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.

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.

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

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

		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.

Section 1 – Basis of Preparation and Exceptional Income continued

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.

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%.

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

Section 2 – Oil and Gas Assets and Operations continued

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.

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.

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.

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.

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)

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.

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.

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

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.

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	Year ended 31 December 2020		
	Continuing operations US$m	Continuing operations US$m	Discontinued operations US$m	Total US$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	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"):

	Year ended 31 December 2021			Year ended 31 December 2020		
	WAFV £	WAGP/ WAEP £	Number of shares	WAFV £	WAGP/ WAEP £	Number of shares
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		2020	
	Number of shares	WAGP £	Number of shares	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		2020	
	Number of shares	WAGP/WAEP £	Number of shares	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.

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%.

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 and Assets and Liabilities Held-For-Sale 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.

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 and Assets and Liabilities Held-For-Sale 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.

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.

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

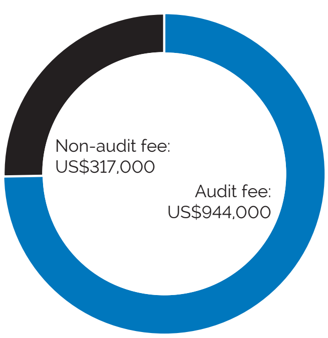
7.5 Auditors' Remuneration

	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

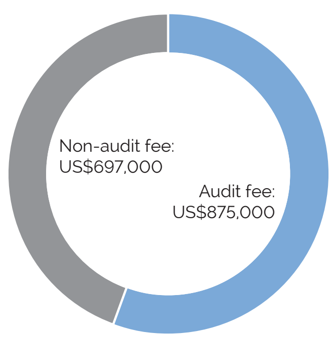
The Group has a policy in place for the award of non-audit work to the auditors which requires Audit Committee approval (see the Audit Committee Report on page 101).

The split of audit fees to non-audit fees payable to the auditors is as follows:

2021 Fees to the Auditors



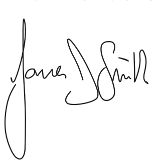
2020 Fees to the Auditors



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.

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

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

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