thomson	Chief Executive	July 2011	11 May 2021
James Smith	Chief Financial Officer	May 2014	11 May 2021
Nicoletta Giadrossi	Non-Executive Chair	January 2021	11 May 2021
Keith Lough	Non-Executive Director	May 2015	11 May 2021
Peter Kallos	Non-Executive Director	September 2015	11 May 2021
Alison Wood	Non-Executive Director	July 2019	11 May 2021
Catherine Krajicek	Non-Executive Director	July 2019	11 May 2021
Erik B. Daugbjerg	Non-Executive Director	May 2020	11 May 2021

Diversity is a key element of the Capricorn Board, with emphasis placed not only on gender but also on culture, nationality, experience and cognitive diversity. Following the appointment of Alison Wood and Catherine Krajicek as Non-Executive Directors, the number of women on the Board increased from one to three with effect from 1 July 2019 and the position of Chair is also now occupied by a woman. The Board continues to demonstrate diversity in a wider sense, with Directors from Europe and the USA as well as the UK, bringing a range of domestic and international experience to the Board. This diversity will be deepened from May 2022 upon the appointment of Luis Araujo, who has South American heritage and citizenship in Brazil, Portugal and the U.K.

The Board's diverse range of experience and expertise covers not only a wealth of knowledge and practice of operating in the oil and gas industry but also extensive technical, operational, financial, governance, legal and commercial expertise. Further information on diversity within Capricorn is included in the Nomination Committee Report on pages 102 to 104 and in the Strategic Report section of this Annual Report.

Board Competencies



Corporate Governance Statement continued

Division of Responsibilities Between Chair and Chief Executive

The Company has a clear division of responsibilities between the positions of Chair and the Chief Executive, which is set out in writing and agreed by the Board.

Chair: key responsibilities	Chief Executive: key responsibilities
– Leading the Board in an ethical manner and promoting effective Board relationships. – Ensuring that the Board plays a full and constructive part in the determination and development of the Company's strategy. – Building a well-balanced Board, considering Board composition and Board succession. – Ensuring the effectiveness of the Board and individual Directors. – Overseeing the annual Board evaluation and acting on its results. – Ensuring appropriate induction and development programmes for Directors. – Setting the Board agenda, chairing Board meetings and overseeing implementation of the Board's decisions. – Engagement with shareholders and other stakeholders when appropriate.	– Managing the business and proposing and developing the Company's strategy and overall objectives in consultation with the Board. – Driving the successful and efficient achievement of the Company's key performance indicators (KPIs) and strategic objectives. – Leading the Executive Team in ensuring the effective implementation of decisions of the Board and its committees. – Providing strong and coherent leadership of the Company and effectively communicating the Company's culture, values and behaviours internally and externally. – Engagement with shareholders and other stakeholders.

Senior Independent Director

Peter Kallos continues to be the Company's Senior Independent Non-Executive Director. The main responsibilities of this role are as follows:

- to provide a sounding board for the Chair and to serve as an intermediary with other Directors when necessary;
- to be available to shareholders and other stakeholders if they have any concerns which contact through the normal channels of Chair, Chief Executive or Chief Financial Officer has failed to resolve or for which such contact is inappropriate;
- to meet with the other Non-Executive Directors without the Chair present, at least annually, in order to appraise the Chair's performance; and
- to act as Chair of the Employee Voice Forum.

Performance Evaluation

The Board continually strives to improve its effectiveness and recognises that the performance evaluation process represents an annual opportunity to enhance overall Board effectiveness. In line with the Code recommendation to conduct an externally facilitated Board evaluation at least every three years, the Board appointed Gould Consulting to facilitate its performance evaluation for 2021 (previous externally facilitated evaluations took place in 2018, 2015 and 2012, with evaluations conducted internally in the intervening years).

The main action points arising from the 2020 internal performance evaluation and progress made against these are set out in the table below.

Key action points/Implementation (disclosed in last year's Corporate Governance Statement)	Implementation
ESG reporting to the Board – The Board considered how best to optimise discussion on ESG matters and it was agreed that the Board should receive updates on a more formal basis in respect of such matters.	Throughout 2021, ESG has been a standing agenda item at each Board meeting and our Energy Transition Director has attended Board meetings since her appointment during the year to provide updates on ESG-related matters. With effect from 3 March 2022, a new Board committee, known as the Sustainability Committee, has been formed (more information can be found on pages 91 and 92).
Board meetings – the management presentation – The Board considered that the format, content and structure of the management presentation had been developed during the year and timely distribution ahead of meetings allowed the Board members sufficient time to understand the detail of the ongoing operations of the organisation. The Board considered that there was an opportunity to streamline the presentation itself to allow greater time for discussion around key areas.	Streamlining of the management presentation took place during 2021 and further work will continue in this area in 2022.
Communications between Board meetings – In addition to event driven updates provided by the Executive Directors between scheduled Board meetings, the Board considered how to further optimise communications amongst its members and there was to be a focus on regular updates from Executive Directors.	The CEO and CFO regularly updated the non-executive members of the Board between scheduled Board meetings, either by call or email update.
Risk discussion – The Board will continue to discuss risk at each meeting and will increase the time given to the risk discussion in a structured, extensive and formalised manner.	Risk is included in every management presentation to the Board for discussion and is reported on and discussed at each Board meeting, and a deep-dive risk review is undertaken annually.

As noted, in 2021, in line with the Code, an external Board performance evaluation was carried out, facilitated by Gould Consulting. This was the first performance evaluation undertaken by Gould Consulting, who had no other connection to the Board or to the Company. To facilitate their evaluation, Gould Consulting reviewed multiple sets of Board and committee Papers, including management presentations, had each Board member complete a pre-interview questionnaire, conducted one-to-one interviews with each Board member and the Company Secretary and facilitated a group discussion amongst several members of senior management including the Chief Operating Officer, the Exploration Director and other senior managers who have regular contact with the Board. Gould Consulting also attended the December 2021 Board and committee meetings as observers. During the year, the Senior Independent Non-Executive Director met with the Non-Executive Directors (excluding Nicoletta Giadrossi), to discuss and appraise the performance of the Chair. The outcome and findings from the 2021 externally facilitated performance evaluation were discussed at the January 2022 Board call and subsequent March 2022 Board meeting. The main action points arising from the 2021 performance evaluation include the following:

Key action points	Implementation
Increase Chair-led engagement with Non-Executive Directors individually between meetings	The Chair will conduct informal dialogue with each Non-Executive Director between meetings to aid discussion at meetings and to discuss key agenda items in advance. In addition, the Senior Independent Director and Chair will increase the frequency of their out-of-round discussions.
Ensure smooth transition between the first and second days of Board meetings	The Non-Executive Directors will have time, without executives or management present, at the end of day one and at the start of day two to discuss matters raised and those to be discussed further.
Restructure of management presentations	Whilst continuing the advanced distribution of the management presentation to Board members, the management presentation itself will be further focused on the key issues for consideration by the Board.
Refresh the Board strategy day	Discussions to be held in advance of the strategy-focused Board meeting to determine the key issues to be discussed with input from an appropriate and diverse range of speakers.
Board Committee Papers for wider distribution	In addition to the previous process of providing reports to the Board from each committee chair and the distribution of committee minutes to all Board members, all Board Committee Papers are now sent to all members of the Board.

As explained above, some improvements have been identified and have already been implemented or will be addressed during 2022.

Following the Board performance evaluation process conducted in 2021, the Board and Board committees are satisfied that they are operating effectively and that each Director has performed well in respect of that Director's role on the Board and its committees. The Board believes that all of the Directors' performance continues to be effective and that they each demonstrate commitment to their role. The Nomination Committee has also reviewed the outcomes of the 2021 evaluation to consider how these influence or otherwise impact on Board composition.

The Executive Directors have their performance reviewed by the Remuneration Committee against the Group KPIs which are set annually (further details of the KPIs can be found on pages 34 to 37). The 2021 bonuses payable to the Executive Directors under the Company's discretionary cash bonus scheme (described further in the Directors' Remuneration Report on pages 106 to 139) are linked directly to the Group's performance against these KPIs. As the KPIs set out our strategic objectives, this ensures that executive performance is directly linked to Group strategy.

Independence of Non-Executive Directors

The Board considers the independence of each of the Non-Executive Directors on an ongoing basis, taking into account their integrity, their objectivity and their contribution to the Board and its committees. The Board is of the view that the following behaviours are essential for a Director to be considered independent:

- provides an objective, robust and consistent challenge to the assumptions, beliefs and views of senior management and the other Directors;
- questions intelligently, debates constructively and challenges rigorously and dispassionately;
- acts at all times in the best interests of the Company and its shareholders and other stakeholders;
- has a detailed and extensive knowledge of the Company's business and of the market as a whole which provides a solid background against which they can consider the Company's strategy objectively and help the Executive Directors develop proposals on strategy; and
- has no close ties or material relationships with the Company, either directly or indirectly.

Having reviewed the independence of each of the Non-Executive Directors against these criteria, the Board concluded that all Non-Executive Directors demonstrated each of the required competencies to a high level and are, therefore, each considered independent by the Board.

Time Commitment of Non-Executive Directors

The Board recognises its responsibility under the Code to take into account other demands on each Director's time, with a view to ensuring that its Directors (particularly those Non-Executive Directors who sit on other public company boards) have sufficient time to devote to their role on the Capricorn Board. Prior to appointment, each individual's other significant commitments are disclosed and there is also a policy in place to ensure that additional external appointments are not undertaken without prior consultation. The other directorships held by each Non-Executive Director (where applicable) are disclosed in the Board of Directors section on pages 78 and 79.

None of our Non-Executive Directors currently sits on more than four public company boards (including Capricorn) and those who do sit on other public company boards have taken appropriate steps to ensure that they have sufficient time to devote to their role on the Capricorn Board. By way of example, I have actively reduced the number of directorships I hold in order to ensure that I have sufficient time to devote to my role as Chair of the Company.

Re-election of Directors

In accordance with the Code, all of the Company's Directors are subject to annual re-election by shareholders. As such, each of the current Directors will seek re-election at the AGM to be held on 11 May 2022.

Induction and Development

New Directors receive a full and appropriate induction on joining the Board. This involves a tailored programme of meetings with other Board members, senior management and the Company Secretary.

Corporate Governance Statement continued

In addition, new Directors receive a comprehensive induction pack which contains a wide range of materials including:

Board	Board Papers and minutes of previous meetings; schedule of matters reserved to the Board; list of Board and committee members and dates of appointment; and schedule of dates for Board and committee meetings.
Committees	Terms of reference for all Board committees.
Risk	Terms of reference for Risk Management Committee and minutes of last meeting; current Group Risk Matrix and Risk Appetite Statement; FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.
Key policies	Capricorn Operating Standards & Processes, Group Corporate Responsibility Management System; Group Code of Ethics; Group Corporate Major Accident Prevention Policy; Dealing Code; Insider Lists Process; Procedures, Systems and Controls for Compliance with the Market Abuse Regulation, the Listing Rules and the Disclosure Guidance and Transparency Rules.
Organisation	Organisational Structure, Group Structure Chart; latest Annual Report and Accounts.
Governance	UK Corporate Governance Code; supporting FRC Guidance; FRC Feedback Statement on UK Board Succession Planning; ICSA and Investment Association Guidance on the Stakeholder Voice in Board Decision Making.
Legal/ regulatory	Memorandum on continuing obligations of directors of premium listed companies; ICSA Guidance on Directors' General Duties; ICSA Guidance on Liability of Non-Executive Directors; GC 100 Guidance on Directors Duties: Section 172 and Stakeholder Considerations; GC 100 and Investor Group Guidance on Directors' Remuneration Reporting.
Insurance	Full details of Directors' and Officers' liability cover.

The Company ensures that new Directors also receive additional induction support and training when assuming any additional responsibilities such as membership of Board committees. Where appropriate, the Company arranges for new Non-Executive Directors to receive additional briefings on key matters regularly discussed by the Board.

The Company provides, on an ongoing basis, the necessary resources for developing and updating its existing Directors' knowledge and capabilities. In particular, the Company is committed to the provision of continuing professional development training for its Directors. In 2021, the Company continued with its practice of providing a Directors' education programme consisting of a number of seminars for Board members, which are presented by the Company's external advisers/guest speakers/members of senior management, on subjects appropriate to the Company's business, including changes to legislation, regulation and market practice.

During 2021, the subjects covered by these seminars included:

Q1	A presentation from Goldman Sachs on the market environment
Q2	A pre-strategy session (on the same day as the Board's annual strategy session) including a presentation delivered by Wood Mackenzie on 'Upstream and Exploration outlook'
Q3	The Company Secretary led a presentation and discussion on updates in the governance environment
Q4	A presentation from the Company's Energy Transition Director: COP26 – what it means for the oil and gas industry and the impact on Capricorn's energy transition strategy

These seminars are incorporated into the schedule for the relevant Board meeting and are attended by all Directors present at such meetings as well as the Chief Operating Officer and Director of Exploration (the Company keeps a record of attendance). Any Director may request that a particular subject be covered in a seminar.

Information and Support
The Board has full and timely access to all relevant information to enable it to discharge its duties. Under the direction of the Chair, the Company Secretary is responsible for ensuring good information flows within the Board and its committees and between executive management and Non-Executive Directors, as well as facilitating induction and assisting with professional development as required. The Company Secretary ensures the presentation of high quality information to the Board and its committees and that all Papers and information are delivered in a timely fashion. Board and committee Papers are delivered securely through an electronic platform.

The Company Secretary is responsible for advising the Board, through the Chair, on all corporate governance matters, and each Director has access to the advice and services of the Company Secretary.

There is also a procedure agreed by the Board for Directors, in furtherance of their duties, to take independent professional advice if necessary, at the Company's expense.

Conflicts of Interest
The Board has in place a procedure for the consideration and authorisation of conflicts or possible conflicts with the Company's interests. All Directors are aware of the requirement to submit details to the Company of any current situations (appointments or otherwise) which may give rise to a conflict, or potential conflict, of interest. The Board will continue to monitor and review potential conflicts of interest on a regular basis.

Whistleblowing
The Group has a robust Whistleblowing Policy in place through which the workforce can raise any matters of concern – further information on the Group's Whistleblowing Policy is included in the Audit Committee Report on page 97.

Matters Reserved to the Board and Delegation of Authority
The Board has a formal schedule of matters specifically reserved to it for decision, which is divided into categories covering different types of decisions, including: corporate; Board/directors; financial/operational; and legal/regulatory.

By way of example, some of the matters which the Board considered and/or approved during 2021 and Q1 2022 were:

Corporate	Board/Directors
The Company's 2020 and 2021 Annual Report and Accounts and 2021 Half Yearly Report	Appointment of new Non-Executive Director
The Company's 2021 AGM circular	Creation of the Sustainability Committee
The Company's Risk Appetite Statement	Expansion of the Nomination Committee to include wider governance considerations
Review of the Company's Corporate Responsibility Management System	Detailed review of talent management and of succession contingency planning

Financial/Operational	Legal/Regulatory
The sale of the Company's interest in the Catcher and Kraken fields in the UK	Oversight of the resolution of the Indian tax issue and proposed subsequent return of up to US$700m to shareholders
The acquisition of production and exploration assets in Egypt	Approval of the Company's Modern Slavery Statement and its publication on the Company's website
The appropriateness of the Group going concern sign-off for the 2020 and 2021 full year accounts and 2021 half year Financial Statements	Approval of the Group Tax Strategy and its publication on the Company's website
The Company's viability statement	
The Company's annual work programme and budget	
Group Reserves and Resources	

In addition to the above, the Board conducts an annual review of the effectiveness of the Company's internal controls (with ongoing monitoring throughout the year), an intensive annual strategy session (normally in June each year), and an annual deep-dive risk management workshop (held at the final meeting of each calendar year).

The Board also has an approved set of financial delegations of authority to ensure clarity throughout the business concerning the distinction between financial matters which require Board approval and those that can be delegated to senior management.

Board and Management Committee Structure During 2021

* Further information on our Board committees is contained later in this statement on pages 91 and 92 and in the separate Audit Committee Report, Nomination Committee Report and Directors' Remuneration Report.

The senior management structure beneath Board level comprises an Executive Committee (ExecCo) and Management Team (MT), each of which continues to play a key role in supporting the Board.

During the year, the ExecCo comprised the Executive Directors (the Chief Executive and the Chief Financial Officer), the Chief Operating Officer and the Director of Exploration. The ExecCo is chaired by the Chief Executive and meets approximately six times per year with those meetings scheduled in advance of Board meetings.

Key elements of the ExecCo's role include the following:
- devising and generating the Company's strategy to be proposed to the Board for approval and implementing and communicating this strategy across the business;
- implementing the business plan, the key performance indicators and annual work programme and budget following their approval by the Board;
- considering business development and new venture projects prior to recommending these to the Board; and
- providing leadership and guidance to the Company on purpose, vision, strategy, culture, corporate governance, corporate responsibility and HSE matters.

The MT is chaired by the Chief Operating Officer and meets formally six times per year, with four of those meetings focusing on a quarterly performance review of the business.

The key elements of the MT's role include the following:
- developing and executing the annual work programme and budget, which will deliver the Company's strategic objectives;
- assessing and determining the mitigation plans for key business risks and ensuring that risks are captured and reviewed regularly;
- coordinating operations and licence management along with resource allocation and organisational alignment to ensure timely and cost-effective delivery against approved budgets;
- oversight of the Company's commitment to working responsibly; and
- reviewing and approving the Company's Operating Standards.

A number of members of the MT are also members of the RMC, which identifies and reviews key business risks – further information on the role of the RMC is contained in the Internal Control section of this statement on pages 93 to 95

The Exploration Leadership Team (ELT), which is chaired by the Director of Exploration, meets on a monthly basis to assist the Director of Exploration in delivering a robust exploration portfolio, with a particular focus on the following:
- providing assurance that opportunities being pursued by new ventures are sufficiently value-adding and meet Capricorn's strategic objectives;
- considering whether opportunities being pursued have acceptable subsurface, above-ground and fiscal attributes to continue evaluation;
- developing a timeline for each existing or proposed opportunity which drives to a decision, including drill or drop, as expeditiously as practical;
- ensuring that the subsurface geoscience aspects of all exploration and appraisal and new venture opportunities align with Capricorn's strategic objectives;
- ensuring consistent, efficient screening and ranking of exploration opportunities, following initial data room assessment but prior to detailed evaluation, utilising the significant knowledge and experience of the team;
- ensuring that the significant knowledge and experience of the team is utilised appropriately and consistently in the delivery of best practice across all areas of geological and geophysical (G&G) analysis in accordance with Capricorn's business plan and core business principles; and
- considering and/or seeking appropriate data subscriptions, purchases and academic collaborations to ensure rapid opportunity evaluation and capture.

Corporate Governance Statement continued

Board Meetings

During 2021, a total of seven scheduled meetings of the Board were held. Due to the COVID-19 pandemic and related UK and Scottish government guidance and restrictions in place during early and then late 2021, one Board meeting was held virtually in early 2021 and the rest were held in person, unless travel restrictions required Directors from abroad to join virtually. Five of these meetings were conducted over two consecutive days following the usual format for Board meetings described below, with another two shorter meetings held to update the Board and/or to approve specific matters during 2021.

The first day of Board meetings normally includes a CEO meeting with the Non-Executive Directors and (when applicable) a Board education session, followed by a report from the CEO and CFO and a management presentation, both of which form part of the formal business of the Board meeting. The CEO and CFO report and management presentation provide a detailed update from senior management and other employees on key projects, assets or matters to be considered at the Board meeting, allowing opportunity for a technically rigorous discussion. This information allows the Board to understand more fully any risks or challenges to the business plan and strategy and also provides broad exposure to the employee base within the Company.

Board committee meetings are also scheduled for the same dates as Board meetings and are either split over two days or scheduled for one day, depending on the number of committee meetings required. Board committee meetings take place prior to the main part of the Board meeting so that the Chair of each committee can provide a report to the Board. These are followed by the remainder of the formal business of the Board meeting. The Chair also holds a meeting with the other Non-Executive Directors (without the Executive Directors) at the end of each day of the Board meeting.

Details of attendance at each of the Board meetings during 2021, and at meetings of each of the Board committees, are set out below. As disclosed above, the COVID-19 pandemic and related restrictions have meant that not all meetings were able to be held in person. The Company has however very successfully used its technological communication platforms to ensure that Directors could continue to attend all scheduled Board and committee meetings and were also able to do so 'on camera'.

The annual timetable for Board and committee meetings is discussed at least 18 months prior to its commencement, allowing the Directors to plan their time accordingly. The Board and committees have agreed dates for all scheduled meetings in 2022 and 2023. This process ensures that the Chair can be comfortable that each Director is able to devote sufficient time and resources to their role on the Board and, where relevant, its committees.

Following the 2021 Board Performance Evaluation, in advance of the Board meetings, the Chair now has informal meetings with each Non-Executive Director to consider key issues for discussion at the meeting. The formal agenda for each scheduled Board meeting is set by the Chair in consultation with the Chief Executive and the Company Secretary. The system for establishing agenda items means that the Chair, the Board and each of the Board committees have the confidence that all required items are included on their agenda at the most appropriate time of the year and that there is sufficient time allocated for discussion, allowing the Directors to discharge their duties effectively.

Formal minutes of all Board and committee meetings are circulated to all Directors prior to the subsequent Board meeting and are considered for approval at that Board meeting. In addition, the members of the Board are in frequent contact between meetings regarding progress of the Group's business plan, one example being an annual Board update call in January ahead of the other scheduled Board meetings for the year. There is also a procedure in place to allow Board meetings to be convened at short notice where required to deal with specific matters which need to be considered between scheduled Board meetings.

As noted above, the Non-Executive Directors have a practice of meeting informally at the end of each Board meeting without Executive Directors being present. At these Non-Executive forums, the Non-Executive Directors are invited by the Chair to bring forward any matter pertaining to the business of the Board that they believe would benefit from discussion in such forums. This practice also applies after Board committee meetings to ensure that Non-Executive Directors can discuss any relevant issues arising from those meetings without management being present.

Directors' Attendance at 2021 Board and Committee Meetings

The table below sets out the attendance record of each Director at scheduled Board and Board committee meetings during 2021.

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Meetings held during 2021[1]	7	4	3	3
	Meetings attended	Meetings attended	Meetings attended	Meetings attended
Executive Directors				
Simon Thomson (Chief Executive)	7	N/A[2]	N/A[2]	3
James Smith (Chief Financial Officer)	7	N/A[3]	N/A	N/A
Non-Executive Directors				
Nicoletta Giadrossi (Chair)	7	N/A	3	3
Peter Kallos (Senior Independent Director)	7	N/A	3	3
Keith Lough	7	4	N/A	3
Alison Wood	7	4	3	N/A
Catherine Krajicek	7	4	N/A	N/A
Erik B. Daugbjerg	7	N/A	3	N/A

Notes:
N/A not applicable (where a Director is not a member of the committee).
1 During 2021, certain Directors who were not committee members attended meetings of the Audit Committee, Remuneration Committee and Nomination Committee by invitation. These details have not been included in the table.
2 Simon Thomson is not a member of the Remuneration Committee but attends its meetings by invitation (other than parts of meetings where he would be conflicted). Mr Thomson also attends Audit Committee meetings by invitation.
3 James Smith is not a member of the Audit Committee but attends its meetings by invitation.

Board Committees

Board Committee Structure During 2021

Each of the Board committees is provided with all necessary resources to enable its members to undertake their duties in an effective manner and has formal terms of reference approved by the Board. Copies of the terms of reference are available on the Company's website. The Company Secretary acts as secretary to the Board committees. The minutes of all committee meetings are circulated to all Directors.

In line with best practice, more detailed reports from the Audit and Nomination Committees are presented as separate reports (on pages 96 to 104) rather than including these in the Corporate Governance Statement. In addition, full details of the Company's remuneration policy are given in the separate Directors' Remuneration Report on pages 106 to 139. Summary details of the composition of each committee and meetings held during 2021 are set out below.

Audit Committee

The members of the Audit Committee during the year were as follows:
- Keith Lough (Chair);
- Catherine Krajicek; and
- Alison Wood.

The Audit Committee met four times during 2021 and currently comprises three independent Non-Executive Directors. In line with Code requirements and following her appointment as Chair of the Company, Nicoletta Giadrossi retired as a member of the committee with effect from 31 December 2020 and Catherine Krajicek was appointed a member of the committee with effect from 1 January 2021. The Chair of the Board is not a member of the committee but attends its meetings by invitation. Further information on the role, responsibilities and work of the Audit Committee is included in the Audit Committee Report on pages 96 to 101.

Remuneration Committee

The members of the Remuneration Committee during the year were as follows:
- Alison Wood (Chair);
- Nicoletta Giadrossi;
- Peter Kallos; and
- Erik B. Daugbjerg.

The Remuneration Committee met three times during 2021 and with effect from 1 January 2021 comprised four independent Non-Executive Directors. In line with Code requirements and following her appointment as Chair of the Company, Nicoletta Giadrossi retired as Chair of the committee but remains a member. With effect from 1 January 2021, Alison Wood was appointed Chair of the committee and Erik B. Daugbjerg was appointed a member of the committee. The Chief Executive is not a member of the committee but attends its meetings by invitation. The committee's and management's remuneration advisers may also be invited to attend the committee's meetings as required.

None of the members of the Remuneration Committee, nor the Chief Executive nor the Chair, participated in any meetings or discussions relating to their own remuneration. The committee has established a practice of meeting informally without any Executive Directors or advisers present to allow the Non-Executive Directors to discuss any matter which has arisen in the meeting (or relating to the duties of the committee) which they believe would benefit from discussion in such forum.

Further information on the role, responsibilities and work of the Remuneration Committee is included in the Directors' Remuneration Report on pages 106 to 139.

Nomination Committee

The members of the Nomination Committee during the year were as follows:
- Nicoletta Giadrossi (Chair);
- Simon Thomson;
- Keith Lough; and
- Peter Kallos.

The Nomination Committee met three times in 2021. Following her appointment as Chair of the Company, Nicoletta Giadrossi was appointed Chair of the committee with effect from 1 January 2021. As such, the current members of the committee include the new Chair and two of the Company's independent Non-Executive Directors. In addition, to ensure continuing executive input on nomination matters, the Chief Executive is also a member of the committee. With effect from 3 March 2022, Cathy Krajicek joined the membership of the Nomination Committee in addition to those members who sat in 2021.

From 3 March this year, the Nomination Committee has expanded its remit to include corporate governance in a broader sense. Whilst corporate governance is a key consideration at all times for the Board, including corporate governance within the committee's responsibilities demonstrates the commitment of Capricorn to good governance.

Following the decision to expand its remit, from March 2022, the Nomination and Governance Committee's role also includes:
- monitoring the operation of the UK Corporate Governance Code and its implementation and compliance by the Company;
- reviewing developments in corporate governance and advising the Board with respect to developments in the law and practice of corporate governance; and
- reviewing and approving changes to the Board's corporate governance practices and policies.

Further information on the role, responsibilities and work of the Nomination Committee is included in the separate Nomination Committee Report on pages 102 to 104.

Changes to Board Committee Structure

In addition to the expansion of the Nomination Committee's remit to include broader corporate governance matters, with effect from 3 March 2022, a new committee, the Sustainability Committee, has been established. Matters of the environment, safely, social responsibility and sustainability are considered within every Board decision and, therefore, are a key element of each Board meeting but establishing a committee dedicated to these matters will further embed the importance within the Board and wider organisation. The energy transition and Capricorn's role in it is of particular importance to the Board and the formation of this new committee, the membership of which comprises the full Board, will allow it further dedicated time. The terms of reference of this committee include:
- advising and supporting the board in the drafting of the Sustainability and Net Zero roadmap and assessing its progress and reviewing disclosures being made regarding the roadmap;
- reviewing the policies, practices and performance relating to sustainability and the disclosures and annual reporting on sustainability;
- reviewing the policies, practices and performance relating to safety, including in particular regarding the safe and responsible performance of the Group's operations;
- reviewing the policies, practices and performance relating to social responsibility; and
- reviewing the policies, practices and performance relating to environmental matters including, in particular, protection of the environment and disclosure of Greenhouse Gas emissions.

Corporate Governance Statement continued

Shareholders and the Annual General Meeting (AGM)
Communications with shareholders are given high priority by the Board. The Company has implemented the provisions of the Companies Act 2006 regarding electronic communication with its shareholders, in order to give shareholders more choice and flexibility in how they receive information from the Company. Capricorn responds promptly to correspondence from shareholders and the Company's website contains a wide range of information on the Company, including a dedicated investor relations section.

In order to ensure that the members of the Board develop an understanding of the views of major shareholders, there is regular dialogue with institutional shareholders, including meetings with executive management after the announcement of the year end and half year results. The Board is kept informed of any issues raised by shareholders both as a standing agenda item in Board Papers and through feedback at Board meetings and following results or other significant announcements. In addition, the Company maintains an investor relations database which details all meetings with investors or other related stakeholders. All analyst reports relating to the Company are also distributed to the Board.

A list of the Company's major shareholders can be found in the Directors' Report on page 142. The Company recognises that the success of the comply-or-explain approach under the Code depends on an ongoing and open dialogue with shareholders, and remains committed to engaging with shareholders, as well as governance and proxy voting agencies, on any matter which they wish to discuss in relation to the Company's governance.

The Company has a rolling programme of investor roadshows to ensure that senior management are regularly engaging with current and potential investors. During the last 18 months, certain Directors have also engaged directly (either through meetings or by telephone/written correspondence) with specific investors, investor groups, and proxy advisory agencies on a range of matters including progress against strategic objectives, diversity and remuneration. During 2021, investor meetings were held either through virtual communications platforms or in person when safe to do so due the restrictions in place in response to the COVID-19 pandemic.

AGM details (2021 and 2022)	Overview
2021 AGM: held as a closed meeting due to COVID-19 on Tuesday 11 May 2021 at the Company's Head Office	– At least 74% of all issued shares voted by shareholders in each resolution – Highest votes in favour >98% for 11 resolutions – The Remuneration Report resolution was passed with 65.13% in favour. Details of the engagement process carried out with shareholders following that result are detailed on this page 92 and the following page 93
2022 AGM: to be held on Wednesday, 11 May 2022 at The Gallery, Kimpton Charlotte Square Hotel, 38 Charlotte Square, Edinburgh (full details in Notice of AGM)	– Full Director attendance expected – 13 ordinary resolutions and four special resolutions being proposed to shareholders

The Board uses the AGM to communicate with private and institutional investors and has always welcomed their participation in annual general meetings. However, as a result of the COVID-19 pandemic and the measures that the UK and Scottish governments had put in place restricting public gatherings, for the safety of our shareholders, our employees, our advisers and the general public, attendance at the 2021 AGM in person was unfortunately not possible and as such, just the Executive Directors were present, in order to constitute the quorum of two shareholders required for the Meeting to be held, and to deal with the formal business of the Meeting.

The Notice of AGM sent to shareholders on 30 March 2021, which was also published on the Company's website, fully explained these arrangements to shareholders and recommended that shareholders submit their votes on each of the resolutions being proposed by proxy in advance of the meeting, or to authorise the Chair of the meeting to vote on their behalf. The Company also enabled shareholders to submit any questions in advance of the meeting. These arrangements were implemented in line with regulatory guidance published in relation to holding AGMs during the COVID-19 pandemic, as well as the approach adopted by other FTSE companies in order to safely conduct their AGMs.

Under normal circumstances, it is policy for all Directors to be present at the AGM, with the Chair of each of the Board committees also expected to attend and be prepared to answer shareholder questions on areas within their remit. Our employees based in Edinburgh are also normally invited to attend the AGM as the Directors recognise that this provides a valuable opportunity for workforce engagement with the Board. In 2021, given employees were not able to attend the AGM, the Company held a virtual staff meeting immediately after the AGM.

As part of our commitment to transparency we look to involve shareholders fully in the affairs of the Company and to give them the opportunity at the AGM to ask questions about the Company's performance and activities. Details of resolutions to be proposed at the AGM on 11 May 2022 and an explanation of each resolution can be found in the separate Notice of AGM Circular accompanying this Annual Report and Accounts.

The proxy votes for and against each resolution, as well as abstentions, will be counted before the AGM and the results will be made available following the meeting after the shareholders have voted in a poll on each resolution. Both the Form of Proxy and the poll card for the AGM include a 'vote withheld' option in respect of each resolution, to enable shareholders to abstain on any particular resolution. It is explained on the Form of Proxy that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes 'for' or 'against' a resolution.

At the AGM held on 11 May 2021, as noted above, Resolution 2 (Approval of the Remuneration Report) passed with 65.13% of votes in favour. Following this result, the Chair of the Remuneration Committee wrote to the Company's major shareholders offering a meeting to discuss the outcome of that vote and to provide the opportunity to raise any concerns relating to the Remuneration Report. Engagement took place with several shareholders and proxy advisory bodies and the feedback received was that they would welcome:
– a more comprehensive explanation of the alignment between Company performance and bonus outcomes;
– more detailed disclosure of the KPIs used in the annual bonus scheme for both the reporting year and the year ahead; and
– in the future, if the Remuneration Committee is considering exercising any discretion in relation to the Company's various incentive arrangements, earlier engagement, ideally at the time a decision is made.

The Remuneration Committee would like to thank those shareholders that participated in the post-AGM engagement process and for the feedback that was provided to the Remuneration Committee Chair. As detailed in the Directors' Remuneration Report on pages 106 to 139, each of the considerations has been addressed with significantly increased levels of disclosure set out. The Company will continue to engage with shareholders and their respective proxy advisory bodies as we look forward to the 2022 AGM.

Information Pursuant to the Takeover Directive
The Company has provided the additional information required by the Disclosure and Transparency Rules of the UK Listing rules (and specifically the requirements of DTR 7.2.6 in respect of directors' interests in shares; appointment and replacement of directors; powers of the directors; restrictions on voting rights and rights regarding control of the Company) in the Directors' Report.

Internal Control
The Board has overall responsibility for the Group's system of internal control, which includes all material controls, including financial, operational and compliance controls and related risk management, and for regularly reviewing its effectiveness. The system of internal control is designed to identify, evaluate and manage significant risks associated with the achievement of the Group's strategic objectives. Because of the limitations inherent in any system of internal control, Capricorn's system is designed to meet its particular needs and the risks to which it is exposed, with a focus on managing risk rather than eliminating risk altogether. Consequently, it can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company has in place an Integrated Internal Control and Assurance Framework (the 'Framework'), which plays a critical role in setting out how the Company manages and assures itself that the risks relating to the achievement of corporate vision, strategy and objectives are effectively controlled. The Framework is based on the committee of Sponsoring Organisations (COSO) framework and its five key components, which is a commonly used and recognised international framework for considering internal control systems. The COSO framework seeks to help organisations develop systems of internal control which help facilitate the achievement of business objectives and improvements in Company performance. The COSO framework also supports organisations in adapting to increasingly complex business environments and managing risks to acceptable levels with the aim of safeguarding shareholders' interests and Company assets.

The Framework has been in place for the 2021 financial year and up to the date of approval of the Annual Report and Accounts. The Board, supported by the Audit Committee, has carried out a review of the effectiveness of the systems of internal control during 2021 and will ensure that a similar review is performed in 2022. In so doing, the Board and Audit Committee took into account the assurance provided by the Chief Executive in respect of the effectiveness of the Group's system of internal control. The Board is accordingly satisfied that effective controls are in place and that risks have been mitigated to a tolerable level across the Group in 2021.

Particular attention has been placed by the Company's management on ensuring that an effective system of internal control has been maintained during the year in relation to the key risks in the Company's business activities. Enhancements have been made during 2021 to the following key controls, business processes and procedures:
– the Board completed a risk workshop which focused on the Group Risk Appetite Statement and its alignment with the delivery of the Group's strategic objectives. The objective of the workshop was to confirm that the Group continued to deliver the strategy in alignment with the tolerance levels set within the Group Risk Appetite Statement;
– the rollout of the new risk management and incident management software solution continued throughout 2021. The new solution is now fully embedded throughout the organisation and is being used to manage risks for all corporate, operational and project risks. The solution has facilitated improved reporting on all risks to the Group and has provided a more systematic process for the management of risks, controls and actions across the business;
– the Management Team conducted a quarterly review of the risks, mitigations and actions identified on the Group risk register to ensure ownership for the risks, mitigations and actions were clearly assigned and implementation dates for actions were tracked;
– the Group Code of Ethics was reviewed and updated. An Arabic and French version was developed for our operations in Egypt and Mauritania. Compliance certificates were also completed by key staff members and contractors confirming compliance with the Group's Code of Ethics;
– several activities were completed to enhance our bribery and corruption controls across the business including the completion of country specific risk assessments for Egypt and Mauritania which supplemented the overarching Group risk assessment already in place;
– a compliance dashboard was maintained to assess compliance with several key regulations impacting the Group including the UK Bribery Act, the General Data Protection Regulation (GDPR), the corporate criminal offence for the failure to prevent the facilitation of tax evasion (CCO), the Group's corporate major accident prevention policy (CMAPP) and modern slavery. The dashboard was presented at each Risk Management Committee meeting and annually to the Audit Committee as part of the year end control assessment. There were no material weaknesses identified;
– The Audit Committee confirms that its has complied with the provisions of the Competition and Markets Authority's Order for the 2021 financial year;
– the IT department continued safeguarding its end user estate through the roll out of critical system and security patches to ensure any outsider threats were made known and home workers were protected. Additional security controls were also implemented to protect against any malicious COVID-19 SPAM and phishing attempts;
– EY, the Group's internal auditor, delivered the annual internal audit plan which consisted of several risk areas identified from the risk register. Topics covered in 2021 included cyber security, the risk and assurance process, ESG and sustainability reporting and mergers and acquisitions process. The Group has been working through the year to implement the identified improvements; and
– to ensure awareness, understanding and compliance on important governance, regulatory and security topics, mandatory e-learning was also implemented across the Group, which included comprehensive modules on bribery and corruption, CMAPP, CRMS, human rights, modern slavery, cyber security, cyber fraud, and tax evasion.

The following describes the key elements of the Framework and the processes used by the Board during 2021 to review the effectiveness of the system and the approach to be taken in 2022.

1. Strategic Direction
The Company's strategy and business plan are proposed by the ExecCo and approved by the Board. The Chief Executive is responsible for managing the Company's business and implementing the Company's strategic objectives in consultation with the Board and ExecCo. The Chief Executive is also responsible for implementing the decisions of the Board and its committees and driving performance measured against the Company's KPIs.

2. Operating Management
The Company operates two regional units covering different countries and assets and with multiple partners on both an operated and a non-operated basis. The assets within each region are the principal focus for our regional managers, who are tasked with delivering the strategic objectives for their particular region,

Corporate Governance Statement continued

with a combination of operational and technical teams as well as functional departments providing support to each of the assets. The implementation of the Capricorn Operating Standards supports this process, providing assurance, standards and consistency in the delivery of our strategic objectives.

The Executive Directors continue to be supported by the ExecCo as well as by the MT and ELT. Further information on these teams and their remit can be found on page 89. There are also a number of functional department heads whose roles include providing expert input and challenge to the Company's work programmes, budgets and business plan; and supplying the Directors with full and accurate information with which to make statements on the adequacy of internal control.

The Company refreshes its business plan, work programme and budget on an annual basis in line with its overall strategy. These documents start at asset level before being consolidated at regional and Company levels. The business plan sets out detailed objectives and KPIs for each asset and supporting functional departments and is consolidated into the Company's strategic planning. After an iterative process, the annual business plan, work programme and associated budget are presented to the Board for approval.

The asset management teams then have the required authority to implement the business plan and to deliver the agreed work programmes within the approved budget and delegations of authority, and in accordance with the internal control framework.

3. Risk Management

The Board is responsible for maintaining sound risk management and internal control systems across the Capricorn Group. The Board must satisfy itself that the significant risks faced by the Group are being managed appropriately and that the system of risk management and internal control is sufficiently robust to respond to internal or external changes in the Group's business environment.

The Risk Management Committee (RMC) continues to be responsible for the development of risk management strategy and processes within the Company and for overseeing the implementation of the requirements of this strategy. It does this by ensuring that the framework for the identification, assessment, mitigation and reporting on all areas of risk is fit for purpose and that appropriate assurance arrangements are in place in relation to these risks to bring them within the Risk Appetite Statement approved by the Board.

To supplement the role of the RMC, the Group Risk Management Process defines the steps through which Capricorn seeks to systematically identify, analyse, assess, treat and monitor the business risks faced by the Group. The Group Risk Management Process also identifies the risk management organisational structure through which business risks are managed and regularly reviewed at operating, asset, country and Company levels. Asset-level, project-level, country-level and functional-level risk registers are used to capture, assess, monitor and review risks before the principal risks are consolidated into the Group risk register.

In 2021, risk management updates were presented at each Board meeting and as part of an annual process, the Board undertook a strategic risk workshop in December 2021 (see page 48).

The RMC, which meets on a quarterly basis, is currently chaired by the Chief Executive and comprises the Executive Directors and senior functional management. The internal auditor also attends RMC meetings, in order to ensure integration of the Group's internal audit plan with the risk management process. Regular MT risk sessions were also held during 2021 to manage and facilitate the assessment and treatment of business risks that may affect the Company's ability to deliver its strategy.

Enhancements to our approach to risk management during 2021 included the following:

– The MT formally conducted a review of the risks, mitigations and actions identified on the Group risk register each quarter to ensure ownership for the risks. Mitigations and actions were clearly assigned and implementation dates for actions were tracked; and
– The RMC reviewed a gross to net risk assessment of principal risks, in order to gain a deeper understanding of high impact risks and identify any areas where there is a reliance on controls and mitigating actions; and
– The rollout of the new risk management and incident management software solution continued throughout the year. The new solution is now fully embedded throughout the organisation and is being used to manage risks for all corporate, operational and project risks. The solution has facilitated improved reporting on all risks to the Group and has provided a more systematic process for the management of risks, controls and actions across the business.

The RMC reports on the Company's risk profile to both the Audit Committee and the Board. Additionally, the Audit Committee and the Board receive internal reviews of the effectiveness of internal controls relative to the key risks. The conclusion of the Board following these reviews during 2021 is that the internal controls in respect of key risks are effective.

4. Assurance

The 'three lines of defence' framework adopted by the Board provides three levels of assurance against the risks facing the Company: firstly at the operational level; secondly through overview by functional management and the RMC; and thirdly through internal or joint venture audits.

The integrated internal control and assurance framework document includes a description of the Company's business and assurance models and of its organisation and committee structure and defines the relevant roles and responsibilities. The framework defines the key policies and procedures which govern the way in which Capricorn conducts its business and is therefore a core part of its system of internal control.

During 2021, the Directors reviewed the effectiveness of the Company's system of financial and non-financial controls, including operational and compliance controls, risk management and high-level internal control arrangements through the completion of internal control self-assessment questionnaires. These questionnaires, which are tailored to each region or function, are designed to provide an internal assessment of the effectiveness of key controls for the Group's principal risks.

Additionally, assurance maps for principal risks are developed, which outline the key sources of assurance across the 'three lines of defence'. The 'three lines of defence model' is a method of assessing different sources of assurance the Group can rely on when analysing key risks and controls. Assurance is gained through the application of the business management system which directs the day-to-day running of the business (first line), the oversight functions within Capricorn which provide challenge to the risk and control environment (second line) and any third-party reviews the Group instructs to assess the status of a risk/control (third line). The assurance maps help identify potential areas of control weakness and/or ineffective use of assurance resources across the Group, which influenced the topics included in the 2021 Group internal audit plan.

The Directors derived assurance from the following internal and external controls during 2021:

– a schedule of matters specifically reserved for decision by the Board;
– implementation of the Capricorn Operating Standards for key business activities;
– an appropriate organisational culture and structure;
– control over non-operated joint venture activities through delegated representatives;
– specific delegations of authority for all financial transactions and other key technical and commercial decisions;
– segregation of duties where appropriate;
– business and financial reporting, including KPIs;
– functional management reviews;
– an annual 'letters of assurance' process, through which asset and functional managers review and confirm the adequacy of internal financial and non-financial controls and their compliance with Company policies, and report any control weaknesses identified in the past year and actions taken in respect of any weaknesses identified in the prior year;
– a 'letter of assurance' from the Chief Executive confirming the adequacy of internal controls within the Company in line with its policy, and reporting of any control weaknesses identified in the past year and actions taken in respect of any weaknesses identified in the prior year;
– an annual internal audit plan, which is approved by the Audit Committee and Board and is driven by risks and key controls;
– reports from the Audit Committee and RMC;
– reports from the external auditor on matters identified during its statutory audit;
– reports from audits by host Governments and co-venturers;
– independent third-party reviews; and
– the skills and experience of the workforce.

Nicoletta Giadrossi
Chair

8 March 2022

The Audit Committee

Keith Lough
Chair of the Audit Committee

Members and Meetings in 2021

	Member since	Meetings attended
Keith Lough (Chair)	05/14	
Catherine Krajicek	07/19	
Alison Wood	07/19	

While the Group's portfolio of assets has been refocused, the Audit Committee remain steadfast in ensuring that the Group's risk management process is robust and complete and that transactions completed during the year are recorded correctly and presented appropriately in the Group Financial Statements.

Dear Shareholder

The Audit Committee's primary responsibilities include the integrity of the Group's Financial Statements, the effectiveness of the Group's risk management and internal assurance processes and related governance and compliance matters.

Composition and Summary of Audit Committee Meetings During the Year
I served as Chair of the Audit Committee for the duration of the year, having been appointed Chair in 2018.

Serving with me on the Audit Committee during 2021 were two of my fellow Non-Executive Directors, Catherine Krajicek and Alison Wood. The members of the committee have been chosen to provide the wide range of financial and commercial experience needed to fulfil these duties. Alison and I are qualified accountants with recent and relevant financial experience. Catherine brings comprehensive industry knowledge. Alison and Catherine are considered by the Board to be independent.

During 2021, Nicoletta Giadrossi also attended meetings in her capacity as Chair of the Board but was not a member of the committee.

At our request, the CFO, the Chief Executive (in his capacity as executive responsible for internal audit) and senior members of the Finance department and Risk and Compliance department attend each meeting. Additionally, both internal and external auditors attend. I also met privately with the external audit partner to discuss matters relevant to the Group throughout the year.

The Audit Committee met four times in 2021, with meetings arranged around the key external reporting dates. The first meeting in March 2021 focused on the 2020 year end external audit process (reported in the 2020 Annual Report and Accounts). Meetings in June and September both centred on the Group's half year reporting and a December meeting focused on planning for the 2021 year end and external audit process and the internal auditors work programme for 2022. Subsequent to the year end, a further meeting was held in March 2022 to conclude on the 2021 audit and significant issues.

Responsibilities and Activities During the Year
The terms of reference of the committee take into account the requirements of the UK Corporate Governance Code and are available for inspection on the Group's website. A summary of the committee's principal responsibilities and activities during the year are set out below.

	Principal responsibilities of the committee	Activities during the year	Key areas formally discussed
Financial Statements	– Monitoring the integrity of the Financial Statements of the Group and formal announcements relating to the Group's financial performance; – reviewing any significant financial reporting judgements; and – reviewing the appropriateness of accounting policies, their consistent application and disclosures in financial statements.	– March 2021: 2020 Financial Statements approval (included in 2020 Annual Report and Accounts). – June 2021: Half year key accounting issues, estimates and assumptions. – September 2021: Approval of half year financial statements. – December 2021: Year end key accounting issues, estimates and assumptions. – March 2022: Approval of 2021 year end financial statements.	– Going concern conclusions and linkage to the viability statement; and – significant accounting issues at the half year and year end (see below);
External audit	– Overseeing the Group's relationship with the external auditors, including: • making recommendations to the Board as to the appointment or reappointment of the external auditor; • reviewing their terms of engagement and engagement for non-audit services; and • monitoring the external auditor's independence, objectivity and effectiveness.	– At each meeting the committee receives an updated report from the external auditors which either explains their plans and scope for the forthcoming audit or review or contains the conclusions from their work performed.	– Reviewing the external auditor's scope and audit plan for the 2021 year end; – discussing the materiality levels set by the auditor; – approval of the auditor's remuneration; – consideration of the results of the external audit with the auditor and management; and – assessment of the effectiveness of the external audit (see overleaf).
Internal risk management and assurance	– Reviewing the Group's internal financial controls and internal control and Risk Management systems and oversight of the Group's Risk Management Committee; and – monitoring and reviewing the effectiveness of the Group's internal audit function.	– At each meeting, the Audit Committee receives: • an update from management on the latest Risk and Assurance Committee meetings and risk management process; and • a report from the internal auditors, tracking the progress of internal audits and their output and recommendations. – In December, the Audit Committee agreed on the proposed programme of internal audits for 2022.	– Reviewing the Group's corporate and operational risk register; – reviewing reports on the activities of the Risk Management Committee; – selection of internal audit work planned for 2021 and consideration for future years; and – assessment of key findings raised from internal audits conducted in the year.
Whistleblowing procedures	– Reviewing the Group's whistleblowing procedures and ensuring that arrangements are in place for the proportionate and independent investigation of possible improprieties in respect of financial reporting and other matters and for appropriate follow-up action.	– The committee's annual review and approval of the Group's whistleblowing procedures was performed at the March 2022 meeting, incorporating updates for new branch locations in Egypt and Mauritania.	– Reviewing and approving of the Group's whistleblowing procedures.
Other matters	– Reviewing the Group's policy for approval of non-audit work to the Company's auditor; and – reviewing booking of Group reserves and resources.	– The committee's annual review and approval of the Group's policy for approval of non-audit work was undertaken at the December meeting.	– Review and approval of the Group policy for approval of non-audit work to the Company's auditor; and – classification of reserves and resources for disclosure in the Annual Report.

The review of the Annual Report and Accounts for fair, balanced and understandable presentation and disclosure, while considered by the Audit Committee, is formally performed and approved by the full Board.

The Audit Committee continued

Financial Statements

At each reporting date, the Audit Committee reviews the results for the relevant period and the key assets and liabilities in the Group balance sheet, focusing on the key estimates, assumptions and judgements that management has used in applying the relevant accounting standard.

The key issues identified at the December 2021 year end were the accounting for the sale of the Group's producing assets in the North Sea, accounting for the Egypt business combination, the impairment of intangible exploration/appraisal assets in Mexico and accounting for the India Tax Refund. As always, the assessment of the ability of the Group to continue to operate as a going concern and the viability statement is also considered by the Audit Committee.

2021 Year End Significant Accounting Issues:
Sale of Capricorn's Producing Assets in the UK North Sea

Capricorn announced that it had concluded the sale of its interests in the Catcher and Kraken producing assets to Waldorf in November 2021. The sale was announced by the Group in March 2021 with assets being reclassified as held-for-sale at that time which was reflected in the Group's half year financial statements where an impairment was recorded before recording a profit from discontinued operations in the full year results.

Audit Committee action	Audit Committee conclusions
The Audit Committee reviewed the initial accounting for the sale of the Group's interests of the Group's two UK producing assets at the half year in June and September 2021 and concluded on the accounting treatment for the sale of the assets on completion in November 2021. Key for the Audit Committee was ensuring that the value of the assets was correctly recorded, including the valuation of future earn-out consideration payable to the Group, mid-year impairment and the loss on disposal in the annual accounts was correctly computed and that presentation in the half year and year end financial statements was appropriate.	The Audit Committee reviewed the computations for the loss on disposal of the Group's UK producing assets. The committee focused on the accounting at the date the sale was announced, at the half-year reporting date and at the point the sale completed in November 2021. The committee concluded that the disclosures made by management were appropriate at each point in time. The committee also reviewed and agreed the appropriateness of the risk-weighting applied to market valuations for future earn-out consideration, confirming with the auditors that the recognition of this future income at the point of completion of the transaction was appropriate.

Business Combination: Acquisition of Egypt Western Desert Producing Assets

Capricorn completed the acquisition of exploration, development and producing assets in the Western Desert, Egypt from Shell in September 2021. The acquisition was determined to be a business combination.

Audit Committee action	Audit Committee conclusions
The Audit Committee reviewed managements calculation for the goodwill arising on completion of the transaction. The key assumptions for the accounting included Capricorn's fair value models used to determine the value of the assets on recognition in the Balance Sheet. The committee took time to understand those assumptions, including commodity pricing, cost assumptions, reserves and production forecasts and discount rates applied. The committee also reviewed the recognition of deferred tax liabilities required under IFRS 3 and the subsequent goodwill that arises. The committee challenged management as to the appropriateness of the cost assumptions used given ongoing discussions with the operator and sought explanations for the changes to valuations to incorporate increased inflation rates for costs forecast to be incurred in local currency.	The committee sought clarification on the Group's reserve and production forecast, understanding adjustments that had occurred since acquisition, and were updated on work performed to date by third-party reserve auditors engaged by the Company. The committee confirmed that the commodity prices used were appropriate and were satisfied that the assumptions provided a fair basis on which to value the assets acquired. The committee were satisfied that the inflation rates applied incorporated increase rates of inflation for local Egyptian costs. The committee agreed with managements' conclusion on the recognition of deferred tax liabilities (and non-recognition of potential deferred tax assets) and the goodwill computed on the acquisition.

Impairment of Intangible Exploration/Appraisal Asset

In Mexico, Capricorn completed the farm-in/farm-down with ENI swapping a 15% interest in Block 9 for a 15% interest in Block 10. After completion, the Saasken-2 appraisal well was drilled on Block 10, but the unsuccessful well also resulted in an impairment of remaining exploration/appraisal costs capitalised in Block 9.

Audit Committee action	Audit Committee conclusions
The Audit Committee noted the impairment charge if the year of US$19.6m recorded in the year and sought explanation from management as to the indicator that led to the impairment and the arising charge.	The committee concluded that the impairment charge had been appropriately recorded and understood managements' reasoning for recording as an impairment rather than unsuccessful write-off, with no current plans to relinquish the licence.
The committee challenged management of the remaining costs held on Block 10 following the unsuccessful appraisal well.	The committee agreed with managements conclusion for retaining the remaining costs on Block 10 associated with the original Saasken discovery.

Accounting for the Tax Refund Following the Award Under the Indian Tax Arbitration

In November 2021, Capricorn announced that it had entered into undertakings with the Government of India in order to participate in the scheme introduced by Indian legislation allowing the refund of taxes previously collected from the Group in India.

Audit Committee action	Audit Committee conclusions
The Audit Committee challenged management on the treatment of India Tax Refund and subsequent receipt of cash from India and its recognition in the Income Statement and Balance Sheet for and at the year end. The committee sought explanations from management as to the presentation of the exceptional income included in profit before tax, rather than a tax refund through the tax line.	The committee concluded that the income had been correctly recognised and recorded in the financial statements for the year ending 31 December 2021 and had been disclosed appropriately. The committee also noted the exchange rates used to record the initial recognition and subsequent exchange loss disclosed as a non-adjusting post balance sheet event.

Going Concern and Viability

At each reporting date, management considers the factors relevant to support a statement of going concern included in note 12 to the Financial Statements. The Audit Committee reviews and challenges management's conclusions so that we may, in turn, provide comfort to the Board that management's assessment has been considered, challenged and is appropriate.

The Audit Committee carefully reviewed management's going concern conclusion based on the Group's latest cash and debt position. Downside case assumptions were reviewed, run with sustained low oil prices, reduced production, cost increases and a reduction in available finance and default by joint venture partners. In all cases, the Group retained a significant funding surplus. This confirmed that the Group is fully funded to meet its work programme and firm commitments over the period of 12 months from the date of signing the Financial Statements. The Audit Committee subsequently recommended to the Board that the Group continue to use the going concern basis in preparing its Financial Statements.

The committee also reviews and challenges management on the sensitivity analysis performed to support the Group's viability statement, included in the Strategic Report on page 47. The viability statement review included assessing both the operational risks identified by management, including reserve downgrades and major emergency incidents and corporate risks identified, including volatile oil prices, failure to deliver the net zero 2040 roadmap, a failure to expand the production base and a failure to deliver exploration success. Following this challenge, the committee recommended approval of the viability statement to the Board.

External Audit

The current version of the UK Corporate Governance Code states that FTSE 350 companies should put the external audit contract out to tender at least every 10 years. Capricorn complied with this provision before it came into force and completed an external audit retendering process in 2013. PwC were subsequently appointed as external auditors of the Group, on the recommendation of the Audit Committee at that time. The 2021 year end audit therefore represents the ninth year of PwC's tenure as Group auditors. Capricorn will retender for the role of Group auditors during 2022 for appointment of the new auditors (or reappointment of PwC) at the AGM in 2023. This complies with the Competition and Markets Authority 2014 Order requiring a mandatory tender after 10 years.

As noted in last year's report, Bruce Collins replaced Lindsay Gardiner as PwC's lead audit partner on the Capricorn engagement following approval of the 2021 Annual Report and Accounts. Bruce, was previously Director on the Capricorn audit engagement between 2013 and 2015 but was not involved in the Capricorn audit between 2015 and 2020 and is therefore is not precluded from accepting the role of lead audit partner.

Assessment of External Audit Process

The committee has an established framework to assess the effectiveness of the external audit process. This comprises:

Audit Committee action	Audit Committee conclusion
An assessment of the independence of the auditors.	The Audit Committee consider PwC to be independent.
A review of the audit plan including the materiality level set by the auditors and the process they have adopted to identify Financial Statement risks and key areas of audit focus summarised in the Independent Auditors Report on pages 146 to 151.	The committee accepted the level of materiality set by the auditors.
A review of the Audit Quality Inspection ('AQI') report on our auditor, published by the FRC with particular emphasis on any key messages applicable to Capricorn.	There were no matters raised in the AQI report that caused concern for the Audit Committee.
A review of the final audit report, noting key areas of auditor judgement and the reasoning behind the conclusions reached.	The Audit Committee reviewed findings on the key audit issues identified. The committee was satisfied that appropriate challenge had been made of management and that the audit process was robust.
Regular communications through formal Papers submitted and presentations to the committee, including a review by the committee of the extent to which the auditors have challenged management.	The audit plan for the year ending 31 December 2021 was presented to the Audit Committee in September 2021 and is summarised in the Independent Auditor's Report on pages 146 to 151. Audit findings on significant matters are presented to the committee, together with the work performed by the auditors to challenge management's key estimates and assumptions.
Separate meetings between myself as Chair of the Audit Committee and the lead audit engagement partner.	Separate meetings were held in advance of all committee meetings during the year.
A formal questionnaire issued to all Audit Committee members and Capricorn senior management who are involved in the audit covering the robustness of the audit process, the quality of delivery, the quality of reporting, and the quality of the auditor's people and service.	No matters of significance were reported.

The Audit Committee continued

Of particular focus for the committee is the assessment of the judgement applied by PwC during each stage of the audit process including setting audit materiality, identifying the risks to the Financial Statements, evaluating audit findings and communicating those areas of judgement to the committee.

The Audit Committee noted the level of planned materiality and agreed on the levels of misstatements to be reported to the committee. The final audit report was presented to the Audit Committee in March 2022. The committee agreed with the conclusions reached by the auditors, noting the degree of judgement around areas of significant audit risk.

The significant accounting issues identified by the Audit Committee were included in the significant matters identified by the external auditors in their audit plan. There were no other specific areas that the Audit Committee requested the auditors to look at.

At the end of each annual reporting cycle, the Audit Committee reflect on the quality of the audit provided by the auditors. At each Audit Committee meeting, the auditor presents an update on their progress and, where appropriate, conclusions on their half year review and full year audit and how the audit has been conducted in relation to the plan presented to the Audit Committee, with the committee able to challenge the audit at any point. Following conclusion of the 2020 year end audit, the committee discussed the quality of the audit service provided, using the questionnaire responses as a basis for the discussion. Although there were no significant matters reported and the Audit Committee did conclude that the auditors had delivered an audit of appropriate quality, the committee believed that improvements to the audit process could be made, and this was communicated to the new engagement partner in our subsequent separate meetings.

Although the formal assessment of the 2021 audit has yet to be formally undertaken, provisional discussions held at the March 2022 Committee meeting did not identify any matter where the Audit Committee believed that the quality of the audit had regressed from previous years. The committee were satisfied that the process had improved over the 2020 year end audit.

Internal Risk Management and Assurance

The Audit Committee reviews the Group's principal risks at each meeting. The Group Risk Management Committee meet in advance of the Audit Committee and minutes are reviewed by the Audit Committee and follow up queries addressed with management. The Group's risk management project plan is also presented with the Audit Committee closely monitoring the close out of recommendations raised during completed internal audits, as well as noting progress of ongoing audits and plans for future audits, ensuring they remain on schedule. The Audit Committee also complete an annual review of managements formal internal controls assessment.

The Group's principal risk dashboard is updated in advance of every meeting and changes to operational and corporate risks noted and discussed. The Audit Committee will challenge management on the classification of risks where further clarification is sought on either the assessment of the likelihood of a risk materialising or its estimated financial impact. During the current period, risks were reviewed against a backdrop of volatile commodity prices and the ongoing COVID-19 pandemic, together with the risks associated with the integration of the Egyptian business into the Group.

Internal Audit

Following a competitive tender process, Ernst & Young LLP ('EY') was appointed as the Group's internal auditor with effect from July 2013. EY will continue in the role of internal auditor for at least the year ending 31 December 2022 and will therefore be excluded from the planned tender process for the Group's external audit.

Prior to the beginning of each year, an internal audit plan is developed by the internal auditors, in consultation with senior management, based on a review of the outcome of the previous year's internal audits, the outcome of the annual assessment of effectiveness of internal control (refer to pages 146 to 151), the results of historical audits of fundamental business processes and the significant risks in the Group Risk Matrix and identified mitigation measures. The plan is then presented to the Audit Committee for review and approval. The internal auditors also participate in meetings of the Group Risk Management Committee to maintain an understanding of the business activities and associated risks and to update the Group Risk Management Committee on the internal audit work plan. The Audit Committee also receives updates on the internal audit work plan on an ongoing basis. The external auditor does not place any reliance on the work undertaken by the Group's internal audit function due to the nature of the scope and the timing of their work. The external auditor does however, attend all Committee meetings where internal audit updates are given and meets separately with the internal auditor and the Audit Committee Chair to discuss areas of common focus in developing their audit plan.

During 2021, the Group's internal auditors conducted audits on cyber security, risk management and assurance, ESG reporting and the Group's project delivery process for mergers and acquisitions. No high risk findings were identified across the audits conducted.

Working Responsibly – Whistleblowing and Related Policies

The Group is committed to working responsibly as part of its strategy to deliver value for all stakeholders. This means delivering value in a safe, secure, environmentally and socially responsible manner.

As part of this, the Audit Committee is responsible for ensuring the Group has a robust Whistleblowing Policy in place and this policy is reviewed annually by the committee. The Group's current version of the policy was first presented to, and approved by, the Audit Committee at the March 2018 meeting and most recently re-approved at the March 2022 meeting.

The committee is also responsible for and is satisfied that arrangements are in place for the proportionate and independent investigation of possible improprieties in respect of financial reporting and other matters and for appropriate follow-up action.

The Group has in place a comprehensive anti-bribery and corruption management system and Code of Ethics. Regular training updates are provided to all employees and long-term contractors in addition to the training that is provided to all new staff joining the Company. As Capricorn enters new countries, monitoring is undertaken, and training is refreshed. Further information regarding these policies can be found on the Group's website.

Other Matters:

Provision of Non-Audit Services

We have a long-established policy in relation to the supply of non-audit services by the external auditor. The Group will engage an external adviser to provide non-audit services on the basis of the skills and experience required for the work, where benefit will be derived as a result of the third party's knowledge of the Group and at a reasonable cost. These advisers may include the Group's external auditor, under a restricted set of circumstances, although, before the engagement commences, the Audit Committee must be satisfied that the auditor's objectivity and independence would not be compromised in any way as a result of being instructed to carry out those services.

The policy on approval of non-audit fees for the Group's auditor is re-approved annually. All non-audit fees should be approved by the Audit Committee in advance of the engagement with a practical workaround of only seeking approval from the committee Chair, rather than seeking full committee approval, in advance for fees below an approved threshold of £100,000. This approval will then be ratified at the next meeting of the committee.

The policy is available online on the Group's website.

PwC provided other services during the year including certification of the Group's EITI submission in Senegal and non-statutory audits of the Group's timewriting recharges to operated assets.

A full analysis of remuneration paid to the Group's external auditor in respect of both audit and non-audit work is provided in note 7.5 to the Financial Statements.

Board and Committee Performance Evaluation

The Board retains overall responsibility for implementation of its annual performance evaluation and the process and outcomes of the 2021 externally conducted evaluation are described in the Corporate Governance Statement on pages 86 to 87. The process included a review of all Board committees and it was concluded that the relationship between the Board and its committees is functioning well, with all committees fully meeting their remit. The Audit Committee works together with the Board in seeking to address any performance evaluation outcomes relating to the work of the committee.

K G Lough

Keith Lough
Chair of the Audit Committee

8 March 2022

Nomination Committee Report

Nicoletta Giadrossi
Chair of the Nomination Committee

Members and Meetings in 2021

	Member since	Meetings attended
Nicoletta Giadrossi (Chair)	05/18	
Keith Lough	05/15	
Peter Kallos	09/15	
Simon Thomson	03/13	

Dear Shareholder

Role and Membership of the Committee
Capricorn's Nomination Committee, alongside the Board, plays a key role in ensuring that the composition of the Board is aligned with the Company's values, culture and strategy and that the Board has in its membership what is required to provide appropriate challenge and effective leadership for the business. To maintain the correct balance of skills and representation, Board succession planning is fundamental for the ongoing success of the Company and is a key focus of the Nomination Committee.

The membership of the committee during 2021 is set out in the table below and comprises a majority of independent Non-Executive Directors. The Chief Executive is also a member of the committee. With effect from 3 March 2022, the remit of the committee was expanded to include a greater focus on governance. In addition, and from the same date, independent Non-Executive Director, Catherine Krajicek, became an additional member of the newly-named Nomination and Governance Committee.

During 2021, the role of the Nomination Committee included:
- reviewing and evaluating the structure, size and composition (including the balance of skills, knowledge, experience and diversity) of the Board;
- giving full consideration to succession planning for Directors and other senior executives, ensuring plans are in place for orderly succession and taking into account the Company's strategy and the challenges and opportunities that it faces;
- overseeing the development of a diverse pipeline for succession; and
- ensuring that appointments made to the Board promote diversity of gender, social and ethnic backgrounds.

Following the decision to expand its remit, from March 2022, the Nomination and Governance Committee's role also includes:

- monitoring the operation of the UK Corporate Governance Code and its implementation and compliance by the Company;
- reviewing developments in corporate governance and advising the Board with respect to developments in the law and practice of corporate governance; and
- reviewing and approving changes to the Board's corporate governance practices and policies.

Board Changes
Whilst the Board membership was diverse in terms of the range of nationalities, culture and international experience represented, as a result of its ongoing review and evaluation of the composition of the Board during the year, the Nomination Committee recognised that the Board would benefit from further enhancing the diversity of its membership and commenced a search for an additional Non-Executive Director. On 22 February 2022, following a process assisted by Ridgeway Advisors, the Company announced the appointment of Luis Araujo as a Non-Executive Director with effect from 11 May 2022. With many years' experience working in Brazil and other countries, Luis will bring excellent emerging market insights to the Board, in addition to his other areas of expertise, including in relation to energy transition issues.

Chair Succession
On 1 January 2021, I took on the role of Chair, following a thorough and comprehensive succession process led by one of the Company's independent Non-Executive Directors. As disclosed in the Corporate Governance Statement on pages 84 to 95, the composition of the various Board Committees was refreshed with effect from 1 January 2021 in line with Code recommendations.

Succession Planning and Development of Executive Talent
In 2017, the Parker Review on ethnic diversity of UK Boards was published, with the target that no member company of the FTSE 250 lack a person of colour as a director on its board by 2024. The Board, and the Nomination Committee, recognised that ethnic diversity, and the benefits it brings, was missing amongst the Company's Board membership. In Q4 2021, we commenced a search for a new Non-Executive Director. As noted above, the Company instructed recruitment consultants, Ridgeway, in connection with this appointment. Apart from providing prior recruitment advice, Ridgway has no other connection with the Company or any of its individual Directors. The Board was therefore pleased to announce that its diversity will be deepened from May 2022 upon the appointment of Luis Araujo, who has South American heritage and citizenship in Brazil, Portugal and the UK. I am delighted that Luis is joining our Board. His skills and experience will bring a further level of challenge and new and diverse perspective to the Board.

On a regular basis, the Nomination Committee evaluates the combination of skills, experience, independence and knowledge of the Company whilst considering the length of service of members of the Board. Recommendations in terms of director membership are made to the Board accordingly. Diversity is an important principle of a well-functioning Board and encompasses multiple aspects including gender diversity, social and ethnic diversity, cognitive diversity to ensure the avoidance of groupthink, and personal strengths and experience. All appointments are made on merit and objective criteria, promoting the diversity principles.

Working together, the Board and Nomination Committee maintain a comprehensive succession plan for appointments to the Board ensuring there is an appropriate balance of skills and experience that continues to align with our strategic aims.

The Company's talent management strategy, for positions both on and out with the Board, continues to focus on growing talent through a number of measures including active succession planning and mentoring, programmes designed to aid leadership and management development; and annual objective and development plan setting.

The Company's succession planning also includes contingency plans for the sudden or unexpected departure of Executive Directors (including the Chief Executive) and other senior roles, which are reviewed by the Board.

Following the acquisition of the assets in Egypt and the sale of the UK Catcher and Kraken interests in 2021, a recruitment and reorganisation campaign was undertaken to ensure that the organisation was best set-up to support the new asset base and ensure successful implementation of the Company's strategy. Details of this recruitment and reorganisation were shared with the Board.

The Board has a deep understanding of the Company's talent management and succession planning, receiving regular updates from the Group HR Manager, as well as knowledge of the range of measures being used to continue to develop and recruit talented senior employees.

During 2021, our mentor programme, which commenced in May 2019, continued to provide invaluable support to colleagues whose ambitions are to grow and develop into senior roles within the business. With the initial cohort having had two years' of mentoring from senior management and Non-Executive Directors, a further group of individuals were identified as employees who would benefit from the mentoring programme and they started the programme in the middle of the year. These colleagues have been partnered with non-executive Board members as well as senior managers to gain knowledge and strategic understanding from their experience in these areas.

Diversity
As noted, the Nomination Committee very much values the benefits of building a diverse Board, not just in terms of gender and social and ethnic background, but also to promote diversity of cognitive and personal strengths. Following the retirement of Ian Tyler as Chair and my taking the position with effect from 1 January 2021, women represent 37.5% of the Board membership (being three women out of eight members). Following the appointment of Luis Araujo in May 2022, this percentage will be 33%. The Directors' range of knowledge and practice covers not only a wealth of experience of operating in the oil and gas industry but also extensive technical, operational, financial, governance, legal and commercial expertise. The Board remains diverse in terms of the range of nationalities, culture and international experience of its members but, as previously noted, recognised that it fell short in terms of ethnic diversity and the ambitions of the Parker Review. The committee will continue to monitor and consider diversity for all future Board appointments, whilst also continuing to recruit on merit.

At levels below the Board, we continue to think more broadly than gender diversity in all areas of our work, taking into account diversity in many dimensions. Our diversity and inclusion strategy aims to nurture an inclusive and sustainable culture, where differences are encouraged, embraced and recognised as key drivers of value to all our stakeholders. A diverse and inclusive culture, where everyone can uniquely contribute and thrive and which values and encourages individual differences is nurtured throughout Capricorn. The Board and Executive Committee are committed to ensuring such a culture is embedded in the organisation.

As noted in last year's Annual Report, following the internal reorganisation that took place in 2020, the Board decided to replace the Senior Leadership Team with a smaller, more focused Executive Committee comprising the two Executive Directors, the Chief Operating Officer and the Director of Exploration. This change took effect from 1 December 2020 and as such there are currently no women on the small Executive Team. There are a number of standing agenda items that encourage attendance from other employees in the organisation, many of whom are female. We are pleased that, at 31 December 2021, the number of female direct reports to the Executive Committee has increased significantly since the same time last year with six female direct reports to the Executive Committee and 14 male (2020: one female, 19 male). Of the value creating, enabling and protecting roles identified in our talent management programme, 26% of the talent pool are female. The gender split of our management population is two-thirds male to one-third female and looking at our broader talent pool, the gender diversity of our employee population is 47% female and 53% male.

Nomination Committee Report continued

As noted in the strategic review section of this report (pages 2 to 75), the Company has developed and shared with staff our strategic framework which is designed to cultivate D&I across the business. In recognition of our current diversity challenges within our management and executive populations, the first initiative, launched in 2021, was our Shadow4Success programme. The pilot programme aims to provide an opportunity for under-represented groups to gain a better understanding of how our Executive Team operates, with the intention of increasing the diversity of applications for more senior roles in Capricorn.

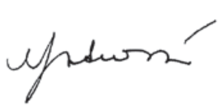
The Company has continued to participate fully in the annual submission of gender performance data as part of the FTSE Women Leaders Review (formerly the Davies Review and the Hampton-Alexander Review) aimed at improving the representation of women in leadership positions in the FTSE 350. The FTSE Women Leaders Review published in February 2022 noted our increased percentage of female direct reports to the Executive Committee but highlighted that this committee was all-male.

The Board and Nomination and Governance Committee, alongside the Capricorn organisation, will continue to promote diversity in its widest possible sense. Our strategies, polices and practices encourage this and seek to ensure the potential of our team can be met, driving the success of the individuals within it and the business as a whole.

Changes to the Committee Since Year-End
From 3 March this year, the committee has expanded its remit to include governance in a broader sense. Whilst corporate governance is a key consideration at all times for the Board, including governance within the committee's responsibilities demonstrates the commitment of Capricorn to good and responsible governance.

Board and Committee Performance Evaluation
The Board is committed to annual evaluations of its performance in order to assess and improve its effectiveness on an ongoing basis, with the individual Directors also evaluated to determine whether each director continues to contribute effectively. In line with the UK Corporate Governance Code, which provides that FTSE 350 companies should have an externally facilitated board evaluation process at least every three years, the Board appointed Gould Consulting to facilitate the 2021 Board performance evaluation (previous externally facilitated evaluations took place in 2018, 2015 and 2012, with internally run evaluations conducted in the intervening years). Gould Consulting had no prior connection to the Board or its Directors.

The Board retains overall responsibility for implementation of its annual performance evaluation and the process and outcomes of the 2021 externally conducted evaluation are described in the Corporate Governance Statement on pages 86 and 87. The process included a review of all Board committees and it was concluded that the relationship between the Board and its committees is functioning well, with all committees fully meeting their remit. The Nomination and Governance Committee works together with the Board in seeking to address any performance evaluation outcomes relating to Board composition and succession planning.



Nicoletta Giadrossi
Chair of the Nomination Committee

8 March 2022

Alison Wood
Chair of the Remuneration Committee

Members and Meetings in 2021

	Member since	Meetings attended
Alison Wood (Chair)	01/21	
Erik B. Daugbjerg	01/21	
Nicoletta Giadrossi	01/17	
Peter Kallos	09/15	

Part 1 – Annual Statement from the Chair of the Committee

Dear Shareholder

As the Chair of Capricorn's Remuneration Committee, I am pleased to present our Directors' Remuneration Report for 2021, a period during which we continued to apply the executive remuneration policy that was strongly supported at the 2020 AGM.

The committee remains of the view that this policy is still fit for purpose and it will, therefore, continue to be applied during 2022. As a result, shareholders will not be asked to approve a new Directors' Remuneration Policy until the expiry of the current policy at the AGM in 2023. However, for ease of reference, the substantive provisions of the existing policy are repeated in Part 3 of this report.

Part 2 of this report contains this year's Annual Report on Remuneration and explains how the provisions of the above policy were actually applied in 2021 and how they will be operated in 2022. The Annual Report on Remuneration will be subject to an advisory vote to be held at the AGM on 11 May 2022.

Shareholder Engagement Following the 2021 AGM

The committee was disappointed that the 2020 Annual Report on Remuneration received a 34.87% vote against at the 2021 AGM. Prior to the 2021 meeting, and in the months that followed, the committee sought to engage with our largest shareholders to understand their concerns. The conclusions reached from this consultation exercise (details of which were included in an update statement published on our website in November 2021) were that a number of shareholders and/or their proxy advisers:

- would like to see more detailed disclosure of the KPIs used in the annual bonus scheme (including, where possible, specific target ranges and payment scales);
- would welcome a more comprehensive explanation of the alignment between company performance and bonus outcomes; and
- would, in circumstances where the committee is considering exercising any discretion in relation to the Company's various incentive arrangements, prefer to be notified at the time the decision is made.

The committee wishes to thank those shareholders who engaged in the above exercise. We will continue to improve the transparency of our bonus scheme disclosures (while at the same time taking into account the Board's concerns around commercial sensitivity). In this report, we have also sought to provide greater clarity on the way in which the scheme is aligned to the interests of shareholders. The committee will continue to engage with investors on an ongoing basis to make sure their views are reflected appropriately in the committee's decisions.

Summary of 2021 Business Context and Key Remuneration Decisions

The work of the committee in 2021 was conducted against a backdrop of a year in which the Company progressed its key strategic initiatives, including portfolio management and retaining a resilient balance sheet, whilst striving to deliver value in a safe, sustainable, environmentally and socially responsible manner for all of our stakeholders. Particular highlights included the following:

- successful resolution of the Indian tax matter, with funds of ~US$1.06bn refunded to the Group in February 2022 and a proposed subsequent return to shareholders of up to US$700m announced;
- in March 2021, the Company announced the acquisition of a portfolio of upstream oil and gas production, development and exploration interests in Egypt and the sale of its declining production assets in the UK Catcher and Kraken fields, transactions which completed in September and November 2021 respectively; and
- following receipt of the necessary approvals at a General Meeting held on 8 January 2021, Capricorn successfully returned to shareholders approximately US$250 million from the proceeds of the sale to Woodside of all the Group's interests in Senegal.

Against this background, the key remuneration-related decisions made by the committee in 2021 are described in more detail in the Annual Report on Remuneration contained on pages 109 to 129 and can be summarised as follows:

- **Base salary increases**
  In accordance with its normal practice, the base salaries of the Company's Executive Directors (being Simon Thomson and James Smith) were reviewed by the committee at its meeting in December 2021 and it was agreed that an increase of 3% would be applied to both individuals with effect from 1 January 2022.

  The above increase was consistent with the level of standard annual salary increase awarded to other employees at that time.

- **2021 annual bonus – overview and purpose**
  Capricorn's annual bonus arrangements are based on a balanced scorecard of measures directly aligned with our Group KPIs. These are, in turn, derived from the Company's overall strategy of creating, adding and delivering value for stakeholders by reinvesting cash flow from producing assets into value accretive exploration, appraisal, development and production assets which can be monetised at different stages of the life cycle in order to optimise the portfolio and create the opportunity for significant returns of value to be made to shareholders.

  In order to deliver this strategy, we maintain a balance sheet that is resilient to price shocks and volatility and invest to target resources that can be competitive and relevant through the energy transition. The goals that we set for the bonus scheme directly reflect these objectives and relate to:
  - maintaining a licence to operate;
  - delivering a sustainable business;
  - delivering exploration success;
  - production performance; and
  - balance sheet management.

  Like many similarly sized companies in our sector, our KPIs (and, therefore, our bonus arrangements) focus on a broad range of strategic measures that support our ability to create long-term superior shareholder returns, with short-term financial objectives forming a much less significant element of how we create value for our shareholders. This approach is, in part, driven by the fact that the financial results in any one year may be materially impacted by exploration/appraisal asset write-offs and may include costs associated with activity undertaken in several prior accounting periods. As a result, year-on-year financial results can be highly volatile and may not necessarily reflect activities undertaken in that period or long-term shareholder interests.

  Inevitably, the above balance between strategic and financial goals can lead to situations where the bonus outturn for a particular year appears at odds with a narrow analysis of the pure financial performance delivered during that time. The committee does, however, review each year's bonus awards to make sure they are appropriately reflective of the performance of the Company as a whole and fairly reward the achievements that will best drive shareholder returns in the longer term. The committee has a track record of exercising its discretion to reduce award levels where deemed appropriate.

- **2021 annual bonus – structure and outturn**
  The overall structure of the Executive Directors' bonus scheme for 2021 was unchanged from the prior year with the whole of the individuals' opportunity being dependent on the achievement of Group KPIs.

  Based on an assessment of the extent to which the relevant targets were achieved, awards made under the annual bonus scheme to the Executive Directors during the year (as a percentage of annual salary) were 75.63% for both Simon Thomson and James Smith. In accordance with its normal practice noted above, these award levels were reviewed by the committee in the context of the Company's overall performance during the year and it was concluded that resolution of the long-standing Indian tax dispute; high levels of achievement in respect of HSSE and ESG targets; and maintenance of a resilient balance sheet warranted good award levels in these areas. As detailed further on pages 114 to 119, scoring was significantly lower in the exploration and corporate projects categories.

  Under the Company's current approved remuneration policy, any part of an Executive Directors' bonus that is in excess of 100% of the individual's base salary for the relevant year is deferred into Capricorn shares for three years. Given that this threshold was not reached by the above bonuses, they were paid out wholly in cash.

  Further details of the way in which these awards were determined and paid are set out on pages 114 to 119 of the Annual Report on Remuneration.

- **Long-Term Incentive Plan (LTIP) – partial vesting of 2018 awards**
  The performance period applicable to the LTIP awards granted in 2018 came to an end during 2021. Over this period, the Company's Total Shareholder Return was sufficient to place it between the fourth and fifth positions in a group of 15 comparator companies with the result that:
  - the 'core' elements of these awards vested in respect of 84.6% of the shares over which they were granted; and
  - no part of the 'kicker' elements of these awards vested and they lapsed in full.

  As part of the above vesting process, the LTIP's rules required the committee to review the Company's overall performance over the three years from the grant of the awards. After due and careful consideration, the committee concluded that there had been a sustained improvement in such overall performance during that time.

  The vested awards held by the Executive Directors are subject to a further two-year holding period during which they cannot normally be exercised and any shares that are ultimately acquired by them will constitute 'relevant shares' for the purposes of the post-employment shareholding requirement described on page 136.

- **LTIP – grant of 2021 awards**
  During 2021, the committee made the fifth annual grant under the Company's LTIP that was adopted at the 2017 AGM. Given that the COVID-19 related market uncertainty that had existed in 2020 (and which had led to the application of a reduction to the quantum of LTIP awards made in that year) no longer existed, the committee was of the view that there should be a return to the Company's standard approach. As a consequence, the Executive Directors' 2021 awards had a face value equal to the 2.5 x base salary level envisaged by the policy.

  Further details of the awards made to Executive Directors in 2021 are set out in the Annual Report on Remuneration.

- **Non-Executive Directors' fees and Chair's fee**
  During 2021, the committee reviewed the Chair's fees in the context of market and inflationary data and the time commitment of the role. Following this review, it was decided that the fee should be increased by 3% from £180,000 to £185,400, effective 1 January 2022.

Directors' Remuneration Report continued

The fees paid to Non-Executive Directors were also reviewed during the year by the Board (excluding the Non-Executive Directors). Following this review, it was determined that, with effect from 1 January 2022, the basic annual fee would also be increased by 3% from £75,500 to £77,765. No change was made to the additional fee payable for chairing the audit and/or remuneration committees.

– **Other decisions made, and discretions exercised, by the committee during 2021**
The only substantive discretions exercised by the committee during 2021 related to the operation of the Company's various share-based incentive schemes. In particular, the committee:
  - exercised its discretion to disapply 'dividend equivalent' rights attaching to 2017 LTIP awards in relation to the special dividend paid as part of the return of cash that was approved by shareholders in the early part of the year – further details around this issue were provided in last year's Directors' Remuneration Report;
  - decided to give participants in the Company's Share Incentive Plan (SIP) the ability, if they so wished, to reinvest the above noted special dividend that was paid in respect of their plan holding in further 'dividend shares'; and
  - made various decisions in relation to the treatment of a small number of leavers (none of whom were Executive Directors).

As disclosed at the time, in November 2021, the committee permitted James Smith to sell a proportion of his shareholding in the Company so he could manage his personal arrangements given the then anticipated special dividend arising from the receipt of the Indian tax refund. As a result of this disposal, Mr Smith's interest in the Company fell temporarily below the requirements of the 'in service' element of Capricorn's shareholding guidelines for Executive Directors but remained significant at approximately 122% of salary immediately following the disposal. Although his holding remained below the required level as at 31 December 2021, it is considered likely (based on current projections) that the vesting of his LTIP award originally granted on 13 March 2019 (which is scheduled to occur in mid-March 2022) will result in him once again being fully in compliance with the above requirements. To the extent that this does not prove to be the case, it is envisaged that, within a year of completion of the return of value (and in fulfilment of undertakings given at the time he originally received the permission), Mr Smith will take the steps necessary to ensure that he is once again in compliance with the director shareholding requirements. Further details surrounding this issue are set out on page 125 of the Annual Report on Remuneration.

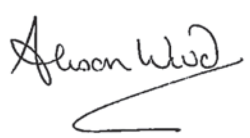
– **Consideration of remuneration arrangements for the wider workforce during 2021**
In accordance with the terms of the Company's approved remuneration policy, the committee regularly reviewed the remuneration levels and incentive arrangements for employees below senior management level.

During the year, members of staff were also given the opportunity to raise issues on a variety of matters, including executive pay, via a number of mechanisms, including the Company's Employee Voice Forum which, throughout 2021, was chaired by Peter Kallos, who is a member of the committee.

Each of the committee's decisions described above was made in the context of the requirements of the 2018 UK Corporate Governance Code and, in particular, after considering the various factors set out in its Provision 40. For example, the committee's ongoing commitment to improve the level of disclosures around the annual bonus scheme is intended to enhance transparency and promote effective engagement with shareholders and the workforce. Similarly, the decision to disapply LTIP 'dividend equivalent' rights in connection with the return of cash reflected a desire to mitigate reputational and other risks from excessive rewards. The committee was satisfied that, during 2021, the approved remuneration policy operated as intended and delivered outcomes that fairly reflected the resilient nature of the business and its achievements over the year.

Applying the Policy in 2022
An overview of the way in which the current remuneration policy will be applied in 2022 is set out on pages 127 to 129 in the Annual Report on Remuneration. In summary:
- on 1 January 2022, the above noted increases to the base salaries of the Chief Executive and CFO came into effect;
- the Group KPI measures used for the annual bonus scheme (and their respective weightings and payment scales) have been reformulated for 2022 in order to ensure consistency with the Company's strategic priorities for the period. In particular, the selected KPIs reflect the Company's ongoing but increased focus on its business within the energy transition whilst delivering value for our shareholders. They also encourage delivery of a unique value proposition that is supported by financial management that is both resilient and responsible; and
- no material changes have been made to the manner in which the LTIP will operate in 2022.

Feedback on Directors' Remuneration Report
We welcome questions and feedback from all those interested on both the content and style of this report. We also look forward to receiving your support for the Directors' Remuneration Report at the AGM to be held on 11 May 2022.



Alison Wood
Remuneration Committee Chair

8 March 2022

Part 2 – Annual Report on Remuneration

Introduction
This Annual Report on Remuneration provides details of the way in which the committee operated during the financial year to 31 December 2021 and explains how Capricorn's approved Directors' Remuneration Policy that is described on pages 130 to 139 was implemented during that period. It also summarises how that policy will be applied in 2022.

In accordance with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) (the "Regulations"), this part of the report will be subject to an advisory vote at the 2022 AGM.

The Company's auditor is required to report to Capricorn's shareholders on the 'auditable parts' of this Annual Report on Remuneration (which have been highlighted as such below) and to state whether, in their opinion, those parts have been properly prepared in accordance with the Regulations and the Companies Act 2006.

On the basis that Capricorn has fewer than 250 UK employees, the Company is not required to publish or report its gender pay gap information.

Operation of the Remuneration Committee During 2021
Members of the Remuneration Committee
The members of the Remuneration Committee during the year were as follows:
- Alison Wood (joined the committee and became its Chair on 1 January 2021);
- Nicoletta Giadrossi (ceased to be Chair of the committee on 1 January 2021);
- Peter Kallos; and
- Erik B. Daugbjerg (joined the committee on 1 January 2021).

The individuals who served on the committee, each of whom is an independent Non-Executive Director of the Company, had no personal financial interest (other than as shareholders) in the matters decided, no potential conflicts of interest from cross-directorships and no day-to-day involvement in running the business. Prior to her appointment as Chair in January 2021, Alison Wood had served on the remuneration committees of other listed companies for more than 12 months.

Biographical information on the individuals who were committee members as at 31 December 2021 is shown on page 79 and details of attendance at the committee's meetings during 2021 are shown on page 90.

Internal Assistance Provided to the Committee
The Chief Executive is not a member of the Remuneration Committee but may attend its meetings by invitation and is consulted in respect of certain of its proposals. The Chief Executive is not involved in any discussions in respect of his own remuneration. During the year, the committee also received assistance and advice on remuneration policy from the Company Secretary.

External Assistance Provided to the Committee
As and when the Remuneration Committee considers it appropriate, it takes external advice on remuneration from a number of sources. During the year, it received the following assistance:

Adviser	Assistance provided to the committee during 2021	Fees for committee assistance in 2021[1]	Other services provided to the Company during 2021
Alvarez & Marsal Taxand UK LLP[2]	Appointed by the committee to give periodic advice on various aspects of the directors' remuneration packages. Also assisted with the preparation of the Directors' Remuneration Report and provided support on a number of miscellaneous remuneration related projects during the year, including in relation to the consultation process with shareholders that took place both before and after the 2021 AGM.	£22,910	Provided advice on various aspects of remuneration practice across the Group.
Deloitte LLP[2]	Appointed by the Company's Management Team but provided assistance to the committee in relation to preparation of the Directors' Remuneration Report and the consultation process with shareholders that took place before the 2021 AGM.	£1,568	Provided advice on various aspects of remuneration practice across the Group.
Ernst & Young LLP	Appointed by the Company to carry out an independent verification of its achievement against performance conditions applicable to the Company's LTIPs and share option schemes.	N/A – no advice provided to the committee	Internal auditor of the Company throughout the year.
Shepherd and Wedderburn LLP	Appointed by the Company to carry out regular calculations in relation to the LTIP performance conditions. Also assisted with the preparation of the Directors' Remuneration Report.	£24,463	General legal services to the Group throughout the year.

Notes:
1 The bases for charging the fees set out in the table were agreed by the committee at or around the time the particular services were provided and, in general, reflected the time spent by the adviser in question on the relevant matter.
2 Both of Alvarez & Marsal Taxand UK LLP and Deloitte LLP are members of the Remuneration Consultants Group and their work is governed by the Code of Conduct in relation to executive remuneration consulting in the UK.
3 The committee reviews the performance and independence of all its advisers on a continuous basis. No issues relating to performance or independence were noted by the committee during the year.

Directors' Remuneration Report continued

Statement of Shareholder Voting at General Meetings

The table below shows the voting outcome at the last general meeting(s) at which shareholders were asked by the Company to approve a resolution relating to its Directors' Remuneration Report and Directors' Remuneration Policy:

Description of resolution	Date of general meeting	Number of votes 'For' and 'Discretionary'	% of votes cast	Number of votes 'Against'	% of votes cast	Total number of votes cast	Number of votes 'Withheld'[1]
To approve the 2020 Directors' Remuneration Report	11 May 2021	246,776,576	65.13%	132,138,647	34.87%	378,915,223	48,842
To approve the 2020 Directors' Remuneration Policy	14 May 2020	417,923,175	93.01%	31,405,942	6.99%	449,329,117	26,501

Note:
1 A vote withheld is not a vote in law.

The committee acknowledges the significant level of votes that were cast against last year's Directors' Remuneration Report. A summary of the reasons for those votes, as far as known to the committee, and details of the actions taken in response to those concerns are included in the Chair's Annual Statement on page 106.

Payments to Past Directors During 2021 (Audited)

During the year to 31 December 2021, there were no payments to past directors of the kind that require to be disclosed in terms of the Regulations.

Single Total Figure Table for 2021 (Audited)

The tables below set out the remuneration received by Executive Directors and Non-Executive Directors during the year in the following categories.

Salary + Benefits + Pension + SIP + Annual Bonus + Long-term incentives = Total remuneration

Executive Directors

		Fixed Remuneration				Variable Remuneration				Totals		
						Annual bonus[4]...						
	Financial year	Salary and fees	Benefits[1]	Pension[2]	SIP[3]	...paid in cash	...deferred into shares	...total bonus	Long-term incentives[5]	Total remuneration	Total fixed remuneration	Total variable remuneration
Directors												
Simon Thomson	**2021**	**£592,517**	**£42,400**	**£88,878**	**£7,197**	**£448,091**	**£0**	**£448,091**	**£771,809**	**£1,950,892**	**£730,992**	**£1,219,900**
	2020	£586,650	£35,291	£87,998	£0	£549,984	£0	£549,984	£219,808	£1,479,731	£709,939	£769,792
James Smith	**2021**	**£385,377**	**£37,537**	**£57,807**	**£7,197**	**£291,441**	**£0**	**£291,441**	**£501,990**	**£1,281,349**	**£487,918**	**£793,431**
	2020	£381,561	£38,611	£57,234	£0	£357,713	£0	£357,713	£142,965	£978,084	£477,406	£500,678

Notes:
1 Taxable benefits available to the Executive Directors during 2021 were a company car/car allowance, private health insurance, death-in-service benefit and a gym and fitness allowance. This overall package of taxable benefits was largely unchanged from 2020, with the higher figure for Simon Thomson in 2021 primarily being attributable to increased charges for his company car.
2 Additional disclosures relating to the pension provision for the Executive Directors during 2021 are set out on pages 113 and 114.
3 This column shows the face value (at date of award) of matching and free shares provided to the Executive Directors under the SIP during the relevant period. Further details on the way in which the SIP was operated during 2021 are set out on page 125.
4 Under the Company's annual bonus scheme for 2020 and 2021, any sums awarded in excess of 100% of salary are delivered in the form of deferred share awards, which normally vest after a period of three years from grant. Further information in relation to the annual bonus scheme for 2021 is provided on pages 114 to 119. For the avoidance of doubt, the quantum of awards made under this arrangement is not attributable, either wholly or in part, to share price appreciation.
5 This column shows the value of shares that vested in respect of LTIP awards with performance conditions that ended during the period in question. Further details of the LTIP's operation during 2021, including how the level of award was determined, confirmation of the amount (if any) of the above vesting value that was attributable to share price appreciation and a summary of any discretions that were exercised, are provided on pages 120 to 124.
6 Following the end of the year to 31 December 2021, the committee considered whether there were any circumstances that could or should result in the recovery or withholding of any sums pursuant to the clawback arrangements contained within the Company's remuneration policy. The conclusion reached by the committee was that it was not aware of any such circumstances.

Non-Executive Directors

		Fixed Remuneration			Variable Remuneration		Totals		
	Financial year	Salary and fees[1]	Benefits	Pension[2]	Annual bonus[2]	Long-term incentives[2]	Total remuneration	Total fixed remuneration	Total variable remuneration
Directors									
Nicoletta Giadrossi[3]	**2021**	**£180,000**	**–**	**–**	**–**	**–**	**£180,000**	**£180,000**	**–**
	2020	£85,500	–	–	–	–	£85,500	£85,500	–
Keith Lough[4]	**2021**	**£85,500**	**–**	**–**	**–**	**–**	**£85,500**	**£85,500**	**–**
	2020	£85,500	–	–	–	–	£85,500	£85,500	–
Peter Kallos	**2021**	**£75,500**	**–**	**–**	**–**	**–**	**£75,500**	**£75,500**	**–**
	2020	£75,500	–	–	–	–	£75,500	£75,500	–
Alison Wood[5]	**2021**	**£85,500**	**–**	**–**	**–**	**–**	**£85,500**	**£85,500**	**–**
	2020	£75,500	–	–	–	–	£75,500	£75,500	–
Catherine Krajicek	**2021**	**£75,500**	**–**	**–**	**–**	**–**	**£75,500**	**£75,500**	**–**
	2020	£75,500	–	–	–	–	£75,500	£75,500	–
Erik B. Daugbjerg[6]	**2021**	**£75,500**	**–**	**–**	**–**	**–**	**£75,500**	**£75,500**	**–**
	2020	£47,527	–	–	–	–	£47,527	£47,527	–

Notes:
1 As disclosed in the 2020 Annual Report on Remuneration, the annual fee payable to the Company's Chair for 2021 was unchanged at £180,000. Similarly, the basic annual fee for Non-Executive Directors in 2021 remained at £75,500, being the same level paid in 2020.
2 The Non-Executive Directors do not participate in any of the Company's long-term incentive arrangements and are not entitled to a bonus or pension contributions.
3 Nicoletta Giadrossi was appointed as Chair of the Company on 1 January 2021 (prior to which she was a Non-Executive Director). During 2020, she received a further annual fee of £10,000 for her role as Chair of the Remuneration Committee.
4 A further annual fee of £10,000 was payable to Keith Lough for his role as Chair of the Audit Committee during 2020 and 2021.
5 A further annual fee of £10,000 was payable to Alison Wood for her role as Chair of the Remuneration Committee during 2021.
6 Erik B. Daugbjerg was appointed as a Non-Executive Director on 14 May 2020. His fees for 2020 reflect the period from that date to the year end.

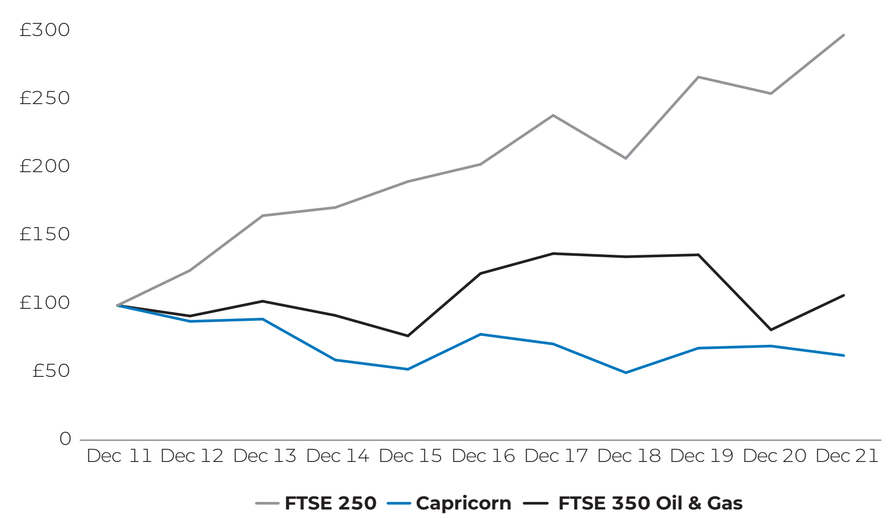
TSR Performance Graph and Further Information on Chief Executive Pay

Introduction

The following chart demonstrates the growth in value of a £100 investment in the Company and an investment of the same amount in both the FTSE 250 Index and the FTSE 350 Oil & Gas Producers Index over the last 10 years. These comparisons have been chosen on the basis that: Capricorn was a constituent member of the FTSE 250 Index for the whole of 2021; and the FTSE 350 Oil & Gas Producers Index comprises companies that are exposed to broadly similar risks and opportunities as Capricorn.

The table following the graph illustrates the movements in the total remuneration of the Company's Chief Executive during the same 10-year period.

Performance Graph – Comparison of 10-Year Cumulative TSR on an Investment of £100



Directors' Remuneration Report continued

Total Remuneration of Chief Executive During the Same 10-Year Period

Financial year	Chief Executive	Total remuneration of Chief Executive[1]	Annual variable element award rates for Chief Executive (as % of max. opportunity)	Long-term incentive vesting rates for Chief Executive (as % of original award level)
2021	Simon Thomson	£1,950,892	60.5%	67.7%[2]
2020	Simon Thomson	£1,479,731	75%	27.4%
2019	Simon Thomson	£1,173,630	65%	0%
2018	Simon Thomson	£2,204,001	70%	56.7%
2017	Simon Thomson	£2,992,615	76.9%	90.8%
2016	Simon Thomson	£2,081,601	80.2%	81.7%
2015	Simon Thomson	£1,292,167	75%	23.4%
2014	Simon Thomson	£1,073,425	78.5%	0%
2013	Simon Thomson	£962,765	63%	0%
2012	Simon Thomson	£1,018,570	86%	0%

Notes:
1 The amounts disclosed in this column have been calculated using the same methodology prescribed by the Regulations for the purposes of preparing the single total figure table shown on page 110.
2 As explained on page 122, Simon Thomson's 2018 LTIP award vested in respect of 84.6% of its 'core' award (being the element granted over ordinary shares worth 2 x base salary). This represents 67.7% of the total award (i.e. 'core' plus 'kicker' awards) that was granted over shares worth 2.5 x salary.

Pay Ratio Information in Relation to Chief Executive's Remuneration

The Regulations require certain companies to disclose the ratio of the Chief Executive's pay, using the amount set out in the single total figure table, to that of the median, 25th and 75th percentile total remuneration of full-time equivalent UK employees.

Although the above requirement does not technically apply to Capricorn (on the basis that it had fewer than 250 UK employees during 2021), the committee felt that it would be appropriate to include the relevant disclosures this year on an entirely voluntary basis as it helps to demonstrate the link between the Chief Executive's pay and the remuneration of the wider workforce. A similar decision was made for the last three years, with the result that the following table shows the relevant ratios for each of 2021, 2020, 2019 and 2018:

Year	Method of calculation adopted	25th percentile pay ratio (Chief Executive : UK employees)	Median pay ratio (Chief Executive : UK employees)	75th percentile pay ratio (Chief Executive : UK employees)
2021	**Option A**	**29 : 1**	**20 : 1**	**11 : 1**
2020	Option A	22 : 1	14 : 1	8 : 1
2019	Option A	19 : 1	12 : 1	7 : 1
2018	Option A	36 : 1	22 : 1	11 : 1

The median, 25th percentile and 75th percentile figures used to determine the above ratios were calculated by reference to the full-time equivalent annualised remuneration (comprising salary, benefits, pension, SIP, annual bonus and long-term incentives) of all UK-based employees of the Group as at 31 December 2021 (i.e. 'Option A' under the Regulations). The committee selected this calculation methodology as it was felt to produce the most statistically accurate result.

The committee considers that the median pay ratio for 2021 that is disclosed in the above table is consistent with the pay, reward and progression policies for the Company's UK employees taken as a whole. It reflects the fact that a greater proportion of Executive Director pay is linked to annual performance through a higher annual bonus opportunity (a percentage of which is subject to deferral into shares).

The committee notes that each of the pay ratios for 2021 is higher than in the immediately preceding year. This is largely attributable to the fact that the level of vestings during 2021 under the Company's various discretionary share incentive plans were significantly higher than those that occurred in the period of 12 months to 31 December 2020. Given that the Executive Directors receive a higher level of annual award (as a percentage of salary) under those arrangements than almost all other employees, this increased vesting had a greater proportionate impact on the total remuneration level of the Chief Executive. For the avoidance of doubt, the differences in the ratios between 2021 and 2020 are not attributable to any material change in the Company's employment models or the use of a different calculation methodology.

Pay details for the individuals whose 2021 remuneration is at the median, 25th percentile and 75th percentile amongst UK based employees are as follows:

	Chief Executive	25th percentile	Median	75th percentile
Salary	£592,517	£45,000	£66,512	£104,114
Total pay and benefits	£1,950,892	£67,584	£98,120	£180,278

Percentage Annual Change in Directors' Remuneration Elements Compared to All Group Employees

The table below compares the percentage change in various elements of each Directors' remuneration between:
– 2020 and 2021; and
– 2019 and 2020,
and the percentage change in the same remuneration elements of all the Group's employees in respect of those same periods.

	Between 2020 and 2021			Between 2019 and 2020		
	% change in base salary/fees	% change in taxable benefits	% change in annual bonus	% change in base salary/fees	% change in taxable benefits	% change in annual bonus
All Group employees	2.0%[1]	(6.1)%[2]	(16.7)%	3.0%	(0.4)%	2.2%
Executive Directors						
Simon Thomson	1.0%	20.1%[3]	(18.5)%	1.7%	2.7%	17.3%
James Smith	1.0%	(2.8)%	(18.5)%	1.7%	5.0%	17.3%
Non-Executive Directors						
Nicoletta Giadrossi	110.5%[4]	0%	N/A	0%	0%	N/A
Keith Lough	0%	0%	N/A	0%	0%	N/A
Peter Kallos	0%	0%	N/A	0%	0%	N/A
Alison Wood	13.2%[5]	0%	N/A	100.0%	0%	N/A
Catherine Krajicek	0%	0%	N/A	100.0%	0%	N/A
Erik B. Daugbjerg	58.9%[6]	0%	N/A	N/A	0%	N/A

Notes:
1 The standard level of salary increase across the Group in 2021 was 1.0%. However, a small number of individuals received higher percentage increases which raised the average for all employees to 2%.
2 This fall in taxable benefits for all Group employees was largely attributable to a material decrease in the cost of private health insurance premiums.
3 As highlighted on page 110, this increase in the Chief Executive's taxable benefits was primarily attributable to higher charges for his company car.
4 Nicoletta Giadrossi was appointed as Chair of the Company on 1 January 2021 and, with effect from that date, her annual fee increased to £180,000.
5 Alison Wood was appointed as Chair of the Remuneration Committee on 1 January 2021 and, with effect from that date, became entitled to a further annual fee of £10,000.
6 Erik B. Daugbjerg was appointed as a Non-Executive Director on 14 May 2020.
7 The Non-Executive Directors are not eligible to participate In the annual bonus scheme.

Executive Directors' Base Salaries During 2021

Based on a review carried out in November 2020, the following salary increases for Executive Directors became effective on 1 January 2021:

2021 Annual Salary Details

	Job title	Annual salary as at 31 December 2020	**Annual salary as at 1 January 2021**	% increase with effect from 1 January 2021
Current directors				
Simon Thomson	Chief Executive	£586,650	**£592,517**	1.0%
James Smith	CFO	£381,561	**£385,377**	1.0%

The increases shown in the above table for both Simon Thomson and James Smith were consistent with the level of standard annual salary increase awarded to other employees on 1 January 2021.

Executive Directors' Pension Provision During 2021 (Audited)

In accordance with the terms of the Directors' Remuneration Policy described on pages 131 to 135, the Company operates a defined contribution, non-contributory Group personal pension plan which is open to all UK permanent employees. During 2021, the Company contributed 10% of basic annual salary (15% in respect of current Executive Directors) on behalf of all qualifying employees.

As explained in the Chair's Annual Statement that was contained in the Directors' Remuneration Report for the year ended 31 December 2020, the committee has decided that, with effect from 1 January 2023, the above contribution rates will be aligned so that all employees and Executive Directors will benefit from an annual Company pension contribution of 12.5% of basic salary.

The Company also has a pension committee which meets on a regular basis to assess the performance and suitability of the Company's pension arrangements.

James Smith is a member of the Company scheme and, during the year, received Company contributions up to his statutory annual allowance. The balance of his 15% of basic salary entitlement for the year ended 31 December 2021 was paid as additional salary.

During the year, Simon Thomson received an amount equal to 15% of his annual basic salary in the form of additional salary as his pension arrangements have already reached the relevant lifetime limit.

Details of the actual amounts of pension contributions/additional salary that were paid to the Executive Directors during 2021 are set out in the 'pension' column of the single total figure table on page 110.

Annual Bonus – 2021 Structure and Outcome (Audited)

During 2021, Capricorn operated an annual bonus scheme for all employees and Executive Directors. Commentary on the overall structure and purpose of this arrangement (including an explanation of how it seeks to ensure a high degree of alignment with the Company's overall strategy and fairly reward the achievements that best drive the creation of shareholder value) is contained in the Chair's Annual Statement on page 107. The maximum level of bonus award for Executive Directors and certain PDMRs for the year was 125% of annual salary.

Directors' Remuneration Report continued

For all participants other than the Executive Directors, 2021 bonus awards were based on achievement against a mixture of personal objectives and Group-wide KPIs. When determining the level of award attributable to the personal performance element of these individuals' bonuses, consideration was also given to the extent to which they demonstrated the Company's 'high performance behaviours' during the period and also the level of their understanding, application and compliance with the Company's various standards and policies. The final level of all bonuses awarded to employees below Executive Director/PDMR level was reviewed and approved by the committee.

Consistent with the approach adopted in 2020, 100% of each Executive Director's bonus opportunity for the year to 31 December 2021 was determined by reference to the extent to which certain Group KPIs were achieved. Taking into account commercial sensitivities around disclosure, a summary of the relevant targets, ascribed weightings, payment scales and achievement levels is set out below.

2021 Annual Bonus Scheme – Group KPI Performance Conditions (100% Weighting) and Achievement Levels

KPI measures and performance achieved in 2021				Weighting	Bonus awarded	KPI Remuneration Committee decision
Purpose	2021 KPI	Measurement and payment scale	2021 performance	(as % of allocated proportion of maximum opportunity)		
	ESG and HSSE					
Deliver value in a safe, secure and environmentally and socially responsible manner.	– Achieve lagging HSSE indicators measured against IOGP targets.	– A key focus for the business but given the lower levels of operated activity in 2021, a reduced weighting was allocated to this element of the ESG and HSSE KPI than in previous years with threshold, target and stretch goals identified at the start of the year.	– Operated activities, including surveys, have resulted in zero incidents and spills. Multiple road transport trips in higher risk countries have been managed with zero injuries and high potential incidents through a full understanding of road risks. The stretch goal was, therefore, met.	17.5%	15.75%	Substantially achieved
	– Achieve a number of specified leading indicators that support Company policies and standards in relation to HSSE and corporate responsibility; focusing on matters identified in our materiality matrix, governance and people.	– Four projects were identified and KPI scoring metrics identified prior to commencement of the year:				
		– Project 1: Deliver leadership programme for Major Accident Prevention;	– Project 1: The requirements of the Corporate Major Accident Prevention Policy were re-emphasised to required persons and is included in HSSE inductions for new start employees and appropriate contractors. For a full score to have been achieved, further roll-out of major accident hazard leadership awareness would have been completed;			
		– Project 2: Define and document QA/QC requirements for projects;	– Project 2: Significant improvements were made in the application of the Capricorn Project Delivery Process (CPDP) to exploration projects; a register was developed detailing all ongoing capital and other projects, and for contracted services, inspections were made by Capricorn or specialised companies of all vessels, rigs and helicopters contracted to ensure they meet the required standards. A full score would have required documentation of QA/QC processes for all other operations. This is due to be completed in 2022;			
		– Project 3: Establish and roll-out our Diversity and Inclusion Strategy and Plans; and	– Project 3: A D&I strategy was created and discussed within the organisation prior to formal presentation to staff during the year and launched prior to year end; and			
		– Project 4: Develop and deliver environmental and biodiversity protection programmes for our operated activities.	– Project 4: A biodiversity screening tool was applied to multiple NV projects as well as Egypt exploration; East Orkney and Diadem surveys, conducted in UK waters, were accompanied by assessments of the environment through standard UK studies and forms, with permits granted on time; detailed environmental studies were conducted in Mauritania to inform an early baseline survey that mobilised in January 2022 to inform the project on seabed/canyon bed locations. For a full score, further progress in the 'Assess' stage was required.			
	– Develop our understanding of CCUS application and opportunity identification including required carbon pricing.	– Evaluate and demonstrate CCUS applications by year-end including technical, commercial, and financial considerations, setting out a roadmap for potential application in the portfolio and the pros/cons of investment.	– CCUS screening and application was matured during 2021 with a presentation given to the Board in December outlining possible options for participation in Egypt and the UKCS. The 'Identify' stage was therefore successfully completed and these projects are now in the 'Assess' stage. Scope 1 and 2 equity emissions were included in our Sustainability Report.			
	– Recording, tracking and reporting our Scope 1 and 2 emissions.	– Ensure equity (working interest) reporting of Scope 1 and 2 emissions for the 2021 Annual Report, with clear and consistent boundaries set, aligned with external benchmarks. Demonstrate 'activity normalised' emissions improvements in operated projects during 2021, with target and stretch goals of percentage improvements identified.	– Energy efficiency and emissions clauses have been incorporated into all contract awards (including for operations at Diadem drilling in the UKCS). However, in 2021, it proved difficult to demonstrate emissions improvement in our operated projects as: (i) activity levels were very low; (ii) there was only one technically acceptable, available vessel for the East Orkney GeoTech survey; and (iii) there was only one commercially viable vessel in the required window for the Diadem site survey.			

Directors' Remuneration Report continued

Purpose	2021 KPI	Measurement and payment scale	2021 performance	Weighting (as % of allocated proportion of maximum opportunity)	Bonus awarded	KPI Remuneration Committee decision
	ESG and HSSE continued					
	– Agree, establish and track social investment across the Group that helps deliver a positive impact on the communities with which we work.	– Further develop the framework, in line with the UN SDGs, for the social investment plans across the Group, including quantifying the overall impact of the programme(s).	– Investments were made in Mexico, Suriname and the UK that have resulted in environmental, medical and educational benefits to the communities and areas where we work. This has included a US$50,000 donation in each of Mexico and Suriname to help alleviate the challenges of the COVID-19 pandemic through the purchase of medical and test equipment for local hospitals, benefitting over 1,000 people. In our mangrove rehabilitation project, six sediment trapping units have been built and remote monitoring has been established using satellite images of mangrove sites. In Mexico, since 2020, the turtle conservation project has patrolled 6,000km of beaches and resulted in 80,896 hatchings in 2021. In the UK, we continue to support three PhD students as part of the Clean Energy scholarship and contribute to 27 research projects.			
	– Communicate our climate change performance and our processes for governance, risk management and target setting with internal and external stakeholders in a transparent and consistent manner.	– Threshold goal: Carbon disclosure project rating maintained or improved; target goal: threshold achieved plus TCFD reporting requirements met; stretch goal: target achieved plus SASB requirements met.	– Our climate change score through the Carbon Disclosure Project (CDP) remained static at B- and discussions are planned to understand what further is required to improve the rating. We continue to work closely with partners on emission reduction projects as well as progressing clean energy projects and the purchase of the highest quality carbon offsets. – Water: for the first time, we participated in the CDP Water Security questionnaire. We continue to work with our partners and on our operated activities on water extraction and disposal, notably in Egypt where we are working on both exploration and production assets with our partners. We are aware of the criticality of water resources in water scarce regions and factor this into our exploration and operational plans. – TCFD: an EY internal audit showed that "Capricorn achieved an average coverage rating of 100% across the 11 recommended disclosures, with an average quality score of 56%. This compares to an average coverage score of 79% and average quality score of 49% across UK energy companies included in the tool." – SASB: to improve the quality and transparency of our reporting, we have assessed and aligned our reporting against the Sustainability Accounting Standards Board (SASB) Oil & Gas – Exploration & Production Sustainable Accounting Standard.			
	Exploration and New Ventures					
Grow the reserves and resources base to provide a basis for future growth.	– Mature "Advantaged" prospects achieving commercial thresholds that can be considered for future exploration drilling.	– Addition of net mean unrisked resources with threshold (>10 mmboe (ILX opportunity) – zero score), target (>40 mmboe (several ILX or single high impact opportunities) – half score) and stretch (>80 mmboe (high impact opportunity) – full score) goals identified.	– Several prospects in South Abu Sennan, onshore Egypt, were matured in 2021 and classified as 'drill-ready'. They are anticipated to be drilled in H2 2022. Dauphin in Mauritania C7, was re-captured as Operator, and is of significant scale. The prospect would offer significant net potential resources well in excess of the target goal of 40 mmbbls.	20%	7.5%	Partially achieved
	– Conduct our operated and non-operated exploration and appraisal activities successfully, on time and on budget.	– Projects executed on plan with threshold (meet objectives – zero score); target (on time and budget – half score); and stretch (on time and 10% less than budget – full score) goals identified.	– All projects executed in 2021 met their original basis of design objectives. The Diadem site survey, East of Orkney GeoTech survey and UK MNSH 3D seismic survey (all operated) were delivered on time and budget. The Mexico Block 10 wells, Saasken and Sayulita (non-operated), were delivered on time and under budget. The Egypt onshore wells, TAMR-1 and NUMB-5 were delivered but over budget and, therefore, did not score.			
	– Add new commercial resources to replace reserves and grow value.	– Net 2C Contingent Resources added with threshold (0 net mmboe added – zero score), target (5 net mmboe added – half score) and stretch goals (10 net mmboe added – full score) identified.	– No additional resources have been booked versus the 2021 opening position.			

Directors' Remuneration Report continued

	KPI measures and performance achieved in 2021			Weighting	Bonus awarded	KPI Remuneration Committee decision
Purpose	2021 KPI	Measurement and payment scale	2021 performance	(as % of allocated proportion of maximum opportunity)		
	Production Performance					
Maximise revenues through efficient operations.	– Deliver net production within guidance targets.	– Assessed against the pre-agreed public production guidance outlined in early 2021 (16,000 to 19,000 bopd) from net production of the Kraken and Catcher assets with threshold (16,000 bopd – zero score), target (17,500 bopd – half score) and stretch (>19,000 bopd – full score) goals identified.	– Out-turn production for 2021 from these fields was approximately 18,300 bopd, significantly above the target of 17,500 bopd. Additionally, the out-turn production performance for the acquired Egyptian assets (36.5 kboepd WI in 2021) was within guidance issued to the market on announcement of the transaction (33-38 kboepd).	20%	11.75%	Partially achieved
	– Deliver operating costs within guidance targets.	– Assessed against the 2021 budget values converted into an opex/boe guidance around the targeted or expected blended value across the Kraken and Catcher assets with threshold (US$25/boe – zero score), target (US$23/boe – half score) and stretch (<US$21/boe – full score) goals identified.	– As our interests in Kraken and Catcher were sold in Q4, the operating costs were calculated on a 10+2 forecast basis and broadly resulted in the target scoring (US $22.8/bbl).			
	– Convert resources to reserves.	– Measured according to the conversion of Contingent Resources to Reserves in existing and acquired assets with threshold (0 mmboe net 2P Reserves added – zero score), target (5 mmboe net 2P Reserves added – half score) and stretch (10 mmboe net 2P Reserves added – full score) goals identified.	– Reserves additions during 2021 were relatively modest, associated with infill wells planned at Catcher prior to sale and onshore Egypt. Scoring was above threshold (+1.3 mmbbls) but below target.			
	Financial Performance					
Manage resiliant balance sheet.	– Demonstrate balance sheet strength reflected in achievement of a pre-identified funding plan.	– Financial tests set to reflect targets of the funding plan incorporating a number of elements including minimum headroom levels and satisfaction of liquidity or similar tests.	– All financial tests set out as part of the funding plan were met and all liquidity and covenant tests were satisfied.	25%	20%	Substantially achieved
	– India: recovery of proceeds.	– Measured by financial recovery of Indian proceeds.	– The Group initiated a number of enforcement proceedings in several jurisdictions during H1 2021 to expedite the recovery of the sums due under the December 2020 UK-India Bilateral Investment Treaty arbitration award made in the Group's favour on the tax issue. Subsequently, in H2 2021, the Government of India introduced the Taxation Laws (Amendment) Bill 2021, which allowed the refund to Capricorn of taxes previously collected in India. The Group's participation in the scheme introduced in this legislation resulted in resolution of the issue and the expected Indian tax refund of INR79 billion was paid and net proceeds of US$1.06 billion received by the Group in February 2022.			
	Corporate Projects					
Deliver a sustainable business.	– Develop and execute corporate projects to enhance the portfolio, consistent with the Group Risk Appetite Statement.	Measured against: – (a) the test of expansion and diversification of the production base; and	– No corporate projects were concluded as originally targeted and no score was achieved in this element of the corporate projects KPI.	17.5%	5.5%	Partially achieved
		– (b) creating value realisation options.	– Sale of the UK Kraken and Catcher assets was announced in March 2021 and concluded in Q4 with firm and uncapped contingent elements of consideration agreed, achieving a full score for this element of the corporate projects KPI.			
				100%	60.5%	

Directors' Remuneration Report continued

2021 Annual Bonus Scheme – Overview of Awards and Actual Payments Made

The application of the outturn from the above performance condition assessments resulted in the following bonuses becoming payable to Simon Thomson and James Smith:

		Simon Thomson Group KPI measures	James Smith Group KPI measures
Award elements	Weighting (as % of max. bonus opportunity)	100%	100%
	x		
	Achievement level	60.5%	60.5%
	=		
	Award percentage (as % of max. bonus opportunity)	60.5%	60.5%
Award calculation	Max. bonus opportunity (as % of salary)	125%	125%
	x		
	Award percentage (as calculated above)	60.5%	60.5%
	=		
	Total award (as % of salary)	75.63%	75.63%
	Total award (as an amount)	£448,091	£291,441
Form of payment	Cash payment[1]	£448,091	£291,441
	Deferred share award[2]	£0	£0

Notes:
1 Cash payments due under the annual bonus scheme were paid to the relevant individuals shortly after completion of the assessment of the relevant performance measures and conditions.
2 Under the Company's annual bonus scheme for 2021, any amounts awarded in excess of 100% of salary would have been delivered in the form of share awards granted under the Company's Deferred Bonus Plan.

Before the above bonuses were finalised, the award levels produced by the application of the various targets were reviewed by the committee in the context of the Company's overall financial and operational performance during 2021. In particular, due consideration was given to the resolution of the long-standing Indian tax dispute, strong performance in respect of HSSE and ESG targets and maintenance of a resilient balance sheet whilst recognising the below target achievements in exploration and corporate projects. The conclusion reached was that the amounts to be paid to participants were appropriate in the circumstances and there was no requirement for the committee to make any adjustments pursuant to its overarching discretion under the annual bonus scheme, details of which are set out in the Directors' Remuneration Policy.

Long-Term Incentives During 2021

Introduction

During the year to 31 December 2021, the Executive Directors participated in the Company's 2017 LTIP (which was approved by shareholders at the AGM held on 19 May 2017).

The 2017 LTIP enables selected senior individuals to be granted conditional awards or nil-cost options over ordinary shares, the vesting of which is normally dependent on both continued employment with the Group and the extent to which predetermined performance conditions are met over a specified period of three years.

Overview of Performance Conditions

For the awards granted to Executive Directors under the 2017 LTIP since its original adoption (including those granted in 2021), the performance conditions comprise two distinct elements, namely:

– **Conditions applicable to the 'core award'**
The first condition applies to that element of each award which is over ordinary shares normally worth 200% of the individual's salary (the 'core award') and involves an assessment of the Company's TSR performance over a three-year performance period (commencing on the date of grant) relative to the performance achieved by a predetermined comparator group of companies in the same sector (details of which are set out on page 124). Vesting will then take place as follows:

Ranking of Company against the comparator group	Percentage of ordinary shares comprised in core award that vest
Below median	0%
Median	25%
Upper quartile or above	100%
Between median and upper quartile	25%–100% on a straight-line basis

– **Conditions applicable to the 'kicker award'**
The second condition applies to the remaining part of each grant (the 'kicker award'), being an element that is granted over ordinary shares normally worth 50% of salary. This part of the award will vest in full if, over the same three-year measurement period (i) the Company achieves an upper quartile ranking (or above) in the comparator group; and (ii) the TSR actually achieved by the Company is at least 100%. For the avoidance of doubt, if either of these requirements is not satisfied, no part of the kicker award will vest.

No part of an award granted under the 2017 LTIP during 2019 and earlier years will vest unless the Remuneration Committee is satisfied that there has been an overall satisfactory and sustained improvement in the performance of the Company as a whole over the performance period. In the case of awards granted in 2020 and later years, the committee retains the discretion to reduce the vesting level produced by the formulaic operation of the performance conditions described above in circumstances where, based on its independent judgement, it considers it appropriate to do so (e.g. where the outturn from the assessment of the prescribed targets is not, in the committee's view, a genuine reflection of the underlying performance of the Company).

Summary of Vesting Terms, Holding Periods and Clawback Arrangements

In the case of the grants made under the 2017 LTIP to Executive Directors, all awards will normally be subject to a holding period of two years following vesting, at the end of which the ordinary shares to which the holder has become entitled will be released or become exercisable. For the avoidance of doubt, this additional holding period applies to both the core and kicker awards (see above).

As noted in the Directors' Remuneration Policy, awards granted under the 2017 LTIP are subject to clawback provisions which may be operated by the committee where, in the period of three years from the end of the applicable performance period, it become aware of either a material misstatement of the Company's financial results or an error in the calculation of performance metrics which, had it been known at the relevant time, would have reasonably been expected to have resulted in a lower vesting percentage being determined. The circumstances in which clawback can be applied in respect of awards vesting on or after 1 January 2020 were expanded also to include cases of gross misconduct and corporate failure, due to the conduct of management, which results in the appointment of a liquidator or administrator.

Where clawback is to be operated in respect of an award, the committee has a range of different mechanisms by which value can be recovered from the relevant individual including the reduction of future bonuses, the application of a reduction in the number of shares over which other incentive awards vest or are exercisable and requiring the individual to make a cash payment to the Company.

All outstanding awards under 2017 LTIP have been granted on terms that participants will receive a payment (in cash and/or shares) on, or shortly following, the settlement of their awards of an amount equivalent to the dividends that would have been payable on the shares acquired between the date of grant and the expiry of any applicable holding period. Where required, the committee will decide the basis on which the value of such dividends shall be calculated, which may assume the reinvestment of dividends. The rules of the 2017 LTIP also give the committee the discretion to disapply these provisions in relation to all or part of any special dividend. As highlighted in the Chair's Annual Statement on page 108, this discretion was exercised by the committee in relation to the special dividend paid by the Company on 25 January 2021 on the basis that the economic position of participants in the 2017 LTIP was effectively preserved through the operation of the share consolidation that formed part of the return of cash mechanism.

LTIP Awards Granted During 2021 (Audited)

On 17 March 2021, the following awards under the 2017 LTIP were granted to Executive Directors:

	Description of award	Form of award	Basis of award granted	Share price at date of grant[3]	No. of shares over which award originally granted	Face value (£000) of shares over which award originally granted[4]	% of shares over which award originally granted that vest at threshold	Vesting determined by performance over
Directors								
Simon Thomson	Core award	Nil-cost option	2 x base salary of £592,517	£1.801	657,986	£1,185	25%	3 years until 16 March 2024
	Kicker award	Nil-cost option	0.5 x base salary of £592,517	£1.801	164,496	£296	100%	
James Smith	Core award	Nil-cost option	2 x base salary of £385,377	£1.801	427,958	£771	25%	3 years until 16 March 2024
	Kicker award	Nil-cost option	0.5 x base salary of £385,377	£1.801	106,989	£193	100%	

Notes:
1 Details of the performance conditions applicable to the awards granted in 2021 are provided on page 122.
2 No price is payable by participants for their shares on the exercise of a nil-cost option granted under the LTIP.
3 This figure represents the closing mid-market price of a share in the Company for the dealing day immediately preceding the date of grant. (The actual closing price on 17 March 2021 was £1.800).
4 The values shown in these columns have been calculated by multiplying the 'number of shares over which the award was originally granted" by the "share price at date of grant'.
5 In the period following the grant of the above awards, no change was made to their exercise price or the date on which they will become exercisable.

Directors' Remuneration Report continued

LTIP – Awards Vesting During the Year (Audited)

On 27 March 2021, the three-year performance period applicable to the awards granted under the 2017 LTIP on 28 March 2018 to various participants (including the Executive Directors) came to an end. Thereafter, the Remuneration Committee assessed the relevant performance conditions. The results of this assessment, which was completed on 31 March 2021, can be summarised as follows:

Award	Performance measure	% of award subject to measure	Performance achieved 2018-2021	% of award vested
Core award	Relative TSR performance against a comparator group of 15 companies.	100%	Capricorn's TSR over the period placed it between the fourth and fifth highest ranked companies in the comparator group. After a careful consideration of a variety of factors, the committee also concluded that there had been a sustained improvement in the overall performance of the Company over the three years in question.	84.60%
Kicker award	For any part of the kicker award to vest, (i) the Company must achieve at least an upper quartile ranking in the above comparator group; and (ii) the TSR actually achieved by the Company must be at least 100%.	100%	As Capricorn's ranking in the comparator group was below upper quartile, no part of the kicker award vested and it lapsed immediately on completion of the committee's above noted assessment.	0%

Notes:
1 Further details of the performance conditions that applied to the above awards are set out on pages 120 to 121.
2 At various points in the period 28 March 2018 to 27 March 2021, the committee was required to determine (in accordance with the approved remuneration policy in place at that time) the treatment of those comparator group companies that delisted. No other discretions relating to the vesting of the awards were exercised by the Remuneration Committee during or after the relevant performance period.
3 The TSR calculations used to inform the committee's determinations in relation to the above awards were independently verified by Ernst & Young LLP.

The following table shows, for each of the Executive Directors, details of the 2017 LTIP awards that vested during the year:

	Description of award	Form of award	Date of grant	No. of shares over which award originally granted	Date of vesting	% of award to vest as per performance condition assessment	No. of shares that vested[1]	Value of shares vesting[2]	Amount of vesting value attributable to share price appreciation[3]
Current director									
Simon Thomson	Core award	Nil-cost option	28/03/18	536,050	31/03/21	84.60%	453,472	£771,809	£0
	Kicker award	Nil-cost option	28/03/18	134,012	31/03/21	0%	0	£0	£0
James Smith	Core award	Nil-cost option	28/03/18	348,650	31/03/21	84.60%	294,941	£501,990	£0
	Kicker award	Nil-cost option	28/03/18	87,162	31/03/21	0%	0	£0	£0

Notes:
1 Following their vesting, the above awards became subject to a two-year holding period during which they cannot normally be exercised.
2 The values shown in this column (which are included in the single total figure table for 2021) have been calculated by multiplying the number of shares that vested by £1.702, being the closing mid-market price of a share in the Company on the day such vesting occurred.
3 On the basis that the price of an ordinary share was lower at the date of vesting of these awards (£1.702) than at their date of grant (£2.11), no part of the vesting value is attributable to share price appreciation.
4 No discretions were exercised in relation to the awards set out in the above table as a result of share price appreciation or depreciation.

LTIP – Awards Exercised During 2021 (Audited)

No LTIP awards were exercised by the Executive Directors during the year to 31 December 2021.

LTIP – Other Awards Held by Executive Directors During the Year

For the sake of completeness, and in order to allow comparisons to be made with the awards granted during 2021, set out below are details of the other unvested awards under the 2017 LTIP that were held by the Executive Directors during the year:

	Date of grant	Plan	Description of award	Form of award	Basis of award granted[2]	Share price at date of grant[3]	No. of shares over which award originally granted	Face value (£000) of shares over which award originally granted[4]	% of shares over which award originally granted that vest at threshold	Vesting determined by performance over three years until...
Directors										
Simon Thomson	13/03/19	2017 LTIP	Core award	Nil-cost option	2 x base salary of £576,844	£1.677	687,947	£1,154	25%	12/03/22
	13/03/19	2017 LTIP	Kicker award	Nil-cost option	0.5 x base salary of £576,844	£1.677	171,986	£288	100%	12/03/22
	28/07/20	2017 LTIP	Core award	Nil-cost option	1.6 x base salary of £586,650	£1.323	709,478	£939	25%	27/07/23
	28/07/20	2017 LTIP	Kicker award	Nil-cost option	0.4 x base salary of £586,650	£1.323	177,369	£235	100%	27/07/23
James Smith	13/03/19	2017 LTIP	Core award	Nil-cost option	2 x base salary of £375,183	£1.677	447,444	£750	25%	12/03/22
	13/03/19	2017 LTIP	Kicker award	Nil-cost option	0.5 x base salary of £375,183	£1.677	111,861	£188	100%	12/03/22
	28/07/20	2017 LTIP	Core award	Nil-cost option	1.6 x base salary of £381,561	£1.323	461,449	£611	25%	27/07/23
	28/07/20	2017 LTIP	Kicker award	Nil-cost option	0.4 x base salary of £381,561	£1.323	115,362	£153	100%	27/07/23

Notes:
1 Further details of the performance conditions that apply to these awards are set out on page 121.
2 Capricorn's normal practice is to grant awards on the basis of 2 x salary (in the case of the 'core' award) and 0.5 x salary (for the 'kicker' award). The reduced grant levels in 2020 reflected the fact that, at the time those awards were made, Capricorn had experienced a material fall in its share price (when compared to the pre-COVID-19 level). Further information on this issue was set out in last year's Directors' Remuneration Report.
3 This figure represents the closing mid-market price of a share in the Company for the dealing day immediately preceding the relevant date of grant.
4 The values shown in this column have been calculated by multiplying the relevant 'number of shares over which the award was originally granted' by the appropriate 'share price at date of grant'.
5 During 2021, no changes were made to the exercise prices of the above awards or the date on which they will become exercisable.

Directors' Remuneration Report continued

Comparator Group Companies Applicable to LTIP Awards

The table below provides details of the comparator groups applicable to each tranche of awards granted under the 2017 LTIP to Executive Directors that were outstanding during 2021.

	Comparator group applicable to LTIP awards granted on....			
Company	28/03/18	13/03/19	28/07/20	17/03/21
Africa Oil Corp.	✓	✓	✓	✓
Aker BP ASA	✓	✓	✓	✓
DNO ASA	✓	✓	✓	✓
Energean PLC (formerly named Energean Oil & Gas PLC)		✓	✓	✓
EnQuest PLC	✓	✓	✓	✓
Faroe Petroleum PLC*	✓			
Genel Energy PLC	✓	✓	✓	✓
Harbour Energy PLC (formerly named Premier Oil PLC)	✓	✓	✓	✓
Hurricane Energy PLC		✓	✓	✓
Kosmos Energy Limited	✓	✓	✓	✓
Lundin Energy AB (formerly named Lundin Petroleum AB)	✓	✓	✓	✓
Nostrum Oil & Gas PLC	✓	✓	✓	✓
Ophir Energy PLC*	✓			
Pharos Energy PLC (formerly named SOCO International PLC)	✓	✓	✓	✓
Rockhopper Exploration PLC	✓	✓	✓	✓
Santos Limited	✓	✓	✓	✓
Seplat Energy PLC (formerly named Seplat Petroleum Development Company PLC)	✓	✓	✓	✓
Sound Energy PLC	✓	✓	✓	✓
Tullow Oil PLC	✓	✓	✓	✓

* Denotes companies that have delisted during the applicable performance period. For awards granted under the 2017 LTIP, the committee's normal policy is to remove from the relevant comparator group any company that has delisted less than half way through the applicable performance period. For delistings that occur after that time, the relevant company is retained and moved in line with the remaining members of the group.

Participation of Executive Directors in All-Employee Share Schemes During 2021

Introduction

In order to encourage increased levels of long-term share ownership amongst its general employee population, the Company launched an HM Revenue and Customs approved SIP in April 2010. The SIP provides eligible employees, including the Executive Directors, with the following benefits:

– 'Partnership shares' – employees can authorise deductions of up to £1,800 per tax year from pre-tax salary, which are then used to acquire ordinary shares on their behalf.
– 'Matching shares' – the Company can award further free shares to all participants who acquire partnership shares on the basis of up to two matching shares for every one partnership share purchased. For the tax year 2021/2022, the Company awarded two matching shares for every one partnership share purchased and intends to continue using this award ratio for the tax year 2022/2023.
– 'Free shares' – employees can be given up to £3,600 worth of ordinary shares free in each tax year. On 15 April 2021, an award of free shares was made to employees.

In certain circumstances, the rules of the SIP also allow participants to reinvest dividends paid on their plan shares in further 'dividend shares'.

As the SIP is an 'all-employee' arrangement, no performance conditions are imposed in relation to any matching or free shares awarded pursuant to its terms.

Details of Executive Directors' SIP Participation in 2021

Details of the shares purchased by and awarded to the Executive Directors under the SIP during the course of the year are as follows:

	Total SIP shares held at 01/01/21	Total SIP shares held following share capital consolidation on 11/01/21[1]	Dividend shares purchased on 02/02/21 at a price of £1.773 per share[2]	Free shares awarded on 15/04/21 at a price of £1.70 per share	Partnership shares awarded on 06/05/21 at a price of £1.734 per share	Matching shares awarded on 06/05/21 at a price of £1.734 per share	Total SIP shares held at 31/12/21
Directors							
Simon Thomson	34,536	29,222	6,233	2,116	1,038	2,076	40,685
James Smith	26,241	22,203	0	2,116	1,038	2,076	27,433

Notes:
1 All participants in the SIP (including the above Executive Directors) are the beneficial owners of the shares purchased by and awarded to them under the plan. As a consequence, they benefited from the return of cash (and were subject to the associated share capital consolidation) that was approved by the Company's shareholders at the general meeting held on 8 January 2021.
2 As highlighted in the Chair's Annual Statement on page 108, the committee decided to give participants in the SIP the ability, if they so wished, to reinvest the January 2021 special dividend that was paid in respect of their plan holding in further "dividend shares". Simon Thomson elected for this reinvestment approach whereas James Smith did not.

The total number of shares held by each of the current Executive Directors under the SIP is included in their beneficial shareholdings disclosed in the Directors' Report on page 140.

Shareholding Guidelines for Directors (Audited)

A formal share ownership policy for Executive Directors has been in place for a number of years under which they are required, during employment, to build up and maintain a target holding, currently equal to 200% of salary. In addition, and with effect from 14 May 2020, being the date the Directors' Remuneration Policy set out on pages 130 to 139 was approved by shareholders, Executive Directors (and certain other senior managers) are normally obliged to maintain a specified holding of shares for a period of two years following cessation of employment. Further details of the terms of this policy are set out on page 136.

The following table discloses the beneficial interest of each director in the ordinary shares of the Company as at 31 December 2021 (or date of cessation of directorship, if earlier). It also highlights the fact that, on 1 January 2022, the 'in service' element of the above shareholding requirements were satisfied by Simon Thomson, Chief Executive, but not by James Smith, CFO. As publicly announced at the time, James Smith was permitted to dispose of a total of 443,725 shares across 3 and 4 November 2021 as part of his personal arrangements given the then anticipated special dividend arising from the receipt of the Indian tax refund. Immediately prior to this disposal, the value of his holding for the purposes of the 'in service' requirement detailed above (which included the net-of-tax value of his vested but unexercised LTIP awards set out in the table below) was equal to approximately 346% of salary and immediately following it was approximately 122% of salary.

It is currently anticipated (based on the Company's most recent projections and valuing shares using the average share price for the period of 90 days up to and including 28 February 2022) that, following the vesting of Mr Smith's LTIP award originally granted on 13 March 2019 (which is scheduled to occur in mid-March 2022), his holding for the purposes of the "in service" requirement will increase to 206% of salary, thereby bringing him back into full compliance. To the extent that this does not prove to be the case, it is envisaged that, within a year of completion of the return of value (and in fulfilment of undertakings given at the time he originally received the permission), Mr Smith will take the steps necessary to ensure that he is once again in compliance with the director shareholding requirements.

	Shares held			Awards over shares under the LTIP			Compliance with shareholding requirements	
							In service requirement	Post cessation requirement
	Ordinary shares[2]	Ordinary shares held in the SIP[3]	Total holding of ordinary shares	Ordinary shares subject to vested but unexercised awards[4]	Ordinary shares subject to unvested awards[5]	Total interest in ordinary shares	Value of holding as a % of salary on 1 January 2021[6 7]	Value of holding as a % of salary on 1 January 2021[6 8]
Executive Directors								
Simon Thomson	1,109,634	40,685	1,150,319	629,600	2,569,262	4,349,181	454%	101%
James Smith	0	27,433	27,433	409,496	1,671,063	2,107,992	114%	101%
Non-Executive Directors								
Nicoletta Giadrossi	–	–	–	–	–	–	–	–
Peter Kallos	9,292	–	9,292	–	–	9,292	–	–
Keith Lough	–	–	–	–	–	–	–	–
Alison Wood	–	–	–	–	–	–	–	–
Catherine Krajicek	–	–	–	–	–	–	–	–
Erik B. Daugbjerg	–	–	–	–	–	–	–	–
	1,118,926	**68,118**	**1,187,044**	**1,039,096**	**4,240,325**	**6,466,465**		

Notes:
1 Details of the Company's share ownership policies for Executive Directors are set out on page 136.
2 Includes shares held by connected persons.
3 Under the rules of the SIP, certain shares awarded to participants must be retained in the plan for a specified 'holding period' of up to five years. The receipt of these shares is not subject to the satisfaction of performance conditions.
4 This column shows all vested but unexercised awards under the LTIP that were held by the director concerned as at 31 December 2021.
5 This column shows all unvested and outstanding awards under the LTIP that were held by the director concerned as at 31 December 2021 (i.e. including those granted during the year). Details of these entitlements, the vesting of which is subject to the satisfaction of performance conditions, are set out on pages 121 to 123.
6 Share price used is the average share price for the period of 90 days up to and including 31 December 2021.
7 This holding includes (i) all shares currently held by the individual; and (ii) the net-of-tax number of all shares subject to vested but unexercised LTIP awards.
8 This holding includes the net-of-tax number of all shares subject to vested but unexercised LTIP awards.

Directors' Remuneration Report continued

Dilution of Share Capital Pursuant to Share Plans During 2021

In any 10-year rolling period, the number of ordinary shares which may be issued in connection with the Company's 'discretionary share plans' (which includes the LTIP and the share option/award schemes used to incentivise less senior employees) cannot exceed 5% of the Company's issued ordinary share capital.

In addition, in any 10-year rolling period, the number of ordinary shares which may be issued in connection with all of the Company's employee share schemes (whether discretionary or otherwise) cannot exceed 10% of the Company's issued ordinary share capital.

It should also be noted that all shares acquired by or awarded to participants under the SIP and the Deferred Bonus Plan are existing ordinary shares purchased in the market. As a result, neither the SIP nor the Deferred Bonus Plan involves the issue of new shares or the transfer of treasury shares.

Board Appointments with Other Companies During 2021

The Board believes, in principle, in the benefits of Executive Directors accepting positions as Non-Executive Directors of other companies in order to widen their skills and knowledge for the benefit of the Company, provided that the time commitments involved are not unduly onerous. The Executive Directors are permitted to retain any fees paid for such appointments.

The appointment of any Executive Director to a non-executive position with another company must be approved by the Nomination Committee. In the case of a proposed appointment to a company within the oil and gas industry, permission will only normally be given if the two companies do not compete in the same geographical area.

Details of the non-executive positions with other companies that were held by Capricorn's Executive Directors during 2021, and the fees that were payable, are as follows:

	Position held	Fees received for the year to 31/12/21
Current directors		
Simon Thomson	Non-Executive Director, Graham's The Family Dairy Limited	**£35,000**
	Non-Executive Director, Edinburgh Art Festival	**£0**

Relative Importance of Spend on Pay

Set out below are details of the amounts of, and percentage change in, remuneration paid to or receivable by all Group employees and distributions to shareholders in the years ended 31 December 2020 and 2021.

	Financial Year 2020	Financial Year 2021	% change
Employee costs (US$m)	33.6	**36.1**	7.4%[1]
Distributions (US$m)[2]	0	**257.2**	N/A

Notes:
1 This rise in employee costs is largely attributable to the headcount increase that occurred within the business during 2021.
2 For the purposes of the above table, 'Distributions' include amounts distributed to shareholders by way of dividend and share buyback. The figure for 2021 represents the aggregate of (i) the return of cash that took place in January of that year; and (ii) the share-buybacks that occurred in the period.

Implementation of Remuneration Policy in 2022

The following table provides details of how the Company intends to implement the key elements of the current Directors' Remuneration Policy described in pages 131 to 135 during the year to 31 December 2022.

Remuneration element	Implementation during 2022
Base salary	Both of the Executive Directors received a 3% increase in base salary on 1 January 2022 – this was in line with the standard annual increase awarded to other employees on that date. After applying this increase, details of the base salaries payable to both the current Executive Directors for the year to 31 December 2022 are as follows: – Simon Thomson, Chief Executive – £610,293; and – James Smith, CFO – £396,938.
Benefits	Executive Directors will continue to receive the same benefits as in 2021.
Annual bonus	In accordance with the requirements of the policy, Executive Directors will be eligible to receive a bonus of up to 125% of base salary depending on the extent to which specified measures are satisfied over 2022. However, any bonus awarded to an Executive Director in excess of 100% of salary will be deferred into Capricorn shares for a period of three years. The whole of the Chief Executive's and CFO's 2022 bonus opportunity will be based on the Group KPIs outlined in the table on pages 128 and 129 (which also includes details of the relevant weightings and, where applicable, specific target ranges and payment scales). The overall categories and weightings for these KPIs were agreed by the Board, with the specific targets to be used for the purposes of the 2022 bonus scheme being set by the Remuneration Committee (which will also be responsible for their assessment at the end of the year). The choice of metrics for 2022 and their weightings reflects Capricorn's focus on the upstream stages of the oil and gas life cycle. In line with this focus, Capricorn does not utilise strict financial performance KPIs. Instead, relevant elements of financial performance are incorporated more broadly into the KPI structure, including our focus on retaining balance sheet strength, delivering efficient operations and maturing our developments. Some precise details of the targets and payment scale to be used for the 2022 plan are commercially sensitive and have not, therefore, been set out in the table on pages 127 and 128. However, appropriate disclosures will be included in next year's Annual Report on Remuneration.
LTIP	It is intended that, during the early part of 2022, the Executive Directors will be granted awards pursuant to the rules of the 2017 LTIP. These awards will, in aggregate, be over shares worth 250% of salary and will take the following forms: – a 'core award' over shares worth 200% of salary – the vesting of which will be dependent on relative TSR performance over a three year period versus a comparator group of peer companies (with 25% vesting for a median ranking rising on a straight-line basis to 100% vesting for upper quartile performance); and – a 'kicker award' over shares worth 50% of salary – vesting will be conditional on achieving both an upper quartile ranking in the comparator group and absolute TSR growth over the performance period of at least 100%. All shares that vest in relation to an award (whether 'core' or 'kicker') will be subject to an additional two-year holding period. It is anticipated that the comparator group against which the relative performance conditions are assessed will be the same as the one used for the purposes of the LTIP grants made in 2021, save that Serica Energy plc and Vår Energi will be added to the list for these new awards.
SIP	Executive Directors will be given the opportunity to participate in the SIP on the same terms as apply to all other eligible employees in the arrangement.
Pension	During 2022, the Company will continue to contribute 15% of basic salary on behalf of the current Executive Directors or pay them an equivalent amount of additional salary. Effective from 1 January 2023, this will reduce to 12.5%. In accordance with the policy, the rate of pension contributions for any new appointees to the Board will be capped at a level that is equal to the amount paid to the wider UK employee population.
Non-Executive Directors' fees	The annual Non-Executive Director fee for 2022 has been increased from £75,500 to £77,765. The additional annual fee for chairing the Audit and/or Remuneration Committees is unchanged at £10,000.
Chair's fees	The annual Chair's fee for 2022 has been increased from £180,000 to £185,400.

Directors' Remuneration Report continued

2022 Group KPIs

Category	KPI	Weighting	Milestone based	Target based	Scoring metric and payment scale
HSSE (8%)	**HSE Lagging Indicators** – Assessment of Lost time injury frequency (LTIF), Total recordable injury rate (TRIR) and spills to the environment across operated activities	4%		✓	Scoring is based on IOGP HSSE benchmarks across our operated portfolio of surveys and onshore and offshore wells
	HSE Leading Indicators – Safety Leadership Complete a number of Executive/ Management site visits during 2022 to embed, monitor and audit safety culture amongst our staff, contractors and joint ventures, particularly post COVID-19	4%		✓	**Threshold (0% score)** – 1 visit **Target (50% score)** – 2 or more visits **Stretch (100% score)** – 4 visits plus Group wide HSSE Day held
ESG (12%)	**Environmental** – Outline a roadmap and secure opportunities to deliver Scope 1 and 2 carbon neutrality in line with our short, medium and long-term net zero targets	5%		✓	**Threshold (0% score)** – Project(s) secured that contribute towards our 2040 target **Target (50% score)** – Project(s) secured that contributes to our 2040 target plus project(s) that contribute towards our 2030 target **Stretch (100% score)** – Project(s) secured that contribute to our 2040 target plus project(s) that contribute towards our 2030 target plus project(s) which helps to deliver improvements before 2025
	Social – Agree, establish and track social investment across the Group that helps to deliver a positive impact on the communities with which we work	3%	✓		Develop the existing framework, in line with the UN SDGs, for the social investment plans across the Group, including quantifying the overall impact of the programme(s)
	Governance – Communicate our climate change strategy, performance, and our processes for governance, risk management and target setting and carbon pricing	2%		✓	**Threshold (0% score)** – Carbon Disclosure Project (CDP) rating maintained or improved **Target (50% score)** – Carbon Disclosure Project (CDP) rating maintained or improved plus TCFD reporting requirements met **Stretch (100% score)** – Carbon Disclosure Project (CDP) rating maintained or improved plus TCFD reporting requirements met plus Sustainability Accounting Standards Board (SASB) requirements met
	Governance – Enhance our approach to Diversity & Inclusion Metric(s): (1) Complete an independent survey with staff which will provide a benchmark to D&I awareness in the oil and gas industry and the countries, where we participate; and (2) increase and further embed D&I into our culture at Board, Management and general staff levels	2%	✓		Complete the survey noted Increase and further embed D&I into our culture at Board, Management, and general staff levels

Category	KPI	Weighting	Milestone based	Target based	Scoring metric and payment scale
Exploration & New Ventures (20%)	**Prospect Maturation & Well Planning** – Mature our key exploration projects for planned drilling in 2022/23 in Egypt, UK and Mauritania	8%	✓		Gain approval from JV partners in Egypt for the Capricorn recommended prospects for drilling and the associated optimal timing (2%) Finalise prospect maturation and selection from new 3D seismic in the MNSH in UKCS, and secure approved budget funds from JV partner(s) for drilling operations in 2023 (2%) Secure a JV partner in Mauritania Block C7 with approved budget funds for drilling operations in 2023 (4%)
	Exploration Operations – Conduct our operated and non-operated exploration and appraisal activities (surveys and drilling) successfully, on time and on budget	6%		✓	**Threshold (0% score)** – Operations meet basis of design objectives **Target (50% score)** – Operations complete on time and on budget (+/- 10%) **Stretch (100% score)** – Operations complete on time and 10% less than budget
	Adding Resources – Add new commercial resources through E&A drilling, coupled with conceptual development studies	6%		✓	**Threshold (0% score)** – 0 mmboe added **Target (50% score)** – 15 mmboe added **Stretch (100% score)** – 30 mmboe added
Development and Production (20%)	**Reserves/Resource Conversion** Sanction incremental development investment to convert WI 2C Resources and 2P Undeveloped Reserves into WI 2P Producing Reserves. Metric based on net 2C Contingent Resources converted	5%		✓	**Threshold (0% score)** – 10 mmboe converted **Target (50% score)** – 15 mmboe converted **Stretch (100% score)** – 20 mmboe converted
	Delivering Production and Opex Targets – Deliver Net production targets within public market guidance issued in January 2022 in relation to Egypt (37,000 – 43,000 boepd)	10%		✓	**Threshold (0% score)** – Low end of Guidance **Target (50% score)** – Middle of Guidance **Stretch (100% score)** – At or above top end of guidance
	Deliver operating cost/boe targets within public market guidance in January 2022 in relation to Egypt (US$4.5 – US$5.5 per boe)	5%		✓	**Threshold (0% score)** – Low end of Guidance **Target (50% score)** – Middle of Guidance **Stretch (100% score)** – At or above top end of guidance
Financial Performance (20%)	Maintaining Financial Strength and flexibility	5%	✓		Maintaining a US$50m 'headroom' from existing sources of funds in all financial projections covering all currently committed and planned expenditure including capital funds for exploration, appraisal, incremental development and production opex
		5%	✓		Debt liquidity covenants or applicable facility tests met
		10%	✓		An executable funding plan presented and approved by the Board to effect the Company's strategy or as required in line with any approved acquisition.
Corporate Projects (20%)	Projects identified (including acquisitions & divestments) and agreed with the Board of strategic significance during the calendar year	20%	✓		Develop and execute plans to enhance the portfolio to: (i) increase the scale of operating cash flow (5%); (ii) diversify the cash flow generating base (5%); (iii) integrate new assets in a timely and effective manner, (5%) and (iv) achieve predetermined portfolio management projects (5%, commercially confidential)

Directors' Remuneration Report continued

Part 3 – Directors' Remuneration Policy

Introduction

At the AGM held on 14 May 2020, shareholders overwhelmingly approved a new Directors' Remuneration Policy for the Company. This policy, which specifies the various pay structures operated by the Company and summarises the approach that the committee will adopt in certain circumstances such as the recruitment of new directors and/or the making of any payments for loss of office, became effective immediately on receipt of that approval and was applied by the committee during 2021. This policy will also be operative throughout 2022.

Although not required by the Regulations, the substantive terms of the above Directors' Remuneration Policy are repeated in this Part 3 for ease of reference. However, any details that were specific to 2020 or earlier years (including, for example, any disclosures relating to the decision-making process that was followed for determining the new policy and the illustrative remuneration scenarios set out on pages 136 to 137) have, where applicable, been either omitted or updated to reflect the current position. The policy as originally approved by shareholders can be found on pages 97 to 106 of the 2019 Annual Report and Accounts, a copy of which is available on the Company website.

Purpose and Role of the Remuneration Committee

The Remuneration Committee determines and agrees with the Board the overall remuneration policy for the Executive Directors and the Group's PDMRs (Persons Discharging Managerial Responsibilities). Within the terms of this agreed policy, the committee is also responsible for:

– determining the total individual remuneration package for each Executive Director and the PDMRs;
– determining the level of awards made under the Company's LTIPs and employee share award schemes and the performance conditions which are to apply;
– determining the KPIs used to measure performance for the annual bonus scheme;
– determining the bonuses payable under the Company's annual bonus scheme;
– determining the vesting levels of awards under the Company's LTIPs and employee share award schemes; and
– determining the policy for pension arrangements, service agreements and termination payments for Executive Directors and PDMRs.

The committee also reviews the overall remuneration levels and incentive arrangements (including the Group-wide bonus scheme) for employees below senior management level but does not set individual remuneration amounts for such individuals. This oversight role allows the committee to take into account pay policies and employment conditions within the Group as a whole when designing the reward structures of the Executive Directors and PDMRs. For example, the committee considers the standard increase applied to basic pay across the Group when setting Executive Directors' base salaries for the same period.

The committee operates within written terms of reference agreed by the Board. These are reviewed periodically to ensure that the committee remains up-to-date with best practices appropriate to Capricorn, its strategy and the business and regulatory environment in which it operates. The current version of the terms of reference are available on the Company's website.

Consultation with Relevant Stakeholders

The committee is always keen to ensure that, in carrying out its mandate, it takes into account the views and opinions of all the relevant stakeholders in the business.

In the period before and after the 2021 AGM, the committee consulted extensively with a selection of the Company's larger institutional investors and a number of proxy agencies, in order to try and understand the reasons for the level of votes that had been cast at that meeting against the 2020 Annual Report on Remuneration. Details of the conclusions reached from this exercise, and the steps that the committee intends to take in order to address the identified concerns, are set out in the Chair's Annual Statement on page 106.

Historically, the committee has not undertaken a formal consultation exercise with employees in relation to the Group's policy on senior management remuneration. Members of staff are, however, regularly given the opportunity to raise issues on a variety of matters, including executive pay, via a number of mechanisms such as the Company's Employee Voice Forum (which is hosted by Peter Kallos, a member of the committee), the attendance of directors at team meetings and employee engagement surveys. The committee believes that this mechanism ensures that its obligations under Provision 41 of the 2018 UK Corporate Governance Code are met.

Overview of Current Remuneration Policy

Capricorn's current policy on Executive Directors' remuneration, which became effective on 14 May 2020 and which is set out below, is to ensure that it appropriately incentivises individuals to achieve the Group's strategy to deliver value for stakeholders by building and maintaining a balanced portfolio of exploration, development and production assets, whilst offering a competitive package against the market.

A description of each of the elements comprised in the pay packages for Capricorn's directors under its remuneration policy is as follows:

Policy Table – Elements of Directors' Remuneration Package

Remuneration element	Purpose and link to strategy	Operation	Opportunity	Framework for assessing performance
Base salary	Helps recruit and retain employees. Reflects individual experience and role.	Normally reviewed annually (with changes taking effect on 1 January) and/or when otherwise appropriate, including when an individual changes position or responsibility. Aim is to provide a competitive base salary relative to the market (although the committee does not place undue emphasis on benchmarking data and exercises its own judgement in determining pay levels). Decision influenced by: – role and experience; – average change in broader workforce salaries; – individual performance; and – remuneration practices in companies of a broadly similar size and value and relevant oil and gas exploration and production companies.	Whilst the committee has not set a monetary maximum, annual increases will not exceed the level of standard increase awarded to other employees except that more significant increases may be awarded at the discretion of the committee in connection with: – an increase in the scope and responsibility of the individual's role; or – the individual's development and performance in the role following appointment; or – a re-alignment with market rates.	None
Benefits	Helps recruit and retain employees.	Directors are entitled to a competitive package of benefits. For UK executives, the major elements include a company car, permanent health insurance, private health insurance, death-in-service benefit and a gym and fitness allowance. The committee reserves the right to provide further benefits where this is appropriate in the individual's particular circumstances (for example costs associated with relocation as a result of the director's role with the Company). Executive Directors are also eligible for other benefits which are introduced for the wider workforce on broadly similar terms.	Company cars up to a value of £70,000 (or, as an alternative, an annual car allowance of up to £8,771) may be provided. Other benefits are intended to be market competitive. The committee has not set a monetary maximum for other benefits as the cost of these may vary from time to time.	None

Directors' Remuneration Report continued

Remuneration element	Purpose and link to strategy	Operation	Opportunity	Framework for assessing performance
Annual bonus	Rewards the achievement of annual KPIs and/or other objectives linked to the Company's strategic goals.	Bonuses are awarded by reference to performance against specific targets measured over a single financial year. Any amounts awarded to an individual under this arrangement up to 100% of salary are paid out in full shortly after the assessment of the performance targets has been completed. The remainder of the bonus will be deferred into an award of shares for a three-year period, or such other period as determined by the committee. Annual bonuses may be subject to clawback, and the extent to which deferred share awards vest may be reduced, if certain events occur in the period of three years from the end of the relevant financial year. These include the committee becoming aware of: – a material misstatement of the Company's financial results; – an error in the calculation of performance targets which, had it been known at the relevant time, would have reasonably been expected to have resulted in a lower award being made; – an act committed by the relevant participant that has (or could have) resulted in summary dismissal by reason of gross misconduct; or – a corporate failure which arose due to the conduct of management and which has resulted in the appointment of a liquidator or administrator. The detailed terms of the clawback mechanism applicable to the cash element of any annual bonus award are set out in an individual agreement entered into between the Company and the relevant Executive Director. This provides the committee with a variety of alternative means by which value can be recovered including: – the reduction of future bonus awards; – the application of a reduction in the number of shares in respect of which share awards would otherwise vest or be exercisable; and – requiring the individual to make a cash payment to the Company.	Maximum % of salary: 125%	The measures and targets applicable to the annual bonus scheme (and the different weightings ascribed to each of them) are set annually by the committee in order to ensure they are relevant to participants and take account of the most up-to-date business plan and strategy. All, or a significant majority, of the bonus opportunity will normally be determined by reference to performance against demanding Group KPIs such as: – exploration and new venture objectives; – development and production targets; and – HSE. The remaining part of a director's bonus (if any) will normally be based on the achievement of personal objectives relevant to that individual's role within the business. Where possible, a payment scale (ranging from 0% at 'threshold', not more than 50% at 'target' and 100% at 'maximum') for different levels of achievement against each KPI and/or other objective is specified by the committee at the outset of each year. The committee has discretion to vary the measures and weightings during the year if events arise which mean that it would be inappropriate to continue with the originally prescribed structure. The committee expects that this discretion will only be exercised in exceptional circumstances and not to make the bonus scheme for that year less demanding than when it was originally set. In addition, the committee has discretion to ensure that the ultimate bonus payment for a financial year is fair and reasonable and properly reflects performance over that period.

Remuneration element	Purpose and link to strategy	Operation	Opportunity	Framework for assessing performance
2017 Long-Term Incentive Plan (or 2017 LTIP)	Incentivises Executive Directors to deliver long-term performance for the benefit of shareholders, thereby aligning the interests of the directors with those of the Company's investors.	The 2017 LTIP was established by the Company following receipt of the necessary shareholder approvals at the 2017 AGM. Awards will normally be made annually with vesting dependent on achievement of performance conditions chosen by the committee that are measured over a period of at least three years. Vesting of awards will generally take place on the third anniversary of grant or, if later, the date on which the performance conditions are assessed by the committee. All awards that vest will normally be subject to a holding period in terms of which the relevant shares will only be released/become exercisable after a further period of at least two years has expired from the vesting date. The committee reviews the quantum of awards annually, taking into account factors such as market rates and overall remuneration. The committee also retains the discretion to adjust award levels in circumstances where there has been a significant movement in the Company's share price. Under the rules of the 2017 LTIP, awards may be subject to malus and/or clawback provisions if certain events occur after their grant but before the expiry of the period of three years from the end of the relevant performance period. For awards vesting on or after 1 January 2020, these events include: – the committee becoming aware of a material misstatement of the Company's financial results; – the committee becoming aware of an error in the calculation of performance targets which, had it been known at the relevant time, would have reasonably been expected to have resulted in a lower award being made; – the relevant participant committing an act that has (or could have) resulted in summary dismissal by reason of gross misconduct; or – a corporate failure arising, due to the conduct of management, which has resulted in the appointment of a liquidator or administrator.	Normal total maximum % of salary: 250%.	Vesting of awards granted under the 2017 LTIP will be determined by the growth in Total Shareholder Return (TSR) of Capricorn over a performance period of at least three years. Awards up to 200% of salary (the 'core award') will be subject to TSR performance measured relative to a comparator group selected by the committee, with no more than 25% vesting at median and 100% for at least upper quartile performance. In order to focus on exploration success which leads to a material increase in the share price, once performance for the 'core award' has been fully achieved, an additional element of up to 50% of salary can be earned if absolute TSR growth over the same performance period equals or exceeds 100% (the 'kicker award'). The committee retains the discretion to reduce the vesting level produced by the formulaic operation of the TSR conditions in circumstances where, based on its independent judgement, it considers it appropriate to do so (e.g. where the outturn from the assessment of the prescribed targets is not, in the committee's view, a genuine reflection of the underlying performance of the Company). Although the committee's intention is that the above conditions will be applied to LTIP awards granted in 2022, it may decide to impose different (but equally challenging) conditions in future years. The committee will consult with major shareholders prior to making any such decision and will ensure that the vesting of at least 50% of all awards granted under the LTIP continues to be determined by reference to the Company's TSR performance.

Directors' Remuneration Report continued

Remuneration element	Purpose and link to strategy	Operation	Opportunity	Framework for assessing performance
Share Incentive Plan (or SIP)	Encourages a broad range of employees to become long-term shareholders.	The Company established an HM Revenue and Customs approved share incentive plan in April 2010. It allows the Company to provide eligible employees, including the Executive Directors, with some or all of the following benefits: – partnership shares acquired using deductions from salary; – matching shares awarded to those employees who purchase partnership shares on the basis of a ratio specified by the Company; and – free shares. Matching and free shares awarded under the SIP must normally be held in the plan for a specified period.	Participation limits are those set by the UK tax authorities from time to time. These limits are currently as follows: – Partnership shares: up to £1,800 per tax year can be deducted from salary. – Matching shares: up to two matching shares for every one partnership share purchased. – Free shares: up to £3,600 worth in each tax year.	None
Pension	Rewards sustained contribution.	The Company operates a defined contribution group personal pension plan in the UK. The scheme is non-contributory and all UK permanent employees, including the Executive Directors, are eligible to participate. The Company contributes a specified percentage of basic annual salary for senior employees, including Executive Directors. Where an Executive Director has an individual personal pension plan (or overseas equivalent), the Company pays its contribution to that arrangement. If an Executive Director's pension arrangements are fully funded or applicable statutory limits are reached, an amount equal to the Company's contribution (or the balance thereof) is paid in the form of additional salary.	For current Executive Directors, the Company contributes 15% of basic salary on their behalf or pays them a cash equivalent. For any future appointees to the Board, the Company's pension contributions will be capped at a level that is equal to the amount paid to the wider UK employee population (currently 10% of basic salary).	None
Share ownership policy	Aligns Executive Director and shareholder interests and reinforces long-term decision making.	During their employment, Executive Directors are obliged to build up and maintain a target holding of shares worth 200% of salary. Executive Directors are also normally required to maintain a shareholding equal to 200% of final salary for a period of two years following cessation of employment. Further details relating to both the above requirements (including the particular shares to which they relate and the enforcement mechanisms that have been put in place) are set out on page 136.	Not applicable.	None

Remuneration element	Purpose and link to strategy	Operation	Opportunity	Framework for assessing performance
Non-Executive Directors' fees	Helps recruit and retain high-quality, experienced individuals. Reflects time commitment and role.	Non-Executive Directors' fees are considered annually and are set by the executive members of the Board and the Chair taking into account a range of relevant factors including: – market practice; – time commitment; and – responsibilities associated with the roles. Additional fees are payable to the Chairs of the Audit and Remuneration Committees and may be paid for other additional responsibilities. Expenses incurred in the performance of non-executive duties for the Company may be reimbursed or paid for directly by the Company, including any tax due on the expenses.	Company's articles of association place a limit on the aggregate annual level of Non-Executive Directors' and Chair's fees (currently £900,000).	None
Chair's fees	Helps recruit and retain the relevant individual. Reflects time commitment.	The Chair's fee is considered annually and is determined in light of market practice, the time commitment and responsibilities associated with the role and other relevant factors. Expenses incurred in the performance of the Chair's duties for the Company may be reimbursed or paid for directly by the Company, including any tax due on the expenses.	Company's articles of association place a limit on the aggregate annual level of Non-Executive Directors' and Chair's fees (currently £900,000).	None

Notes:
1 A description of how the Company intends to implement the policy set out in this table during the financial year to 31 December 2022 is provided on pages 127 to 129.
2 The following differences exist between the Company's above policy for the remuneration of directors and its approach to the payment of employees generally:
– Participation in the LTIP is typically aimed at the Executive Directors and certain selected senior managers. Other employees are eligible to participate in the Employee Share Award Scheme (details of which are provided in section 4.4 of the notes to the financial statements on pages 182 to 184).
– Under the Company's defined contribution pension scheme, the Company contribution for all other employees (and any new Executive Directors appointed to the Board) is 10% of basic annual salary.
– A lower level of maximum annual bonus opportunity applies to employees other than the Executive Directors and certain PDMRs.
– Benefits offered to other employees generally comprise permanent health insurance, private health insurance, death-in-service benefit and gym and fitness allowance.
In general, these differences arise from the development of remuneration arrangements that are market competitive for the various categories of individuals. They also reflect the fact that, in the case of the Executive Directors and PDMRs, a greater emphasis is placed on variable pay.
3 The TSR performance conditions applicable to the 2017 LTIP (further details of which are provided on pages 120 and 121) were selected by the committee on the basis that they improve shareholder alignment and are consistent with the Company's objective of delivering superior levels of long-term value to shareholders. Under the terms of these performance conditions, the committee can specify the basis on which TSR for any company is calculated and has the discretion to make adjustments to this methodology to take account of exceptional circumstances, including share capital variations. Where any company becomes unsuitable as a member of the comparator group as a result of, for example, a change of control or delisting, the committee has the discretion to treat that company in such manner as it deems appropriate (including replacing it with another organisation).
4 Where a nil-cost option award under the 2017 LTIP becomes exercisable, it will generally remain so until the 10th anniversary of the date on which it was granted.
5 The choice of the performance metrics applicable to the annual bonus scheme reflect the committee's belief that any incentive compensation should be tied to appropriately challenging measures of both the overall performance of the Company against its strategic KPIs and (where appropriate) those areas that the relevant individual can directly influence.
6 The legislation applicable to the SIP does not allow performance conditions to be applied in relation to partnership or matching shares and, given that the SIP is an 'all-employee' arrangement, the Company has decided that it is currently not appropriate to apply performance conditions to free shares awarded under it, although the committee retains the discretion to apply performance conditions to future awards.

Directors' Remuneration Report continued

Shareholding Policy for Executive Directors

The committee believes that a significant level of shareholding by the Executive Directors strengthens the alignment of their interests with those of shareholders. Accordingly, the Company has a formal share ownership policy (which has been in place for a number of years) under which the Executive Directors are required to build up and maintain a target holding of 200% of salary. In order to facilitate the achievement of the above requirement, the share ownership policy provides that, until the necessary holding is achieved, an Executive Director is obliged to retain shares with a value equal to 50% of the net-of-tax gain arising from any vesting or exercise under the Company's share incentive plans.

In addition, and with effect from 14 May 2020, being the date this Directors' Remuneration Policy was approved by shareholders, Executive Directors (and certain other senior managers) are normally obliged to maintain a specified holding of shares for a period of two years following cessation of employment. In particular:

- the requirement is to maintain a post-employment holding of relevant shares equal to 200% of final salary;
- if this targeted holding has not been achieved at the point employment ceases, the requirement will apply to all relevant shares held at that time;
- 'relevant shares' will include all shares acquired by the individual on the exercise of awards that vest under any of the Company's discretionary share plans, including the LTIP and the Deferred Bonus Plan, on or after 1 January 2020 (other than those that are sold in order to satisfy tax liabilities arising on exercise);
- shares subject to awards that vest on or after 1 January 2020 but which remain unexercised (e.g. because a holding or deferral period applies), or which have been granted under the Deferred Bonus Plan, will also count as 'relevant shares', but on a net-of-tax basis;
- until such time as the 200% of salary target is achieved, any relevant shares acquired by an individual will be placed in a nominee structure;
- relevant shares held by or on behalf of an individual will also count towards the satisfaction of the existing share ownership policy that is described above;
- for the avoidance of doubt, any shares acquired by an individual other than pursuant to a discretionary share plan (e.g. purchases using his/her own resources) will not be subject to the post-employment holding requirement; and
- the committee will retain the discretion to reduce or waive the post-employment holding requirement in limited circumstances (such as on the death of the individual or where his/her personal circumstances change).

Common Terms of Share Awards

Awards under any of the Company's discretionary share plans referred to in this report may:

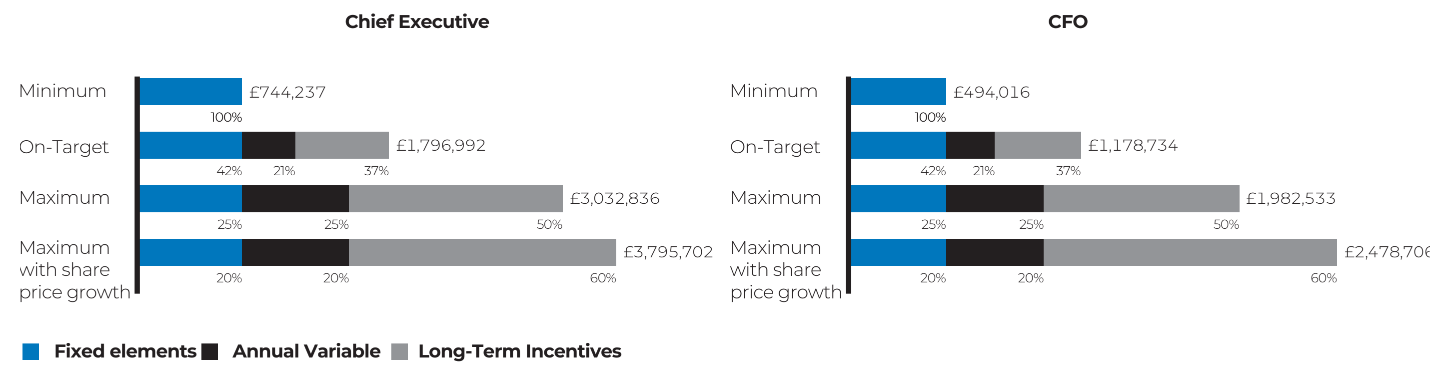
- be granted as conditional share awards or nil-cost options or in other such form that the committee determines has the same economic effect;
- have any performance conditions applicable to them amended or substituted by the committee if an event occurs which causes the committee to determine that an amended or substituted performance condition would be more appropriate and not materially less difficult to satisfy;
- incorporate the right to receive an amount (in cash or additional shares) equal to the value of dividends which would have been paid on the shares under the award that vest up to the time of vesting (or, where the award is subject to a holding period, release). This amount may be calculated assuming that the dividends have been reinvested in the Company's shares on a cumulative basis;
- be settled in cash at the committee's discretion; and
- be adjusted in the event of any variation of the Company's share capital or any demerger, delisting, special dividend or other event that may affect the Company's share price.

Legacy Awards

The committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed (i) before 15 May 2014 (the date the Company's first shareholder-approved directors' remuneration policy came into effect); (ii) before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved directors' remuneration policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a director of the Company and, in the opinion of the committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes 'payments' includes the committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

Remuneration Scenarios Relating to the Above Policy

Capricorn's pay policy seeks to ensure that the overall package of the Executive Directors is generally weighted more towards variable pay and, within such variable pay element, that greater emphasis is placed on the delivery of long-term performance through the award of long-term incentives. In the chart below, we show the make-up of remuneration of the current Executive Directors in 2022 under minimum, on-target and maximum scenarios. A further column has also been included which illustrates the impact on the figures contained in the maximum scenario of an assumed share price appreciation for the LTIP award of 50% over the relevant performance period.



In developing the above scenarios, the following assumptions have been made:

- The 'minimum' columns are intended to show the fixed level of remuneration to which the Executive Directors are entitled in 2022 irrespective of performance levels, namely base salary (at current rates), benefits (using the details set out in the 2021 single total figure table provided on page 110) and pension (calculated by applying the percentage entitlement for those individuals set out in the policy table against latest confirmed salary).
- The 'on-target' scenario seeks to illustrate the remuneration the Executive Directors would receive if performance was in line with expectation. In addition to the fixed elements summarised above, it assumes a specified level of payout/vesting under the annual bonus scheme and 2017 LTIP. In the case of the bonus scheme a 50% payout has been used. For on-target performance under the LTIP, the 'kicker' element of the award would not vest. Therefore, the illustration is based on 55% vesting of the 'core award' of 200% of salary. This vesting level is broadly equal to the percentage applied in determining the grant date 'fair value' of an LTIP award for the purposes of the Company's share-based payment charge.
- The 'maximum' columns demonstrate total remuneration levels in circumstances where the variable elements pay out in full, namely an annual bonus payment of 125% of salary (with 100% of salary paid in cash and the balance delivered in the form of a deferred share award) and 100% vesting of LTIP awards to be granted in 2022 over shares worth 250% of salary.
- For the 'maximum with share price growth' column, share price appreciation of 50% over the relevant performance period has been assumed for the LTIP awards. For all other columns, any post-grant share price movements have not been taken into account for the purposes of valuing LTIP and deferred bonus awards.
- The Executive Directors are entitled to participate in the SIP on the same basis as other employees. The value that may be received under this arrangement is subject to legislative limits and, for simplicity, has been excluded from the above chart.

Recruitment Policy

Base Salaries

Salaries for any new director hires (including internal promotions) will be set to reflect their skills and experience, the Company's intended pay positioning and the market rate for the role. Where it is appropriate to offer a below-market salary initially, the committee will have the discretion to allow phased salary increases over time for newly appointed directors, even though this may involve increases in excess of the rate for the wider workforce and inflation.

Benefits

Benefits for new appointees to the Board will normally be provided in line with those offered to other Executive Directors and employees taking account of local market practice, with relocation expenses/arrangements provided for if necessary. Tax equalisation may also be considered if an executive is adversely affected by taxation due to their employment with Capricorn. Legal fees and other reasonable costs and expenses incurred by the individual may also be paid by the Company. Pension provision for any new Executive Directors will be in accordance with the terms of the policy.

Variable Pay

For external appointments, the committee will ensure that their variable remuneration arrangements are framed in accordance with the terms of, and are subject to the limits contained in, the Company's existing policy.

The committee may however, in connection with an external recruitment, offer additional cash and/or share-based elements intended to compensate the individual for the forfeiture of any awards under variable remuneration schemes with a former employer. The design of these payments would appropriately reflect the value, nature, time horizons and performance requirements attaching to the remuneration forgone. Shareholders will be informed of any such arrangements at the time of appointment.

Where an individual is appointed to the Board, different performance measures may be set for the year of joining the Board for the annual bonus, taking into account the individual's role and responsibilities and the point in the year the executive joined.

For an internal appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment.

Chair and Non-Executive Directors

On the appointment of a new Chair or Non-Executive Director, the fees will be set taking into account a range of relevant factors including market practice, time commitment and the responsibilities associated with the role. Where specific cash or share arrangements are delivered to Non-Executive Directors, these will not include share options or other performance-related elements.

Directors' Remuneration Report continued

Executive Directors' Service Contracts

Each of the current Executive Directors has a rolling service contract with an indefinite term that contains the key elements shown in the table below:

Provision	Detailed terms
Remuneration	– Salary, pension and benefits. – Company car or cash allowance. – Permanent health insurance. – Private health insurance for director and dependants. – Death-in-service benefits. – 30 days' paid annual leave. – Participation in annual bonus plan, subject to plan rules. – Participation in Deferred Bonus Plan, LTIP and SIP, subject to plan rules.
Notice period[1]	– 12 months' notice by the director or by the Company.
Termination payment	– See separate disclosure below.
Restrictive covenants	– During employment and for 6 months after leaving.
Contract date	– Simon Thomson – 29 June 2011. – James Smith – 4 February 2014.

Note:
1 The committee believes that this policy on notice periods provides an appropriate balance between the need to retain the services of key individuals who will benefit the business and the need to limit the potential liabilities of the Company in the event of termination.

The Executive Directors' service contracts are available for inspection, on request, at the Company's registered office.

Exit Payment Policy for Executive Directors

Executive Directors' contracts allow for termination with contractual notice from the Company or termination with a payment in lieu of notice, at the Company's discretion. The contracts also allow for phased payments to be made on termination with an obligation on the individual to mitigate loss. Neither notice nor a payment in lieu of notice will be given in the event of gross misconduct. The committee's approach when considering payments in the event of termination is to take account of the individual circumstances including the reason for termination and the contractual obligations of both parties as well as the relevant share plan and pension scheme rules.

In the event of termination by the Company, an Executive Director would be entitled to receive an amount representing base salary and the value of benefits and pension contributions due under the individual's service contract for the notice period. Directors are not entitled to participate in any additional redundancy scheme. The committee will have the authority to settle legal claims against the Group (e.g. for unfair dismissal, discrimination or whistle-blowing) that arise on termination. The committee may also authorise the provision of outplacement services and pay reasonable legal expenses associated with the termination.

On termination of employment, the committee has discretion as to the amount of bonus payable in respect of the current year. The bonus paid would reflect the Company's and the individual's performance during that period. However, any bonus payable (in cash and/or share awards as determined by the committee) on termination would not exceed a pro-rated amount to reflect the period for which the individual had worked in the relevant year.

As a general rule, if an Executive Director ceases employment, all unvested share awards granted pursuant to the Company's deferred bonus arrangements will lapse immediately. However, if such cessation occurs by reason of death, injury, permanent disability, or because the individual's employing company or part of the business in which he/she is employed is transferred out of the Group, retirement with the agreement of the Company, or in any other circumstances determined by the committee other than where an individual has been summarily dismissed (in each case, a 'good leaver'), those awards will not lapse and will normally continue to vest at the end of the original vesting period. The committee may determine that a deferred bonus award should vest before the normal time in certain circumstances, for example where an individual has died. The committee also has the discretion to time pro-rate any awards held by such a good leaver.

As a general rule, if an Executive Director ceases employment, all unvested awards granted pursuant to the Company's 2017 LTIP will lapse immediately. However, if such cessation occurs by reason of death, injury, permanent disability, or because the individual's employing company or part of the business in which he/she is employed is transferred out of the Group, or in any other exceptional circumstances determined by the committee (in each case, a 'good leaver'), those awards will not lapse and will normally continue to vest at the end of the original performance period but only if, and to the extent that, the applicable performance conditions are satisfied. The committee may determine that an award should vest before the normal time in certain circumstances, for example where an individual has died. It is the remuneration committee's normal policy to time pro-rate any awards held by such a good leaver, although it retains the discretion to refrain from doing so in exceptional circumstances. Any holding period attached to the share awards would normally continue to apply.

If an Executive Director ceases employment, 2017 LTIP awards subject to a holding period will normally be released (or if structured as nil-cost options, become exercisable) on the original timescales. These awards will, however, lapse where cessation occurs due to the individual's gross misconduct, or if the committee considers it appropriate, the individual's bankruptcy. The committee has the discretion to accelerate the release of shares in certain circumstances, for example death.

On a change of control of the Company resulting in the termination of his employment, the current Chief Executive is entitled to compensation of a sum equal to his annual basic salary as at the date of termination of employment. As noted and explained in previous reports, the committee recognises that this provision is no longer in accordance with best practice. It was not included in the contract of the CFO that was entered into on his appointment in 2014, and will not be included in the contracts of other future appointees to the Board; however, it continues to apply to the current Chief Executive.

In the event of a change of control or winding up of the Company, treatment of share awards will be in accordance with the relevant plan rules. The committee has the discretion to disapply time pro-rating in the event of a change of control.

If there is a demerger or special dividend, the committee may allow awards to vest on the same basis as for a change of control.

Non-Executive Directors' Letters of Appointment

None of the Non-Executive Directors nor the Chair has a service contract but all have letters of appointment that set out their duties and responsibilities, the time commitment expected by the Company, and the basis on which their fees will be paid. These letters of appointment have no fixed term but can be terminated with immediate effect by either the director concerned or the Company and are subject to the Company's articles of association, which provide for the annual election or re-election by shareholders of all the Company's directors. There are no provisions for compensation payable on termination of appointment.

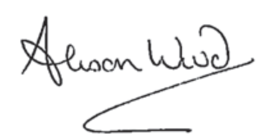
The following table sets out the dates of the letters of appointment for the Chair and each of the current Non-Executive Directors and specifies the dates on which those individuals are next subject to election or re-election:

Director	Date of original appointment	Date when next subject to election or re-election
Nicoletta Giadrossi	10 January 2017	11 May 2022
Peter Kallos	1 September 2015	11 May 2022
Keith Lough	14 May 2015	11 May 2022
Alison Wood	1 July 2019	11 May 2022
Catherine Krajicek	1 July 2019	11 May 2022
Erik B. Daugbjerg	14 May 2020	11 May 2022

None of the Non-Executive Directors nor the Chair participates in any of the Company's share schemes and they are not entitled to a bonus or pension contributions.

The Non-Executive Directors' and Chair's letters of appointment are available for inspection, on request, at the Company's registered office.

The Directors' Remuneration Report was approved by the Board on 8 March 2022 and signed on its behalf by:



Alison Wood
Chair of the Remuneration Committee

8 March 2022

Directors' Report

The Directors of Capricorn Energy PLC (registered in Scotland with Company Number SC226712) present their Annual Report and Accounts for the year ended 31 December 2021 together with the audited consolidated Financial Statements of the Group and Company for the year. These will be laid before shareholders at the AGM to be held on 11 May 2022. The Directors' Report and the Strategic Report (which includes trends and factors likely to affect future development, performance and position of the business, our Section 172 Statement and a description of the principal risks and uncertainties of the Company's Group and can be found on pages 2 to 75 and is hereby incorporated by reference), collectively comprise the management report as required under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules.

Results and Dividend
The Group made a profit after tax of US$894.5 million (2020: loss after tax of US$393.8 million).

Following completion of the sale of all of its interests in Senegal to Woodside, the Company paid a special dividend of approximately £188 million to shareholders in January 2021. The Directors do not recommend the payment of a dividend for the year ended 31 December 2021.

Strategic Report
Details of the Group's strategy and business model during the year and the information that fulfils the requirements of the Strategic Report can be found in the Strategic Report section on 2 to 75 of this document, which are deemed to form part of this report by reference.

Details of Capricorn's offices and Capricorn's advisers are given at the end of this report.

Change of Control
All of the Company's share incentive plans contain provisions relating to a change of control and further details of these plans are provided in the Directors' Remuneration Report on pages 106 to 140. Generally, outstanding options and awards will vest and become exercisable on a change of control, subject to the satisfaction of performance conditions, if applicable, at that time.

On a change of control of the Company resulting in the termination of his employment, current Chief Executive is entitled to compensation pursuant to his service contract. Further details of the relevant provisions are set out in the Directors' Remuneration Report on pages 138 to 139. There are no agreements providing for compensation to the Chief Financial Officer or to employees on a change of control and no such provision will be included in the contracts of other future appointees to the Board.

Other than in respect of the US$325m senior debt facility agreement entered into by Capricorn Egypt Limited and its partner Cheiron with Société Générale and other syndicated banks dated 24 June 2021 and the US$80m junior debt facility agreement entered into by Capricorn Egypt Limited and its partner Cheiron with Trafigura Ventures V B.V. and Deutsche Bank AG. dated 24 June 2021 (together the "Egypt Facility Agreements"), there are no significant agreements to which the Company or a member of the Group is a party that take effect, alter or terminate in the event of a change of control of the Company. In terms of each of the Egypt Facility Agreements, if there is a change of control of the Company, the majority lenders may cancel the commitments and all outstanding amounts will become immediately due and payable.

Corporate Governance
The Company's Corporate Governance Statement is set out on pages 84 to 95 and is deemed to form part of this report by reference.

Directors
The names and biographical details of the current Directors of the Company are given in the Board of Directors section on page 79. The beneficial interests of the Directors in the ordinary shares of the Company are shown below:

	As at 31 December 2020 Number of shares[1]	As at 31 December 2021 Number of shares[2]	As at 3 March 2022 Number of shares[2]
Simon Thomson	1,345,992	1,150,319	1,150,319
James Smith	550,644	27,433	27,433
Nicoletta Giadrossi	0	0	0
Keith Lough	0	0	0
Peter Kallos	10,982	9,292	9,292
Alison Wood	0	0	0
Catherine Krajicek	0	0	0
Erik B. Daugbjerg	0	0	0

Notes:
1 This number of shares reflects the shareholding of the Director prior to the 11 for 13 ordinary share capital consolidation that took place with effect from 11 January 2021 and represents ordinary shares of 231/169 pence each that were in issue at the date noted.
2 This number of shares reflects the 11 for 13 ordinary share capital consolidation that took place with effect from 11 January 2021 and represents ordinary shares of 21/13 pence each currently in issue.

Details of outstanding awards over ordinary shares in the Company held by the Directors (or any members of their families) are set out in the Directors' Remuneration Report on pages 121 to 123.

None of the Directors has a material interest in any contract, other than a service contract, with the Company or any of its subsidiary undertakings. Details of the Directors' service contracts are set out in the Directors' Remuneration Report on page 138.

Share Capital
The issued share capital of the Company is shown in section 7.1 of the notes to the Financial Statements. As at 3 March 2022, 495,518,171 ordinary shares of 21/13 pence each have been issued, are fully paid up and are quoted on the London Stock Exchange. The rights attaching to the ordinary shares are set out in the Company's Articles of Association. There are no special control rights in relation to the Company's shares and the Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

Voting Rights
The following paragraph details the position in relation to voting rights attaching to shares set out in the Company's Articles of Association. However, the Company recognises that best practice is now to hold a poll on all shareholder resolutions. It is the Company's current practice, therefore, to hold a poll and it is committed to doing so going forward.

Subject to any special rights or restrictions attaching to any class of shares, at a general meeting or class meeting, on a show of hands, every member present in person and every duly appointed proxy entitled to vote shall have one vote and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every share held by him/her. In the case of joint holders of a share, the vote of the senior member who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding. Under the Companies Act 2006, members are entitled to appoint a proxy, who need not be a member of the Company, to exercise all or any of their rights to attend and to speak and vote on their behalf at a general meeting or class meeting. A member may appoint more than one proxy in relation to a general meeting or class meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A corporation which is a member of the Company may authorise one or more individuals to act as its representative or representatives at any meeting of the Company, or at any separate meeting of the holders of any class of shares. A person so authorised shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual member of the Company.

Restrictions on Voting
No member shall, unless the Directors of the Company otherwise determine, be entitled in respect of any share held by him/her to attend or vote at a general meeting of the Company either in person or by proxy if any call or other sum presently payable by him/her to the Company in respect of shares in the Company remains unpaid. Further, if a member has been served with a notice by the Company under the Companies Act 2006 requesting information concerning interests in shares and has failed in relation to any shares to provide the Company, within 14 days of the notice, with such information, the Directors of the Company may determine that such member shall not be entitled in respect of such shares to attend or vote (either in person or by proxy) at any general meeting or at any separate general or class meeting of the holders of that class of shares. Proxy forms must be submitted not less than 48 hours (or such shorter time as the Board may determine) (excluding, at the Board's discretion, any part of any day that is not a working day) before the time appointed for the holding of the meeting or adjourned meeting or, in the case of a poll taken more than 48 hours after it was demanded, not less than 24 hours (or such shorter time as the Board may determine) before the time appointed for the taking of the poll at which it is to be used.

Variation of Rights
Whenever the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class may, subject to statute and unless otherwise expressly provided by the rights attached to the shares of that class, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. At every such separate general meeting, the quorum shall be two persons holding or representing by proxy at least one-third in nominal value of the issued shares of the class. These provisions also apply to the variation or abrogation of the special rights attached to some only of the shares of any class as if the shares concerned and the remaining shares of such class formed separate classes. The rights attached to any class of shares shall, unless otherwise expressly provided by the terms of issue of such shares or the terms upon which such shares are for the time being held, be deemed not to be varied or abrogated by the creation or issue of further shares ranking pari passu with, or subsequent to, the first mentioned shares or by the purchase by the Company of its own shares.

Transfer of Shares
Subject to any procedures set out by the Directors in accordance with the Articles of Association, all transfers of shares shall be effected by instrument in writing in any usual or common form or in any other form acceptable to the directors of the Company. The instrument of transfer shall be executed by, or on behalf of, the transferor and (except in the case of fully paid shares) by, or on behalf of, the transferee. The transferor shall be deemed to remain the holder of the shares concerned until the name of the transferee is entered in the register of members of the Company.

The Directors may, in their absolute discretion and without assigning any reason therefor, refuse to register a transfer of any share which is not a fully paid share unless such share is listed on the Official List of the UK Listing Authority and traded on the London Stock Exchange's main market for listed securities. The Directors may also refuse to register a transfer of a share in uncertificated form where the Company is entitled to refuse (or is excepted from the requirement) under the Uncertificated Securities Regulations 2001 to register the transfer and they may refuse any such transfer in favour of more than four transferees.

The Directors may also refuse to register any transfer of a share on which the Company has a lien.

The Directors may, in their absolute discretion and without assigning any reason therefore, refuse to register a transfer of any share in certificated form unless the relevant instrument of transfer is in respect of only one class of share, is duly stamped or adjudged or certified as not chargeable to stamp duty, is lodged at the transfer office or at such other place as the Directors may determine, is accompanied by the relevant share certificate(s) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer and is in favour of not more than four transferees jointly. If the Directors refuse to register a transfer, they shall, as soon as practicable and in any event within two months after the date on which the transfer was lodged with the Company (in the case of a share in certificated form) or the date on which the operator instruction (as defined in the Uncertificated Securities Regulations 2001) was received by the Company (in the case of a share in uncertificated form) (or in either case such longer or shorter period (if any) as the Listing Rules may from time to time permit or require), send to the transferee notice of the refusal.

Directors' Report continued

Major Interests in Share Capital

As at 31 December 2021 and 25 February 2022 (being the latest practicable date prior to the date of this report), the Company had received notification that shareholdings of 3% and over were as set out in the table below.

	As at 31 December 2021*	% Share Capital	As at 25 February 2022*	% Share Capital
MFS Investment Management	68,948,282	13.86	68,184,132	13.78
BlackRock	47,349,227	9.95	46,895,888	9.48
abrdn	25,888,418	5.20	27,481,042	5.55
Vanguard Group	22,288,866	4.48	17,389,093	3.51

Note:
* This number of shares reflects the 11 for 13 ordinary share capital consolidation that took place with effect from 11 January 2021 and represents ordinary shares of 21/13 pence each currently in issue.

Political Donations

No political donations were made and no political expenditure was incurred during the year.

Greenhouse Gas Emissions

Details of the Group's greenhouse gas emissions can be found in the Strategic Report section on pages 56 and 57, which are deemed to form part of this report by reference. Our response to the Streamline Energy and Carbon Reporting (SECR) framework has been provided on page 57 of this Annual Report and Accounts and is also deemed to form part of this report by reference.

Employee and Stakeholder Engagement

Details of the Company's engagement with employees and external stakeholder are noted in the Strategic Report on page 61 and in our Section 172 Statement on pages 26-29, which are hereby incorporated in this report by reference.

Financial Instruments

The financial risk management objectives and policies of the Company are detailed in Section 3.11 of the Financial Statements.

Acquisition of Own Shares

Capricorn intends to distribute up to US$700 million of the India tax refund proceeds to shareholders. Of this sum, and subject to shareholder approval, US$500 million will be returned by way of tender offer, whereby shareholders will be invited to tender some or all of their shareholding for purchase on terms that will be set out in a Circular to be posted to shareholders, and up to US$200 million will be returned by way of an ongoing share buyback programme to provide a continuing value-accretive return of capital to shareholders.

In November 2021, the Company commenced a share buyback programme of an initial amount of up to £20 million out of the planned US$200 million programme, to be purchased for cancellation. Capricorn entered into an agreement with its brokers, Morgan Stanley, to repurchase for cancellation ordinary shares in the capital of the Company on the Company's behalf and within certain pre-set parameters. As at 31 December 2021, 2,666,227 ordinary shares have been repurchased which represents approximately 0.54% of the issued share capital of the Company as at that date. The nominal value of the shares purchased as at that date is £43,069.82 and the aggregate amount of consideration paid by the Company (excluding dealing and associated costs) for those shares is £4,958,679.35.

Appointment and Replacement of Directors

The Company's articles of association provide that directors can be appointed by the Company by ordinary resolution, or by the Board. The Nomination Committee makes recommendations to the Board on the appointment and replacement of directors. Further details of the rules governing the appointment and replacement of directors are set out in the Corporate Governance Statement on page 87 and in the Company's articles of association.

Directors' Indemnities

As permitted by the Company's articles of association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined in Section 234 of the Companies Act 2006 (a 'Qualifying Third Party Indemnity Provision'). The indemnity was in force throughout the last financial year and is currently in force.

Powers of the Directors

Subject to the Company's articles of association, UK legislation and any directions given by special resolution, the business of the Company is managed by the Board. The Directors currently have powers both in relation to the issuing and buying back of the Company's shares and are seeking renewal of these powers at the forthcoming AGM.

Articles of Association

Unless expressly specified to the contrary therein, the Company's articles of association may be amended by a special resolution of the Company's shareholders.

Directors' Responsibility Statement

The Directors are responsible for preparing the Annual Report and Accounts, the Directors' Remuneration Report and the Financial Statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and parent Company Financial Statements in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006. Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the Directors to prepare the Group Financial Statements in accordance with international financial reporting standards adopted by the UK. 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 Group and the Company and of the profit or loss of the Group and Company for that period. 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 for the Group and Company, international accounting standards in conformity with the requirements of the Companies Act 2006 and, for the Group, UK-adopted international financial reporting standards have been followed, 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 Group and Company and enable them to ensure that the Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website (www.capricornenergy.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Following careful review and consideration of the Capricorn Energy PLC Annual Report and Accounts 2021 (the 'Accounts'), the Directors consider that the Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Board of Directors section on page 79, confirm that, to the best of their knowledge:

- the Group Financial Statements, which have been prepared in accordance with UK-adopted IFRS, give a true and fair view of the assets, liabilities, financial position, and loss of the Group and loss of the Company; and
- the Strategic Report section on pages 2 to 75 of this document includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Disclosure of Information to Auditors

Each of the Directors of the Company as at 8 March 2022, being the date this report is approved, confirm that, as far as they are aware, there is no relevant audit information of which the Company's auditors are unaware. In making this confirmation, the Directors have taken appropriate steps to make themselves aware of the relevant audit information and to establish that the Company's auditors are aware of this information.

AGM 2022

The AGM of the Company will be held at The Gallery, Kimpton Charlotte Square Hotel, 38 Charlotte Square, Edinburgh EH2 4HQ 12.00 noon on Wednesday, 11 May 2022. The resolutions to be proposed at the AGM are set out and fully explained in the Notice of AGM which has been posted to shareholders together with this Annual Report and Accounts. Full details are included in the Notice of AGM.

Recommendation

The Board considers that all of the resolutions to be considered at the AGM are in the best interests of the Company and its shareholders as a whole and unanimously recommends that you vote in favour of all of the proposed resolutions, as they intend to do in respect of their own beneficial shareholdings.

This Annual Report was approved by the Board of Directors and authorised for issue on 8 March 2022.

By order of the Board

Anne McSherry
Company Secretary

8 March 2022

Financial Statements

Independent Auditors' Report to the Members of Capricorn Energy PLC (Formerly Cairn Energy PLC)

Report on the audit of the financial statements

Opinion

In our opinion, Capricorn Energy PLC (Formerly Cairn Energy PLC)'s group financial statements and company financial statements (the "financial statements"):

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

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: Group and Company Balance Sheets as at 31 December 2021; Group Income Statement and Group Statement of Comprehensive Income, the Group and Company Statements of Cash Flows and the Group and Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in section 7.5, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our Audit Approach

Context

Capricorn Energy PLC is an independent, UK-based energy company, focused on oil and gas exploration, development and production. Capricorn's activities are focused in North West Europe, North and West Africa and Latin America. During the year Capricorn sold its interest in the Catcher and Kraken North Sea producing assets and acquired a working interest in production, development and exploration assets in Egypt. Capricorn's headquarters and finance team are in Edinburgh supported by a small finance team in Mexico and Egypt.

Overview

Audit Scope

– We conducted audit work on 12 components. 4 of these components were subject to a full scope audit, the remaining 8 were specified scope. All audit work was performed in the UK by PwC UK, with the exception of the Mexican component which was audited by PwC Mexico. Our audit scope covered 98% of total assets.

Key Audit Matters

– Valuation of the contingent consideration receivable from sale of North Sea Assets (group)
– Valuation of the producing assets acquired, and contingent consideration payable in Egypt (group)
– Valuation of intangible exploration/appraisal assets ('oil and gas assets') (group)
– Presentation of settlement from Government of India (group)

Materiality

– Overall group materiality: US$15,450,000 (2020: US$16,000,000) based on 1% of total assets excluding amounts receivable from the Government of India which are expected to be returned to shareholders.
– Overall company materiality: US$12,023,000 (2020: US$14,400,000) based on 1% of total assets.
– Performance materiality: US$11,600,000 (2020: US$12,000,000) (group) and US$9,017,250 (2020: US$10,800,000) (company).

The Scope of Our Audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key Audit Matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, 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, and any comments we make on the results of our procedures thereon, 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.

This is not a complete list of all risks identified by our audit.

Valuation of the contingent consideration receivable from sale of North Sea Assets and Valuation of the producing assets acquired in Egypt are new key audit matters this year. Implications of COVID-19, which was a key audit matter last year, is no longer included because of the fact it no longer represents a significant audit risk. In addition, in the current year's key audit matter, the risk associated with the impairment of assets focuses only on exploration/appraisal assets given the proximity of the acquisition of assets in Egypt to the year end as well as favourable operating and macro-economic conditions including commodity prices. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of the contingent consideration receivable from sale of North Sea Assets (group) On 8 March 2021, Capricorn agreed to sell its interests in the UK Catcher and Kraken producing assets to Waldorf Production Limited, and following approval from joint operation partners and relevant authorities the sale completed on 2 November 2021. Included in the consideration receivable for the sale is an additional contingent consideration ("earn-out consideration"), which is dependent on oil prices from 2021 to the end of 2025 and minimum production levels being achieved. Management recorded the contingent consideration at a fair value of US$197.4m at the point of the disposal, with the balance at the year end being US$189.3m. We have focused on this area given the estimation uncertainty and management judgement applied in determining key assumptions. Refer to notes 3.6 and 6.1 to the financial statements.	In auditing the valuation of the contingent consideration, we have performed the following procedures: – Confirmed terms and conditions of the contingent consideration to the sale and purchase agreement; – Obtained evidence provided by the third party operators of Kraken and Catcher to Capricorn to support the estimation of future production figures, including a comparison to historical production figures; – Assessed oil price assumptions utilised by management compared to the values determined by our Valuations specialists; – Obtained the external valuation report provided to management; – Assessed the objectivity and competence of management's experts; – Engaged our Valuation experts to assess the appropriateness of the valuation methodology and model used by management's experts to determine their fair value of the contingent consideration receivable; – Challenged and assessed managements assumption in relation to production and credit risk of the agreement; – Validated the mathematical accuracy of management's final model; – Performed sensitivities on the fair value of the contingent consideration receivable to determine the impact of changes to key assumptions; and – Assessed management's disclosures in relation to estimation uncertainty relating to the balance. We found that there was limited evidence to support the value of management's assumption in relation to additional production risk, however this risk did not materially impact the valuation. We found that management's methodology was appropriate and the other assumptions were supportable. We determined that management's disclosures were materially appropriate.
Valuation of the producing assets acquired, and contingent consideration payable in Egypt (group) Capricorn's acquisition of exploration, development and producing assets in the Western Desert, Egypt was determined to be a business combination rather than the acquisition of an asset or group of assets that does not constitute a business, having clearly identifiable inputs, processes and outputs in connection with the production and sale of hydrocarbons. The fair value of the development/producing assets acquired of US$390.2m was based on a series of assumptions which are detailed below: – Short and long term commodity prices; – Cost of carbon offsets; – Reserve estimates; – Production volume profiles; – Cost profiles and the level of price escalation; and – Discount rates. Contingent consideration payable of up to US$100m has been valued at US$62.9m at acquisition, which is dependent upon future oil prices. We have focussed on these areas due to the estimation uncertainty and management judgement applied in determining key assumptions. Refer to note 2.1 to the financial statements	We tested management's analyses of the fair values of producing assets acquired in the Western Desert, Egypt by performing the work described below: – We evaluated management's internal reserves experts for competence and objectivity and discussed their reports directly with them; – Assessed the integrity and mathematical accuracy of the acquisition model; – Compared the assumptions used within the acquisition model to approved budgets and business plans and other evidence of future intentions for the relevant assets; – Discussed reserves estimates with management's internal reserves experts and the third party reserves auditor to assess any key judgements or differences between the internal and external experts. Where there were differences, we sought explanations for these; – Benchmarked key assumptions including comparing the commodity price, inflation and discount rates used to expected ranges prepared by our own Valuation experts; – Considered the global focus on clean energy transition and climate change in the context of the key assumptions made, in particular in relation to the estimation of the cost of carbon; – Reviewed management's sensitivities and performed additional sensitivity analysis over key assumptions in the model in order to assess the potential impact of a range of possible outcomes; – Assessed the inclusion of all appropriate assets and liabilities acquired; and – Assessed management's disclosures in relation to estimation uncertainty relating to the balance. We found certain assumptions used by the group, including the long-term oil price, discount rate and inflation rate to be below our independently assessed market benchmark range, however there was not a material difference when we applied assumptions within the acceptable range. Our audit therefore focused on the sensitivity of the impairment assessments to movements in the key assumptions. We determined that management's disclosures were appropriate.

Independent Auditors' Report to the Members of Capricorn Energy PLC (Formerly Cairn Energy PLC) continued

Key audit matter	How our audit addressed the key audit matter
Valuation of the producing assets acquired, and contingent consideration payable in Egypt (group) *continued*	In auditing the valuation of the contingent consideration, we have performed the following procedures: – Confirmed that the methodology used to determine the value of contingent consideration was consistent with the terms and conditions of the sale and purchase agreement; – Assessed oil price assumptions utilised by management compared to the values determined by our Valuations specialists; and – Assessed management's disclosures in relation to estimation uncertainty relating to the balance. Based on our procedures, we determined that the methodology applied by management is appropriate and the assumptions used are within the range determined by our Valuations specialists. We found that there was limited evidence to support the value contingent consideration in relation to future exploration success, however this did not materially impact the valuation. We determined that management's disclosures were appropriate.
Valuation of intangible exploration/appraisal assets ('oil and gas assets') (group) The Group has continued to invest in its exploration and appraisal activities with a carrying value of US$98.3m at 31 December 2021. The majority of this asset is related to Western and Eastern capitalised exploration costs valued at US$65.7m and US$28.9m respectively. IFRS 6 requires management to assess exploration and appraisal assets for triggers of impairment. Management's assessment for impairment triggers conducted on the Group's capitalised exploration assets did not identify any indicators of impairment beyond the unsuccessful exploration costs and impairment charges recognised in the Group's income statement. Refer to note 2.3 to the financial statements.	We challenged management's assessment of impairment triggers for exploration and appraisal assets under IFRS 6 by considering licence conditions, the company's budgets and plans for, and results of, exploration activities. We did not identify any additional triggers that had not been identified by management.
Presentation of settlement from Government of India (group) In November 2021, the Group entered into statutory undertakings with the Government of India in respect of new legislation enabling the refund of retrospective taxes collected by India by way of asset seizures since 2014. Under the new legislation Capricorn was required to withdraw its rights under the international arbitration award and cease enforcement action. Capricorn undertook all necessary steps under the legislation and the refund of taxes of INR 79bn (approximately US$1.06bn) was received in February 2022. The Group has recorded the tax refund due as exceptional income in the results for the year ending 31 December 2021 at the exchange rate prevailing at the year end, recognising an asset of US$1,070.7m in the year end balance sheet. We have focused on this area given the management judgement associated with the presentation of this item. Refer to note 1.4 to the financial statements.	In auditing the presentation of the award, we have performed the following procedures: – Obtained the submitted forms I-IV to verify the legal status of the refund from GoI at the year end; – Inspected bank accounts to agree that the settlement was received; – Considered and assessed the presentation of the refund considering the requirements of IAS 1 and other guidance in relation to the reversal of previously recognised exceptional items; and – Reviewed the financial statements to ensure presentation and disclosure was consistent with the conclusions reached. We are satisfied that the presentation and related disclosures in relation to the settlement with the GoI are appropriate and consistent with accounting standards and other guidance.

How We Tailored the Audit Scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The Group's activities are managed centrally from Head Office, with components representing each of the geographical locations in which they operate. We have included components which accounted for the largest share of the Group's results or where we considered there to be areas of significant risk. We identified 4 components which, in our view, required an audit of their complete financial information due to their relative size or risk characteristics. The work in the remaining 8 components was determined by their individual contribution to the Group's overall financial performance or balance sheet, and their risk profile. All but one component was audited by the Group engagement team in the UK. In performing our audit, we considered the impact of climate change. This involved:
– Making enquiries of group management to obtain their risk assessment and understand the governance processes in place to address climate risk impacts;
– We also reviewed relevant board papers related to climate change;- Review of the Group's CDP submission made during 2021 and obtaining an understanding of the carbon reduction commitments made by the Group and the impact of these on the financial statements;
– Consideration of the impact on the financial statement line items and comparing this to management's assessment of the impact of climate risk on the financial statements, including the potential impact on the underlying assumptions and estimates, in particular with relation to the valuation of acquired Egyptian producing assets, refer to Key Audit Matter above; and
– Assessment of the consistency of the Task Force on Climate-Related Financial Disclosures ('TCFD') with the financial statements and knowledge obtained from our audit.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

	Financial statements – group	Financial statements – company
Overall Materiality	US$15,450,000 (2020: US$16,000,000).	US$12,023,000 (2020: US$14,400,000).
How We Determined It	1% of total assets excluding amounts receivable from the Government of India which are expected to be returned to shareholders.	1% of total assets
Rationale for Benchmark Applied	We believe that total assets excluding the amounts receivable from the Government of India which are expected to be returned to shareholders is an appropriate measure that reflects the size of the Group's operations.	The company's purpose is to hold investments in the subsidiaries of the group. The company has limited income statement transactions,therefore the appropriate benchmark for assessing materiality is total assets.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was US$325,000 to US$12,350,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to US$11,600,000 (2020: US$12,000,000) for the group financial statements and US$9,017,250 (2020: US$10,800,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above US$685,000 (group audit) (2020: US$800,000) and US$615,000 (company audit) (2020: US$720,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions Relating to Going Concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:
– Obtaining and examining management's base case forecasts and downside scenarios, checking that the forecasts have been subject to board review and approval;
– Considering the historical reliability of management forecasting for cash flow and net funds by comparing budgeted results to actual performance;
– Assessing key inputs into the model, including cost assumptions, commodity prices, production forecasts, and ensuring that these were consistent with our understanding and with the inputs used in other key accounting judgements in the financial statements;
– Performing our own independent sensitivity analysis to understand the impact of changes in cash flow on the resources available to the group;
– Reading management's paper to the Audit Committee in respect of going concern, and agreeing the forecasts set out in this paper to the underlying base case and downside scenarios;
– Obtaining and confirming the opening cash balances and the terms and conditions associated with debt facilities and ensuring these are appropriately considered in the model; and
– Assessing the mathematical accuracy of management's model.

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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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

Reporting on Other Information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

Independent Auditors' Report to the Members of Capricorn Energy PLC (Formerly Cairn Energy PLC) continued

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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate Governance Statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the Financial Statements and the Audit

Responsibilities of the Directors for the Financial Statements

As explained more fully in the Directors' Responsibility Statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 group's and 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 group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to corporate tax law and compliance with licence conditions and production sharing contracts in Egypt, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or profits. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Enquiries of management around known or suspected instances of non-compliance with laws and regulations, claims and litigation, and instances of fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Review of board minutes;
- Challenging management on judgements and on the assumptions and judgements made in their significant accounting estimates
- Identifying and testing journal entries, in particular any journal entries posted by unusual staff members including Senior Management, posted at unusual times and unusual account combinations

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of This Report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 Exception Reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- 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
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 23 May 2013 to audit the financial statements for the year ended 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement is 9 years, covering the years ended 31 December 2013 to 31 December 2021.

Other matter

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Bruce Collins (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
8 March 2022

Group Income Statement
For the year ended 31 December 2021

	Note	2021 US$m	2020 (restated) US$m
Continuing operations			
Revenue	2.2	**57.1**	0.4
Other income	2.2	**7.3**	–
Cost of sales	2.2	**(20.5)**	–
Depletion charge	2.4	**(31.2)**	–
Gross profit		**12.7**	0.4
Pre-award costs	4.2	**(15.8)**	(12.1)
Unsuccessful exploration costs	2.3	**(50.6)**	(78.8)
Impairment of intangible exploration/appraisal assets	2.3	**(19.6)**	–
Other operating income		**0.6**	1.4
Administrative and other expenses	4.3	**(58.2)**	(41.1)
Operating loss		**(130.9)**	(130.2)
Exceptional income – India tax refund	1.4	**1,070.7**	–
Fair value loss – deferred consideration on business combinations	2.1	**(7.2)**	–
Gain on financial assets at fair value through profit or loss		**5.5**	0.1
Finance income		**4.5**	0.8
Finance costs	4.5	**(68.9)**	(27.9)
Profit/(Loss) before tax from continuing operations		**873.7**	(157.2)
Taxation			
Tax charge	5.2	**(4.2)**	(0.1)
Profit/(Loss) from continuing operations		**869.5**	(157.3)
Profit/(Loss) from discontinued operations	6.1	**25.0**	(236.5)
Profit/(Loss) for the year attributable to equity holders of the Parent		**894.5**	(393.8)
Earnings per share for profit/(loss) from continuing operations:			
Profit/(Loss) per ordinary share – basic (cents)	1.3, 4.6	**175.58**	(26.99)
Profit/(Loss) per ordinary share – diluted (cents)	1.3, 4.6	**170.91**	(26.99)
Earnings per share for profit/(loss) attributable to equity holders of the Parent:			
Profit/(Loss) per ordinary share – basic (cents)	1.3, 4.6	**180.63**	(67.58)
Profit/(Loss) per ordinary share – diluted (cents)	1.3, 4.6	**175.82**	(67.58)

Group Statement of Comprehensive Income
For the year ended 31 December 2021

	Note	2021 US$m	2020 (restated) US$m
Profit/(Loss) for the year attributable to equity holders of the Parent		**894.5**	(393.8)
Other Comprehensive Income – items that may be recycled to the Income Statement			
Fair value (loss)/gain on hedge options	3.7	**(14.2)**	52.2
Hedging loss/(gain) recycled to the Income Statement	3.7	**14.9**	(56.0)
Fair value on hedge options recycled to the Income Statement on cessation of hedge accounting		**2.7**	–
Currency translation differences		**2.0**	14.7
Currency translation differences recycled on disposal of subsidiaries	4.5	**54.7**	44.6
Other Comprehensive Income for the year		**60.1**	55.5
Total Comprehensive Income/(Expense) for the year attributable to equity holders of the Parent		**954.6**	(338.3)
Total Comprehensive Income/(Expense) from:			
Continuing operations		**874.9**	(135.7)
Discontinued operations		**79.7**	(202.6)
		954.6	(338.3)

Group Balance Sheet
As at 31 December 2021

	Note	2021 US$m	2020 US$m
Non-current assets			
Goodwill	2.1	**25.4**	–
Intangible exploration/appraisal assets	2.3	**98.3**	112.1
Property, plant & equipment – development/producing assets	2.4	**373.9**	849.8
Financial assets at fair value through profit or loss	3.6	**120.4**	–
Other property, plant & equipment and intangible assets		**5.7**	11.5
		623.7	973.4
Current assets			
Cash and cash equivalents	3.1	**314.1**	569.6
Inventory	3.4	**10.8**	12.3
Trade and other receivables	3.5	**1,211.2**	74.6
Financial assets at fair value through profit or loss	3.6	**86.6**	5.2
Derivative financial instruments	3.7	**–**	0.2
		1,622.7	661.9
Total assets		**2,246.4**	1,635.3
Current liabilities			
Deferred consideration on business combinations	2.1	**20.9**	–
Loans and borrowings	3.2	**10.9**	–
Lease liabilities	3.3	**2.4**	43.2
Derivative financial instruments	3.7	**–**	3.2
Trade and other payables	3.8	**152.2**	91.6
Deferred revenue	3.9	**–**	4.8
		186.4	142.8
Non-current liabilities			
Deferred consideration on business combinations	2.1	**49.1**	–
Loans and borrowings	3.2	**166.1**	–
Lease liabilities	3.3	**1.3**	196.8
Deferred revenue	3.9	**–**	16.9
Provisions – decommissioning and well abandonment	2.5	**2.2**	153.2
Deferred tax liabilities	5.3	**42.7**	–
		261.4	366.9
Total liabilities		**447.8**	509.7
Net assets		**1,798.6**	1,125.6
Equity attributable to equity holders of the Parent			
Called-up share capital	7.1	**12.6**	12.6
Share premium	7.1	**490.9**	490.1
Shares held by ESOP/SIP Trusts	7.1a,b	**(17.5)**	(13.4)
Foreign currency translation	7.1c	**(74.1)**	(130.8)
Merger and capital reserves	7.1d	**40.9**	40.8
Hedge reserve	7.1e	**–**	(3.4)
Retained earnings		**1,345.8**	729.7
Total equity		**1,798.6**	1,125.6

The Financial Statements on pages 152 to 197 were approved by the Board of Directors on 8 March 2022 and signed on its behalf by:

James Smith
Chief Financial Officer

Simon Thomson
Chief Executive

Group Statement of Cash Flows
For the year ended 31 December 2021

	Note	2021 US$m	2020 (restated) US$m
Cash flows from operating activities:			
Profit/(Loss) before tax from continuing operations		**873.7**	(157.2)
Profit before tax from discontinued operations	6.1	**198.8**	37.7
Profit/(Loss) before tax including discontinued operations		**1,072.5**	(119.5)
Adjustments for non-cash income and expense and non-operating cash flows:			
Other income – tax entitlement volumes		**(7.3)**	–
Release of deferred revenue		**(21.7)**	(13.9)
Unsuccessful exploration costs		**50.6**	78.8
Depreciation, depletion and amortisation		**73.6**	223.1
Impairment of intangible exploration/appraisal assets		**19.6**	–
Share-based payments charge		**10.2**	9.1
Impairment of disposal group property, plant & equipment – development/producing assets		**56.0**	–
Exceptional income – India tax refund		**(1,070.7)**	–
Fair value loss – deferred consideration on business combinations		**7.2**	–
Gain on financial assets at fair value through profit or loss		**(5.5)**	(0.1)
Loss on financial assets at fair value through profit or loss – discontinued operations		**8.1**	–
Finance income		**(4.5)**	(0.8)
Finance costs		**78.7**	51.5
Adjustments to operating cash flows for movements in current assets and liabilities:			
Inventory movement		**(4.6)**	1.5
Trade and other receivables movement	3.5	**(70.8)**	16.6
Trade and other payables movement	3.8	**(11.5)**	11.6
Net cash flows from operating activities		**179.9**	257.9
Cash flows from investing activities:			
Expenditure on intangible exploration/appraisal assets		**(62.5)**	(126.7)
Expenditure on property, plant & equipment – development/producing assets		**(24.0)**	(271.4)
Expenditure on other property, plant & equipment and intangible assets		**(2.9)**	(2.7)
Expenditure on financial assets at fair value through profit and loss		**(6.9)**	–
Consideration paid for assets acquired through business combination	2.1	**(310.1)**	–
Proceeds on disposal of intangible exploration/appraisal assets – continuing operations	2.2	**23.6**	–
Proceeds on disposal of oil and gas assets – discontinued operations	6.1	**63.9**	524.8
Proceeds on disposal of purchaser bonds on sale of oil and gas assets – discontinued operations	6.1	**30.0**	–
Costs incurred on disposal of oil and gas assets	6.1	**(7.3)**	(1.7)
Proceeds on disposal of subsidiary	6.1	**–**	105.2
Costs incurred on disposal of subsidiary	6.1	**–**	(0.5)
Cash and cash equivalents included in assets of subsidiary disposed of	6.1	**–**	(2.2)
Interest received and other finance income		**0.2**	0.8
Net cash flows (used in)/from investing activities		**(296.0)**	225.6
Cash flows from financing activities:			
Return of cash to shareholders	7.2	**(257.2)**	–
Share re-purchase		**(7.8)**	–
Debt arrangement fees	3.2	**(4.6)**	(5.3)
Other interest and charges		**(5.8)**	(7.8)
Proceeds from borrowings	3.2	**181.4**	139.6
Repayment of borrowings	3.2	**–**	(139.6)
Proceeds from issue of shares		**0.9**	0.3
Cost of shares purchased	7.1a	**(8.7)**	(1.0)
Lease payments	3.3	**(46.1)**	(59.5)
Lease reimbursements	3.3	**–**	4.0
Net cash flows used in financing activities		**(147.9)**	(69.3)
Net (decrease)/increase in cash and cash equivalents		**(264.0)**	414.2
Opening cash and cash equivalents at beginning of year		**569.6**	153.7
Foreign exchange differences		**8.5**	1.7
Closing cash and cash equivalents	3.1	**314.1**	569.6

Group Statement of Changes in Equity
For the year ended 31 December 2021

	Equity share capital and share premium US$m	Shares held by ESOP/SIP Trusts US$m	Foreign currency translation US$m	Merger and capital reserves US$m	Hedge reserve US$m	Retained earnings US$m	**Total equity US$m**
At 1 January 2020	502.4	(15.8)	(190.1)	296.7	0.4	861.9	1,455.5
Loss for the year	–	–	–	–	–	(393.8)	(393.8)
Fair value gain on hedge options	–	–	–	–	52.2	–	52.2
Hedging gain recycled to the Income Statement	–	–	–	–	(56.0)	–	(56.0)
Currency translation differences	–	–	14.7	–	–	–	14.7
Currency translation differences recycled on disposal of subsidiary	–	–	44.6	–	–	–	44.6
Total comprehensive income/(expense)	–	–	59.3	–	(3.8)	(393.8)	(338.3)
Merger reserve transferred to retained earnings	–	–	–	(255.9)	–	255.9	–
Share-based payments	–	–	–	–	–	9.1	9.1
Exercise of employee share options	0.3	–	–	–	–	–	0.3
Cost of shares purchased	–	(1.0)	–	–	–	–	(1.0)
Cost of shares vesting	–	3.4	–	–	–	(3.4)	–
At 31 December 2020	502.7	(13.4)	(130.8)	40.8	(3.4)	729.7	1,125.6
Profit for the year	–	–	–	–	–	894.5	**894.5**
Fair value loss on hedge options	–	–	–	–	(14.2)	–	**(14.2)**
Hedging loss recycled to the Income Statement	–	–	–	–	14.9	–	**14.9**
Fair value on hedge options recycled on cessation of hedge accounting	–	–	–	–	2.7	–	**2.7**
Currency translation differences	–	–	2.0	–	–	–	**2.0**
Currency translation differences recycled on disposal of subsidiary	–	–	54.7	–	–	–	**54.7**
Total comprehensive income	–	–	**56.7**	–	**3.4**	**894.5**	**954.6**
Return of cash to shareholders	–	–	–	–	–	(257.2)	**(257.2)**
Share-based payments	–	–	–	–	–	10.2	**10.2**
Exercise of employee share options	0.9	–	–	–	–	–	**0.9**
Share re-purchase	(0.1)	–	–	0.1	–	(26.8)	**(26.8)**
Cost of shares purchased	–	(8.7)	–	–	–	–	**(8.7)**
Cost of shares vesting	–	4.6	–	–	–	(4.6)	**–**
At 31 December 2021	**503.5**	**(17.5)**	**(74.1)**	**40.9**	**–**	**1,345.8**	**1,798.6**

Section 1 – Basis of Preparation and Exceptional Income

This section includes the Group's general accounting policies applicable across the Financial Statements. Accounting policies specific to individual notes to the accounts are embedded in the notes themselves. This section also includes details of the exceptional income recorded on the India tax refund received in February 2022.

1.1 Accounting Policies

a) Basis of Preparation

The consolidated Financial Statements of Capricorn Energy PLC (Formerly Cairn Energy PLC) ('Capricorn' or 'the Group') for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Directors on 8 March 2022. Capricorn is a limited company incorporated and domiciled in the United Kingdom whose shares are publicly traded. The registered office is located at 50 Lothian Road, Edinburgh, Scotland, EH3 9BY. The registered company number is SC226712.

Capricorn prepares its Financial Statements on a historical cost basis, unless accounting standards require an alternate measurement basis. Where there are assets and liabilities calculated on a different basis, this fact is disclosed either in the relevant accounting policy or in the notes to the Financial Statements. The Financial Statements comply with the Companies Act 2006 as applicable to companies using International Financial Reporting Standards ('IFRS'). Accounting policies have been applied consistently across all periods disclosed.

The Group's Financial Statements are prepared on a going concern basis.

b) Accounting Standards

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Capricorn transitioned to UK-adopted International Accounting Standards in its Financial Statements on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

The Financial Statements of Capricorn have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

Effective as of 1 January 2021, Capricorn adopted the following amendments to the standards:
– Definition of Material – Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies' and
– Revised Conceptual Framework for financial reporting.

The adoption of the amendments above has had no material impact on Capricorn's results or Financial Statement disclosures.

There are no new standards or amendments issued by the IASB and endorsed under the Companies Act, that have yet to be adopted by the Group that will materially impact the Group's Financial Statements.

c) Basis of Consolidation

The consolidated Financial Statements include the results of Capricorn Energy PLC and its subsidiary undertakings to the balance sheet date. Where subsidiaries follow differing accounting policies from those of the Group, those accounting policies have been adjusted to align with those of the Group. Intercompany balances and transactions between Group companies are eliminated on consolidation, though foreign exchange differences arising on intercompany balances between subsidiaries with differing functional currencies are not offset.

The results of subsidiaries acquired or incorporated in any year are included in the Income Statement and Statement of Cash Flows from the effective date of acquisition, while the results of subsidiaries disposed of or liquidated during the year are included in the Income Statement and Statement of Cash Flows to the date at which control passes from the Group.

d) Joint Arrangements

Capricorn is a partner (joint operator) in oil and gas exploration, development and production licences which are unincorporated joint arrangements. All of the Group's current interests in these arrangements are determined to be joint operations. A full list of oil and gas licence interests can be found on page 208.

Costs incurred relating to an interest in a joint operation other than costs relating to production activities are capitalised in accordance with the Group's accounting policies for oil and gas assets as appropriate (notes 2.3 and 2.4). All the Group's intangible exploration/appraisal assets and property, plant & equipment – development/producing assets relate to interests in joint operations.

Capricorn's working capital balances relating to joint operations are included in trade and other receivables (note 3.5) and trade and other payables (note 3.8). Any share of finance income or costs generated or incurred by the joint operation is included within the appropriate income statement account.

1.1 Accounting Policies continued

e) Foreign Currencies

These Financial Statements continue to be presented in US dollars (US$), the functional currency of the Parent.

In the Financial Statements of individual Group companies, Capricorn translates foreign currency transactions into the functional currency at the rate of exchange prevailing at the transaction date (or an approximation thereof where not materially different). Monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are taken to the Income Statement except for those incurred on borrowings specifically allocable to development projects, which are capitalised as part of the cost of the asset, though there were none in either the current or preceding year.

The Group maintains the Financial Statements of the Parent and subsidiary undertakings in their functional currency. Where applicable, the Group translates subsidiary Financial Statements into the presentation currency, US$, using the closing rate method for assets and liabilities which are translated at the rate of exchange prevailing at the balance sheet date and rates at the date of transactions for income statement accounts. Capricorn takes exchange differences arising on the translation of net assets of Group companies whose functional currency is non-US$ directly to reserves.

Rates of exchange to US$1 were as follows:

	Closing 2021	YTD Average 2021	Closing 2020	YTD Average 2020
GBP	**0.739**	**0.727**	0.731	0.779

f) Exceptional Items

Where items have a significant impact on profit or loss, occur infrequently and are not part of the Group's normal operating cycle, such items may be disclosed as exceptional items on the face of the Income Statement.

1.2 Going Concern

The Directors have considered the factors relevant to support a statement of going concern. In assessing whether the going concern assumption is appropriate, the Board considered the Group cash flow forecasts under various scenarios, identifying risks and mitigating factors and ensuring the Group has sufficient funding to meet its current and contracted commitments as and when they fall due for a period of at least 12 months from the date of signing these Financial Statements. The ongoing COVID-19 pandemic has had little impact on the Group's operations, other than an initial rephasing of capital expenditure at the beginning of the pandemic.

At the balance sheet date and the date of this report, the Group has surplus cash balances which exceed the debt drawn, through new Senior Secured Borrowing and Junior debt facilities utilised to fund the Egypt acquisition.

Under both Capricorn's and the lenders base-case assumptions, the Group has sufficient resources to maintain compliance with the financial covenant associated with the facilities in terms of a twelve-month forward-looking liquidity test. Capricorn have run downside scenario assumptions including a return to sustained low oil prices, reductions to forecast production, cost overruns on planned drilling activities, and a reduction in amounts available to be drawn from borrowing facilities. Upside from the settlement of the Indian Tax dispute is not included. The Directors have a reasonable expectation that the Group will continue in operational existence for this 12-month period and have therefore used the going concern basis in preparing the Financial Statements.

The Board and Audit Committee assessments of risk and mitigants to the Group's operational existence beyond this 12-month period is included in the Viability Statement on page 47.

1.3 Restatement of Comparative Information

The Group's UK producing assets were transferred to assets and liabilities held-for-sale in March 2021 and comparative information for the year ended 31 December 2020 has been restated to present results as discontinued operations, see note 6.1. There is no restatement of comparatives for assets and liabilities classified as held-for-sale.

Following a reorganisation of the Group's asset management, exploration assets are now held in two regional units, Eastern and Western which, together with the newly acquired Egypt assets and the UK producing assets, form the four reportable segments disclosed in the segmental analysis, see note 4.1. Comparatives have been restated to reflect the revised operational structure. Exploration assets disclosures in note 2.3 have also been restated to reflect revised segments.

Section 1 – Basis of Preparation and Exceptional Income continued

1.4 Exceptional Income

Settlement of India Tax Refund

In November 2021, the Group entered into statutory undertakings with the Government of India in respect of new legislation enabling the refund of retrospective taxes collected from Capricorn in India by way of asset seizures since 2014. Under the new legislation Capricorn was required to withdraw its rights under the international arbitration award and cease enforcement action. Capricorn undertook all necessary steps under the legislation and the refund of taxes of INR 79bn (approximately US$1.06bn) was received in February 2022. The Group has recorded the tax refund due as exceptional income in the results for the year ending 31 December 2021 at the exchange rate prevailing at the year end, recognising an asset of US$1,070.7m.

On receipt of the tax refund in February 2022, the Group immediately converted the India Rupee receipt into US$. After conversion, the US$ sums received were US$1,056.1m with an exchange loss of US$14.7m recorded which will be included in the results for the year end 31 December 2022.

The presentation of the tax refund of US$1,070.7m as exceptional income within profit or loss before taxation reflects that the asset seizures in 2014, enforced by the India Income Tax Department ("IITD"), resulted in an exceptional loss on disposal of those assets which was also recorded in profit or loss before taxation. Though the proceeds seized were allocated against retrospective tax assessments raised by the IITD, and that the tax collected has now been refunded, no tax charge was ever recorded in the Group Financial Statements therefore the accounting treatment of the tax refund as a non-tax item is consistent with past disclosures.

Capricorn plans to return up to US$700.0m of the India tax refund proceeds to shareholders. US$500.0m will be returned by way of a tender offer and US$200.0m will be returned by way of an ongoing share re-purchase programme. A circular issued in early March 2022 details the shareholder resolutions required.

Section 2 – Oil and Gas Assets and Operations

This section contains details of the business combination on acquisition of the Western Desert interests in Egypt and their subsequent performance, together with changes in the Group's remaining exploration portfolio.

Significant Accounting Judgements in This Section:

Fair Value of Assets Acquired Through Business Combinations

Capricorn's acquisition of exploration, development and producing assets in the Western Desert, Egypt was determined to be a business combination rather than a combination of asset purchases, having clearly identifiable inputs, significant processes and outputs in connection with the production and sale of hydrocarbons. Specifically, the interests in joint operations acquired, including a working interest in the operating company, significantly contribute to the ability to continue producing oil and gas without significant and unavoidable additional costs to Capricorn.

In allocating fair value to assets acquired, no value has been assigned to intangible exploration/appraisal assets given the inherent risks involved in exploration for oil and gas.

Review for Indicators of Impairment on Intangible Exploration/Appraisal Assets and Property, Plant & Equipment – Development/Producing Assets

The Saasken-2 appraisal well drilled in the year on Block 10 in Mexico did not encounter hydrocarbons and as a result a possible Saasken extension into neighbouring Block 9, in which Capricorn hold a 65% interest, was reclassified from contingent resources to prospective resources. With no further firm exploration drilling planned and no contingent resources now booked, an indicator of impairment was identified and remaining costs of US$19.6m have been impaired in full. A review of all remaining exploration/appraisal assets did not identify indicators of impairment.

UK producing assets were tested for impairment prior to transfer to assets held-for-sale on 8 March 2021 and an impairment loss of US$56.0m recorded through discontinued operations. No indicator of impairment was identified on the Group's newly acquired assets in Egypt at the year end.

Key Estimates and Assumptions in This Section:

Climate Change Assumptions

Capricorn's cost of carbon assumptions are included in the fair value models used to attribute value to the assets acquired through the business combination in Egypt, detailed below. Those models will also determine the useful life-of-field assumptions for each producing asset and increasing costs of carbon could result in reduced commercial reserve volumes. Sensitivities performed on alternate carbon cost assumptions did not have a significant impact on the acquisition fair values of the assets in Egypt.

Capricorn's models have no residual value attributed to producing assets as at the end of the economic field life title passes to the Egyptian Government. There are therefore no decommissioning assets or liabilities to record. There are currently no assets that have been identified as at risk of becoming stranded.

Estimation of Hydrocarbon Reserves and Long-Term Oil Price Assumption

Oil and gas reserve volumes and related production profiles are estimated based on Capricorn's internal process manual which follows industry best practice. This represents Capricorn's best estimate of reserves as at the reporting date. Capricorn's Reserves and Resources Reporting Committee, which provides oversight, advice and guidance while providing senior level review, reports to the Group's Audit Committee before ultimately requesting approval of annual reserve volumes by the Board. Third-party audits of Capricorn's reserves and resources are conducted annually.

A change in reserve volumes could impact depletion charges and related deferred tax liabilities and indicate a possible impairment of assets.

Capricorn's long-term oil price assumption remains consistent with the prior year at US$55/bbl unescalated. The Group's short-term assumption remains linked to the forward curve over a two-year period.

Fair Value of Assets Acquired Through Business Combination

Assets acquired in Egypt through the business combination have been recognised at their fair value based on the net present value of discounted future cash flows.

The key assumptions used in the Group's discounted cash flow models reflect past experience and take account of external factors. These assumptions include:

- short/medium-term oil price based on a six-month average forward curve for two years from the balance sheet date;
- long-term oil price of US$55/bbl unescalated;
- Egypt price differentials to base oil prices;
- cost of carbon offsets in line with Capricorn's commitment to offsetting emissions and reaching net zero by 2040;
- reserve estimates of 2P discovered resource based on P50 reserve estimates;
- production profiles based on Capricorn's internal estimates including assumptions on performance of assets;
- cost profiles for future development spend and operating costs escalated at 4.0% per annum; and
- post-tax discount rates of 10%.

Section 2 – Oil and Gas Assets and Operations continued

2.1 Business Combinations

Accounting Policy

Capricorn accounts for the acquisitions of subsidiaries, or an asset or collection of assets which are determined to meet the definition of a business, using the acquisition method. The assets and liabilities acquired are measured at their fair values at the date of acquisition.

Acquisition-related costs are recognised in the Income Statement as incurred.

Where the acquisition includes any assets or liability resulting from a contingent consideration arrangement, this is to be measured at fair value at the date of acquisition.

Capricorn measures goodwill as the excess of the consideration paid over the net of the assets and liabilities acquired. Where the value of the assets acquired exceeds the consideration paid, negative goodwill arises and is recorded in the Income Statement.

Acquisition of Egyptian Business

On 24 September 2021, Capricorn Energy PLC, together with its consortium partner Cheiron Petroleum Corporation, completed the acquisition of a portfolio of upstream oil and gas production, development and exploration interests from Shell Egypt NV and Shell Austria GmbH in the Western Desert, onshore The Arab Republic of Egypt.

Capricorn Egypt, a wholly owned subsidiary of Capricorn, acquired 50% of the portfolio of interests being sold by Shell, comprising of 13 concessions, including five exploration concessions. Producing fields are split over four distinct areas, each with different characteristics and geographies: the Obaiyed Area; Badr El Din ("BED"); North East Abu Gharadig ("NEAG"); and Alam El Shawish West ("AESW").
In addition, Capricorn acquired a 25% interest in Bapetco, a joint venture company which runs operations on all of the producing concessions on behalf of the operator Cheiron. Joint Venture partners in Bapetco are EGPC (50%) and Cheiron (25%). Bapetco does not hold any assets or liabilities and all costs it incurs are allocated across the concessions, with each joint operation partner paying its share of the expense incurred.

A summary of the assets acquired is as follows:

Area	Concession & Exploration Blocks	Capricorn working interest in Concession	Partners in Concession	Operating Company	Capricorn working interest in Operating Company
Obaiyed Area	Obaiyed	50%	Cheiron (50%)	Obaiyed Petroleum Company	25%
	North Matruh	50%	Cheiron (50%)	Obaiyed Petroleum Company	25%
	North Um Baraka	50%	Cheiron (50%)	North Um Baraka Petroleum Company	25%
Badr El Din (BED)	Sitra	50%	Cheiron (50%)	Sitra Petroleum Company	25%
	BED	50%	Cheiron (50%)	Bapetco	25%
	BED 2 & 17	50%	Cheiron (50%)	Bapetco	25%
	BED 3	50%	Cheiron (50%)	Bapetco	25%
	North Alam El Shawish ("NAES")	50%	Cheiron (50%)	NAES Petroleum Company	25%
NEAG	NEAG Tiba and NEAG Extension	26%	Cheiron (26%); Apache Egypt (48%)	Tiba Petroleum Company	13%
AESW	AESW	20%	Cheiron (20%); North Petroleum International Company SA (35%); Neptune (25%)	AESW Petroleum Company	10%
Abu Sennan	South Abu Sennan	50%	Cheiron (50%)	Capricorn Egypt Limited	100%
Horus	SouthEast Horus	50%	Cheiron (50%)	Capricorn Egypt Limited	100%
El Fayium	West El Fayium	50%	Cheiron (50%)	Capricorn Egypt Limited	100%

Measurement Period Adjustments

Under IFRS 3, the measurement period is the period after the acquisition date during which an entity may adjust the provisional amounts recognised for a business combination. The measurement period provides a reasonable time to obtain the information necessary to identify and measure the identifiable assets acquired, liabilities assumed following the acquisition date and the resulting goodwill. The measurement period shall not exceed one year from the acquisition date.

At the balance sheet signing date, Capricorn continues to work with the operator on a revised medium-term development plan which will include updated cost forecasts. A material change to those cost forecasts could impact the calculation of goodwill that arises on the acquisition.

Section 2 – Oil and Gas Assets and Operations continued

2.1 Business Combinations continued

Goodwill

	2021 US$m	2020 US$m
At 1 January	–	–
Goodwill arising on acquisition	25.4	–
At 31 December	**25.4**	–

Goodwill was tested for impairment at the year end by comparing the fair value less costs of disposal of the assets to the carrying value of assets and liabilities in the Egypt segment, with no impairment arising.

Goodwill Arising on Acquisition

Goodwill of US$25.4m arises on the acquisition of the Egyptian Assets and is recorded on the Balance Sheet in the year. The recognition of goodwill is driven by the recording of deferred tax liabilities on the fair value of assets and liabilities recorded on acquisition.

Goodwill is calculated as follows:

	US$m
Property, plant & equipment – development/producing assets	390.2
Inventory	9.6
Trade and other receivables	58.1
Joint operation payables	(59.5)
Deferred tax liabilities	(45.8)
Total identifiable assets acquired at fair value	**352.6**
Cash payable	315.1
Deferred consideration	62.9
Total consideration	**378.0**
Goodwill	**25.4**

There are no decommissioning liabilities under the concession agreements in Egypt. Trade and other receivables are shown after expected credit loss. The fair value of receivables does not materially differ from the gross contractual amounts receivable.

Consideration and Costs of Acquisition

The cash consideration payable consists of US$310.1m settled on completion (including US$181.4m drawn under new loan facilities, see section 3.2) and a further US$5.0m forecast due on final settlement amounts, to be agreed with the seller. Deferred consideration of US$62.9m includes US$61.1m which is the fair value, at the date of completion, of deferred consideration of up to US$100.0m which is payable based on future oil prices. The value of this deferred consideration has been obtained using Level 2 valuations. At the year end, the fair value of this deferred consideration had increased to US$68.2m, with the fair value loss of US$7.2m charged against profit for the year.

The remaining US$1.8m of further deferred consideration relates to the fair value contingent payments of up to US$40.0m due on future exploration success on short-term exploration wells. Given the risk profile of exploration drilling the fair value at acquisition of this contingent consideration is low. This fair value is determined using Level 3 valuations.

At 31 December 2021, the total liability for deferred consideration was US$70.0m, with US$20.9m due within one year and US$49.1m due after one year.

Acquisition costs of US$4.9m are included within administration and other expenses charged to the Income Statement.

Impact on Profit for the Year

The Group's profit has reduced by US$6.7m as a result of the loss on the Egypt business from acquisition to 31 December 2021, see note 4.1.

Had the full year's results of the Egypt business been included in the Group's results to 31 December 2021, the Capricorn Group profit for the year would have increased by US$22.5m.

Sensitivity Analysis

The fair value of assets recognised on acquisition is based on the net present value of discounted future cash flows using corporate assumptions noted earlier in this section. Capricorn have performed sensitivity analysis to changes to the Group's long-term oil price, discount rate and inflation assumptions which would impact the value of the fair value of the assets recorded.

Increasing the Group's long-term oil price assumption from US$55/bbl unescalated to US$60/bbl unescalated, US$65/bbl unescalated and US$70/bbl unescalated would increase the fair value of assets recognised on acquisition to US$411.5m, US$431.0m and US$449.5m respectively. Increasing the Group discount rate assumption from 10% to 11% and 12% would reduce the value of assets recognised to US$381.7m and US$373.6m respectively. Increasing the Group inflation rate assumption from 4% to 5% and 6% would reduce the fair value of assets recognised to US$379.4m and US$368.3m respectively. Reducing the inflation rate assumption to 3% would increase the fair value of assets recognised to US$400.7m.

2.2 Gross Profit: Revenue and Cost of Sales

Accounting Policies

Revenue

Revenue from oil sales represents the Group's share of sales from its producing interests acquired in Egypt, at the point in time when ownership of the oil has passed to the buyer. On domestic sales, the point of sale is determined to be the point when oil is delivered to the communal storage tanks in the onshore facilities. Sales relating to the export of oil are recognised once the cargo is fully loaded onto a crude tanker and the necessary export documentation received. Revenue is measured using the monthly average Brent oil price, plus or minus the applicable price differential premium or discount to reach the Official Selling Price, and is recorded at fair value including expected adjustments to entitlement.

Revenue from the sale of gas in Egypt is recorded based on the volume of gas accepted each day by customers at the delivery point.

Revenue from royalties is calculated on production from fields in Mongolia.

Other Income – Tax Entitlement Volumes

Under the concession agreements in Egypt, income tax due on taxable profit is paid on Capricorn's behalf by EGPC. To achieve this through the agreements, Capricorn notionally receive a greater share of hydrocarbon production in excess of the Group's entitlement interest share of production equal to the amount required to cover the tax payable. The oil is produced and sold on Capricorn's behalf and proceeds remitted to the tax authorities. This income falls outwith the definition of revenue and is therefore shown as other income with an equal and opposite tax charge recorded through current taxation.

Commodity Price Hedging

Capricorn may hedge oil production for the Group's assets in line with hedging policies approved by the Board. Where a hedging instrument has been formally designated as a hedge for hedge accounting, changes in the intrinsic value of the hedged item and the time value of the option are recognised within Other Comprehensive Income (where the hedge is effective) based on fair value and are reclassified to the Income Statement when the hedged production itself affects profit or loss. Hedge effectiveness is assessed on a prospective basis at commencement and throughout the life of the option. Any hedge ineffectiveness identified is immediately charged to the Income Statement.

A change in the fair value of an option that is either not designated as a hedging instrument for hedge accounting or does not qualify for hedge accounting is recognised in the Income Statement either at inception or at the point the option no longer qualifies as a hedging instrument.

Cost of Sales and Inventory

Production costs include Capricorn's share of costs incurred by the joint operation in extracting oil and gas. Also included are marketing and transportation costs and loss-of-production insurance costs payable over the year.

Oil inventory is measured at market value in accordance with established industry practice.

	Year ended 31 December 2021 US$m	Year ended 31 December 2020 (restated) US$m
Oil sales	41.3	–
Gas sales	14.9	–
Revenue from oil and gas sales	**56.2**	–
Royalty income	0.9	0.4
Total revenue	**57.1**	0.4
Other Income – Tax entitlement volumes	7.3	–
Other Income	**7.3**	–
Production costs and inventory movements	(20.5)	–
Cost of sales	**(20.5)**	–
Depletion (note 2.4)	**(31.2)**	–
Gross profit	**12.7**	0.4

2.2 Gross Profit: Revenue and Cost of Sales continued

Revenue

Capricorn receives oil and gas revenue from eight producing concessions in Egypt, based on an entitlement interest. Payment terms are within 30 days from the date of the invoice for oil sales and 45 days from the date of the invoice for gas sales.

Oil and gas revenue in Egypt from acquisition on 24 September to 31 December was US$56.2m, from net entitlement production of 1.4 mmboe of which ~38% was liquids. Oil sales averaged US$77.8/boe and gas sales averaged US$2.9/mcf. Other income represents tax paid on Capricorn's behalf by EGPC, see section 5.

Production costs over the period were US$20.5m, or US$6.0/boe (on a WI basis).

2.3 Intangible Exploration/Appraisal Assets

Accounting Policy

Capricorn follows a successful efforts-based accounting policy for oil and gas assets.

Costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Income Statement as pre-award costs.

Expenditure incurred on the acquisition of a licence interest is initially capitalised on a licence-by-licence basis. Costs are held, undepleted, within intangible exploration/appraisal assets until such time as the exploration phase on the licence area is complete or commercial reserves have been discovered and a field development plan approved.

Exploration expenditure incurred in the process of determining oil and gas exploration targets is capitalised initially within intangible exploration/appraisal assets and subsequently allocated to drilling activities. Costs are recognised following a cost accumulation model where any contingent future costs on recognition of an asset are recognised only when incurred. This includes where Capricorn has entered into a 'farm-in' agreement to either acquire or part-dispose of an exploration interest.

A farm-in is an agreement in which a party agrees to acquire from one or more of the existing licencees an interest in an exploration licence, for a consideration which may consist of the performance of a specified work obligation on behalf of the existing licencees. This obligation may be subject to a monetary cap. Refund of full or partial costs incurred to date may also be included in a farm-in agreement. Where Capricorn has part-disposed of an exploration licence interest through a farm-in arrangement, a 'farm-down', the contingent consideration payable by the third party on Capricorn's behalf is not recognised in the Financial Statements. The future economic benefit which Capricorn will receive as a result of the farm-down will be dependent upon future success of any exploration drilling.

Exploration/appraisal drilling costs are capitalised on a well-by-well basis until the success or otherwise of the well has been established. The success or failure of each exploration/appraisal effort is judged on a well-by-well basis. Drilling costs are written off on completion of a well unless the results indicate that hydrocarbon reserves exist and there is a reasonable prospect that these reserves are commercial and work to confirm the commercial viability of such hydrocarbons is intended to be carried out in the foreseeable future. Where results of exploration drilling indicate the presence of hydrocarbons which are ultimately not considered commercially viable, all related costs are written off to the Income Statement.

Following appraisal of successful exploration wells, if commercial reserves are established and technical feasibility for extraction demonstrated and approved in a field development plan, then the related capitalised intangible exploration/appraisal costs are transferred into a single field cost centre within property, plant & equipment – development/producing assets, after testing for impairment (see below).

Proceeds from the disposal or farm-down of part or all of an exploration/appraisal asset are credited initially to that interest with any excess being credited to the Income Statement.

Impairment

Intangible exploration/appraisal assets are reviewed regularly for indicators of impairment and tested for impairment where such indicators exist. An indicator that one of the Group's assets may be impaired is most likely to be one of the following:

- there are no further plans to conduct exploration activities in the area;
- exploration drilling in the area has failed to discover commercial reserve volumes;
- changes in the oil price or other market conditions indicate that discoveries may no longer be commercial; or
- development proposals for appraisal assets in the pre-development stage indicate that it is unlikely that the carrying value of the exploration/appraisal asset will be recovered in full.

In such circumstances the intangible exploration/appraisal asset is allocated to any property, plant & equipment – development/producing assets within the same CGU and tested for impairment. Any impairment arising is recognised in the Income Statement for the year. Where there are no development assets within the CGU, the excess of the carrying amount of the exploration/appraisal asset over its recoverable amount is charged immediately to the Income Statement.

Section 2 – Oil and Gas Assets and Operations continued

2.3 Intangible Exploration/Appraisal Assets continued

	Egypt US$m	Eastern (restated) US$m	Western (restated) US$m	Other Capricorn Energy Group (restated) US$m	Total US$m
Cost					
At 1 January 2020	–	25.3	113.5	143.1	281.9
Additions	–	21.2	68.4	2.6	92.2
Unsuccessful exploration costs	–	(11.6)	(67.2)	–	(78.8)
Disposals	–	–	(1.5)	(145.7)	(147.2)
At 31 December 2020	–	34.9	113.2	–	148.1
Additions	6.6	12.2	61.2	–	**80.0**
Unsuccessful exploration costs	(2.9)	(18.2)	(29.5)	–	**(50.6)**
Disposals	–	–	(59.6)	–	**(59.6)**
At 31 December 2021	**3.7**	**28.9**	**85.3**	–	**117.9**
Impairment					
At 1 January 2020 and 31 December 2020	–	–	36.0	–	36.0
Charge for the year	–	–	19.6	–	**19.6**
Disposals	–	–	(36.0)	–	**(36.0)**
At 31 December 2021	**–**	**–**	**19.6**	**–**	**19.6**
Net book value					
At 31 December 2019	–	25.3	77.5	143.1	245.9
At 31 December 2020	–	34.9	77.2	–	112.1
At 31 December 2021	**3.7**	**28.9**	**65.7**	–	**98.3**

Additions to intangible exploration/appraisal assets were funded through cash and working capital.

Capricorn completed the sale of its Norwegian business in February 2020 and disposed of its 40% working interest in its Senegal exploration assets in December 2020, see note 6.1.

Egypt

Additions in Egypt of US$6.6m mainly relate to North Um Baraka and the three Capricorn operated concessions, South Abu Sennan, West El Fayium and South East Horus. No fair value was attributed to exploration assets on completion of the acquisition. Unsuccessful exploration costs of US$2.9m relate to the North Um Baraka concession, where an unsuccessful well completed in January 2022. Direct costs incurred prior to the year end have therefore been written off.

Eastern

Additions in the year of US$12.2m include US$7.9m in Mauritania Block 7, US$0.9m in Israel and US$3.4m Côte d'Ivoire.

The remaining two operated licences and the final non-operated licence in Côte d'Ivoire expired in 2021, subsequently all US$15.6m of related intangible assets were charged to the Income Statement as unsuccessful exploration costs together with US$2.6m of costs relating to licences in Israel. The closing balance of US$28.9m relates solely to Block 7 in Mauritania.

Western

Additions of US$61.2m include US$32.3m in Mexico, US$26.8m in the UK and US$2.1m in Suriname.

In Mexico, Capricorn completed the simultaneous farm-down of a 15% interest in Block 9 and farm-in of an equivalent 15% interest in Block 10, effectively creating a swap. On completion of the transactions, Capricorn paid back-costs and interim-period adjustments on Block 10 which are included within total additions of US$32.3m. The Group received US$23.6m for Block 9 back-costs and interim-period adjustments, included within disposals. Other additions in the year include US$8.9m for Block 10 where the Sayulita-1 exploration and Saasken-2 appraisal wells were drilled and US$5.6m across Blocks 7, 9 and 15.

Unsuccessful costs of US$6.0m were charged to the Income Statement for Block 15 as no further exploration activity is planned and the licence is to be relinquished. In addition, unsuccessful costs of US$4.8m were charged through the Income Statement for Block 10 following the unsuccessful Saasken-2 appraisal well. A reversal of accruals of US$3.7m was recorded for Block 7 and 9, resulting in total unsuccessful costs of US$7.1m for the year. The impairment on Block 9 is discussed below. The closing balance carried for Mexico exploration assets of US$37.8m relates to Blocks 7 and 10, with a further exploration well planned on Block 7 and the evaluation of the Saasken and Sayulita discoveries continuing on Block 10.

In the UK, additions during the year of US$13.2m, US$4.4m and US$4.8m were incurred on the Jaws (P2380 licence), Diadem (P2379 licence) and Plymouth (P2428 licence) prospects respectively, with the remaining additions of US$4.4m incurred across the rest of the UK portfolio. US$22.4m of the UK licence costs were charged to the Income Statement as unsuccessful costs in the year, including US$17.4m on the Jaws (P2380) licence, where the well completed early 2022 and proved unsuccessful. The remaining write-off balance of US$5.0m relates to the other UK licences where no further exploration activity is planned.

Section 2 – Oil and Gas Assets and Operations continued

2.3 Intangible Exploration/Appraisal Assets continued

Historic exploration costs within the Catcher development area of US$36.0m, which were previously fully impaired, were disposed of with the sale of the producing asset. The closing net book value of the UK portfolio of exploration assets is US$12.3m.

Suriname additions in the year were US$2.1m and total costs of US$15.6m remain capitalised at the year end.

Impairment Review

At the year end, Capricorn reviewed its remaining intangible exploration/appraisal assets for indicators of impairment. In Mexico, the Saasken-2 appraisal well did not encounter hydrocarbons and as a result a possible Saasken extension into neighbouring Block 9 was reclassified from contingent resources to prospective resources, indicating possible impairment. Following impairment testing, the remaining costs capitalised of US$19.6m were impaired in full. No indicator of impairment was identified on any of the Group's remaining exploration/appraisal assets.

2.4 Property, Plant & Equipment – Development/Producing Assets

Accounting Policy

Costs

All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons has been demonstrated and a development plan approved are capitalised within development/producing assets on a field-by-field basis. Subsequent expenditure is capitalised only where it either enhances the economic benefits of the development/producing asset or replaces part of the existing development/producing asset. Any remaining costs associated with the part replaced are expensed.

Costs of borrowings relating to the ongoing construction of development/producing assets and facilities are capitalised during the development phase of the project. Capitalisation ceases once the asset is ready to commence production.

Net proceeds from any disposal, part disposal or farm-down of development/producing assets are credited against the appropriate portion of previously capitalised cost. A gain or loss on disposal of a development/producing asset is recognised in the Income Statement to the extent that the net proceeds, measured at fair value, exceed or are less than the appropriate portion of the net capitalised costs.

Depletion and Amortisation

Depletion is charged on a unit-of-production basis, based on proved and probable reserves on a field-by-field basis. Fields within a single development area may be combined for depletion purposes. Where production commences prior to completion of the development, costs to be depleted include the costs-to-complete of the facility required to extract the volume of reserves recorded. Amortisation charged on right-of-use leased assets is also charged on a unit-of-production basis, based on proved and probable reserves.

Impairment

Development/producing assets are reviewed for indicators of impairment at the balance sheet date. Indicators of impairment for the Group's development assets include:
– downward revisions of reserve estimates;
– increases in cost estimates for development projects; or
– a decrease in the oil price or other negative changes in market conditions.

Impairment tests are carried out on each development/producing asset at the balance sheet date where an indicator of impairment is identified. The test compares the carrying value of an asset to its recoverable amount based on the higher of its fair value less costs of disposal or value in use. Where the fair value less costs of disposal supports the carrying value of the asset, no value-in-use calculation is performed.

If it is not possible to calculate the fair value less costs of disposal of an individual asset, the fair value less costs of disposal is calculated for the CGU containing the asset and tested against the carrying value of the assets and liabilities in the CGU for impairment. Where an asset can be tested independently for impairment, this test is performed prior to the inclusion of the asset into a CGU for further impairment tests.

If the carrying amount of the asset or CGU exceeds its recoverable amount, an impairment charge is made.

Where there has been a charge for impairment in an earlier period that charge will be reversed in a later period where there has been a change in circumstances to the extent that the recoverable amount is higher than the net book value at the time. In reversing impairment losses, the carrying amount of the asset will be increased to the lower of its original carrying value or the carrying value that would have been determined (net of depletion) had no impairment loss been recognised in prior years.

Decommissioning

At the end of the producing life of a field, costs are incurred in plugging and abandoning wells, removing subsea installations and decommissioning production facilities. Capricorn recognises the full discounted cost of decommissioning as an asset and liability when the obligation to rectify environmental damage arises. The decommissioning asset is included within property, plant & equipment – development/producing assets with the cost of the related installation. The liability is included within provisions.

Revisions to the estimated costs of decommissioning which alter the level of the provisions required are also reflected in adjustments to the decommissioning asset. The amortisation of the asset is calculated on a unit-of-production basis based on proved and probable reserves. The amortisation of the asset is included in the depletion charge in the Income Statement and the unwinding of discount of the provision is included within finance costs.

Section 2 – Oil and Gas Assets and Operations continued

2.4 Property, Plant & Equipment – Development/Producing Assets continued

	Egypt US$m	UK producing assets US$m	UK producing right-of-use leased assets US$m	Senegal US$m	Total US$m
Cost					
At 1 January 2020	–	1,138.7	316.3	378.8	1,833.8
Additions	–	35.6	–	223.2	258.8
Increase in decommissioning asset	–	3.4	–	–	3.4
Disposals	–	–	–	(602.0)	(602.0)
At 31 December 2020	–	1,177.7	316.3	–	1,494.0
Acquisitions through business combinations	390.2	–	–	–	**390.2**
Additions	14.9	–	–	–	**14.9**
Disposals	–	(1,177.7)	(316.3)	–	**(1,494.0)**
At 31 December 2021	**405.1**	**–**	**–**	**–**	**405.1**
Depletion, amortisation and impairment					
At 1 January 2020	–	350.3	78.2	–	428.5
Depletion and amortisation charges	–	166.7	49.0	–	215.7
At 31 December 2020	–	517.0	127.2	–	644.2
Depletion charge – continuing operations	31.2	–	–	–	**31.2**
Depletion and amortisation charges – discontinuing operations	–	27.1	8.2	–	**35.3**
Disposals	–	(544.1)	(135.4)	–	**(679.5)**
At 31 December 2021	**31.2**	**–**	**–**	**–**	**31.2**
Net book value					
At 31 December 2019	–	788.4	238.1	378.8	1,405.3
At 31 December 2020	–	660.7	189.1	–	849.8
At 31 December 2021	**373.9**	**–**	**–**	**–**	**373.9**

Development/producing asset costs held at the year end in Egypt represents the assets acquired through the business combination in the year, see note 2.1, and subsequent expenditure on development activities across the concessions.

The acquisition was funded through a combination of cash and borrowings, with further deferred consideration due on future oil prices. Subsequent additions on development activity were funded through cash and working capital.

In Egypt, depletion of US$31.2m was charged to the Income Statement based on entitlement interest production from 24 September 2021 to the end of the year. The costs for depletion include future capital costs-to-complete consistent with the life-of-field reserve estimates used in the calculation.

Disposals

On 8 March 2021, Capricorn entered into an agreement to sell its entire interests in the UK Catcher and Kraken producing assets. The sale completed on 2 November 2021, see section 6. Assets were re-classified as held-for-sale on 8 March 2021. US$35.3m of amortisation and depletion charges were recorded on the assets prior to re-classification. No further depletion or amortisation is charged after this date.

In 2020, Capricorn disposed of its development asset in Senegal, see section 6.

Impairment Review

A review for indicators of impairment conducted on the Group's Egyptian assets at the year end did not identify such indicators and therefore no impairment test was performed.

Section 2 – Oil and Gas Assets and Operations continued

2.5 Provisions – Decommissioning and Well Abandonment

	Exploration well abandonment US$m	Development/ Producing assets US$m	Total US$m
At 1 January 2020	1.4	139.8	141.2
Foreign exchange	0.1	4.9	5.0
Unwinding of discount – discontinued operations	–	2.9	2.9
Provided in the year	0.7	3.4	4.1
At 31 December 2020	2.2	151.0	153.2
Foreign exchange	–	2.8	**2.8**
Unwinding of discount – discontinued operations	–	0.1	**0.1**
Released on disposal (note 6.3)	–	(153.9)	**(153.9)**
At 31 December 2021	**2.2**	**–**	**2.2**

The well abandonment provision at 31 December 2021 represents the present value of costs related to P1632, the Tybalt licence. The cost provided is based on the operator's assumption that the plug and abandonment operation is performed in a campaign with a well intervention vessel, rather than drilling rig, and that there are no trapped pressures in the temporarily abandoned sections. There have been no revisions to the cost estimate during the period.

The decommissioning provision of US$153.9m for the UK producing assets was fully released after the sale of the assets on 2 November 2021.

2.6 Capital Commitments

	At 31 December 2021 US$m	At 31 December 2020 US$m
Oil and gas expenditure:		
Intangible exploration/appraisal assets	**71.8**	46.2
Property, plant & equipment – development/producing assets	**93.7**	7.9
Contracted for	**165.5**	54.1

Capital commitments represent Capricorn's share of obligations in relation to its interests in joint operations. These commitments include Capricorn's share of the capital commitments of the joint operations themselves.

The capital commitments for intangible exploration/appraisal assets include US$23.5m (2020: US$nil) in Egypt, US$34.4m (2020: US$25.9m) for operations in the UK and US$11.1m (2020: US$13.1m) for commitments in Mexico.

As at 31 December 2021, the capital commitments for property, plant & equipment – development/producing assets were solely related to Egypt operations.

As at 31 December 2020, Capricorn had US$6.0m of commitments relating to short-term leases. These amounts are also included in the total of capital commitments shown above. There were no short-term lease commitments at the 2021 balance sheet date.

Section 3 – Working Capital, Financial Instruments and Long-Term Liabilities

This section includes detail on the Group's loan facilities, movements in lease liabilities and financial assets and liabilities at the year-end. The Group's financial risk management objectives and policies are also contained in this section.

Significant Accounting Judgements and Key Estimates and Assumptions in This Section:

India Tax Refund Receivable

The Group has recorded the tax refund due from India as a receivable at the year end, see section 1.4.

Financial Assets at Fair Value Through Profit or Loss – Earn-Out Consideration

Under the sales agreement for the disposal of the Group's UK producing assets, Capricorn is entitled to earn-out consideration from the purchaser calculated on a share of future production through to 2025 on revenue in excess of US$52/bbl. The earn-out consideration is dependent on minimum annual future production levels being achieved. Capricorn have obtained market values for the oil price option and risk-adjusted for the likelihood of the minimum production levels being met. Based on the Group's production forecasts, Capricorn consider it highly probable that future production levels will be achieved and this degree of confidence is reflected in the discount applied.

3.1 Cash and Cash Equivalents

	At 31 December 2021 US$m	At 31 December 2020 US$m
Cash at bank	**84.8**	4.3
Money market funds	**229.3**	565.3
	314.1	569.6

Cash and cash equivalents earn interest at floating rates. Short-term investments are made for varying periods, which can be as short as instant access but generally not more than three months, depending on the cash requirements of the Group.

At 31 December 2020 and 2021 Capricorn invested surplus funds into money market funds.

Capricorn limits the placing of funds and other investments to banks or financial institutions that have ratings of A- or above from at least two of Moody's, Standard & Poor's or Fitch, unless a sovereign guarantee is available from a AAA- rated government. The counterparty limits vary between US$50.0m and US$200.0m depending on the ratings of the counterparty. No investments are placed with any counterparty with a five-year credit default swap exceeding 250 bps. Investments in money market liquidity funds are only made with AAA rated liquidity funds and the maximum holding in any single fund is 20% of total investments.

Section 3 – Working Capital, Financial Instruments and Long-Term Liabilities continued

3.2 Loans and Borrowings

Reconciliation of opening and closing liabilities to cash flow movements:	Year ended 31 December 2021 US$m	Year ended 31 December 2020 US$m
Opening liabilities	**–**	–
Loan advances in the year disclosed in the Cash Flow Statement:		
Senior Debt Facility	**141.4**	–
Junior Debt Facility	**40.0**	–
RBL facility	**–**	100.0
Senegal Bridge facility	**–**	39.6
	181.4	139.6
Loan repayments in the year disclosed in the Cash Flow Statement:		
RBL facility	**–**	(100.0)
Senegal Bridge facility	**–**	(39.6)
	–	(139.6)
Other movements in Cash Flow Statement:		
Debt arrangement fees	**(4.6)**	(5.3)
Non-cash movements:		
Amortisation of debt arrangement fees	**0.2**	6.3
Transfer of unamortised arrangement fees from prepayments	**–**	(8.5)
Transfer of unamortised arrangement fees to prepayments	**–**	7.5
Closing liabilities	**177.0**	–
Amounts due less than one year	**10.9**	–
Amounts due greater than one year	**166.1**	–
Closing liabilities	**177.0**	–

RBL

The Group's RBL facility was cancelled in October 2021. The facility was undrawn at 31 December 2020 and throughout the current period to cancellation. Remaining unamortised fees relating to the facility, transferred to prepayments in 2020, were charged to the Income Statement on cancellation.

Capricorn Egypt Debt Facilities

In September 2021 Capricorn Egypt Limited entered into a US$325.0m Senior Debt Facility and an US$80.0m Junior Debt Facility jointly with the joint operation partner in Egypt, Cheiron, to finance the acquisition of the Egyptian Western Desert Portfolio. The facility commitments are split 50/50 with Cheiron. An accordion feature on the Senior Facility permits additional future commitments of up to US$200.0m subject to the amortisation of investor commitments. The maximum available drawdown available to Capricorn at 31 December 2021 was US$141.4m for the Senior Debt Facility and US$40.0m for the Junior Debt Facility.

Interest on debt drawn is charged at the appropriate LIBOR for the currency drawn plus an applicable margin. The facility remains subject to biannual redeterminations, has a market standard suite of covenants and is cross-guaranteed by all Group companies party to the facility, including Cheiron. Any debt drawn is repayable in line with the amortisation of bank commitments over the period from September 2022 to the extended final maturity date of September 2026. All drawings in the year were denominated in US$.

Senegal Bridge Facility

The Senegal Bridge facility was drawn from September to December 2020, then repaid in full and cancelled on 23 December 2020 after proceeds were received from the sale of Senegal assets.

Section 3 – Working Capital, Financial Instruments and Long-Term Liabilities continued

3.3 Lease Liabilities

Accounting Policy

Lease liabilities are measured and recorded on commencement of the asset being brought into use. Measurement is based on the lower of fair value of the asset or the net present value of fixed lease commitments under the contract. Lease payments made in excess of the fixed instalments are charged direct to the Income Statement as variable lease costs.

Lease payments are allocated between capital and interest based on the rate implicit in the lease agreement. Where this is not practical to determine, the Group's incremental borrowing rate is used.

Where there are changes subsequent to initial recognition, adjustments are made to both the lease liability and the capitalised asset. The interest rate used where the rate implicit in the lease is not determinable is updated at the date of the remeasurement.

No lease liability is recognised for leases where the period over which the right-of-use of an asset is obtained is forecast to be less than 12 months. Leases for low value items are not recorded as a liability but are charged as appropriate when the benefit is obtained.

Reconciliation of opening and closing liabilities to cash flow movements:	Year ended 31 December 2021 US$m	Year ended 31 December 2020 US$m
Opening lease liabilities	**240.0**	282.9
Lease payments disclosed in the Cash Flow Statement as financing cash flows:		
Total lease payments	**(71.5)**	(82.5)
Variable lease payments – discontinued operations (note 6.1)	**25.4**	23.0
	(46.1)	(59.5)
Other movements in the Cash Flow Statement:		
Reimbursements received from lessors	**–**	4.0
Non-cash movements:		
Foreign exchange	**–**	0.3
Reimbursements due transferred from other receivables	**–**	(1.0)
Lease interest charges – continuing operations (note 4.5)	**0.3**	0.3
Lease interest charges – discontinued operations	**9.4**	13.0
Disposals (note 6.3)	**(199.9)**	–
Closing liabilities	**3.7**	240.0
Amounts due less than one year:		
Tangible development/producing assets – right-of-use assets	**–**	40.9
Other property, plant & equipment – right-of-use assets	**2.4**	2.3
	2.4	43.2
Amounts due greater than one year:		
Tangible development/producing assets – right-of-use assets	**–**	193.1
Other property, plant & equipment – right-of-use assets	**1.3**	3.7
	1.3	196.8
Total lease liabilities	**3.7**	240.0

Variable lease costs relating to discontinued operations are disclosed in note 6.1. Amortisation charges on right-of-use assets relating to property, plant & equipment – development/producing assets are disclosed in note 2.4. Amortisation charges on other right-of-use assets are disclosed in note 4.1. Costs relating to short-term leases and leases of low value assets relating to exploration and development activities are disclosed in notes 2.3 and 2.4 where material. There are no further material short-term leases or charges for leases of low value assets. The maturity analysis for lease liabilities is disclosed in note 3.10. The carrying value of right-of-use assets included in other property, plant & equipment is US$3.1m (2020: US$5.2m). Following the disposal of the UK producing assets there is no right-of-use development/producing assets at 31 December 2021 (2020: carrying value of US$189.1m) (note 2.4).

Section 3 – Working Capital, Financial Instruments and Long-Term Liabilities continued

3.4 Inventory

Accounting Policy

Inventories of oil and condensate held at the balance sheet date are valued at net realisable value based on the estimated selling price in accordance with established industry practice.

Inventories of spare parts which are either not allocated to a specific oil and gas licences or held solely for production-related activities are held at the lower of cost and net realisable value.

	31 December 2021 US$m	31 December 2020 US$m
Spare parts – Egypt concessions	**10.8**	–
Oil inventory – UK producing assets	**–**	12.3
	10.8	12.3

Spare parts inventories in Egypt are maintained by Bapetco on behalf of the operator Cheiron. Inventory is held at net realisable value, based on cost less provisions for obsolescence, based on the age of the items held.

Oil inventories were included in the sale of the UK producing assets, see section 6.

3.5 Trade and Other Receivables

Accounting Policy

Trade receivables represent amounts due from the sale of oil and gas from the Group's assets in Egypt, acquired during 2021, royalty payments receivable from producing fields in Mongolia and previously from oil and gas sales from UK producing assets disposed of during 2021. Other receivables primarily represent recharges to joint operations. Joint operation receivables relate to Capricorn's interest in its oil and gas joint arrangements, including Capricorn's participating interest share of the receivables of the joint arrangements themselves.

Trade receivables, other receivables and joint operation receivables, which are financial assets, are measured initially at fair value and subsequently recorded at amortised cost.

A loss allowance is recognised, where material, for expected credit losses on all financial assets held at the balance sheet date. Expected credit losses are the difference between the contractual cash flows due to Capricorn and the discounted actual cash flows that are expected to be received. Where there has been no significant increase in credit risk since initial recognition, the loss allowance is equal to 12-month expected credit losses. Where the increase in credit risk is considered significant, lifetime credit losses are provided. For trade receivables a lifetime credit loss is recognised on initial recognition where material.

Prepayments, which are not financial assets, are measured at historic cost.

	At 31 December 2021 US$m	At 31 December 2020 US$m
India tax refund receivable	**1,070.7**	–
Trade receivables	**63.3**	16.4
Other receivables	**14.0**	15.3
Prepayments	**7.8**	11.1
Joint operation receivables	**55.4**	31.8
	1,211.2	74.6

The India tax refund receivable of US$1,070.7m was settled in February 2022, see note 1.4.

Trade receivables are initially recorded at fair value and subsequently measured at amortised cost. Revenue is recognised at the point in time where title passes to the customer and payment becomes unconditional. The fair value measurement of revenue for oil and gas sales in Egypt includes adjustments to invoiced quantities for expected entitlement share adjustments.

Section 3 – Working Capital, Financial Instruments and Long-Term Liabilities continued

3.5 Trade and Other Receivables continued

Reconciliation of opening and closing receivables to operating cash flow movements:	Year ended 31 December 2021 US$m	Year ended 31 December 2020 (restated) US$m
Opening trade and other receivables	74.6	111.2
Closing trade and other receivables	(1,211.2)	(74.6)
(Increase)/Decrease in trade and other receivables	(1,136.6)	36.6
Foreign exchange	0.2	(2.2)
India tax refund receivable	1,070.7	–
(Decrease)/Increase in joint operation receivables relating to investing activities	(1.3)	9.2
Increase in other debtors relating to investing activities	0.2	–
Increase in prepayments relating to investing activities	2.7	–
Decrease in prepayments and other receivables relating to financing activities	(7.4)	–
Trade and joint operation receivables derecognised on disposal of the UK assets (note 6.3)	(57.4)	–
Trade and other receivables recognised on purchase of Egypt assets (note 2.1)	58.1	–
Decrease in prepayments and other receivables relating to other non-operating activities	–	(2.2)
Joint operation receivables derecognised on disposal of Senegal assets	–	(24.1)
Decrease in other receivables classified as assets held-for-sale	–	(0.7)
Trade and other receivables movement	(70.8)	16.6

The movements in joint operation receivables relating to investing activities relate to the Group's share of the receivables of joint operations in respect of exploration, appraisal and development activities.

3.6 Financial Assets at Fair Value Through Profit or Loss

	At 31 December 2021 US$m	At 31 December 2020 US$m
Non-current assets		
Financial assets at fair value through profit or loss – earn-out consideration	113.5	–
Financial assets at fair value through profit or loss – non-listed investment fund	6.9	–
	120.4	–
Current assets		
Financial assets at fair value through profit or loss – earn-out consideration	75.8	–
Financial assets at fair value through profit or loss – listed equity investments	10.8	5.2
	86.6	5.2

Financial Assets at Fair Value Through Profit or Loss – Earn-Out Consideration

Earn-out consideration recorded on disposal of the Group's UK producing assets was US$197.4m. The loss in the fair value of the earn-out consideration from recognition on 2 November 2021, the date of completion of the sale, to the year end of US$8.1m is included within discontinued operations, see note 6.1.

Financial Assets at Fair Value Through Profit or Loss – Investments

During the year, Capricorn invested US$6.9m (£5.0m) into a non-listed trust in India and with a minimum investment period of five years, this is recorded as a non-current financial asset.

Current financial assets represent the Capricorn Group's residual interest in Vedanta Limited. The increase in the value of the Vedanta shareholding of US$5.6m is partially offset on the post-acquisition loss of US$0.1m on the India trust, giving a net gain of US$5.5m for the year through continuing operations.

Section 3 – Working Capital, Financial Instruments and Long-Term Liabilities continued

3.7 Derivative Financial Instruments

	At 31 December 2021 US$m	At 31 December 2020 US$m
Current assets		
Derivative financial instruments – hedge options maturing within one year	–	0.2
Current liabilities		
Derivative financial instruments – hedge options maturing within one year	–	(3.2)

Hedge Options

Capricorn had an active commodity price hedging programme in place to protect debt capacity and support committed capital programmes throughout 2021. At 31 December 2021 the final options had matured and there were no outstanding options.

At 31 December 2020 the Group had hedged ~1.0m barrels of 2021 forecast from Kraken and Catcher oil production, using three-way collar and swap structures. ~0.5m barrels of production have been hedged through three-way collars and ~0.5m barrels of production hedged through swap options. The three-way collars and swaps were designated as hedges for hedge accounting. Hedge effectiveness is assessed at commencement of the option and prospectively thereafter. On completion of the sale of the assets, the remaining hedges no longer qualified for hedge accounting and the remaining fair value was recycled to the Income Statement.

Effects of hedge accounting on financial position and profit/(loss) for the year	2021 US$m	2020 US$m
Financial assets	–	0.2
Financial liabilities	–	(3.2)
Accruals and other payables – accrued option costs	–	(0.5)
Fair value (loss)/gain on hedge options recorded in Other Comprehensive Income	(14.2)	52.2
Hedging loss/(gain) recycled to Income Statement	14.9	(56.0)
Fair value on hedge options recycled on cessation of hedge accounting – discontinued operations (note 6.1)	2.7	–
Hedging (loss)/gain – discontinued operations (note 6.1)	(14.9)	56.0

Hedge options outstanding at 31 December 2020	
Volume of oil production hedged	1.0mmbbls
Weighted average sub-floor price of options	US$35.00
Weighted average floor price of options	US$48.27
Weighted average ceiling price of options	US$55.00
Weighted average strike price of swaps	US$45.20
Maturity dates	January 2021 – December 2021

Sensitivity analysis was performed at 31 December 2020 on equity movements that would arise from changes in the year end oil price forward curve and the resulting impact on the fair value of open hedge options at the year end. The sensitivity analysis considers only the impact on line items directly relating to hedge accounting (being financial assets and liabilities and fair value gains through Other Comprehensive Income) and not the impact of the change of other balance sheet items where valuation is based on the year end oil price, such as inventory.

Increase/(decrease) in equity	At 31 December 2020 US$m
Change in year end oil price forward curve	
Decrease of 10%	8.8
Decrease of 20%	4.2
Increase of 10%	(4.3)
Increase of 20%	(9.2)

Section 3 – Working Capital, Financial Instruments and Long-Term Liabilities continued

3.8 Trade and Other Payables

Accounting Policy
Trade and other payables are non-interest bearing and are measured at fair value initially then amortised cost subsequently.

Joint operation payables are payables that relate to Capricorn's interest in its oil and gas joint arrangements, including Capricorn's participating interest share of the trade and other payables of the joint arrangements themselves. Where Capricorn is operator of the joint operation, joint operation payables also include amounts that Capricorn will settle to third parties on behalf of joint operation partners. The amount to be recovered from partners for their share of such liabilities are included within joint operation receivables.

	At 31 December 2021 US$m	At 31 December 2020 US$m
Trade payables	**1.6**	10.6
Other taxation and social security	**0.2**	1.6
Accruals and other payables	**59.5**	42.3
Joint operation payables	**90.9**	37.1
	152.2	91.6

The decrease in trade payables at the balance sheet date compared to the prior year was due to the sale of the UK producing assets.

The increase in accruals and other payables are mainly due to a balance of US$20.2m payable for the ongoing share re-purchase which commenced in 2021, see note 7.2.

Joint operation payables include US$30.0m (2020: US$9.6m) and US$0.5m (2020: US$5.1m) relating to exploration/appraisal asset and development/producing asset costs respectively.

The increase in joint operation payables for development/production assets at the balance sheet date compared to the prior year was due to payables of US$60.3m at 31 December 2021 relating to the newly acquired production/development assets in Egypt.

Reconciliation of opening and closing payables to operating cash flow movements:	Year ended 31 December 2021 US$m	Year ended 31 December 2020 US$m
Opening trade and other payables	**(91.6)**	(134.6)
Closing trade and other payables	**152.2**	91.6
Increase/(Decrease) in trade and other payables	**60.6**	(43.0)
Foreign exchange	**–**	(0.6)
Increase in trade payables relating to investing activities	**–**	(2.2)
(Increase)/Decrease in joint operation payables relating to investing activities	**(16.4)**	44.3
(Increase)/Decrease in accruals and other payables relating to other non-operating activities	**(19.0)**	2.1
Decrease in accruals and other payables relating to investing activities	**1.2**	–
Increase in accruals and other payables relating to financing activities	**(0.6)**	–
Trade and other payables derecognised on disposal of the UK assets (note 6.3)	**22.2**	–
Joint operation payables recognised on purchase of Egypt assets (note 2.1)	**(59.5)**	–
Joint operation payables derecognised on disposal of Senegal assets	**–**	11.4
Decrease in other payables classified as liabilities held-for-sale	**–**	(0.4)
Trade and other payables movement recorded in operating cash flows	**(11.5)**	11.6

Movements above for investing activities relate to exploration, appraisal and development activities through the Group's joint operations. Movements relating to production activities are included in amounts through operating cash flows. The movement in accruals and other payables relating to other non-operating activities is in relation to the share re-purchase accrual.

Section 3 – Working Capital, Financial Instruments and Long-Term Liabilities continued

3.9 Deferred Revenue

Accounting Policy
Deferred revenue, arising from a streaming agreement, is treated as cash received in advance of future oil sales. Revenue is recorded at the fair value of the consideration received and is amortised to the Income Statement on a unit-of-production basis, based on expected future volumes to which the stream provider is entitled.

FlowStream deferred revenue	2021 US$m	2020 US$m
At 1 January	**21.7**	35.6
Released during the year (note 6.1)	**(21.7)**	(13.9)
At 31 December	**–**	21.7
Amounts expected to be released within one year	**–**	4.8
Amounts expected to be released after one year	**–**	16.9
	–	21.7

Deferred revenue related to the stream agreement with FlowStream entered into in 2017. In May 2021 Capricorn bought out FlowStream's remaining entitlement to the stream for total consideration of US$22.7m, in advance of the sale of the producing assets to Waldorf. Consequently, all remaining deferred revenue of US$21.7m has been credited to the Income Statement in the year and is included within the loss from discontinued operations.

3.10 Financial Instruments

St out below is the comparison by category of carrying amounts and fair values of all the Group's financial instruments that are carried in the Financial Statements.

Financial Assets

Carrying amount and fair value	At 31 December 2021 US$m	At 31 December 2020 (restated) US$m
Financial assets at amortised cost		
Cash and cash equivalents	**314.1**	569.6
Trade receivables	**63.3**	16.4
Other receivables	**14.0**	15.3
Joint operation receivables	**38.4**	15.0
Financial assets at fair value through profit or loss		
Earn-out consideration	**189.3**	–
Listed equity shares	**10.8**	5.2
Non-listed investment fund	**6.9**	–
Derivative financial instruments		
Financial assets – hedge options	**–**	0.2
	636.8	621.7

Due to the short-term nature of financial assets held at amortised cost, their carrying amount is considered to be the same as their fair value. Joint operations receivable included in note 3.5 include overseas VAT recoverable which is not a financial asset and is not reflected in the balance above. Prior year comparatives have been restated to remove VAT balances of US$16.8m incorrectly included in the prior year disclosure.

There are no material impairments of financial assets held on the Balance Sheet at either 31 December 2021 or 2020.

Maturity Analysis of Financial Assets
All financial assets at amortised costs are expected to mature within 12 months. The expected financial maturity of the Group's financial assets at fair value through profit or loss at 31 December 2021 is as follows:

	< 1 year US$m	1-2 years US$m	2-5 years US$m	>5 years US$m
Financial assets at fair value through profit or loss				
Earn-out consideration	**75.8**	**53.7**	**59.8**	**–**
Listed equity shares	**10.8**	**–**	**–**	**–**
Non-listed investment fund	**–**	**–**	**6.9**	**–**
	86.6	**53.7**	**66.7**	**–**

At 31 December 2020, all financial assets were expected to mature within 12 months.

Section 3 – Working Capital, Financial Instruments and Long-Term Liabilities continued

3.10 Financial Instruments continued

Financial Liabilities

Carrying amount and fair value	At 31 December 2021 US$m	At 31 December 2020 US$m
Financial liabilities at amortised cost		
Trade payables	**1.6**	10.6
Accruals and other payables	**59.5**	42.3
Joint operation payables	**90.9**	37.1
Lease liabilities	**3.7**	240.0
Loans and borrowings	**177.0**	–
Financial liabilities at fair value		
Deferred consideration on business combinations	**70.0**	–
Derivative financial instruments		
Financial liabilities – hedge options	**–**	3.2
	402.7	333.2

The fair value of financial liabilities, other than the deferred consideration and hedge options, has been calculated by discounting the expected future cash flows at prevailing interest rates.

Maturity Analysis of Financial Liabilities

The expected financial maturity of the Group's financial liabilities at 31 December 2021 is as follows:

	< 1 year US$m	1-2 years US$m	2-5 years US$m	>5 years US$m
Financial liabilities at amortised cost				
Trade payables	**1.6**	**–**	**–**	**–**
Accruals and other payables	**59.5**	**–**	**–**	**–**
Joint operation payables	**90.9**	**–**	**–**	**–**
Lease liabilities	**2.4**	**1.3**	**–**	**–**
Loans and borrowings	**10.9**	**47.2**	**118.9**	**–**
Financial liabilities at fair value				
Deferred consideration on business combinations	**20.9**	**49.1**	**–**	**–**
	186.2	**97.6**	**118.9**	**–**

The expected financial maturity of the Group's financial liabilities at 31 December 2020 was as follows:

	< 1 year US$m	1-2 years US$m	2-5 years US$m	>5 years US$m
Financial liabilities at amortised cost				
Trade payables	10.6	–	–	–
Accruals and other payables	42.3	–	–	–
Joint operation payables	37.1	–	–	–
Lease liabilities	43.2	44.8	89.5	62.5
Financial liabilities – hedge options	3.2	–	–	–
	136.4	44.8	89.5	62.5

Section 3 – Working Capital, Financial Instruments and Long-Term Liabilities continued

3.10 Financial Instruments continued

Fair Value

The Group holds hedge options which are held at fair value determined by models which have observable inputs.

Capricorn holds listed equity shares, being the residual shareholding in Vedanta Limited as a financial asset at fair value through profit or loss. The Group determines and discloses the fair value by reference to the quoted (unadjusted) prices in active markets for those shares at the measurement date.

	At 31 December 2021 US$m	At 31 December 2020 US$m
Assets measured at fair value – Level 1		
Financial assets at fair value through profit or loss		
Listed equity shares	**10.8**	5.2
Assets measured at fair value – Level 2		
Financial assets at fair value through profit or loss		
Earn-out consideration	**189.3**	–
Non-listed investment fund	**6.9**	–
Derivative financial instruments		
Financial assets – hedge options	**–**	0.2
Liabilities measured at fair value – Level 2		
Financial liabilities at fair value		
Deferred consideration on business combinations	**(68.2)**	–
Derivative financial instruments		
Financial liabilities – hedge options	**–**	(3.2)
Liabilities measured at fair value – Level 3		
Financial liabilities at fair value		
Deferred consideration on business combinations	**(1.8)**	–
	137.0	2.2

3.11 Financial Risk Management: Objectives and Policies

The main risks arising from the Group's financial instruments are commodity price risk, liquidity risk, credit risk and foreign currency risk. The Board of Capricorn Energy PLC, through the Treasury Subcommittee, reviews and agrees policies for managing each of these risks and these are summarised below.

The Group's Treasury function and Executive Team as appropriate are responsible for managing these risks, in accordance with the policies set by the Board. Management of these risks is carried out by monitoring of cash flows, investment and funding requirements using a variety of techniques. These potential exposures are managed while ensuring that the Company and the Group have adequate liquidity at all times in order to meet their immediate cash requirements. There are no significant concentrations of risks unless otherwise stated. The Group does not enter into or trade financial instruments, including derivatives, for speculative purposes.

The primary financial assets and liabilities comprise cash, short- and medium-term deposits, money market liquidity funds, listed equity shares, intra-group loans and other receivables and financial liabilities held at amortised cost. The Group's strategy has been to finance its operations through a mixture of retained profits, bank borrowings and other production-related streaming agreements. Other alternatives such as equity issues and other forms of non-investment-grade debt finance are reviewed by the Board, when appropriate.

Commodity Price Risk

Commodity price risk arises principally from the Group's Egyptian production, which could adversely affect revenue and debt availability due to changes in commodity prices.

The Group measures commodity price risk through an analysis of the potential impact of changing commodity prices. Based on this analysis and considering materiality and the potential business impact, the Group may choose to hedge.

Linked to production in the UK North Sea, the Group continued to hedge during 2021 in order to protect debt capacity and support committed capital programmes. No hedging of production in Egypt was in place at the year end, though this remains under review with Capricorn and the operator looking at hedging opportunities.

Transacted derivatives are designated, where possible, in cash flow hedge relationships to minimise accounting income statement volatility. The Group is required to assess the likely effectiveness of any proposed cash flow hedging relationship and demonstrate that the hedging relationship is expected to be highly effective prior to entering into a hedging instrument and at subsequent reporting dates.

Section 3 – Working Capital, Financial Instruments and Long-Term Liabilities continued

3.11 Financial Risk Management: Objectives and Policies continued

Liquidity Risk

The Group closely monitors and manages its liquidity risk using both short- and long-term cash flow projections, supplemented by debt and equity financing plans and active portfolio management. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in asset production profiles and cost schedules.

The Group runs various sensitivities on its liquidity position throughout the year. This includes scenarios forecasting a prolonged economic downturn as a result of COVID-19 and further volatility in oil prices. Further details are noted in the Viability Statement provided on page 47.

Details of the Group's debt facilities can be found in note 3.2. The Group is subject to semi-annual forecast liquidity tests as part of the facility agreements.

The Group invests cash in a combination of money market liquidity funds and term deposits with a number of international and UK financial institutions, ensuring sufficient liquidity to enable the Group to meet its short and medium-term expenditure requirements.

Credit Risk

Credit risk arises from cash and cash equivalents, investments with banks and financial institutions, trade and other receivables and joint operation receivables.

Customers and joint operation partners are subject to a risk assessment using publicly available information and credit reference agencies, with follow-up due diligence and monitoring if required. At the year end, the Group's trade receivables primarily relates to amounts due from EGPC for oil and gas sales in Egypt. Amounts are recognised after providing for expected credit losses.

Investment credit risk for investments with banks and other financial institutions is managed by the Group Treasury function in accordance with the Board-approved policies of Capricorn Energy PLC. These policies limit counterparty exposure, maturity, collateral and take account of published ratings, market measures and other market information. The limits are set to minimise the concentration of risks and therefore mitigate the risk of financial loss through counterparty failure.

It is Capricorn's policy to invest with banks or other financial institutions that, firstly, offer the greatest degree of security in the view of the Group and, secondly, the most competitive interest rates. Repayment of principal is the overriding priority and this is achieved by diversification and shorter maturities to provide flexibility. The Board continually re-assesses the Group's policy and updates as required.

At the year end the Group does not have any significant concentrations of bad debt risk. As at 31 December 2021 the Group had investments with eighteen counterparties (2020: thirteen) to ensure no concentration of counterparty investment risk. The increase in the number of counterparties holding investments reflects the Group's increased cash balance. At 31 December 2021 and at 31 December 2020 all of these investments were instant access.

The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the balance sheet date.

Foreign Currency Risk

Capricorn manages exposures that arise from non-functional currency receipts and payments by matching receipts and payments in the same currency and actively managing the residual net position.

The Group also aims where possible to hold surplus cash, debt and working capital balances in the functional currency of the subsidiary, thereby matching the reporting currency and functional currency of most companies in the Group. This minimises the impact of foreign exchange movements on the Group's Balance Sheet.

Where residual net exposures do exist and they are considered significant, the Company and Group may from time-to-time opt to use derivative financial instruments to minimise exposure to fluctuations in foreign exchange and interest rates.

The following table demonstrates the sensitivity to movements in the US$:GBP exchange rate, with all other variables held constant, on the Group's monetary assets and liabilities. These are considered to be reasonably possible changes for the purposes of sensitivity analysis. The Group's exposure to foreign currency changes for all other currencies is not material.

	At 31 December 2021		At 31 December 2020	
	Effect on profit before tax US$m	Effect on equity US$m	Effect on profit before tax US$m	Effect on equity US$m
10% increase in GBP to US$	(18.5)	(2.2)	(24.4)	(18.6)
10% decrease in GBP to US$	18.5	2.2	24.4	18.6

Section 4 – Income Statement Analysis

This section contains further Income Statement analysis, including segmental analysis, details of employee benefits payable in the year and finance costs.

Significant Accounting Judgements in This Section:

Segmental Disclosures and Discontinued Operations

IFRS 8 'Operating Segments' does not provide guidance as to whether segment disclosures apply to discontinued operations. During the current period, Capricorn has presented segmental disclosures inclusive of the results of the discontinued operations relating to the UK producing assets, Catcher and Kraken. 2020 comparative information is presented exclusive of Senegal and Norway results which are classified within discontinued operations, since they either had little impact or were not included in results reported to the Board.

Effective 1 January 2021, Capricorn restructured its operations and reporting segments following the disposal of the Group's operations in Senegal. Revised segments consisted of a UK development and producing asset segment to the point of disposal, containing the Kraken and Catcher producing assets, an Eastern Assets segment for exploration activities in Mauritania, Côte d'Ivoire and Israel, and a Western Assets segment for continuing exploration activities in the UK, Mexico and Suriname. The Egypt segment was added following the acquisition during the year. Comparative information has been restated to reflect these changes.

Key Estimates and Assumptions in This Section:

There are several key estimates and assumptions used in the calculation of the Group's share-based payment charges. These are detailed in note 4.4 (b).

4.1 Segmental Analysis

Operating Segments

Capricorn's strategy is to create, add and realise value from a balanced portfolio within a self-funding business model. Each business unit is headed by a Regional Director (a Regional Director may be responsible for more than one business unit) and the Board monitors the results of each segment separately for the purposes of making decisions about resource allocation and performance assessment.

As noted above, Capricorn had four reporting segments during 2021; Egypt, Eastern assets, Western assets and UK producing assets.

The Other Capricorn Energy Group segment exists to accumulate the activities and results of the Parent and other holding companies together with other unallocated expenditure and net assets/liabilities including amounts of a corporate nature not specifically attributable to any of the business units.

Non-current assets as analysed on a segmental basis consist of: intangible exploration/appraisal assets; property, plant & equipment – development/producing assets; and other property, plant & equipment and intangible assets.

Geographical information: non-current assets	At 31 December 2021 US$m	At 31 December 2020 (restated) US$m
Egypt	**403.0**	–
Côte d'Ivoire	–	12.2
Mauritania	28.9	21.0
Israel	–	1.7
Eastern	**28.9**	34.9
Mexico	38.8	57.1
UK	12.4	8.0
Suriname	15.6	13.5
Western	**66.8**	78.6
UK producing assets	–	849.8
Other Capricorn	**4.6**	10.1
Total non-current assets	**503.3**	973.4

Section 4 – Income Statement Analysis continued

4.1 Segmental Analysis continued

The segment results for the year ended 31 December 2021 are as follows:

	Egypt US$m	Eastern US$m	Western US$m	UK producing assets US$m	Other Capricorn Energy Group US$m	Group adj for segments US$m	**Total US$m**
Revenue	56.2	–	–	411.8	0.9	(411.8)	**57.1**
Other income	7.3	–	–	–	–	–	**7.3**
Cost of sales	(20.5)	–	–	(103.8)	–	103.8	**(20.5)**
Depletion and amortisation charges	(31.2)	–	–	(35.3)	–	35.3	**(31.2)**
Gross profit	**11.8**	**–**	**–**	**272.7**	**0.9**	**(272.7)**	**12.7**
Pre-award costs	(0.9)	–	(1.7)	–	(13.2)	–	**(15.8)**
Unsuccessful exploration costs	(2.9)	(18.2)	(29.5)	–	–	–	**(50.6)**
Impairment of intangible exploration/appraisal assets	–	–	(19.6)	–	–	–	**(19.6)**
Impairment of disposal group property plant & equipment – development/producing assets	–	–	–	(56.0)	–	56.0	**–**
Other operating income	–	–	–	–	0.6	–	**0.6**
Depreciation – purchased assets	–	–	(0.1)	–	(0.2)	–	**(0.3)**
Amortisation – right-of-use assets	–	–	(0.1)	–	(1.9)	–	**(2.0)**
Amortisation of other intangible assets	(0.1)	–	(0.2)	–	(4.5)	–	**(4.8)**
Other administrative expenses	(0.1)	–	(0.5)	–	(50.5)	–	**(51.1)**
Operating profit/(loss)	**7.8**	**(18.2)**	**(51.7)**	**216.7**	**(68.8)**	**(216.7)**	**(130.9)**
Exceptional income – India tax refund	–	–	–	–	1,070.7	–	**1,070.7**
Fair value loss – deferred consideration	(7.2)	–	–	–	–	–	**(7.2)**
(Loss)/Gain on financial assets at fair value through profit or loss	–	–	–	(8.1)	5.5	8.1	**5.5**
Finance income	–	–	(0.7)	–	5.2	–	**4.5**
Finance costs	(3.1)	–	(54.7)	(9.8)	(11.1)	9.8	**(68.9)**
(Loss)/Profit before tax from continuing operations	**(2.5)**	**(18.2)**	**(107.1)**	**198.8**	**1,001.5**	**(198.8)**	**873.7**
Tax charge	(4.2)	–	–	–	–	–	**(4.2)**
(Loss)/Profit for the year from continuing operations	**(6.7)**	**(18.2)**	**(107.1)**	**198.8**	**1,001.5**	**(198.8)**	**869.5**
Loss on disposal of discontinued operations	–	–	–	(173.8)	–	173.8	**–**
Profit from discontinued operations	–	–	–	–	–	25.0	**25.0**
(Loss)/Profit attributable to equity holders of the Parent	**(6.7)**	**(18.2)**	**(107.1)**	**25.0**	**1,001.5**	**–**	**894.5**
Balances as at 31 December 2021:							
Capital expenditure	**437.2**	**12.2**	**60.9**	**5.8**	**1.1**	**(5.8)**	**511.4**
Total assets	**525.3**	**29.4**	**289.6**	**–**	**1,402.1**	**–**	**2,246.4**
Total liabilities	**367.7**	**1.9**	**33.3**	**–**	**44.9**	**–**	**447.8**
Non-current assets	**403.0**	**28.9**	**66.8**	**–**	**4.6**	**–**	**503.3**

All revenue from UK producing assets is attributable to the sale of oil and gas produced in the UK, from assets that were disposed of on 2 November 2021.

Revenue in the Egypt segment, contains revenue generated from eight concessions in the Western Desert, onshore The Arab Republic of Egypt, for the period from 24 September 2021 to 31 December 2021. All revenue related to sales to a single customer.

As at 31 December 2021, the capital expenditure balance in the Egypt segment includes Property, plant & equipment – development/producing assets recognised at the acquisition date of US$390.2m.

All transactions between segments are carried out on an arm's length basis.

Section 4 – Income Statement Analysis continued

4.1 Segmental Analysis continued

The segment results for the year ended 31 December 2020 were as follows:

	Eastern (restated) US$m	Western (restated) US$m	UK producing assets (restated) US$m	Other Capricorn Energy Group (restated) US$m	Group adj for segments (restated) US$m	Total (restated) US$m
Revenue	–	–	394.3	0.4	(394.3)	0.4
Cost of sales	–	–	(115.5)	–	115.5	–
Depletion and amortisation charges	–	–	(215.7)	–	215.7	–
Gross profit	–	–	63.1	0.4	(63.1)	0.4
Pre-award costs	(1.6)	(3.7)	–	(6.8)	–	(12.1)
Unsuccessful exploration costs	(11.6)	(67.2)	–	–	–	(78.8)
Other operating income	–	–	–	1.4	–	1.4
Depreciation – purchased assets	–	–	–	(0.1)	–	(0.1)
Amortisation – right-of-use assets	–	(0.2)	–	(1.9)	–	(2.1)
Amortisation of other intangible assets	–	(0.3)	–	(4.9)	–	(5.2)
Other administrative expenses	–	(0.3)	–	(33.4)	–	(33.7)
Operating (loss)/profit	(13.2)	(71.7)	63.1	(45.3)	(63.1)	(130.2)
Gain on fair value of financial assets at fair value through profit or loss	–	–	–	0.1	–	0.1
Interest income	–	–	–	0.8	–	0.8
Finance costs	–	(0.1)	(23.3)	(27.8)	23.3	(27.9)
(Loss)/Profit before taxation from continuing operations	(13.2)	(71.8)	39.8	(72.2)	(39.8)	(157.2)
Tax charge	–	(0.1)	–	–	–	(0.1)
(Loss)/Profit for the year from continuing operations	(13.2)	(71.9)	39.8	(72.2)	(39.8)	(157.3)
(Loss)/Profit from discontinued operations	–	–	–	(276.3)	39.8	(236.5)
(Loss)/Profit attributable to equity holders of the Parent	(13.2)	(71.9)	39.8	(348.5)	–	(393.8)
Balances as at 31 December 2020:						
Capital expenditure	21.2	68.4	39.0	236.2	(5.5)	359.3
Total assets	39.1	121.3	892.9	582.9	(0.9)	1,635.3
Total liabilities	3.2	9.9	461.1	36.4	(0.9)	509.7
Non-current assets	34.9	78.6	849.8	10.1	–	973.4

All revenue from UK producing assets is attributable to the sale of oil and gas produced in the UK. 31.3% of the Group's sales of oil and gas are to a single customer that marketed the crude on Capricorn's behalf and delivered it to the ultimate buyers, prior to a change in the marketing of crude during the second half of 2020.

All transactions between the segments are carried out on an arm's length basis.

4.2 Pre-Award Costs

	Year ended 31 December 2021 US$m	Year ended 31 December 2020 (restated) US$m
Egypt	**0.9**	–
Eastern	**–**	1.6
Western	**1.7**	3.7
Other	**13.2**	6.8
	15.8	12.1

Pre-award costs represent time costs, legal fees and other direct charges incurred in pursuit of new opportunities in regions which complement the Group's current licence interests and risk appetite. The pre-award costs for the year ended 31 December 2021 have been revised to reflect the Group's operating segments.

Section 4 – Income Statement Analysis continued

4.3 Administrative and Other Expenses

	Year ended 31 December 2021 US$m	Year ended 31 December 2020 US$m
Administrative expenses – recurring departmental expenses and corporate projects	**43.4**	35.3
Administrative expenses – Indian tax arbitration costs	**9.9**	5.8
Other expenses – costs incurred on business combination	**4.9**	–
	58.2	41.1

4.4 Employee Benefits: Staff Costs, Share-Based Payments and Directors' Emoluments

a) Staff Costs

	Year ended 31 December 2021 Continuing operations US$m	Year ended 31 December 2020 Continuing operations US$m	Year ended 31 December 2020 Discontinued operations US$m	Year ended 31 December 2020 Total US$m
Wages and salaries	**33.3**	28.5	1.8	30.3
Social security costs	**3.1**	7.4	(1.0)	6.4
Redundancy costs	**0.1**	0.9	0.2	1.1
Other pension costs	**2.7**	2.1	0.1	2.2
Share-based payments	**10.2**	9.1	–	9.1
	49.4	48.0	1.1	49.1

Staff costs are shown gross before amounts recharged to joint operations. The share-based payments charge represents amounts in respect of equity-settled options.

No staff costs were directly associated with discontinued operations in 2021.

The monthly average number of full-time equivalent employees, including Executive Directors and individuals employed by the Group working on joint operations was:

	Number of employees Monthly average 2021	Number of employees Monthly average 2020
Continuing operations:		
UK	**178**	164
Egypt	**1**	–
Mexico	**7**	7
	186	171
Discontinued operations:		
Norway	**–**	7
Senegal	**–**	2
	–	9
	186	180

Section 4 – Income Statement Analysis continued

4.4 Employee Benefits: Staff Costs, Share-Based Payments and Directors' Emoluments continued

b) Share-Based Payments

Income Statement Charge

	Year ended 31 December 2021 US$m	Year ended 31 December 2020 US$m
Included within gross staff costs (continuing operations):		
SIP	**1.4**	0.7
LTIP	**7.3**	7.1
Employee Share Scheme	**1.5**	1.3
	10.2	9.1

Details of those awards with a significant impact on the results for the current and prior year are given below, together with a summary of the remaining awards.

Share-Based Payment Schemes and Awards Details

The Group operates a number of share award schemes for the benefit of its employees.

The number of share awards made by the Company during the year is given in the table below, together with their weighted average fair value ("WAFV") and weighted average grant or exercise price ("WAGP/WAEP"):

	2021 WAFV £	2021 WAGP/WAEP £	2021 Number of shares	2020 WAFV £	2020 WAGP/WAEP £	2020 Number of shares
	Year ended 31 December 2021			Year ended 31 December 2020		
SIP – free shares	**1.70**	**1.70**	**344,908**	1.03	1.03	550,756
SIP – matching shares	**1.77**	**1.77**	**258,432**	1.25	1.25	342,032
LTIP	**0.78**	**1.81**	**8,102,636**	0.67	1.32	8,327,281
Employee Share Scheme	**0.93**	**1.81**	**1,378,373**	0.78	1.32	1,173,776
			10,084,349			10,393,845

The awards existing under the LTIP with the weighted average grant price ('WAGP') are as follows:

	2021 Number of shares	2021 WAGP £	2020 Number of shares	2020 WAGP £
At 1 January	**25,817,970**	**1.72**	26,186,465	1.94
Granted during the year	**8,102,636**	**1.81**	8,327,281	1.32
Exercised during the year	**(1,080,135)**	**2.07**	(1,154,333)	1.82
Lapsed during the year	**(3,259,882)**	**1.92**	(7,541,443)	2.03
At 31 December	**29,580,589**	**1.71**	25,817,970	1.72

The weighted average remaining contractual life of outstanding awards under the LTIP at 31 December 2021 was 1.0 year (2020: 1.2 years). Included in the above are 1,708,123 of exercisable LTIP awards (2020: 1,386,998). No exercise price is payable in respect of LTIP awards.

The awards existing under all share schemes other than the LTIP with the weighted average of the grant price, exercise price and notional exercise prices ("WAGP/WAEP") are as follows:

	2021 Number of shares	2021 WAGP/WAEP £	2020 Number of shares	2020 WAGP/WAEP £
At 1 January	**10,605,095**	**1.80**	10,129,768	1.93
Consolidation of shares	**(476,152)**	**1.78**	–	–
Granted during the year	**1,981,713**	**1.79**	2,066,564	1.23
Exercised during the year	**(1,238,991)**	**1.91**	(929,045)	1.94
Lapsed during the year	**(170,293)**	**1.70**	(662,192)	1.81
At 31 December	**10,701,372**	**1.79**	10,605,095	1.80

The weighted average remaining contractual life of outstanding awards under all other schemes at 31 December 2021 was 6.1 years (2020: 6.8 years). Included in the above are 1,753,329 of exercisable ESAS (2020: 1,401,152) and exercisable share options of 2,428,892 (2020: 2,844,905). No exercise price is payable in respect of ESAS; the share options had a range of exercise prices from £1.54 to £1.87.

Section 4 – Income Statement Analysis continued

4.4 Employee Benefits: Staff Costs, Share-Based Payments and Directors' Emoluments continued

b) Share-Based Payments continued

Assumptions and Inputs

The fair value of the Capricorn Energy PLC LTIP scheme awards and the ESAS share awards were calculated using a Monte Carlo model. Awards in prior years were valued similarly.

Vesting % is by reference to the market performance of the Company's TSR compared with a group of peer companies. Vesting percentages for LTIPs can be above 100%. For details on the vesting conditions attached to the LTIPs refer to the Directors' Remuneration Report on page 121. For the ESAS, 100% vesting occurs if the Company's TSR is in excess of the median of the comparator group, otherwise the ESAS will lapse in full.

Capricorn Energy PLC share awards normally have a ten year life from the date of grant. Awards were exercised on a regular basis throughout the year, subject to the normal employee dealing bans imposed by the Company at certain times. The weighted average share price during the year was £1.77 (2020: £1.39).

The main inputs to the models include the number of options, share price, leaver rate, trigger points, discount rate and volatility of share prices of the Company and the comparator group.

- Leaver rate assumptions are based on past history of employees leaving the Company prior to options vesting and are revised to equal the number of options that ultimately vest.
- Trigger points are based on the length of time after the vesting periods for awards in 2021, further details are below.
- The risk-free rate is based on the yield on a zero-coupon government bond with a term equal to the expected term on the option being valued.
- Volatility was determined as the annualised standard deviation of the continuously compounded rates of return on the shares of the Company and of a peer group of similar companies selected from the FTSE, as disclosed in the Directors' Remuneration Report on page 124, over a three-year period to the date of award.
- No expected dividends were factored into the model as the Company customarily operates a share consolidation scheme which leaves the number of share awards unchanged before and after any dividend.

The following assumptions and inputs apply:

Scheme name	Volatility	Risk-free rate per annum	Lapse due to withdrawals per annum
SIP	0%	0%	5%
LTIP	34% – 44%	0.39% – 1.41%	0%
Employee Share Scheme	34% – 44%	0.39% – 1.19%	5%

Employee Exercise Trigger Point Assumptions

For 2021 awards, the assumption used for the Employee Share Scheme and the LTIP awards is that Executive Directors and employees will exercise 50% at the end of the two-year holding period, being the five-year anniversary date, and the remaining 50% on the six-year anniversary date.

c) Directors' Emoluments and Remuneration of Key Management Personnel

Details of each Director's remuneration, pension entitlements, share options and awards pursuant to the LTIP are set out in the Directors' Remuneration Report on pages 106 to 139. Directors' remuneration, their pension entitlements and any share awards vested during the year are provided in aggregate in note 8.9.

Remuneration of Key Management Personnel

The remuneration of the Directors of the Company and of the members of the management and corporate teams who are the key management personnel of the Group is set out below in aggregate.

	Year ended 31 December 2021 US$m	Year ended 31 December 2020 US$m
Short-term employee benefits	4.9	6.4
Termination benefits	–	0.2
Post-employment benefits	0.3	0.3
Share-based payments	2.4	2.9
	7.6	9.8

In addition, employer's National Insurance Contributions for key management personnel in respect of short-term employee benefits were US$0.7m (2020: US$0.9m).

Share-based payments shown above represent the cost to the Group of key management personnel's participation in the Company's share schemes, measured under IFRS 2.

During 2021, 1,244,941 shares awarded to key management personnel vested under the LTIP (2020: 613,791).

Section 4 – Income Statement Analysis continued

4.5 Finance Costs

	Year ended 31 December 2021 US$m	Year ended 31 December 2020 (restated) US$m
Loan interest and facility fee amortisation	13.7	6.4
Other finance charges	0.2	0.2
Lease interest (note 3.3)	0.3	0.3
Exchange loss	–	21.0
Exchange loss recycled from Other Comprehensive Income	54.7	–
	68.9	27.9

Loan interest and facility fee amortisation include US$2.8m (2020: US$nil) of Egypt Junior and Senior debt facility interest charges and US$7.5m of costs released from prepayments in respect to the Group's Reserve-Based Lending facility which was cancelled on completion of the sale of the two UK producing assets.

The foreign exchange loss recycled from Other Comprehensive Income of US$54.7m, relating to historic translation losses, arose on the liquidation of two subsidiaries in 2021. Both subsidiaries were GBP functional and held interests in UK exploration assets. The first subsidiary incurred an exchange loss of US$39.4m, relating to an interest in the UK Kraken asset during the exploration phase. The second subsidiary had an exchange loss of US$15.3m, having previously held an interest in a UK exploration asset sold several years ago.

4.6 Earnings per Ordinary Share

Basic and diluted earnings per share are calculated using the following measures of profit/(loss):

	Year ended 31 December 2021 US$m	Year ended 31 December 2020 (restated) US$m
Profit/(loss) and diluted profit/(loss) after taxation from continuing operations	869.5	(157.3)
Profit/(loss) and diluted profit/(loss) attributable to equity holders of the Parent	894.5	(393.8)

The following reflects the share data used in the basic and diluted earnings per share computations:

	Number of shares 2021 '000	Number of shares 2020 '000
Weighted average number of shares	501,874	589,782
Less weighted average shares held by ESOP and SIP Trusts	(6,709)	(7,041)
Basic weighted average number of shares	495,165	582,741
Potential dilutive effect of shares issuable under employee share plans:		
LTIP awards	10,666	–
Approved and unapproved plans	17	–
Employee share awards	2,874	–
Diluted weighted average number of shares	508,722	582,741
Potentially issuable shares not included above:		
LTIP awards	18,575	25,818
Approved and unapproved plans	2,298	2,845
Employee share awards	2,277	4,620
Number of potentially issuable shares	23,150	33,283

2020 potentially issuable shares were all anti-dilutive due to the loss for the year.

The 2020 weighted average number of shares used in the calculations of earnings per share above has been adjusted to reflect the consolidation of shares which took place in January 2021.

Section 5 – Taxation

This section highlights the Group's taxation policies, including both the accounting policy and wider strategy and governance policies. Details can also be found on deferred tax liabilities and unrecognised deferred tax assets existing at the year end and the current tax charge recorded on Egypt's taxable profits.

Significant Accounting Judgements in This Section:
Recognition of Deferred Tax Liabilities and Tax Charge on Profits from Egypt Concessions
Under the Egypt concession agreements, each contractor's share of Income Tax due on taxable profit for the year is paid on the contractor's behalf by EGPC. However, the tax liability remains with the contractor to the point of settlement. Therefore, Capricorn has recognised deferred tax liabilities on the temporary taxable difference between the carrying value of non-current assets and their tax written down values. Capricorn also records a tax charge in the period for tax that is payable on the Group's share of profits from production in Egypt and records other income to reflect the settlement of this liability on the Group's behalf. The other income is recorded in gross profit, see note 2.2.

Deferred Taxation – Potential Deferred Tax Assets on Egypt Concessions
IAS 12 requires deferred tax assets and liabilities to be recognised on the temporary difference that results from business combinations. When considering the recognition of potential deferred tax assets, Capricorn concluded that, with assets recognised at fair value on acquisition in accordance with IFRS 3, any deferred tax asset recorded on a concession would increase the carrying value of the cash-generating unit relating to that concession over and above its fair value, immediately leading to impairment. Therefore, no deferred tax assets have been recorded on initial recognition of the assets and liabilities acquired through the Egypt business combination. At the year end Capricorn have again reviewed whether deferred tax assets should be recognised and have assessed this both on the availability of future taxable profits over which the assets could be utilised and the carrying value of assets on the Balance Sheet at the year end. It was concluded that no deferred tax asset should be recognised.

Key Estimates and Assumptions in This Section:
In determining whether future taxable profits are available to recognise deferred tax assets, Capricorn uses the same economic models that are used for measuring the fair value of oil and gas assets. The key assumptions are therefore consistent with those detailed in section 2.

Accounting Policy
The total tax charge or credit represents the sum of current tax and deferred tax.

The current tax charge or credit is based on the taxable profit or loss for the year. Taxable profit or loss differs from net profit or loss 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. Where there are uncertain tax positions, Capricorn assesses whether it is probable that the position adopted in tax filings will be accepted by the relevant tax authority, with the results of this assessment determining the accounting that follows. If it is not considered probable that the income tax filing position will be accepted by the tax authority, the uncertainty is reflected within the carrying amount of the applicable tax asset or liability by using either the most likely amount or an expected value of the tax treatment, depending on which method is considered to better predict the resolution of the uncertainty, based on the underlying facts and circumstances.

Deferred tax is the tax expected to be payable or recoverable 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 or loss.

Deferred tax assets are recognised for deductible temporary differences that exist only where it is probable that taxable profits will be generated against which the carrying value of the deferred tax asset can be recovered.

Deferred tax liabilities are recognised for all taxable temporary differences except in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint operations where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset or liability is not recognised if a temporary difference arises on initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. However, where the recognition of an asset is associated with an interest in a joint operation, which applies to all of Capricorn's intangible exploration/appraisal assets and property, plant & equipment – development/producing asset additions, and Capricorn is not able to control the timing of the reversal of the temporary difference or the temporary difference is expected to reverse in the foreseeable future, a deferred tax asset or liability shall be recognised.

Current and deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Section 5 – Taxation continued

5.1 Tax Strategy and Governance
The Group's tax strategy is fully aligned with its overarching business objectives and principles and applies to all taxes paid or borne by the Group. Capricorn aims to be a good corporate citizen, managing its tax affairs in a transparent and responsible manner in all the jurisdictions in which it operates, and seeks to build and maintain open and constructive relationships with all tax authorities. The Group is committed to transparency of tax contributions and other payments to governments and supports the Extractive Industries Transparency Initiative. Capricorn reports payments to governments in its Annual Report and Accounts as well as additional voluntary disclosures of taxes paid by the Group.

Capricorn undertakes tax planning that supports the business and reflects commercial and economic activity. The Group's policy is to not enter into any artificial tax avoidance schemes but to build and maintain strong collaborative working relationships with all relevant tax authorities based on transparency and integrity. Capricorn aims for certainty in relation to the tax treatment of all items; however, it is acknowledged that this will not always be possible, for example where transactions are complex or there is a lack of maturity in the tax regime in the relevant jurisdiction in which the Group is operating. In such circumstances Capricorn will seek external advice where appropriate and ensure that the approach adopted in any relevant tax return includes full disclosure of the position taken. Capricorn may also seek to work directly with tax authorities to resolve uncertainties where the tax laws are unclear or complex.

5.2 Tax Charge on Profit/(Loss) for the Year
Analysis of Tax Charge on Profit/(Loss) for the Year

	Year ended 31 December 2021 US$m	Year ended 31 December 2020 US$m
Current tax charge:		
Overseas corporation taxes	**7.3**	0.1
Total current tax charge on profit/(loss) from continuing operations	**7.3**	0.1
Deferred tax credit:		
Deferred tax charge on recognition of financial assets	**0.1**	–
Deferred tax credit on non-current assets – Egypt	**(3.2)**	–
Total deferred tax credit on profit/(loss) from continuing operations	**(3.1)**	–
Total tax charge on profit/(loss) from continuing operations	**4.2**	0.1

The current tax charge for the year ending 31 December 2021 of US$7.3m arises on taxable profit in Egypt from the period from acquisition and is settled by EGPC on the Group's behalf.

Factors Affecting the Tax Charge for the Year
A reconciliation of the income tax charge applicable to the profit/(loss) before income tax to the UK statutory rate of income tax is as follows:

	Year ended 31 December 2021 US$m	Year ended 31 December 2020 US$m
Profit/(Loss) before tax from continuing operations	**873.7**	(117.4)
Profit/(Loss) before tax multiplied by the UK statutory rate of corporation tax of 19% (2020: 19%)	**166.0**	(22.3)
Effect of:		
Special tax rates and reliefs applying to oil and gas activities in the UK	**(10.7)**	(16.9)
Special tax rates and reliefs applying to oil and gas activities in Egypt	**3.0**	–
Impact on deferred tax of adjustments in respect of prior years	**–**	(2.0)
Temporary differences not recognised	**26.0**	37.3
Permanent items non-deductible	**23.4**	7.9
Exchange differences	**–**	(3.9)
India tax refund not subject to tax	**(203.5)**	–
Total tax charge on profit/(loss) from continuing operations	**4.2**	0.1

The reconciliation shown above has been based on the average UK statutory rate of corporation tax for 2021 of 19% (2020: 19%).

The Finance Act 2021 was enacted on 10 June 2021 and increased the UK main rate of corporation tax from 19% to 25% with effect from 1 April 2023. The increased UK rate has been taken into account in computing the UK deferred taxes at the 31 December 2021 balance sheet date and reflected in these financial statements.

The applicable UK statutory tax rate applying to North Sea oil and gas activities is 40% (2020: 40%). The applicable statutory tax rate applying to oil and gas activities in Egypt is currently 40.55%.

Section 5 – Taxation continued

5.2 Tax Charge on Profit/(Loss) for the Year continued

Factors Affecting Tax Charge for the Year continued

The effect of special tax rates and reliefs applying to oil and gas activities of US$(10.7)m (2020: US$(16.9)m) comprises US$(8.0)m (2020: US$8.5m) in respect of differences between the average UK statutory rate and the special rates applying to oil and gas activities in the UK and US$(2.7)m (2020: US$(8.4)m) in respect of the UK ring fence expenditure supplement ("RFES") claimed in the year.

The Egyptian tax rate is 40.55%.

The effect of temporary differences not recognised of US$26.0m (2020: US$37.3m) includes:
- a US$15.4m (2020: US$17.1m) movement in the year predominantly in respect of the unrecognised deferred tax asset on UK ring fence corporation tax losses and supplementary tax charge;
- US$(0.9)m (2020: US$nil) movement in the year in respect of unrecognised deferred tax asset on Egypt oil and gas assets and tax losses;
- US$9.5m (2020:US$5.5m) in respect of UK tax losses and other temporary differences arising in the year on which a deferred tax asset was recognised;
- US$2.0m (2020: US$12.6m) in respect of overseas tax losses and other temporary differences; and
- in 2020, US$2.1m unsuccessful exploration costs on which future tax relief is available but the expenditure has been expensed through the Income Statement; US$nil in the current year.

The effect of permanent items non-deductible of US$23.4m (2020: US$7.9m) includes:
- US$3.2m (2020: US$2.5m) in respect of lapsed share incentives for which no tax relief is due;
- US$10.4m (2020: US$3.0m) in respect of non-deductible foreign exchange losses;
- US$2.2m (2020: US$nil) set-up costs in Egypt not deductible for tax purposes;
- US$6.8m (2020: US$1.0m) in respect of assets written off on closure of operations; and
- US$1.0m (2020:US$nil) of other permanent items non-deductible.

5.3 Deferred Tax Assets and Liabilities

Reconciliation of Movement in Deferred Tax Assets/(Liabilities):

	Temporary difference in respect of non-current assets US$m	Losses US$m	Other temporary differences US$m	**Total US$m**
Deferred tax assets				
At 1 January 2020	(303.6)	232.0	71.6	–
Deferred tax credit/(charge) through the Income Statement	53.3	(40.5)	(12.8)	–
At 31 December 2020	(250.3)	191.5	58.8	–
Deferred tax credit/(charge) through discontinued operations	250.3	(191.5)	(58.8)	**–**
At 31 December 2021	**–**	**–**	**–**	**–**
Deferred tax liabilities				
At 1 January 2020 and 31 December 2020	–	–	–	–
Deferred tax liabilities recognised on business combinations	(52.5)	6.7	–	**(45.8)**
Deferred tax (credit)/charge through the Income Statement	(11.7)	14.9	(0.1)	**3.1**
At 31 December 2021	**(64.2)**	**21.6**	**(0.1)**	**(42.7)**

Deferred tax liabilities analysed by country:

	As at 31 December 2021 US$m	As at 31 December 2020 US$m
Egypt	**(42.6)**	–
UK	**(0.1)**	–
	(42.7)	–

Section 5 – Taxation continued

5.3 Deferred Tax Assets and Liabilities continued

Recognised Deferred Tax Assets

As at the current and previous balance sheet date, no net deferred tax asset has been recognised in the UK as other temporary differences and tax losses are only recognised to the extent that they offset the UK deferred tax liability arising on business combinations and carried interests attributable to UK Ring Fence trading activity, as it is not considered probable that future profits will be available to recover the value of the asset.

The applicable UK statutory tax rate applying to North Sea oil and gas activities of 40% is made up of Ring Fence Corporation Tax ("RFCT") of 30% and Supplementary Charge Tax ("SCT") of 10%. At the balance sheet date the Group has US$159.3m RFCT losses which can be offset against RFCT of 30% on future ring fence trading profits and US$69.8m SCT losses which can be offset against SCT of 10% on future ring fence trading profits.

In 2020 the Group had US$486.3m of RFCT and US$409.8m of SCT losses carried forward to offset against future ring fence trading profits.

A deferred tax asset has been recognised in respect of RFCT losses of US$17.8m offsetting in full a deferred tax liability on ring fence temporary differences in respect of non-current assets. No deferred tax asset has been recognised on other ring fence temporary differences of US$141.5m (2020: US$nil) relating to RFCT losses, US$69.8m and US$642.0m (2020: US$nil) relating to activated investment allowances, as it is not considered probable that these amounts will be utilised in future periods.

Unrecognised Deferred Tax Assets

No deferred tax asset has been recognised on the following as it is not considered probable that it will be utilised in future periods:

	At 31 December 2021 US$m	At 31 December 2020 US$m
UK fixed asset temporary differences	**30.2**	24.3
UK ring fence corporation tax trading losses	**141.5**	–
UK supplementary charge tax loss	**69.8**	–
UK other ring fence temporary differences	**642.0**	148.7
UK non-ring fence trading losses	**–**	3.7
UK excess management expenses	**386.3**	331.7
UK non-trade deficits	**72.6**	79.6
UK temporary differences on share-based payments	**30.3**	38.5
Egypt fixed asset temporary differences	**51.4**	–
Egypt ring fence corporation tax trading losses	**25.8**	–
Mexico tax losses and temporary differences	**136.1**	127.0
Brazil tax losses	**0.6**	0.6
Israel temporary differences in respect of non-current assets	**2.7**	–

Section 6 – Discontinued Operations and Assets and Liabilities Held-For-Sale

6.1 Profit/(Loss) from Discontinued Operations

Sale of Capricorn's Interest in the Catcher and Kraken Producing Assets ("UK Producing Assets")

On 8 March 2021, Capricorn agreed to sell its interests in the UK Catcher and Kraken producing assets to Waldorf Production Limited, and following approval from joint operation partners and relevant authorities the sale completed on 2 November 2021.

Assets and liabilities within the transaction perimeter were reclassified as held-for-sale as at 8 March 2021. Comparative information for financial performance of the UK North Sea producing assets has been restated as discontinued operations for the year ended 31 December 2020.

Consideration under the agreement was:
- an initial cash consideration of US$425.0m, subject to adjustments for working capital and other customary interim period adjustments from the economic effective date of 1 January 2020;
- further purchaser bonds of US$30.0m, sold shortly after completion, and
- additional contingent consideration ("earn-out consideration") dependent on oil prices from 2021 to the end of 2025 and minimum production levels being achieved, which at 2 November 2021 had a risk-weighted fair value of US$197.4m.

At the date of disposal, the interim period and working capital adjustments reduced the consideration due on completion by US$361.1m. The interim period adjustments reflect the cash inflows generated from oil and gas sales during the period, offset by outflows on the costs of production, including fixed and variable lease payments, and working capital movements. The total consideration including all adjustments was US$289.6m.

The risk-weighted fair value of the contingent consideration as at 31 December 2021 had fallen by US$8.1m from the date of completion to US$189.3m, see note 3.5.

Impairment tests were conducted on the disposal group as at the date of reclassification as held-for-sale resulting in an impairment charge against the carrying value of the disposal group of US$56.0m. The impairment arose principally as a result of the reversal of deferred tax liabilities, previously included within the carrying value of the asset within the impairment test. Following the change of the expected recovery of the assets through disposal rather than through ongoing production, temporary differences on the asset reversed eliminating the deferred tax liability in full. Those deferred tax liabilities were previously offset by a deferred tax asset on non-asset specific tax losses which also reversed on the change in recovery.

Sale of Capricorn Norge AS ("Norway")

Capricorn's sale of Capricorn Norge AS to Sval Energi AS completed on 28 February 2020.

The financial performance of the Norwegian subsidiary was presented as discontinued operations in the Financial Statements for the year ended 31 December 2020.

Sale of Working Interests in Senegal

Capricorn disposed of its entire 40% working interest in its Senegal exploration and development assets in December 2020. The financial performance of the Senegal operations was presented as discontinued operations for the year ended 31 December 2020.

The financial performance of the discontinued operations is expanded in the tables below.

	UK producing assets US$m	Year ended 31 December 2021 US$m
Revenue	411.8	**411.8**
Cost of sales	(103.8)	**(103.8)**
Depletion and amortisation	(35.3)	**(35.3)**
Gross Profit	272.7	**272.7**
Impairment of disposal group	(56.0)	**(56.0)**
Operating profit	216.7	**216.7**
Loss on financial asset at fair value through profit or loss – earn out consideration	(8.1)	**(8.1)**
Finance costs	(9.8)	**(9.8)**
Profit before tax from discontinued operations	198.8	**198.8**
Taxation	–	**–**
Profit after tax from discontinued operations	198.8	**198.8**
Loss on disposal of discontinued operations	(173.8)	**(173.8)**
Profit from discontinued operations	25.0	**25.0**

Section 6 – Discontinued Operations continued

6.1 Profit/(Loss) from Discontinued Operations continued

	UK producing assets (restated) US$m	Norway[1] US$m	Senegal[2] US$m	Year ended 31 December 2020 (restated) US$m
Revenue	394.3	–	–	394.3
Cost of sales	(115.5)	–	–	(115.5)
Depletion and amortisation	(215.7)	–	–	(215.7)
Gross Profit	63.1	–	–	63.1
Pre-award costs	–	(1.5)	–	(1.5)
Administrative expenses	–	(0.3)	–	(0.3)
Operating profit/(loss)	63.1	(1.8)	–	61.3
Finance costs	(23.3)	(0.3)	–	(23.6)
Profit/(Loss) before taxation from discontinued operations	39.8	(2.1)	–	37.7
Taxation				
Current tax credit	–	2.4	–	2.4
Deferred tax credit	–	0.2	–	0.2
Profit after tax from discontinued operations prior to disposal	39.8	0.5	–	40.3
Loss on disposal of discontinued operations	–	(39.5)	(237.3)	(276.8)
Profit/(Loss) from discontinued operations	39.8	(39.0)	(237.3)	(236.5)

1 Period ended 28 February 2020
2 Period ended 22 December 2020

Earnings per Share for Profit/(Loss) from Discontinued Operations	**2021 cents**	2020 cents
Profit/(Loss) per ordinary share – basic (cents)	**5.05**	(40.59)
Profit/(Loss) per ordinary share – diluted (cents)	**4.91**	(40.59)

Loss on Disposal of UK Producing Assets

The loss on disposal of the UK producing assets on 2 November 2021 is calculated as follows:

	US$m
Base consideration	**425.0**
Interim period adjustment	**(361.1)**
Cost of disposal	**(1.7)**
Net proceeds	**62.2**
Purchaser bonds	**30.0**
Earn-out consideration	**197.4**
Total net consideration	**289.6**
Derecognition of assets and liabilities:	
Assets held-for-sale, net of impairment (note 6.3)	**(837.0)**
Liabilities held-for-sale (note 6.3)	**373.6**
Loss on disposal of UK North Sea producing assets	**(173.8)**

Earn-out consideration is included in the loss on sale calculation and recorded on the Balance Sheet as this future income represents consideration receivable from the disposal of a business rather than revenue generated from the sale of an asset, which would fall under IFRS 15.

Section 6 – Discontinued Operations continued

6.1 Profit/(Loss) from Discontinued Operations continued
Loss on Disposal of UK Producing Assets continued
Gross Profit: Revenue and Cost of Sales

	Year ended 31 December 2021 US$m	Year ended 31 December 2020 US$m
Oil sales	**405.7**	323.7
Gas sales	**1.6**	0.8
(Loss)/Gain on hedge options designated for hedge accounting (note 3.7)	**(14.9)**	56.0
Loss on options after cessation of hedge accounting	**(2.3)**	–
Loss on hedge options not designated for hedge accounting	**–**	(0.1)
Release of deferred revenue (note 3.9)	**21.7**	13.9
Revenue from oil and gas sales	**411.8**	394.3
Production costs	**(81.8)**	(75.9)
Oil inventory and underlift adjustment	**3.4**	(16.6)
Variable lease charges	**(25.4)**	(23.0)
Cost of sales	**(103.8)**	(115.5)
Depletion and amortisation (note 2.4)	**(35.3)**	(215.7)
Gross profit	**272.7**	63.1

During the ten month period until the disposal on 2 November 2021, the UK North Sea production averaged ~19,000 boepd (twelve months to 31 December 2020: ~21,000 boepd). Average sale prices increased to US$70.37/boe (31 December 2020: US$42.23/boe).

The improving oil price realised in 2021 reflected the recovery in oil prices compared with the oil prices impacted by the COVID-19 pandemic during 2020. The higher average oil price in 2021 led to realised hedging losses compared with the significant hedging gains of 2020. On completion of the disposal, remaining hedges no longer qualified for hedge accounting and the loss on the maturity of those options of US$2.3m is disclosed separately above.

Loss on Disposal of Capricorn Norge AS ('Norway')
The loss on disposal of Capricorn Norge AS in 2020 was calculated as follows:

	US$m
Gross cash proceeds	105.2
Costs of disposal	(0.5)
Net proceeds	104.7
Disposal of cash and cash equivalents	(2.2)
Disposal of assets and liabilities held-for-sale:	
Intangible exploration/appraisal assets	(24.3)
Property, plant and equipment – development/producing assets	(74.3)
Other property, plant & equipment and intangible assets	(1.4)
Trade and other receivables	(7.6)
Income tax asset	(28.1)
Loans and borrowings	22.9
Lease liability	0.5
Trade and other payables	12.4
Provisions – decommissioning	2.5
	(97.4)
Translation loss recycled from Other Comprehensive Income	(44.6)
Loss on disposal of Capricorn Norge AS	(39.5)

On completion of the sale in February 2020, the merger reserve of US$255.9m relating to the acquisition of Capricorn Norge AS was transferred to retained earnings.

Section 6 – Discontinued Operations continued

6.1 Profit/(Loss) from Discontinued Operations continued
Loss on Disposal of Working Interests in Senegal
The loss on disposal of Senegal oil and gas assets in 2020 was calculated as follows:

	US$m
Gross cash proceeds	524.8
Costs of disposal	(7.7)
Net proceeds	517.1
Derecognition of assets and liabilities:	
Intangible exploration/appraisal assets	(145.7)
Property, plant and equipment – development/producing assets	(602.0)
Joint operation receivables	(24.1)
Joint operation payables	17.4
Loss on disposal of Senegal oil and gas assets	(237.3)

Deferred consideration of up to US$100.0m was receivable dependent upon the first oil date and the oil price at that time. In accordance with IFRS15, no amount is recognised at the balance sheet date as there is no reasonable certainty that it would not reverse in future periods. At 31 December 2021, the risk-weighted fair value of the deferred consideration was US$51.4m (2020: US$27.2m). The Senegal transaction was determined to be an asset sale rather than business disposal.

The costs of disposal of US$7.7m included amounts accrued at 31 December 2020 of US$6.0m.

6.2 Cash Flow Information for Discontinued Operations

	UK producing assets US$m	Norway US$m	Senegal US$m	Period ended 2 November 2021 US$m
Net cash flows from operating activities	**240.4**	**–**	**–**	**240.4**
Net cash flows used in investing activities	**(9.4)**	**–**	**–**	**(9.4)**
Net cash flows used in financing activities	**(42.5)**	**–**	**–**	**(42.5)**
Net increase in cash and cash equivalents	**188.5**	**–**	**–**	**188.5**

	UK producing assets (restated) US$m	Norway[1] US$m	Senegal[2] US$m	Year ended 31 December 2020 US$m
Net cash flows from/(used in) operating activities	290.1	1.5	(0.2)	291.4
Net cash flows (used in)/from investing activities	(32.2)	(6.4)	284.5	245.9
Net cash flows used in financing activities	(55.0)	(0.4)	(5.4)	(60.8)
Net increase/(decrease) in cash and cash equivalents	202.9	(5.3)	278.9	476.5

1 Period ended 28 February 2020
2 Period ended 22 December 2020

There was no cash and cash equivalents disposed of on the sale of the UK producing assets in 2021.

In 2020, US$2.2m cash and cash equivalents was disposed of on the sale of Capricorn Norge AS; there was no cash and cash equivalents disposed of on the sale of the Senegal assets.

Section 6 – Discontinued Operations continued

6.3 Assets and Liabilities Held-For-Sale

At 31 December 2020 and 31 December 2021 there were no assets or liabilities held-for-sale. Transfers to and from assets and liabilities held-for-sale during the current year were as follows:

	Transferred to held–for–sale 8 March 2021 US$m	Impairment of disposal group at date of transfer US$m	Movement US$m	Disposal 2 November 2021 US$m
Assets held–for–sale				
Property, plant & equipment – development/producing assets	814.5	(56.0)	5.4	(763.9)
Inventory	15.0	–	0.7	(15.7)
Trade and other receivables	48.7	–	8.7	(57.4)
	878.2	**(56.0)**	**14.8**	**(837.0)**
Liabilities held–for–sale				
Lease liabilities	227.6	–	(27.7)	(199.9)
Trade and other payables	29.8	–	(7.6)	(22.2)
Provisions – decommissioning	153.9	–	(2.4)	(151.5)
	411.3	**–**	**(37.7)**	**(373.6)**

Following the agreement entered into in March 2021 to sell the Kraken and Catcher UK North Sea producing assets to Waldorf Production Limited, the UK North Sea assets and associated liabilities were reclassified as held-for-sale, forming a single disposal group. On the date of transfer of the assets and liabilities into the disposal group, an impairment test was performed comparing the carrying value of the disposal group against its recoverable value, based on fair value less cost of disposal (falling within Level 2 of the fair value hierarchy), resulting in an impairment of US$56.0m, which was allocated to property, plant & equipment – development/producing assets, charged to the Income Statement.

Section 7 – Capital Structure and Other Disclosures

This section includes details of Capricorn's issued share capital and equity reserves.

Other disclosures include details on the auditors' remuneration. Details on the Group's policy on the award of non-audit work to the auditors can be found in the Report of the Audit Committee.

Significant Accounting Judgements in This Section:
There are no significant accounting judgements in this section.

Key Estimates and Assumptions in This Section:
There are no key estimates or assumptions in this section.

7.1 Issued Capital and Reserves

Called-Up Share Capital

	Number 231/169p ordinary '000	Number 21/13p ordinary '000	231/169p ordinary US$m	21/13p ordinary US$m
Allotted, issued and fully paid ordinary shares				
At 1 January 2020	589,553	–	12.6	–
Issued and allotted for employee share options	165	–	–	–
At 31 December 2020	589,718	–	12.6	–
Issued and allotted for employee share options pre consolidation	**99**	**–**	**–**	**–**
Consolidation of shares	**(589,817)**	**499,076**	**(12.6)**	**12.6**
Issued and allotted for employee share options post consolidation	**–**	**253**	**–**	**–**
Share re-purchase	**–**	**(2,482)**	**–**	**–**
At 31 December 2021	**–**	**496,847**	**–**	**12.6**

Share premium	2021 US$m	2020 US$m
At 1 January	**490.1**	489.8
Arising on shares issued for employee share options	**0.8**	0.3
At 31 December	**490.9**	490.1

The Company does not have a limited amount of authorised share capital. On 11 January 2021, Capricorn undertook a share consolidation where the existing ordinary shares of 231/169 pence each were replaced with ordinary shares of 21/13 pence each, see note 7.2.

a) Shares held by ESOP Trust
The cost of shares held by the ESOP Trust at 31 December 2021 was US$8.1m (2020 US$4.4m). The number of shares held by the Trust at 31 December 2021 was 3,590,198 (2020 2,788,271) and the market value of these shares was £6.8m/US$9.1m (2020: £5.8m/US$8.0m). During 2021, the Group purchased 3,450,260 (2020: 1,028,000) shares at a cost of US$8.7m (2020: US$1.0m). During 2021, 1,628,784 (2020: 1,708,070) shares vested and 600,000 (2020: 825,000) shares were transferred from the ESOP Trust to the SIP Trust. During 2021, 419,549 shares were created on share consolidation.

b) Shares held by SIP Trust
The cost of shares held by the SIP Trust at 31 December 2021 was US$9.4m (2020: US$9.0m). The number of shares held by the Trust at 31 December 2021 was 2,960,087 (2020: 3,177,717) and the market value of these shares was £5.6m/US$7.5m (2020: £6.7m/US$9.1m).

c) Foreign currency translation
Unrealised foreign exchange gains and losses arising on consolidation of non-US$ functional currency subsidiary undertakings are taken directly to reserves. Foreign exchange differences arising on intra-group loans are not eliminated on consolidation; this reflects the exposure to currency fluctuations where the subsidiaries involved have differing functional currencies. These intra-group loans are not considered to be an investment in a foreign operation. The foreign currency translation reserve includes US$54.7m recycled to the Income Statement in 2021 on the completion of liquidation of various subsidiaries.

d) Merger and capital reserves
The merger reserve of US$255.9m arose in 2012 on shares issued by Capricorn on the acquisition of Capricorn Norge AS. On completion of the sale of the subsidiary in February 2020, the merger reserve was transferred to retained earnings.

Capital reserves of US$40.9m include amounts arising on various Group acquisitions and transactions and the capital redemption reserve arising from the 2013-2014 share re-purchase programme. US$0.8m of capital reserves relates directly to Capricorn Energy PLC, the Company.

e) Hedge reserve
There was no hedge reserve remaining at 31 December 2021 (2020: US$(3.4)m). The hedge reserve is used to recognise the effective portion of gains or losses on the derivatives that are designated for, and qualify as, cash flow hedges. There were no outstanding hedge options at the year end.

Section 7 – Capital Structure and Other Disclosures continued

7.2 Return of Cash to Shareholders and Share Re-Purchase

On 8 January 2021, Capricorn received shareholder approval for the return of cash to shareholders of 32 pence per eligible ordinary share totalling £188.0m. US$250.0m of the proceeds from the sale of Senegal assets were converted to £ in December 2020 and the return was paid to shareholders on 25 January 2021. The total return to shareholders, after exchange differences from the date of the conversion from US$ to £ and associated costs, was US$257.2m.

Capricorn plans to return up to US$700.0m of the India tax refund proceeds to shareholders. US$500.0m will be returned by way of a tender offer and US$200.0m will be returned by way of an ongoing share re-purchase programme, subject to shareholder approval. On 15 November 2021, it was announced that the Company would commence the re-purchase programme with an initial amount of up to £20m out of the planned US$200.0m programme. This initially ran until the end of February 2022. At 31 December 2021, 2.7m shares had been repurchased at a cost of US$6.6m.

7.3 Capital Management

The objective of the Group's capital management structure is to ensure that there remains sufficient liquidity within the Group to carry out committed work programme requirements. The Group monitors the long-term cash flow requirements of the business in order to assess the requirement for changes to the capital structure to meet that objective and to maintain flexibility. The Group is subject to semi-annual forecast liquidity tests as part of the Senior and Junior Debt Facilities. The Group has complied with the capital requirements of these tests at all times during the year.

Capricorn manages the capital structure and makes adjustments to it in light of changes to economic conditions. To maintain or adjust the capital structure, Capricorn may re-purchase shares, make a special dividend payment to shareholders, return capital, issue new shares for cash, repay debt, put in place new debt facilities or undertake other such restructuring activities as appropriate. No significant changes were made in the objectives, policies or processes during the year ended 31 December 2021.

Capital and net debt, including lease liabilities, was as follows:

	At 31 December 2021 US$m	At 31 December 2020 US$m
Loans and borrowings	**177.0**	–
Lease liabilities	**3.7**	240.0
Less cash and cash equivalents	**(314.1)**	(569.6)
Net funds	**(133.4)**	(329.6)
Equity	**1,798.6**	1,125.6
Capital and net funds	**1,665.2**	796.0
Gearing ratio	**–**	–

As detailed in note 7.2 Capricorn returned cash of US$257.2m to shareholders in January 2021. This dividend was paid out of retained earnings.

7.4 Guarantees

It is normal practice for the Group to issue guarantees in respect of obligations during the normal course of business.

Since the cancellation of the RBL, issued guarantees are now issued from a number of bilateral unsecured lines.

The Group provided the following guarantees at 31 December 2021:

– various guarantees for the Group's operational commitments for the current year of US$52.5m (2020: US$45.1m); and
– Parent Company Guarantees for the Group's obligations under joint operating agreements and other contracts.

Section 7 – Capital Structure and Other Disclosures continued

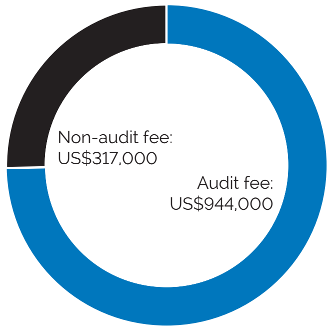
7.5 Auditors' Remuneration

	Year ended 31 December 2021 US$'000	Year ended 31 December 2020 US$'000
Fees payable to the Group's external auditors (including associate firms) for:		
Audit fees:		
Auditing of the Financial Statements of the Group and the Company	**487**	396
Auditing of the Financial Statements of subsidiaries	**457**	479
	944	875
Non-audit fees:		
Audit-related assurance services	**234**	267
Other assurance services relating to corporate finance transactions	**83**	424
Non-audit services not included above	**–**	6
	317	697
Total fees	**1,261**	1,572

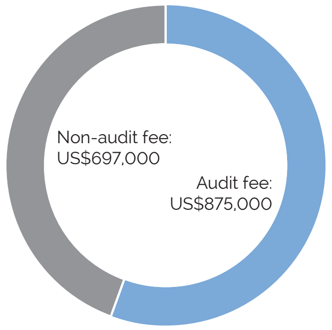
The Group has a policy in place for the award of non-audit work to the auditors which requires Audit Committee approval (see the Audit Committee Report on page 101).

The split of audit fees to non-audit fees payable to the auditors is as follows:

2021 Fees to the Auditors



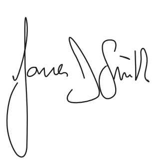
2020 Fees to the Auditors



Company Balance Sheet
As at 31 December 2021

	Note	2021 US$m	2020 US$m
Non-current assets			
Investments in subsidiaries	8.2	**1,155.1**	1,146.4
Long-term intercompany receivables	8.3	**8.1**	3.0
		1,163.2	1,149.4
Current assets			
Cash and cash equivalents	8.4	**32.1**	251.9
Other receivables	8.5	**7.0**	2.3
Derivative financial instruments	8.6	**–**	3.4
		39.1	257.6
Total assets		**1,202.3**	1,407.0
Current liabilities			
Lease liability		**1.8**	1.7
Derivative financial instruments	8.6	**–**	3.4
Trade and other payables	8.7	**97.1**	10.7
		98.9	15.8
Non-current liabilities			
Lease liability		**1.3**	3.0
		1.3	3.0
Total liabilities		**100.2**	18.8
Net assets		**1,102.1**	1,388.2
Equity			
Called-up share capital	7.1	**12.6**	12.6
Share premium	7.1	**490.9**	490.1
Shares held by ESOP/SIP Trusts	7.1a,b	**(17.5)**	(13.4)
Capital reserves	7.1d	**0.8**	0.7
Retained earnings:			
At 1 January		**898.2**	1,167.6
Loss for the year		**(4.5)**	(531.0)
Other movements in retained earnings		**(278.4)**	261.6
		615.3	898.2
Total equity		**1,102.1**	1,388.2

The Financial Statements on pages 198 to 207 were approved by the Board of Directors on 8 March 2022 and signed on its behalf by:



James Smith
Chief Financial Officer

Simon Thomson
Chief Executive

Company Statement of Cash Flows
For the year ended 31 December 2021

	Note	2021 US$m	2020 US$m
Cash flows from operating activities:			
Loss before taxation		**(4.5)**	(531.0)
Share-based payments charge		**1.5**	1.6
Impairment of investment in subsidiary		**–**	855.7
Waiver of intercompany loan		**–**	138.7
Finance income		**(6.5)**	(486.6)
Finance costs		**1.0**	12.8
Other receivables movement		**(9.7)**	4.9
Trade and other payables movement		**67.5**	(7.4)
Net cash from/(used in) operating activities		**49.3**	(11.3)
Cash flows from investing activities:			
Dividend received		**–**	183.3
Group funding		**–**	82.1
Interest received and other finance income		**–**	2.0
Net cash flows from investing activities		**–**	267.4
Cash flows from financing activities:			
Return of cash to shareholders		**(257.2)**	–
Share re-purchase		**(7.8)**	–
Facility fees, other interest and charges		**(0.9)**	(4.3)
Cost of shares purchased	7.1a	**(8.7)**	(1.0)
Proceeds from issue of shares		**0.9**	0.3
Lease payments		**(1.8)**	(1.4)
Net cash flows used in financing activities		**(275.5)**	(6.4)
Net (decrease)/increase in cash and cash equivalents		**(226.2)**	249.7
Foreign exchange differences		**6.4**	–
Opening cash and cash equivalents at beginning of year		**251.9**	2.2
Closing cash and cash equivalents		**32.1**	251.9

Company Statement of Changes in Equity
For the year ended 31 December 2021

	Equity share capital and share premium US$m	Shares held by ESOP/SIP Trusts US$m	Merger and capital reserves US$m	Retained earnings US$m	**Total equity US$m**
At 1 January 2020	502.4	(15.8)	256.6	1,167.6	1,910.8
Loss for the year	–	–	–	(531.0)	(531.0)
Total comprehensive expense	–	–	–	(531.0)	(531.0)
Merger reserve transferred to retained earnings (note 7.1d)	–	–	(255.9)	255.9	–
Share-based payments	–	–	–	9.1	9.1
Exercise of employee share options	0.3	–	–	–	0.3
Cost of shares purchased	–	(1.0)	–	–	(1.0)
Cost of shares vesting	–	3.4	–	(3.4)	–
At 31 December 2020	502.7	(13.4)	0.7	898.2	1,388.2
Loss for the year	–	–	–	(4.5)	**(4.5)**
Total comprehensive expense	–	–	–	**(4.5)**	**(4.5)**
Return of cash to shareholders	–	–	–	(257.2)	**(257.2)**
Share-based payments	–	–	–	10.2	**10.2**
Exercise of employee share options	0.9	–	–	–	**0.9**
Share re-purchase	(0.1)	–	0.1	(26.8)	**(26.8)**
Cost of shares purchased	–	(8.7)	–	–	**(8.7)**
Cost of shares vesting	–	4.6	–	(4.6)	**–**
At 31 December 2021	**503.5**	**(17.5)**	**0.8**	**615.3**	**1,102.1**

Section 8 – Notes to the Company Financial Statements

This section contains the notes to the Company Financial Statements.

The issued capital and reserves of the Company are largely consistent with the Capricorn Energy PLC Group Financial Statements, as per note 7.1

Key Estimates and Assumptions in This Section:
Impairment Testing of Investments in Subsidiaries
The Company's investment in Capricorn Oil Limited has been tested for impairment by comparison against the fair value of intangible exploration/appraisal assets, property, plant & equipment – development/producing assets and working capital, including cash and cash equivalents and intercompany receivables, held within the Capricorn Oil Limited sub-group. The fair value of oil and gas assets is calculated using the same assumptions as noted in section 2.

8.1 Basis of Preparation

The Financial Statements of Capricorn Energy PLC (Formerly Cairn Energy PLC) have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. Changes to the accounting framework from EU adopted IFRS are as described for the Group in note 1.1 b).

The Company applies accounting policies consistent with those applied by the Group. To the extent that an accounting policy is relevant to both Group and Company Financial Statements, refer to the Group Financial Statements for disclosure of the accounting policy. Material policies that apply to the Company only are included as appropriate.

Capricorn has used the exemption granted under s408 of the Companies Act 2006 that allows for the non-disclosure of the Income Statement of the Parent company.

8.2 Investments in Subsidiaries

Accounting Policy
The Company's investments in subsidiaries are carried at cost less provisions resulting from impairment. In testing for impairment the carrying value of the investment is compared to its recoverable amount, being its fair value less costs of disposal. The fair value includes the discounted future net cash flows of oil and gas assets held by the subsidiary, using estimated cash flow projections over the licence period. For exploration assets, estimated discounted cash flows are risk-weighted for future exploration success.

Discounted future net cash flows are calculated using an estimated short-term oil price based on the forward curve and long-term oil price of US$55/bbl unescalated (2020: US$55/bbl unescalated), escalation for costs of 4.0% (2020: 0.5%) and a discount rate of 10% (2020: 10%). Full details on the assumptions used for valuing oil and gas assets can be found in section 2.

Section 8 – Notes to the Company Financial Statements continued

8.2 Investments in Subsidiaries continued

	Subsidiary undertakings US$m	Total US$m
Cost		
At 1 January 2020	3,693.5	3,693.5
Additions	7.5	7.5
At 31 December 2020	3,701.0	3,701.0
Additions	8.7	8.7
At 31 December 2021	**3,709.7**	**3,709.7**
Impairment		
At 1 January 2020	1,698.9	1,698.9
Impairment charge	855.7	855.7
At 31 December 2020 and 31 December 2021	**2,554.6**	**2,554.6**
Net book value		
At 31 December 2019	1,994.6	1,994.6
At 31 December 2020	1,146.4	1,146.4
At 31 December 2021	**1,155.1**	**1,155.1**

Additions during the year of US$8.7m (2020: US$7.5m) relate to the Company's investment in Capricorn Oil Limited. These represent share awards made by the Company to the employees of Capricorn Energy Holdings Limited (a principal subsidiary of Capricorn Oil Limited).

At the year end, investments in subsidiaries were reviewed for indicators of impairment and impairment tests conducted where indicators were identified. No impairment arose at the year end. At December 2020, the Company's investment in Capricorn Oil Limited was impaired to reflect the fair value or value in use of the underlying assets of the Capricorn Oil Group. In 2020 a charge of $855.7m was made to the Company's Income Statement.

The recoverable value of the assets of Capricorn Oil Limited used in the impairment test is based on the market value of tangible assets held by its subsidiaries, cash and cash equivalents held and an assumption that the recoverable value of exploration assets is broadly aligned to the carrying value. Removing the value attributed to future exploration success would not indicate an impairment in 2021.

Section 8 – Notes to the Company Financial Statements continued

8.2 Investments in Subsidiaries continued

The Company's subsidiaries as at the balance sheet date are set out below. The Company holds 100% of the voting rights and beneficial interests in the ordinary shares of the following companies:

Direct Holdings

	Business	Country of incorporation	Country of operation	Registered office address
Cairn UK Holdings Limited	Holding company	Scotland	Scotland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Energy Investments Limited	Investment	Scotland	Scotland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Oil Limited	Holding company	Scotland	Scotland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Senegal (Holding) Limited	Holding company	England	Scotland	Wellington House 4th Floor, 125 The Strand, London, WC2R 0AP

Indirect Holdings

	Business	Country of incorporation	Country of operation	Registered office address
Agora Oil and Gas (UK) Limited	Exploration	Scotland	UK	50 Lothian Road, Edinburgh, EH3 9BY
Alba Resources Limited[2]	Exploration	Scotland	UK	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn (Tamar) Limited Partnership	Limited Partnership company	Israel	Israel	Vitania Tel-Aviv Tower, 20 Haharash St. TLV Israel, 6761310
Capricorn Americas Limited	Holding company	Scotland	Scotland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Brasil Petróleo e Gás Ltda	Exploration	Brazil	Brazil	Praia de Botafogo 228, 16th floor, suite 1601 Zip Code 22250-040 Rio de Janeiro, Brazil
Capricorn Côte d'Ivoire Limited	Exploration	Scotland	Côte d'Ivoire	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Egypt (Holding) Limited	Holding company	England	UK	Wellington House 4th Floor, 125 The Strand, London, WC2R 0AP
Capricorn Egypt Limited	Exploration	England	UK	Wellington House 4th Floor, 125 The Strand, London, WC2R 0AP
Capricorn Energy Holdings Limited	Holding company	Scotland	Scotland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Energy Mexico S. de R.L. de C.V.	Exploration	Mexico	Mexico	Av. Paseo de la Reforma 295, Cuauhtémoc, CP 06500, CDMX, México
Capricorn Energy Search Limited[2]	Exploration	Scotland	Scotland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Energy UK Limited	Exploration	England	UK	Wellington House 4th Floor, 125 The Strand, London, WC2R 0AP
Capricorn Exploration and Development Company Limited[2]	Exploration	Scotland	Morocco	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Exploration Limited[1]	Non-trading	Scotland	Non-trading	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Ireland Limited[2]	Exploration	Scotland	Republic of Ireland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Low Carbon Solutions Limited	Carbon trading	England	UK	Wellington House 4th Floor, 125 The Strand, London, WC2R 0AP
Capricorn Mauritania Limited	Exploration	Scotland	Mauritania	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Nicaragua BV	Exploration	The Netherlands	Non-trading	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Offshore Exploration Limited	Exploration	Scotland	Israel	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Oil and Gas Tunisia GmbH[2]	Non-trading	Switzerland	Non-trading	Gubelstrasse 5, Postfach 1524, CH-6301 Zug, Switzerland
Capricorn Petroleum Limited	Holding company	Scotland	Scotland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Production (Holdings) Limited	Dormant	Scotland	Scotland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Production I Limited	Dormant	Scotland	Scotland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Production II Limited	Dormant	Scotland	Scotland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Resources Management Limited	Royalty interest	Scotland	Mongolia	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Senegal Limited	Exploration	Scotland	Senegal	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Spain Limited[2]	Exploration	Scotland	Spain	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Suriname BV	Exploration	The Netherlands	Suriname	50 Lothian Road, Edinburgh, EH3 9BY
Nautical Holdings Limited[2]	Holding company	England	UK	Wellington House 4th Floor, 125 The Strand, London, WC2R 0AP
UAH Limited[2]	Holding company	England	UK	Wellington House 4th Floor, 125 The Strand, London, WC2R 0AP

1 Exempt from audit under Section 480 of the Companies Act
2 Company is in the process of liquidation

Section 8 – Notes to the Company Financial Statements continued

8.3 Long-Term Intercompany Receivables

	At 31 December 2021 US$m	At 31 December 2020 US$m
Long-term intercompany receivables	**8.1**	3.0
	8.1	3.0

Long-term intercompany receivables include amounts due from Capricorn Energy Investments Limited of US$6.8m.

8.4 Cash and Cash Equivalents

	At 31 December 2021 US$m	At 31 December 2020 US$m
Cash at bank	**32.1**	1.9
Money market funds	**–**	250.0
	32.1	251.9

8.5 Other Receivables

	At 31 December 2021 US$m	At 31 December 2020 US$m
Other receivables	**3.1**	2.3
Amounts receivable from subsidiary undertakings	**2.3**	–
Prepayments	**1.6**	–
	7.0	2.3

8.6 Derivative Financial Instruments

	At 31 December 2021 US$m	At 31 December 2020 US$m
Current assets		
Financial assets – hedge options maturing within one year	**–**	3.4
Current liabilities		
Financial liabilities – hedge options maturing within one year	**–**	(3.4)
	–	–

At 31 December 2020, mark-to-market gains and losses on commodity derivatives were recorded as financial assets and liabilities. Capricorn Energy PLC entered into option contracts with third parties and back-to-back contracts with a subsidiary on the same date, with the same terms. Therefore there are equal financial assets and liabilities. Details of Group hedging can be found in note 3.7. All hedges matured on 31 December 2021, with no further option contracts being signed.

8.7 Trade and Other Payables

	At 31 December 2021 US$m	At 31 December 2020 US$m
Trade and other payables	**–**	0.5
Amounts payable to subsidiary undertakings	**76.0**	8.1
Accruals	**21.1**	2.1
	97.1	10.7

Accruals include US$20.2m payable for the share re-purchase agreed in 2021.

Section 8 – Notes to the Company Financial Statements continued

8.8 Financial Instruments

Set out below is the comparison by category of carrying amounts and fair values of all the Company's financial instruments that are carried in the Financial Statements. The fair value of financial assets and liabilities, other than those relating to hedge options, has been calculated by discounting the expected future cash flows at prevailing interest rates. Hedge options are valued using models with observable inputs.

Financial Assets

Carrying amount and fair value	At 31 December 2021 US$m	At 31 December 2020 US$m
Financial assets at amortised cost		
Cash and cash equivalents	**32.1**	251.9
Other receivables – amounts receivable from subsidiary undertakings	**2.3**	–
Other receivables – other	**3.1**	2.3
Long-term intercompany receivables	**8.1**	3.0
Derivative financial instruments		
Financial assets – hedge options	**–**	3.4
	45.6	260.6

For all financial assets held at amortised cost, their carrying amount is considered to be the same as their fair value.

Maturity Analysis of Financial Assets

The expected financial maturity of the Company's financial assets at 31 December 2021 is as follows:

	< 1 year US$m	1–2 years US$m	2–5 years US$m	>5 years US$m
Financial assets at amortised cost				
Cash and cash equivalents	**32.1**	**–**	**–**	**–**
Other receivables – amounts receivable from subsidiary undertakings	**2.3**	**–**	**–**	**–**
Other receivables – other	**3.1**	**–**	**–**	**–**
Long-term intercompany receivables	**–**	**1.3**	**6.8**	**–**
	37.5	**1.3**	**6.8**	**–**

The expected financial maturity of the Company's financial assets at 31 December 2020 was as follows:

	< 1 year US$m	1–2 years US$m	2–5 years US$m	>5 years US$m
Financial assets at amortised cost				
Cash and cash equivalents	251.9	–	–	–
Other receivables – other	2.3	–	–	–
Long-term intercompany receivables	–	3.0	–	–
Financial assets – hedge options	3.4	–	–	–
	257.6	3.0	–	–

Financial Liabilities

Carrying amount and fair value	At 31 December 2021 US$m	At 31 December 2020 US$m
Financial liabilities at amortised cost		
Trade and other payables	**–**	0.5
Amounts payable to subsidiary undertakings	**76.0**	8.1
Accruals	**21.1**	2.1
Lease liability	**3.1**	4.7
Derivative financial instruments		
Financial liabilities – hedge options	**–**	3.4
	100.2	18.8

Section 8 – Notes to the Company Financial Statements continued

8.8 Financial Instruments continued

Maturity Analysis of Financial Liabilities

The expected financial maturity of the Company's financial liabilities at 31 December 2021 is as follows:

	< 1 year US$m	1–2 years US$m	2–5 years US$m	>5 years US$m
Financial liabilities at amortised cost				
Amounts payable to subsidiary undertakings	**76.0**	**–**	**–**	**–**
Accruals	**21.1**	**–**	**–**	**–**
Lease liability	**1.8**	**1.3**	**–**	**–**
	98.9	**1.3**	**–**	**–**

The expected financial maturity of the Company's financial liabilities at 31 December 2020 was as follows:

	< 1 year US$m	1–2 years US$m	2–5 years US$m	>5 years US$m
Financial liabilities at amortised cost				
Trade and other payables	0.5	–	–	–
Amounts payable to subsidiary undertakings	8.1	–	–	–
Accruals	2.1	–	–	–
Lease liability	1.7	3.0	–	–
Derivative financial instruments				
Financial liabilities – hedge options	3.4	–	–	–
	15.8	3.0	–	–

Financial Risk Management: Risk and Objectives

The Company's financial risk management policies and objectives are consistent with those of the Group detailed in note 3.11.

The Company is not exposed to material foreign currency exchange rate risk.

8.9 Capital Management

Capital and net debt were made up as follows:

	At 31 December 2021 US$m	At 31 December 2020 US$m
Continuing operations		
Amounts payable to subsidiary undertakings	**76.0**	8.1
Lease liability	**3.1**	4.7
Less cash and cash equivalents	**(32.1)**	(251.9)
Net debt/(funds)	**47.0**	(239.1)
Equity	**1,102.1**	1,388.2
Capital and net debt/(funds)	**1,149.1**	1,149.1
Gearing ratio	**4%**	–

Section 8 – Notes to the Company Financial Statements continued

8.10 Related Party Transactions

The Company's subsidiaries are listed in note 8.2. The following table provides the Company's balances which are outstanding with subsidiary undertakings at the balance sheet date:

	At 31 December 2021 US$m	At 31 December 2020 US$m
Amounts payable to subsidiary undertakings	**(76.0)**	(8.1)
Amounts receivable from subsidiary undertakings	**10.4**	–
	(65.6)	(8.1)

The amounts outstanding are unsecured, repayable on demand and will be settled in cash.

The following table provides the Company's transactions with subsidiary undertakings recorded in the loss for the year:

	Year ended 31 December 2021 US$m	Year ended 31 December 2020 US$m
Amounts invoiced to subsidiaries	**11.1**	13.7
Amounts invoiced by subsidiaries	**20.4**	56.8

Directors' Remuneration

The remuneration of the Directors of the Company is set out below. Further information about individual Directors' remuneration is provided in the audited section of the Directors' Remuneration Report on pages 106 to 139.

	Year ended 31 December 2021 US$m	Year ended 31 December 2020 US$m
Emoluments	**3.3**	3.4
Share-based payments	**1.8**	0.4
	5.1	3.8

Pension contributions of US$0.2m (2020: US$0.2m) were made on behalf of Directors in 2021.

748,413 LTIP share awards to Directors vested during 2021 (2020: 290,683). Share-based payments disclosed above represent the market value at the vesting date of these awards in that year.

Other Transactions

During the year the Company did not make any purchases in the ordinary course of business from an entity under common control (2020: US$nil).

In 2021 there were no dividends received from subsidiary companies. In December 2020 the Company received a dividend from its subsidiary, Capricorn Oil Limited, of US$484.6m, of which US$183.3m was settled in cash and US$301.3m by offset against previous borrowings.

The Company waived a loan of US$138.7m due from Capricorn Senegal (Holding) Limited in December 2020 (2021: US$nil).

Subsequent to the year end the Company received a dividend payment of US$1,056.1m from Cairn UK Holdings Limited following the receipt of the India tax refund into that subsidiary.

Licence List
As at 31 December 2021

Country	Asset name	Licence	Block(s)	Operator	Capricorn Energy interest (%)
Egypt	Alam El Shawish West	Alam El Shawish	Al Assil, Al Karam, Bahga, Al Magd	Cheiron (20%)	20
Egypt	Badr El Din	Badr El Din	Bed-19, Bed-20	Cheiron (50%)	50
Egypt	Bed 2-17	Bed 2-17	Bed-2, Bed-17	Cheiron (50%)	50
Egypt	Bed-3	Bed-3	Bed-3	Cheiron (50%)	50
Egypt	North Alam El Shawish	North Alam El Shawish	NAES-1	Cheiron (50%)	50
Egypt	North East Abu Gharadig Extension	NEAG Extension	NEAG-1, NEAG-2, NEAG-3, NEAG-4, NEAG-5	Cheiron (26%)	26
Egypt	North East Abu Gharadig TIBA	NEAG TIBA	JG, JD, SHEIBA	Cheiron (26%)	26
Egypt	North Matruh	North Matruh	Teen	Cheiron (50%)	50
Egypt	North Um Baraka	North Um Baraka	Numb-1	Cheiron (50%)	50
Egypt	Obaiyed	Obaiyed	Obaiyed	Cheiron (50%)	50
Egypt	Sitra	Sitra	Sitra	Cheiron (50%)	50
Egypt	South Abu Sennan	South Abu Sennan	South Abu Sennan	Capricorn Egypt Limited	50
Egypt	Southeast Horus	Southeast Horus	Southeast Horus	Capricorn Egypt Limited	50
Egypt	West El Fayium	West El Fayium	West El Fayium	Capricorn Egypt Limited	50
UK	Plymouth*	P2428	43/7, 43/8	Capricorn Energy UK Limited	60
UK	Breagh South*	P2560	42/13b, 42/17, 42/18	Capricorn Energy UK Limited	70
UK	Portsmouth*	P2561	42/19, 42/20b	Capricorn Energy UK Limited	70
UK	Prometheus*	P2562	42/22, 42/23	Capricorn Energy UK Limited	70
UK	Cadence*	P2567	43/11, 43/12b	Capricorn Energy UK Limited	60
UK	Woodstock	P2379	22/11b, 22/12b, 22/16b, 22/17c	Capricorn Energy UK Limited	50
UK	Jaws	P2380	22/12d	Shell U.K. Limited (50%)	50
UK	Manhattan	P2381	22/13c, 22/18d	Capricorn Energy UK Limited	100
UK	East Orkney Basin	P2468	13/10, 13/3, 13/4, 13/5, 13/8, 13/9, 14/1, 14/6, 6/28, 6/29	No Operator	50
Mauritania	Block C7	C7 Psc	C7	Capricorn Mauritania Limited	90
Mexico	Block 7	CNH-R02-L01-A7.CS-2017	7	Eni (45%)	30
Mexico	Block 9	CNH-R02-L01-A9. CS-2017	9	Capricorn Energy Mexico	50
Mexico	Block 10	CNH-R02-L01-A10. CS/2017	10	Eni (65%)	15
Mexico	Block 15	CNH-R03-L01-G-TMV-01-2018	15	Capricorn Energy Mexico	50
Israel	Block 39	Licence No. 39	39	Capricorn Offshore Exploration Limited	33.34
Israel	Block 40	Licence No. 40	40	Capricorn Offshore Exploration Limited	33.34
Israel	Block 45	Licence No. 45	45	Capricorn Offshore Exploration Limited	33.34
Israel	Block 46	Licence No. 46	46	Capricorn Offshore Exploration Limited	33.34
Israel	Block 47	Licence No. 47	47	Capricorn Offshore Exploration Limited	33.34
Israel	Block 48	Licence No. 48	48	Capricorn Offshore Exploration Limited	33.34
Israel	Block 52	Licence No. 52	52	Capricorn Offshore Exploration Limited	33.34
Israel	Block 53	Licence No. 53	53	Capricorn Offshore Exploration Limited	33.34
Suriname	Block 61	Block 61	61	Capricorn Suriname B.V.	100

* Name subject to change

Group Reserves and Resources
As at 31 December 2021

Group Proven Plus Probable Oil and Gas Reserves (2P)

	WI mmboe	EI mmboe
31 December 2020	32.9	32.9
Disposals	(27.2)	(27.2)
Acquisitions	94.6	39.0
Additions and Discoveries	0.0	0.0
Technical Revisions	0.0	0.0
Commodity Price Revisions	0.0	0.0
Production	(9.3)	(7.3)
31 December 2021	**91.0**	**37.4**

All current 2P Reserves are located within the Western Desert Assets in Egypt

Sensitivity Analysis with Different Hydrocarbon and Carbon Emission Prices

Total Group 2P Reserves	WI mmboe	EI mmboe
WEO-2021 Stated Policies Scenario (STEPS)	91.8	36.8
WEO-2021 Sustainable Development Scenario (SDS)	91.0	37.1
WEO-2021 Net Zero Scenario (NZE)	90.1	37.2

Greenhouse Gas Emissions Associated with 2P Reserves

	WI Mt	WI Mt	EI kg CO_2 equiv/boe
Estimated Scope 1 and 2 emissions	2.7	1.1	36
Estimated Scope 3 emissions*	33.4	13.8	368

* Since Capricorn Energy does not control how its products are utilised, Scope 3 emissions are estimated for Categories 9, 10 & 11 of the GHG Protocol (downstream distribution, refining and use of products assuming all hydrocarbons are combusted).

Subdivision of 2P Reserves

	%
By country	
Egypt	100
Within 20 lowest ranking countries from Transparency International's Corruption Perception Index	0
Within protected conservation areas or habitats	0

Group Contingent Oil and Gas Reserves (2C Development Pending)

	WI mmboe
31 December 2020	1.2
Disposals	(1.2)
Acquisitions	9.8
Discoveries	0.0
Revisions	0.0
31 December 2021	**9.8**

WI Working Interest
EI Entitlement Interest
WEO World Energy Outlook 2021, International Energy Agency

Glossary

The following are the main terms and abbreviations used in this report:

2C	Denotes best estimate scenario of contingent resources
2D	two dimensional
3D	three dimensional
2P	Proved plus probable reserves, denotes best estimate scenario
3Rs	Capricorn core values: Respect, Relationships and Responsibility
ABC	anti bribery and corruption
AFE	authority for expenditure
AGM	annual general meeting
ALARP	as low as reasonably practicable
APP	African Partner Pool
AQI	Audit Quality Inspection
BAP	Biodiversity Action Plan
Bapetco	BADR Petroleum Company
bbl	barrel
bbls	barrels
bn	billion
boe	barrels of oil equivalent
boepd	barrels of oil equivalent per day
bopd	barrels of oil per day
Brexit	Britain's exit from the European Union
BRINDEX	the Association of British Independent Oil Exploration Companies
BST	British Standard Time
CCUS	carbon capture, utilisation and storage
CDP	Carbon Disclosure Project
CEO	Chief Executive Officer
CERT	Crisis and Emergency Response Team
CFO	Chief Financial Officer
CIM	Crisis Incident Management
CMAPP	Corporate Major Accident Prevention Policy
CNH	National Hydrocarbons Commission
CO_2	carbon dioxide
CO_2e	carbon dioxide equivalent
COO	Chief Operating Officer
COS	Capricorn Operating Standards
COVID-19	2019 novel coronavirus disease
CR	corporate responsibility
CRMS	Corporate Responsibility Management System
CSR	corporate social responsibility
DAC	Direct Air Capture
E&A	exploration and appraisal
EGPC	Egyptian General Petroleum Company
EITI	Extractive Industries Transparency Initiative
EMEA	Europe, Middle East and Africa
ESG	Environmental, Social and Governance
ESAS	Employee Share Award Scheme
ESIA	Environmental and Social Impact Assessment
ETS	Emissions Trading Scheme
ESOP	employee share option plan
ETS	Emissions Trading Scheme
EU	European Union
EVF	Employee Voice Forum
ExecCo	Executive Committee
EY	Ernst & Young LLP
FlowStream	FlowStream Thruer Ltd
FPSO	floating production storage and offloading
FRC	Financial Reporting Council
G&G	geological and geophysical
GDPR	General Data Protection Regulation
GHG	greenhouse gas
GJ	gigajoule
GoI	Government of India
GRI	Global Reporting Initiative
H1/2	first/second half (of a year)
HR	human resources
HSE	health, safety and environment
HSSE	health, safety, security and environment
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICSA	The Chartered Governance Institute
IEA	International Energy Agency
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IIA	Invest in Africa (not-for-profit organisation)
INPG	National Institute for Oil and Gas (Senegal)
IOGP	International Association of Oil and Gas Producers
IP	investment proposal
IPIECA	International Petroleum Industry Environmental Conservation Association
JV	joint venture
KPI	key performance indicator
LATAM	Latin America
LIBOR	London Interbank Offered Rate
LNG	Liquefied Natural Gas
LTIF	lost time injury frequency
LTI	lost time injuries
LTIP	Long Term Incentive Plan
m	million
mmbbls	million barrels of oil
mmboe	million barrels of oil equivalent
MSA	Modern Slavery Act
MT	Management Team
NATIN	Institute for Natural Resources and Engineering Studies
NECCUS	North East Carbon Capture, Utilisation and Storage
NGO	non-governmental organisation
NPV	Net Present Value
OECD	Organisation for Economic Cooperation and Development
OPEC	Organization of the Petroleum Exporting Countries
OSPAR	Oslo/Paris convention (for the Protection of the Marine Environment of the North-East Atlantic)
PDMR	person discharging managerial responsibility
PSC	Production Sharing Contract
PwC	PricewaterhouseCoopers LLP
RBL	reserves based lending
RFCT	Ring Fence Corporation Tax
RMC	Risk Management Committee
RTO	return to office
SASB	Sustainability Accounting Standards Board
SASISOPA	Industrial Safety, Operational Safety and Environmental Protection Administration System
SCT	Supplementary Charge Tax
SDGs	The United Nations Sustainable Development Goals
SIA	social impact assessment
SID	Senior Independent Director
SIP	share incentive plan
SMEs	small and medium-sized enterprises
SNE	SNE development, Senegal
STUs	sediment trapping units
Ts and Cs	terms and conditions
TCFD	Task Force on Climate-related Financial Disclosures
TRIR	total recordable injury rate
TSR	total shareholder return
UK	United Kingdom
UKCS	United Kingdom Continental Shelf
UN	United Nations
UNGC	United Nations Global Compact
US$	United States dollar
WI	working interest
Woodside	Woodside Energy Ltd.
YTD	year to date

Appendix: Capricorn Energy Emissions Methodology – Basis of Reporting

Notes About GHG Data
We report our GHG emissions in accordance with the GHG Protocol Corporate Accounting and Reporting Standard (World Resources Institute/World Business Council for Sustainable Development). We use the published 100-year Global Warming Potentials (GWPs) for CO_2, CH_4 and N_2O from the Intergovernmental Panel on Climate Change (IPCC) – with the Fourth Assessment Report (AR4) values applied when using Defra 2021 emission factors (they are already integrated), and the Fifth Assessment Report (AR5) values applied when using other emission factors. All GHG emissions are reported in tonnes of carbon dioxide equivalent (CO_2e) after applying GWPs recommended by the Intergovernmental Panel on Climate Change's Fourth Assessment Report. We report five years of data from a baseline of four years earlier.

Capricorn's operated boundaries of Scope 1, Scope 2 and Scope 3 emissions will include the following activities for 2021:

In 2021 the operational activities included the following:

Diadem survey	February – March 2021
East Orkney survey	June, September 2021
Offices	
UK – Edinburgh	all year round
UK – London	all year round
Mexico – Mexico City	all year round
Egypt – Cairo	October – December 2021
Senegal – Dakar	January – March 2021
Travel data covering air, rail travel and hotel stay	all year round

1: Scope 1 GHG Emissions from Operated Activities

Definition
Scope 1 emissions: direct GHG emissions which occur from sources that are owned or controlled by the Company, for example, emissions from combustion in owned or controlled boilers, furnaces or vehicles.

At present, Capricorn is undertaking exploration activities only. We are not operating any production assets. Our operated Scope 1 emissions arise from:

- fuel combustion during offshore rig, marine vessel, and aircraft operations, also including land-based vehicles, and for heating the Edinburgh office;
- flaring during well testing (not since 2018); and
- incineration of waste on marine vessels.

Fuel Combustion
The rig, vessels and helicopters keep a daily log of fuel usage, and each provides us with a total figure for fuel consumption, in litres, at the end of each month. Fuel consumption figures for land-based vehicles are partly drawn from accurate fuel consumption records and partly from estimates when exact fuel usage is impractical to track. For our contracted vehicles at our newly opened Egypt office, we have used a conservative assumption of 7km per litre to calculate fuel consumption.

Natural gas combustion for heating in the Edinburgh office is calculated as a proportion of the natural gas usage for the whole building.

A fuel density figure is used to convert litres of fuel into tonnes. The fuel density is provided by the rig, vessels, or helicopter operator when available. Otherwise, a typical density is used from API 2009. Figures in tonnes are then converted into CO_2e using GWPs for carbon dioxide (CO_2), methane (CH_4) and nitrous oxide (N_2O) from the API Compendium 2009 which uses the Intergovernmental Panel on Climate Change's Fourth Assessment Report.

Flaring
There has been no flaring associated with well testing since 2018. When well testing is carried out, the volume of oil and gas flared is measured and converted into mass (tonnes) using densities obtained from well test samples that are analysed in the laboratory. Scope 1 GHG emissions (tonnes of CO_2e) are then calculated using emission factors from EEMS (Environmental Emissions Monitoring System) Atmospheric Emissions Calculations, 2008.

Waste Incineration
Waste Incineration is managed by our contracted marine vessels during seismic surveys. For surveys performed in 2021, waste incineration only makes a small contribution towards our overall Scope 1 emissions. The Scope 1 GHG emissions (tonnes of CO_2e) are calculated using emission factors from the GHG Protocol.

Estimates and Uncertainties
Natural gas combustion for heating Capricorn's Edinburgh office is calculated as a proportion of the natural gas usage for the whole building. We use the most applicable emission factors available, but there will always be a small margin of error from these as they may not match fuel type exactly.

Appendix: Capricorn Energy Emissions Methodology – Basis of Reporting continued

2: Scope 2 GHG Emissions

Definition

Scope 2 emissions: electricity and district heating/cooling indirect emissions are from the generation of purchased electricity and district heating/cooling consumed by the Company. Purchased electricity and district heating/cooling is defined as electricity and district heating/cooling that is purchased or otherwise brought into the organisational boundary of the Company.

Our Scope 2 emissions arise from the electricity consumption in our offices in Edinburgh, London, Mexico City, Dakar and Cairo.

We report Scope 2 emissions in line with GHG Protocol Scope 2 Guidance:

1. Market-based – (transmission and distribution losses are excluded)
2. Location-based – we use emission factors from the International Energy Agency (IEA) (updated to IEA 2021 in 2021). These are grid average emission factors for each country.

For the market-based method we use emission factors, where available, in the following order of preference:

a. Supplier-specific emission factors – obtained from Capricorn's electricity suppliers.
b. Residual mix emission factors – obtained from the Association of Issuing Bodies (AIB) document 'European Residual Mixes 2020'.
c. Location-based emission factors – these are the same IEA and Defra emission factors that we use for calculating location-based emissions.

Estimates and Uncertainties

Most of our electricity consumption happens in our head office in Edinburgh (72.2% of our total electricity in 2021), followed by London, Mexico, Dakar and Cairo offices (22.4%, 4.12%, 1.02% and 0.22% of total respectively). Electricity consumption for the Edinburgh, London, Mexico, Dakar and Cairo offices is taken from meter readings. The Cairo Office opened and started functioning in October 2021 with just five employees, which accounts for the low energy consumption and percentage total contribution.

Supplier-specific emission factors were requested from the electricity suppliers of all of Capricorn offices, however for 2021 only the Edinburgh office was available. For the London office, the energy supplier provides 100% renewable electricity, but we can confirm it only with a certificate for previous periods.

3: Scope 3 GHG Emissions

Definition

Scope 3 emissions: Scope 3 emissions are a consequence of Capricorn's activities but occur from sources not owned or controlled by Capricorn.

Capricorn currently reports Scope 3 emissions from Category 6 business travel (well-to-tank emissions are excluded) including air and rail travel (excluding Tube) and hotel accommodation. (We do not report separately our operational and non-operational business travel.)

For calculating Scope 3 (business travel) GHG emissions, we use Defra methodology, including its recommendation to include an uplift for the influence of radiative forcing in air travel emissions. This uplift ensures that the maximum climate impact of an organisation's travel habits is captured. In our air travel GHG emissions calculations, we use journey type (domestic, short haul, long haul and international), seat class (economy, premium economy, business, first) and distance travelled. In our rail travel GHG emissions calculations, we use rail type (national rail, international rail) and distance. Scope 3 emissions excluded from this 2021 operated emissions report are supply chain and employee commuting. We updated to the latest Defra 2021 emission factors in 2021 (see http://www.ukconversionfactorscarbonsmart.co.uk/).

It is Capricorn policy that all travel for Edinburgh- and London-based staff, and usually the smaller offices, is booked using its corporate travel agent Reed & Mackay, except under special exception. As a result, all our travel data in 2021 was obtained in reports from Reed & Mackay, and these included details on journey type, seat class and kilometres travelled, as well as emissions from hotel stay.

GHG Normalisation

To meet UK reporting requirements, GHG emissions need to be reported normalised to an appropriate performance measure representative of the business. For 2021, Capricorn did not have revenue from operated production facilities in 2021, or in the previous four years, and activities were of an exploration nature only (i.e., seismic survey and associated activities). Its GHG emissions have been normalised to total employee and contractor hours worked. They are presented as tonnes of CO_2e per 1,000 hours worked. In 2021, only two operated seismic surveys in the North Sea were performed by four vessels for the Diadem project survey and East Orkney survey.

Hours worked are collected for employees and for contractors. Employee hours are derived primarily from the Capricorn time-writing system that employees use to log their working hours. Employee hours include hours worked by 'direct contractors' (contracted for more than three months to an organisational position) as these are captured in the time-writing system.

Capricorn's Human Resources department compiles the figures and enters them into UL360 database each month.

Hours worked by field-based contractors are collected monthly, together with other HSE KPI data, from each vessel, rig, aircraft, and shore base. For offshore workers, the hours are often calculated on a 12-hour workday basis.

Estimates and Uncertainties

Hours worked by field-based contractors are often calculated on a 12-hour workday basis rather than a precise log of time worked.

GHG Assurance

Deloitte have provided independent third-party limited assurance in accordance with the International Standard for Assurance Engagements 3000 ("ISAE 3000") and Assurance Engagements on Greenhouse Gas Statements ("ISAE 3410") issued by the International Auditing and Assurance Standards Board ("IAASB") over selected metrics, identified with *, within Capricorn Energy's energy consumption and greenhouse gas (GHG) emission disclosure. Deloitte's full unqualified assurance opinion, which includes details of the metrics assured, can be found on our website. www.capricornenergy.com/working-responsibly

Equity Reporting

From 2021, Capricorn will report Scope 1 GHG emissions based on the equity share within both operated as well as non-operated projects. This data will be presented for the first time, so unfortunately the data cannot be presented in comparison to previous periods.

Capricorn's equity boundaries of Scope 1 emissions will include the following activities for 2021:

Equity Share	Project name	Location	Duration	Operating Company
Capricorn operated				
50%	Diadem Survey	UK (North Sea)	February-March 2021	Capricorn Energy PLC
50%	East Orkney Survey	UK (North Sea)	June and September 2021	Capricorn Energy PLC
Capricorn non-operated (Equity on entitlement basis)				
20%	Catcher	UK (North Sea)	January – October 2021	Bumi Armada UK Ltd
29,5%	Kraken	UK (North Sea)	January – October 2021	EnQuest PLC
8.5%	AESW	Egypt (Western Desert)	October – December 2021	BAPETCO
20%	BED	Egypt (Western Desert)	October – December 2021	BAPETCO
20%	OBAIYED	Egypt (Western Desert)	October – December 2021	BAPETCO
11%	NEAG	Egypt (Western Desert)	October – December 2021	BAPETCO
50%	NUMB W1/W5	Egypt (Western Desert)	October – December 2021	Cheiron

Capricorn equity boundaries for Scope 2 emissions will include 100% emissions from electricity consumption in Capricorn offices.

Capricorn has also extended its reporting to include equity share on an entitlement basis of Scope 3 greenhouse gas emissions. The boundaries of Scope 3 include business travel, transportation and distribution, the processing of sold products, and use of sold products, as defined by the GHG Protocol.

Capricorn has chosen to report these Scope 3 categories as they present significant greenhouse gas emission contributions. However, we do not control how our product is ultimately processed into consumer products, therefore we have conservatively accounted for 100% of products being combusted within our methodology.

To anticipate future greenhouse gas emission responsibilities, Capricorn has also calculated Scope 3 emissions from the use of sold products, transportation and distribution, and for the processing of sold products, for our 2P reserves (equity share on an entitlement basis). The methodology applied to this process aligns with the GHG protocol for reserve calculation and uses.

To meet UK reporting requirements, GHG emissions need to be reported normalised to an appropriate performance measure representative of the business. To normalise equity emissions, Capricorn's total production share was used, thus equity emissions were normalised as CO_2e per barrel of oil equivalent. This methodology applies to both our Scope 1 and Scope 3 emissions.

Company Information

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