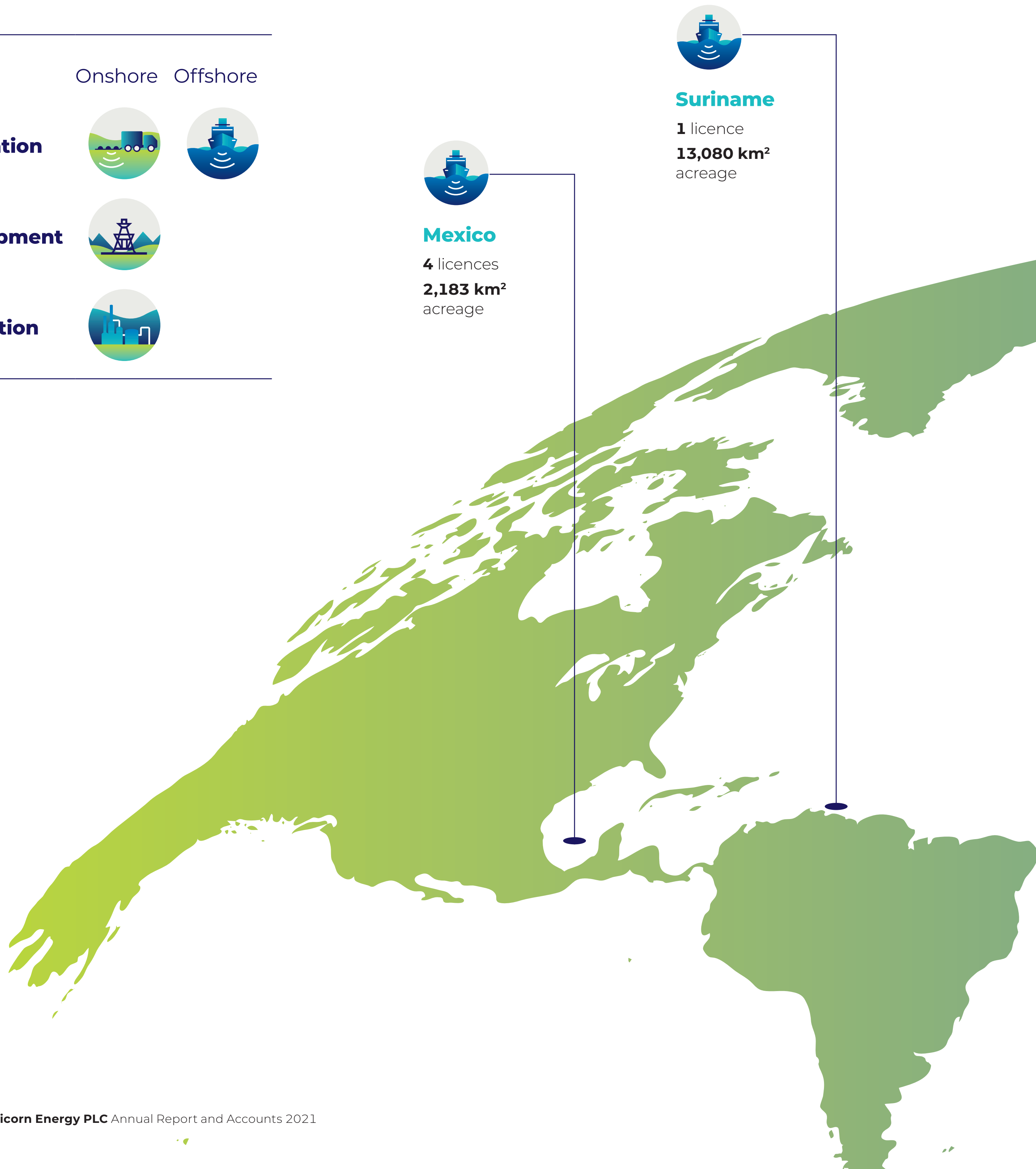
Strategic Report

Our Portfolio

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

Key	Onshore	Offshore
Exploration		
Development		
Production		



Mauritania

1 licence
7,300 km² acreage

Egypt

3 licences and
11 development leases
16,211 km² acreage

UK

9 licences
4,941 km² acreage

Israel

8 licences
2,700 km² acreage

A Transformational Year

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

Nicoletta Giadrossi
Chair

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

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

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

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

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

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

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

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

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

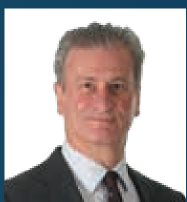
We will continue to deliver the strategy that we have set out: building and scaling production to create a business with stable cash flows, a sustainable profile, and the opportunity and means to continue to create value for our stakeholders.

Nicoletta Giadrossi
Chair

Positioned for growth and expansion

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

CEO's Review



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

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

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

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

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

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

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

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

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

Simon Thomson
Chief Executive Officer

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

Focused on growth, returns and fiscal discipline

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

Simon Thomson
Chief Executive Officer

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

Portfolio Renewal

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

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

Positioned for Growth

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

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

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

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

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

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

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

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

A NEW NAME, A NEW PLACE

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

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

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

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

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

Selective Exploration

Core area exploration to sustain production

Select transformational exploration

Balance Sheet Flexibility

Capital structure resilient to price shocks

Controllable and flexible capital programme

Shareholder Returns

Key differentiator

Competition for capital between reinvestment and returns

Sustainable Cash flow Base

Diversify and extend production base

Ensure low full-cycle break-even economics

Portfolio Management

Monetise for returns and reinvestment

Flexible and balanced capital allocation

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

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

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

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

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

Executing our Strategy Responsibly

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

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

Responsible Governance

BUSINESS PRINCIPLES

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

RELEVANT MATERIAL ISSUES

5 10 11 15 18

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

CONTRIBUTION TO SDGS

10 REDUCED INEQUALITIES; 16 PEACE, JUSTICE AND STRONG INSTITUTIONS; 17 PARTNERSHIPS FOR THE GOALS

Read more on pages 80-83

Risks

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

Read more on pages 49-55

Behaving Responsibly to the Environment

BUSINESS PRINCIPLES

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

Read more on page 56

RELEVANT MATERIAL ISSUES

23 25 26 28 29

RELEVANT

7 AFFORDABLE AND CLEAN ENERGY; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 13 CLIMATE ACTION; 14 LIFE BELOW WATER; 15 LIFE ON LAND; 17 PARTNERSHIPS FOR THE GOALS

Behaving Responsibly to People

BUSINESS PRINCIPLES

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

Read more on page 60

RELEVANT MATERIAL ISSUES

37

RELEVANT

3 GOOD HEALTH AND WELL-BEING; 5 GENDER EQUALITY; 8 DECENT WORK AND ECONOMIC GROWTH

Behaving Responsibly to Society

BUSINESS PRINCIPLES

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

Read more on page 64

RELEVANT MATERIAL ISSUES

51 53

RELEVANT

1 NO POVERTY; 2 ZERO HUNGER; 3 GOOD HEALTH AND WELL-BEING; 4 QUALITY EDUCATION; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 13 CLIMATE ACTION; 16 PEACE, JUSTICE AND STRONG INSTITUTIONS

External Frameworks

CDP · EITI · GRI · IFC · IOGP · SASB · Oil & Gas Authority · TCFD · United Nations Global Compact

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

OUR STRENGTHS AND CAPABILITIES

#1 Agile portfolio management

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

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

#2 Collaborative partnerships

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

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

#3 Exploration and production expertise and experience

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

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

#4 Responsible culture

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

WHY CAPRICORN ENERGY?

Our expertise and agility

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

Our experience

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

Our responsible approach

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

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

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

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

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

CREATING VALUE RESPONSIBLY FOR STAKEHOLDERS

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

Investors

Oil and gas sales revenue

US$56.2m

Employees

Employee salaries and benefits

US$49.4m

Business partners and suppliers

Payments for capital expenditure

US$89.4m

Governments and regulators

Payments to governments

US$24.6m

Local community/ interest groups

Social investment

US$0.6m

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

Business Context

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

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

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

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

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

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

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

As outlined elsewhere in this report, Capricorn is taking steps to increase energy production from our upstream operations in Egypt but at the same time reduce the associated emissions both on an absolute and an emissions intensity basis. Investigations are also ongoing to use renewable power sources both for

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

upstream operations and for provision of energy to local markets. We see numerous other opportunities to acquire high-quality upstream assets from legacy operators, where there are opportunities to create material stakeholder value, while preferentially producing lower emissions resources, electrifying upstream operations, and capturing and sequestering emissions.

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

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

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

CASE STUDY

TRADEWATER PARTNERSHIP

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

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

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

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

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

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

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

Valentina Kretzschmar
Energy Transition Director
appointed August 2021

Governance

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

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

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

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

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

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

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

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

b) Describe management's role in assessing and managing climate-related risks and opportunities
Capricorn's CEO, who is also part of the Executive Committee, takes ultimate responsibility and accountability for the Company's ESG policy, including climate-related strategy and targets. The Chair of Capricorn's Board is the Director responsible at the Board level.

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

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

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

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

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

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

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

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

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

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

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

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

Board
Meets every two months

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

Risk Management

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

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

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

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

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

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

b) Describe the organisation's processes for managing climate-related risks
The Group applies one of the 4Ts to each risk: Tolerate, Treat, Transfer or Terminate.

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

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

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

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

Strategy

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

a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term
In developing our strategy, Capricorn's Board and leadership team consider a wide range of opportunities and risks across three discrete time horizons:
Short term (to 2025): the next three years are defined by detailed business and financial plans, which are performance-managed in delivery of our 2025 targets.

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

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

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

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

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

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

b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning

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

All new oil and gas opportunities are screened at US$50/bbl flat Brent oil price and US$6/mcf global gas price (adjusted for certain regional markets). We also consider a range of other scenarios as part of our opportunity screening process. We apply carbon prices across all our scenarios. For countries that already have an established carbon pricing mechanism – such as the EU and the UK – we use carbon prices of US$100/$tCO_2$e and US$110/tCO_2e by 2030, respectively. For other regions, where regulatory carbon pricing mechanisms are not currently applicable, we use our internal carbon pricing assumptions starting at US$28/$tCO_2$e in 2022, rising to US$51/tCO_2e in 2030.

c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

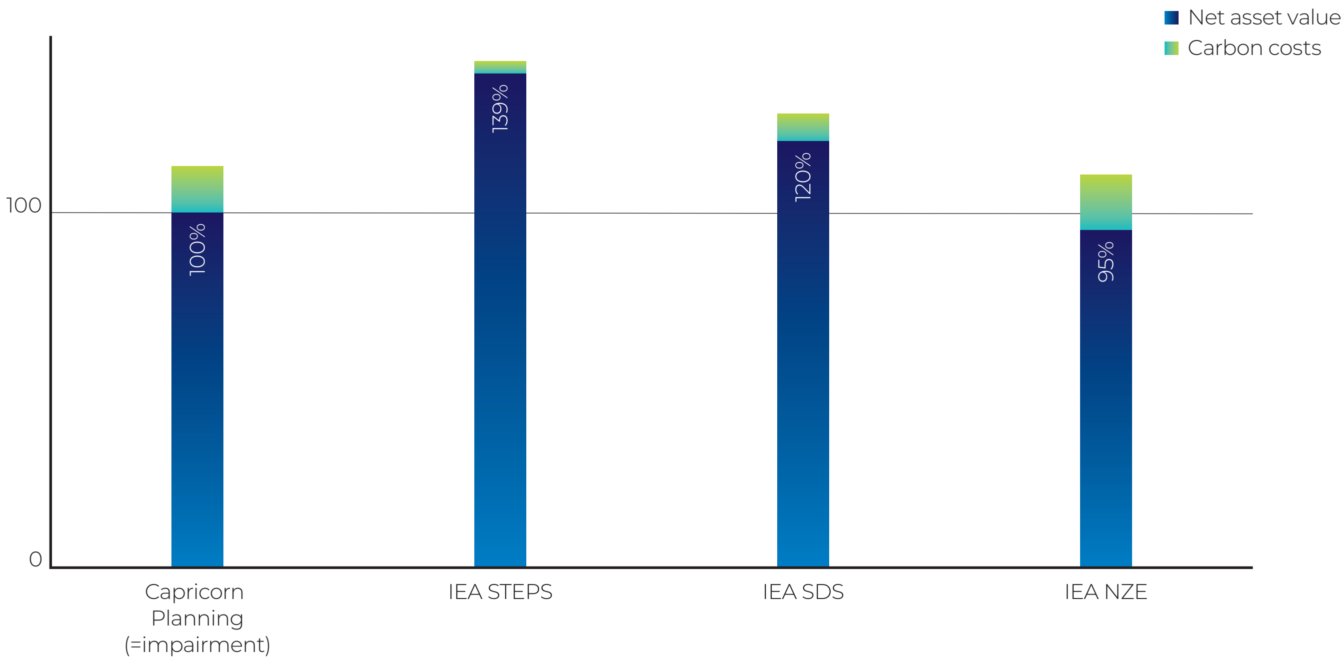
The findings of the recently conducted scenario analysis exercise, which tested the resilience of Capricorn's Egypt portfolio against IEA's STEPS, SDS and NZE scenarios, showed that our assets will generate value in the most ambitious climate scenario, aligned with a 1.5 degree warming. This gives us confidence that our valuation and planning assumptions are robust and that we will continue to create value for all key stakeholders – even in the most aggressive carbon reduction scenario.

Capricorn's assumptions, used for our financial planning and balance sheet impairment testing include US$55/bbl (flat) oil price, US$6/mcf gas price (long term, inflated at 2% from 2025) and carbon prices of US$28/$tCO_2$e in 2022, increasing to US$51/$tCO_2$e in 2030. Carbon prices were applied to Scope 1 and 2 emissions from Capricorn's Egypt operations.

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

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

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



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

Metrics and Targets

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

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

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

Identifying Material Corporate Responsibility Issues

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

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

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

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

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

What’s Important to our Stakeholders

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

Governance

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

Environment

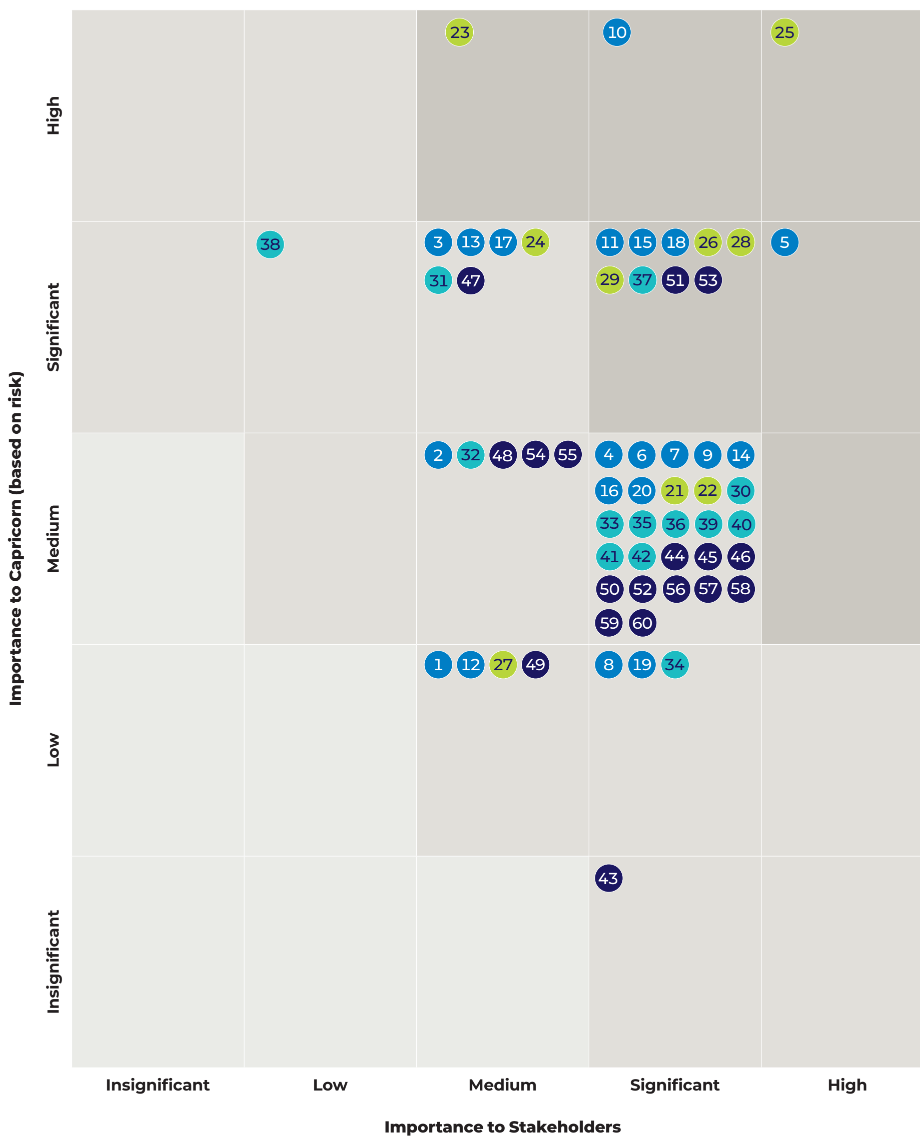
21. Biodiversity and Sensitive Areas
22. Discharges to Air, Sea, Land and Sound
23. Energy Use and Alternative Sources
24. Freshwater Use
25. GHG Emissions (Including Venting and Flaring)
26. Materials Use
27. Product Stewardship
28. Reuse, Recycle and Waste Management
29. Use of Local Resources

People

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

Society

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



Theme Governance Environment People Society

Materiality High Medium Low

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

Supporting S172

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

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

STAKEHOLDER	WHY IT IS IMPORTANT TO ENGAGE?	HOW MANAGEMENT AND/OR DIRECTORS ENGAGED
Investors	– Their views influence our strategic and operational decision-making – We are dependent on shareholders for access to funding – We are accountable to our shareholders	– Undertaking a full investor programme including: · Holding 59 investor meetings including one to ones and attending roadshows/conferences · Conducting regular financial reporting · Responding in a timely manner to investor and analyst enquiries · As the AGM in 2021 was a closed meeting in accordance with UK and Scottish Government guidance regarding COVID-19, offering shareholders the opportunity to submit any questions by email in advance of the meeting · Post-AGM correspondence to discuss vote outcomes
Governments	– We are responsible to them for compliance with local and/or international laws – Their permissions are required for us to access acreage and operate	– Meetings with Heads of State, UK and Country Ambassadors, Ministers and Civil Servants
Business partners, peers and contractors	– We are reliant on viable partners in joint ventures – We are commercially responsible to contractors, suppliers and partners – Their performance directly impacts our financial, operational and responsible performance	– Due to the COVID-19 pandemic, large portions of the engagement throughout 2021 were carried out using virtual technologies and included meetings with partners, peers and contractors with Board members and senior executives in addition to regular joint venture and operations planning meetings – Maintaining membership of industry bodies – Active management of key projects and assets (including alignment of project deliverables)

the aims and concerns of stakeholders has helped us identify and prioritise issues most material to the business.

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

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

WHAT WERE THE KEY TOPICS OF ENGAGEMENT	EXAMPLES OF THE IMPACT OF SUCH ENGAGEMENT AND RESPONSES TAKEN	COVID-19 CONSIDERATIONS
– ESG matters including energy transition – Board composition including committee set-up – Strategy and performance – Corporate governance	– Regular reviews of corporate objectives – Board committee structure changes (as discussed on page 91) – Launch of the Diversity and Inclusion strategy – Improved transparency regarding bonus scheme disclosures	– Investor meetings were held either through virtual communications platforms or in person when safe to do so due to the restrictions in place in response to the COVID-19 pandemic – The Board is committed to communicating in an open and transparent manner with all investors, and places a clear importance on shareholder engagement. Communication and transparency around Capricorn's COVID-19 strategic response and business continuity has been paramount
– Legal Compliance – ESG matters – Major accident prevention – Investment and economic growth	– Continued monitoring of responsible performance at Board meetings and annual review of CRMS and objective KPI setting – Implementation of enhanced incident reporting system – Reviewing feedback and commentary from government and regulatory bodies regarding performance expectation (see our responsible approach in respect of Mauritania discussed on page 65) – KPIs include performance against leading and lagging indicators for health, safety and environmental protection and are reviewed at all Board meetings	– We continue to monitor controls and advice set out by host governments in our operating locations and multi-national organisations such as the WHO, which assisted in shaping and implementing our nine-step plan to ensure all critical activities of the business were unaffected by the pandemic
– Policies and standards – Industry reputation – Investment opportunities for growth – Long-term relationships – ESG matters	– Careful selection of contractors (discussed on page 63) – Continued membership of IOGP Security Committee (performance against IOGP benchmarks discussed on page 62) – Actively engage with all JV partners early to establish good working relationships (discussed on page 82 in the context of Egypt)	– Where required and with the help of local partners and contractors, survey work and vessel inspections have been managed remotely. To ensure that best practice is followed, we also monitor how non-operating partners have conducted drilling campaigns during the pandemic

STAKEHOLDER	WHY IT IS IMPORTANT TO ENGAGE?	HOW MANAGEMENT AND/OR DIRECTORS ENGAGED
Local communities and interest groups	– We have an ethical responsibility to maximise social and economic benefit and to minimise impact on livelihoods and the environments in which we operate	– Community meetings – Reviews of social investment strategies aligned with UNSDGs – Senior management visits – Media monitoring – Promoting use of stakeholder engagement registers
Employees	– We are dependent on employees' performance and that of the wider workforce – We have a legal and ethical responsibility for their well-being – They bring a diverse perspective to the identification of opportunities and ways of working	– Regular staff meetings – Monthly 'pulse' surveys – Biannual Employee Voice Forum (EVF) meetings (discussed on page 85) – Working practice focus groups – General Meetings – Exit interviews

WHAT WERE THE KEY TOPICS OF ENGAGEMENT	EXAMPLES OF THE IMPACT OF SUCH ENGAGEMENT AND RESPONSES TAKEN	COVID-19 CONSIDERATIONS
– Protection of resources and livelihoods – Community development and social investment – Access to employment and business opportunities – Transparency of payments to government – Biodiversity	– Community investment focus to include adaption to climate change – Continued membership of the Extractive Industries Transparency Initiative (EITI) – Continued dialogue with Invest in Africa to build skills and capacity among SMEs – Implementation of targeted stakeholder engagement plans to support activity in Mauritania – Social investment in Mexico and Suriname to support community biodiversity efforts (discussed on page 41)	– As part of our efforts to support the communities where we operate, we continue to monitor the COVID-19 situation in these countries – Additionally, in 2021 we made a US$50,000 donation to Fundación para la Salud (Funsalud), a healthcare not-for-profit organisation in Mexico, to support its comprehensive COVID-19 relief efforts
– Strategy – Ways of working – Lessons learned from projects – Internal communication – Remuneration and benefits	– Enhanced structure for internal communications – Gained direct insight into the views of staff on COVID-19 impacts which facilitated the adoption of hybrid working arrangement on a trial basis – Continuing the development and delivery of health and well-being initiatives including the appointment of a new well-being programme provider	– Throughout the various rule changes, our dedicated Return to Office Steering Committee continued to provide guidance to staff members, undertaking risk assessments and implementing required protocols to ensure a safe return for office-based employees at the appropriate time – Following a thorough staff consultation process, the Group is trialling a hybrid working model, and new health and well-being initiatives help our staff to feel motivated and supported both in their work and home lives

A differentiated strategy

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

>US$5.5bn

Returned to shareholders in the past 15 years

Commitment to shareholders

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

Value-focused growth, supported by balance sheet strength

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

James Smith
Chief Financial Officer

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

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

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

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

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

CASE STUDY

RESOLUTION OF INDIA DISPUTE SUPPORTS SHAREHOLDER RETURNS

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

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

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

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

A Focus on Value

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

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

Emissions reduction

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

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

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

Measuring Our Progress

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

Strategic objective: ESG and HSSE

2021 KPIs

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

Key Risks

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

2021 PROGRESS

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

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

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

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

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

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

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

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

Strategic objective: ESG and HSSE continued

2022 KPIs

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

2021 PROGRESS

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

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

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

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

Past performance in KPI category

Remuneration

Weighting
(as % of allocated proportion of maximum opportunity)

17.5%

Bonus awarded

15.75%

Pages 114-117 – Read more: Remuneration Report

Strategic objective: Financial Performance

2021 KPIs

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

Key risks

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

2022 KPIs

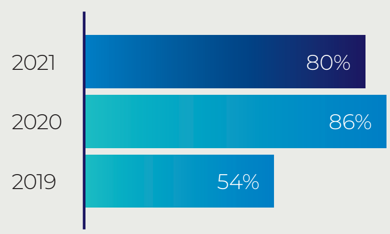
- Maintain financial strength and flexibility.
- Debt liquidity covenants or applicable facility tests will not be breached.
- An executable funding plan will be presented and approved by the Board as part of the annual strategy review (June 2022) or shortly thereafter or associated with any approved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

2021 PROGRESS

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

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

Past performance in KPI category



Remuneration

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

Bonus awarded
20%

Page 118-119 – Read more: Remuneration Report

Strategic objective: Exploration and new ventures

2021 KPIs

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

Key risks

- Lack of exploration success.

2022 KPIs

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

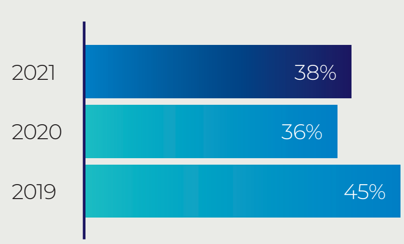
2021 PROGRESS

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

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

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

Past performance in KPI category



Remuneration

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

Bonus awarded
7.5%

Page 116-117 – Read more: Remuneration Report

Strategic objective: Production performance

2021 KPIs

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

Key risk

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

2022 KPIs

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

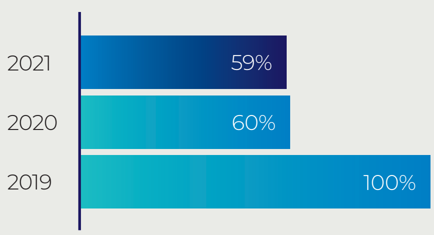
2021 PROGRESS

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

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

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

Past performance in KPI category



Remuneration

Weighting
(as % of allocated proportion of maximum opportunity)

20%

Bonus awarded

11.75%

Page 118-119 – Read more: Remuneration Report

Strategic objective: Corporate projects

2021 KPIs Key risks

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

Key Risks

- Failure to secure business development opportunities.

2022 KPIs

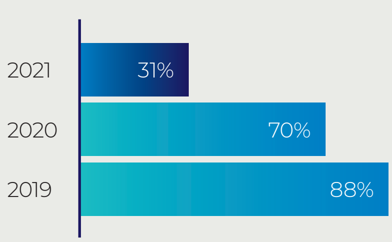
- Projects identified (including acquisitions & divestments) and agreed with the Board of strategic significance during the calendar year.

2021 PROGRESS

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

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

Past performance in KPI category



Remuneration

Weighting
(as % of allocated proportion of maximum opportunity)

17.5%

Bonus awarded

5.5%

Page 118-119 – Read more: Remuneration Report

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

Delivering value through responsible operations

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


GOAL ZERO

Responsible and sustainable production growth

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

Paul Mayland
Chief Operating Officer

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

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

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

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

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

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

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

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

STRATEGY IN ACTION

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

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

Looking at Capricorn's objectives in Egypt, there are three key pillars to ensure our success over the next year:

- Continue and enhance the good safety record of Bapetco, the operating company jointly owned by the Egyptian General Petroleum Corporation (EGPC), Cheiron and Capricorn, and build out a programme of GHG reduction and other environmental improvements
- Increase production
- Conduct a successful exploration campaign

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

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

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

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

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

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

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

Delivering for Communities

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

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

High quality, infrastructure-led exploration

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

Focused on discovering and commercialising new resources with pace

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

Eric Hathon
Exploration Director

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

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

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

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

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

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

Minimising Resource Carbon Footprint

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

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

The Right Portfolio for Value Creation

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

STRATEGY IN ACTION

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

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

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

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

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

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

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

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

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

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

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

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

Group's risk management framework

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

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

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

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

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

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

Risk governance framework

Top-down: Oversight, accountability, monitoring and assurance

The Board

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

Risk Management Committee (RMC)

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

Audit Committee

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

Management Team

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

Asset/Project/Function level

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

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

Viability Statement

Strategy, Business Model and Context

The Group's strategy and business model are described on pages 12-15 of this report.

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

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

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

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

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

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

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

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

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

Assessment Process and Key Assumptions

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

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

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

Viability

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

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

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

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

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

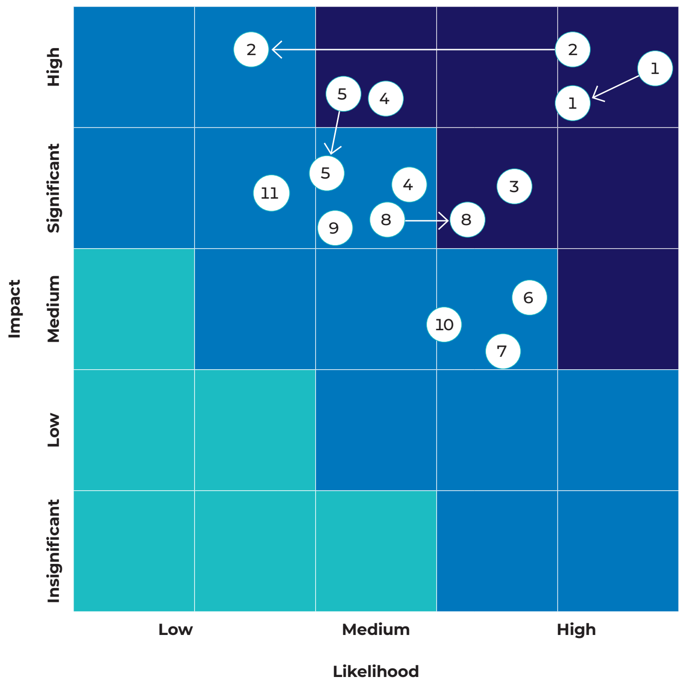
Responding to the Changing Risk Environment in 2021

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

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

Principal Risks to the Group in 2021-2022

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



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

Emerging Risks

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

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

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

Strategic objective: Deliver exploration success

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

Risk appetite

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

Impact

- Limited or no value creation
- Failure of the balanced portfolio business model
- Negative market reaction

Mitigation

Active programme for high-grading new areas through licence rounds, farm-ins and other transactions.

Portfolio of prospects and leads that offer opportunities with a balance of geological and technical risks.

Highly competent team applying a thorough review process to prospects and development opportunities, and a team of geoscientists with a track record of delivering exploration success.

Exploration Leadership Team in place to undertake peer reviews and assurance.

2021 movement

This risk remained static in 2021.

In Block 10 in the Sureste basin, an oil find was confirmed on the Eni-operated Saasken-1 exploration well (15% non-operated WI) during Q1 2020, with Operator preliminary estimates of 200 to 300 million barrels of oil in place.

In Q3 2021, an oil find was confirmed on the non-operated Sayulita exploration well (15% WI) in Block 10. Preliminary estimates by Operator, Eni, indicate the discovery may contain 150 to 200 million barrels of oil in place.

The exploration wells in the North Matruh concession and the North Um Baraka concession in Egypt were unsuccessful. The completion of the Saasken-2 appraisal well on Block 10 Mexico confirmed that the original Saasken discovery reservoir did not extend into neighbouring Block 9 and this resulted in an impairment of remaining exploration/appraisal costs capitalised in Block 9.

2022 KPI objectives

Mature our key exploration projects for planned drilling in 2022/23 in Egypt, UK and Mauritania.

Add new commercial resources through E&A drilling, coupled with conceptual development studies.

Strategic objective: Corporate projects

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

Risk appetite

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

Impact

- Failure to replenish the portfolio
- Inability to replace reserves and sustain production levels

Mitigation

Geoscience, business development, and commercial teams work closely to review and identify new portfolio opportunities.

Experience and knowledge throughout the organisation in recognising prospective opportunities.

Risk assessments and due diligence process undertaken on all potential new country entries.

Development of discretionary capital allocation and opportunity ranking system.

Portfolio is continually reviewed and high-graded to enhance quality.

2021 movement

This risk increased in 2021.

The Group has been reshaping the portfolio with a focus on delivering cash-generative production growth. The sale of the asset base in Norway and Senegal in 2020 followed by the sale of the UK assets in 2021 released significant capital, enabling investment in the sustainability of our cash flow-generating asset base.

The Group assessed several opportunities in 2021 but were not successful in adding to the production base. The business development team continue to assess opportunities which expand and diversify the Group's production base.

2022 KPI objectives

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

Strategic objective: ESG and HSSE

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

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

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

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

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

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

Strategic objective: ESG and HSSE continued

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

Risk appetite

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

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

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

Strategic objective: Production performance

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

Risk appetite

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

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

Strategic objective: Production performance and exploration and new ventures

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

Risk appetite

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

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

Strategic objective: Financial performance

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

Risk appetite

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

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

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

Risk appetite

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

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

Strategic objective: Financial performance continued

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

Risk appetite

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

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

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

Risk appetite

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

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

Behaving Responsibly to the Environment

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

BUSINESS PRINCIPLES

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

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

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

See our Materiality Matrix on page 25

2021 PERFORMANCE AGAINST SUSTAINABILITY OBJECTIVES

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

See our Sustainability Report for more information about our SDG performance

Emissions and Energy Use

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

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

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

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

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

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

Streamlined Energy and Carbon Reporting

Emissions

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

GHG Emissions from Operated activities

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

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

Energy use

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

Low-Carbon Assets and Equipment

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

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

Capricorn equity emissions

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

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

2021 Capricorn Equity Emissions

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

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

Protecting Biodiversity and the Environment

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

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

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

Biodiversity Risk Screening

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

Environmental Baseline Surveys

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

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

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

Water, Effluents and Pollution

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

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

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

Our 2021 Performance

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

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

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

Product Stewardship

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

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

CASE STUDY

ENVIRONMENTAL MANAGEMENT IN EGYPT

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

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

Reducing Emissions

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

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

Managing Water

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

Behaving Responsibly to People

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

BUSINESS PRINCIPLES

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

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

37 Major Accident Prevention

See our Materiality Matrix on page 25

2021 PERFORMANCE AGAINST SUSTAINABILITY OBJECTIVES

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

See our Sustainability Report for more information about our SDG performance

Managing People and Talent

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

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

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

Diversity and Inclusion (D&I)

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

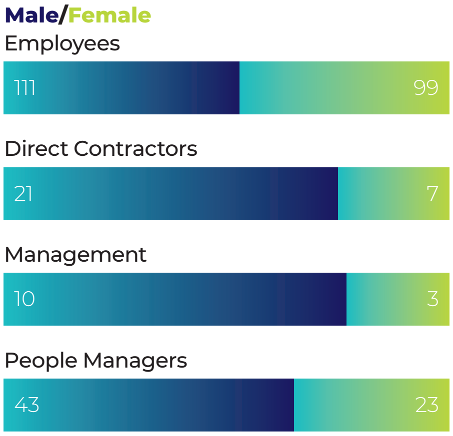
Our Group People Management Policy guides how we build D&I into all aspects of recruitment, learning and development, and remuneration and benefits. We also have policies on disability, equality and diversity, fixed-term and part-time employees, flexible working and harassment. We continue to develop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

Total workforce

238

(2020: 204)

Gender split
Total workforce
Male/Female

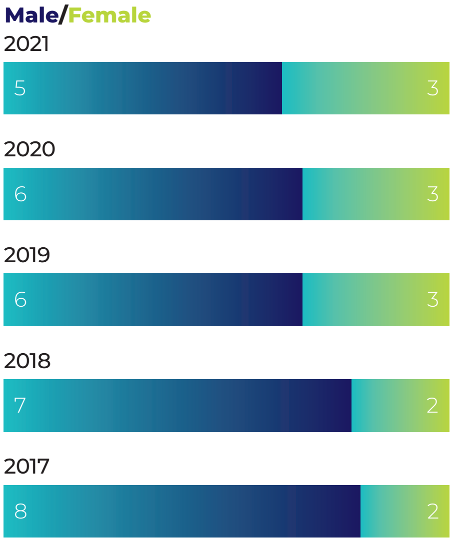


Average age of staff

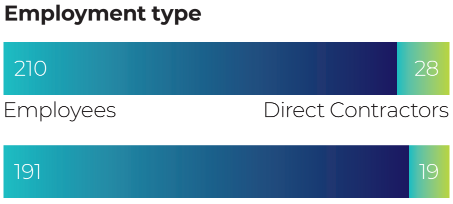
44

(2020: 45)

Board members
Male/Female



Employment type



Our D&I ambition

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

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

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

Employee Engagement

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

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

Learning and Development

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

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

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

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

Workplace Safety

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

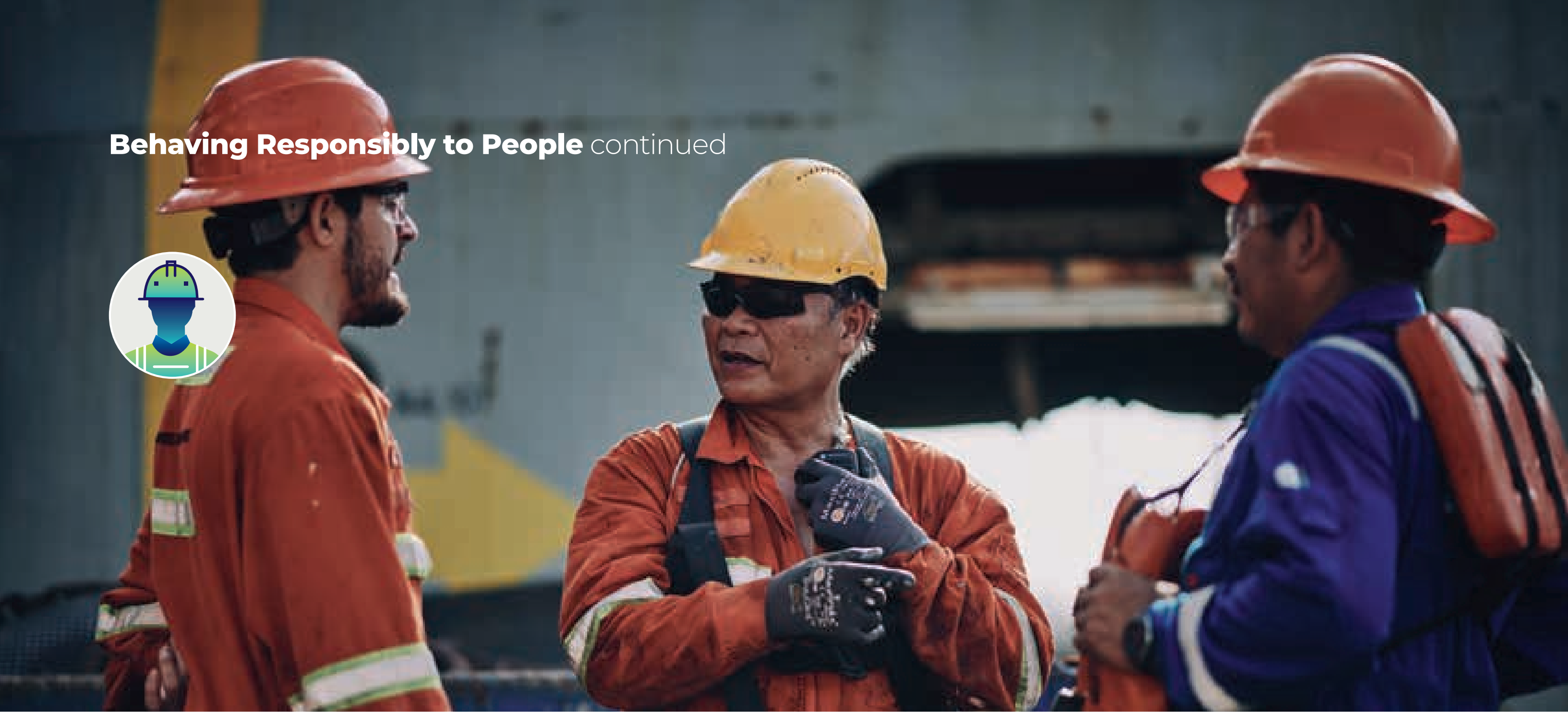
Managing day-to-day operational safety hazards involves several systems to promote safe working procedures. These are linked to those of our principal contractors where they operate key assets. Our own personnel provide clear oversight, and procedures are bridged where necessary to ensure responsibilities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

Minimising Health and Security Risks

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

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

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



Employee Well-being

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

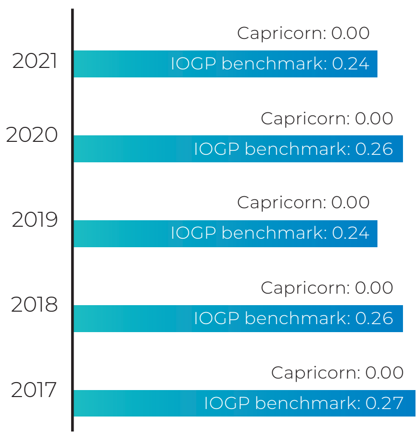
To promote good physical and mental health, we have run exercise and yoga sessions, walking challenges and virtual tours, as well as workshops and webinars covering meditation, anxiety and stress management, financial well-being, understanding change, and healthy eating. Our HR staff have also completed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

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

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

Lost Time Injury Frequency (LTIF)

(Lost time injuries per million hours worked)



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

Our 2021 Performance

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

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

Security

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

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

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

Major Accident Prevention

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

Operated Assets

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

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

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

Non-Operated Assets

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

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

Crisis Management and Emergency Response

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

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

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

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

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

CASE STUDY

CONTRACTOR SELECTION AND ENERGY EFFICIENCY

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

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

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

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

Contractors

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

Selecting Contractors

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

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

Pre-Qualification Tools

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

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

Behaving Responsibly to Society

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

BUSINESS PRINCIPLES

– We seek to make a positive social impact in every area where we operate by working ethically and with integrity.

– We respect and promote the human rights of individuals, communities and indigenous peoples.

– We acknowledge the aspirations and concerns of the communities in which we work, and will respond to and address grievances fairly.

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

51 Indigenous Peoples' Rights

53 Local Content and Local Procurement

See our Materiality Matrix on page 25

2021 PERFORMANCE AGAINST SUSTAINABILITY OBJECTIVES

– Applied human rights guidance in planned operations, including the availability of transparent grievance procedures.

– Delivered a specialist-run, in-house human rights 'lunch and learn' session for all staff.

– Rolled out human rights and modern slavery training to employees.

– Audited the application of modern slavery prevention requirements in selected projects.

– Agreed, established and tracked social investment across the Group to positively impact the communities with which we work.

– Reviewed and revised the criteria for selecting and assessing social investment projects, improving alignment to the United Nations Sustainability and Development Goals (UNSDGs), and developed an assessment tool.

– Applied stakeholder engagement registers to forthcoming projects and demonstrated that stakeholder engagement follows our latest guidance.

See our Sustainability Report for more information about our SDG performance

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

Human Rights Management

Policies and Guidelines

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

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

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

Human Rights Training

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

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

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

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

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

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

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

CASE STUDY

STAKEHOLDER ENGAGEMENT IN MAURITANIA

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

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

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

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

Security and Human Rights

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

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

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

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

Delivering Social and Economic Benefits

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

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

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

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

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

Social Management

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

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

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

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

Local Procurement

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

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

Local Community Engagement

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

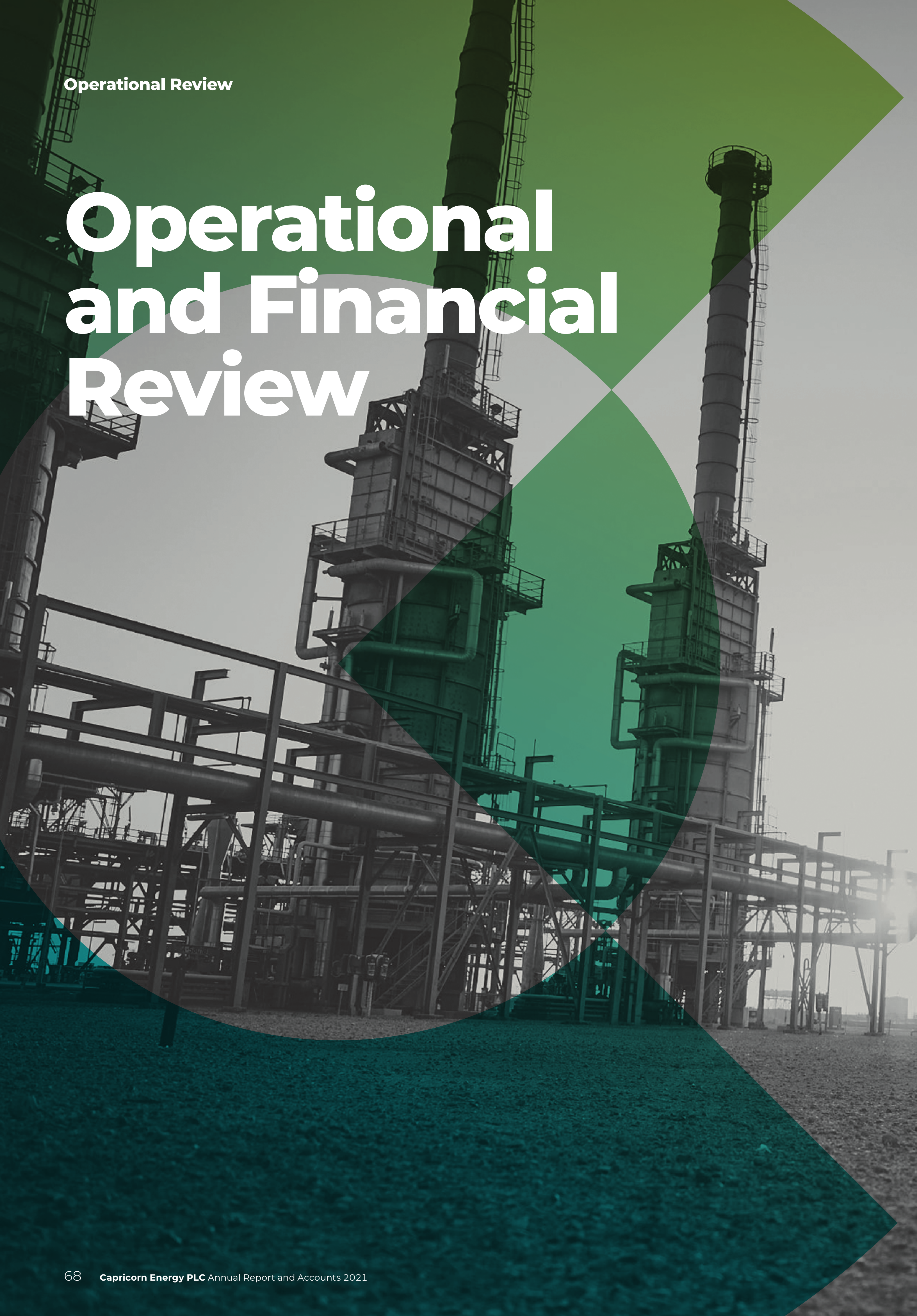
We consult with local stakeholders to identify any potential impacts associated with our activities and to acquire local knowledge to inform any future plans. This enables us to minimise risks, maximise shared economic and social benefits, and foster long-lasting relationships with community partners,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

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

1 Comisión Nacional de Hidrocarburos.

Mangrove rehabilitation project, Weg naar Zee, Paramaribo, Suriname

Operational and Financial Review



STRATEGIC DELIVERY

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

2021 FINANCIAL HIGHLIGHTS

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

2022 OUTLOOK

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

RESERVES

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

Production

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

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

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

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

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

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

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

Exploration

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

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

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

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

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

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

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

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

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

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

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

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

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

Balance sheet strength and financial flexibility

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

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

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

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

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

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

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

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

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

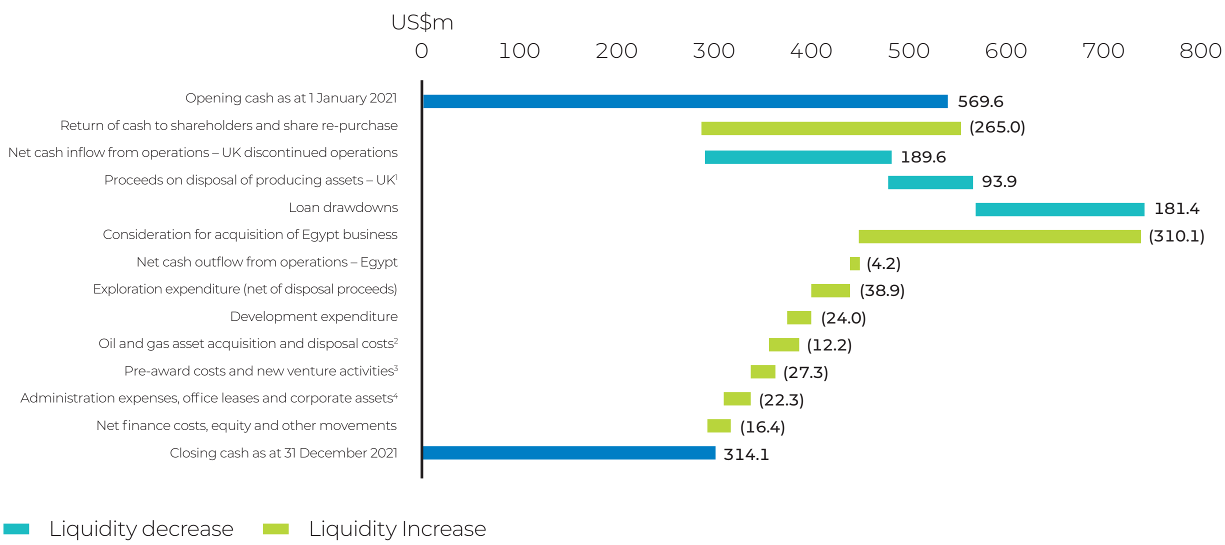
The acquisition was part funded through debt drawn of US$181.4m through two new borrowing facilities secured over the Egypt assets with the balance of US$133.7m from corporate cash balances held.

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

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

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

Net cash outflow for the year



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

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

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

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

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

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

Reconciliation of statutory cash flow to cash outflow from operations:

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

Key Statistics

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

Continuing Operations

Exploration assets

Eastern

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

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

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

Western

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

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

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

Egypt

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

Results for the period

Post-acquisition gross profit from Egypt concessions

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

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

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

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

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

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

Equity movements

Return of cash to Shareholders

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

Share Re-purchase

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

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

Outlook

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

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

Simon Thomson
Chief Executive
8 March 2022