CEO'S REVIEW

Randy Neely
Chief Executive Officer

Upon my appointment at Capricorn, it was clear that the Company possessed a strong platform from which to build a profitable oil and gas business: a material production base in Egypt, a pool of highly skilled professional staff and a Board fully aligned with shareholders. By the time I arrived in June, the strategic direction was already evolving. My initial focus was to reinforce and execute the strategic changes initiated by the Board: to transform Capricorn, both organisationally and culturally, from an exploration-focused business into a leaner, cash flow and shareholder return-focused non-operated production and development business. Through significant effort from our committed staff, Capricorn is now well positioned to maximise the potential of the Egyptian production and development base and realise the potential value of other held assets.

A key highlight for the Company in 2023 was the return of ~$568m to shareholders, with ~$450m of capital distributed to shareholders in May, a further ~$100m special dividend paid in October, and the start of a $25m share buyback programme.

I am confident that my previous experience, and that of our newly appointed CFO and COO, will provide the know-how to guide the Company through the challenges and opportunities that Capricorn will face and attempt to capitalise on in 2024, and I am excited to have joined the business at this point in its journey.

Renewed strategy

Now that our near-term strategy goals in Egypt have been delivered, our medium-term Egypt strategy is to efficiently capitalise the business and ensure we generate a return on investment for our shareholders. To maximise value, we need to control costs, allocate capital commercially into the right projects, guide change at the licence level and expedite collection of receivables. The outlook around receivables has improved significantly with the payment of $30m from the Egyptian Petroleum Corporation (EGPC) at the end of Q1 2024. The Company's expectation is that all Egypt accounts receivable, which have gone up from $96m to $169m, will be collected in full.

In order to focus capital and internal resources on the Egyptian portfolio, we made the decision to exit all our non-Egypt licences. In the UK North Sea, our remaining assets were the contingent payments due from Waldorf following the sale of production assets to them in 2021, alongside legacy exploration licences and tax pools from historic investments. At the end of 2023 we amended our contingent payment arrangement with Waldorf, resulting in accelerated cash receipts of $48m in December, with a further $24.5m to be paid over the next 12 months. This also resulted in the acquisition of a non-operated, cash flowing 25% working interest (WI) in the Columbus natural gas field in the UK Central North Sea, subject to completion.

In Q1 2024, the Company successfully exited its positions in Mexico and Suriname. In Senegal, Capricorn is entitled to a contingent payment of up to $50m from Woodside Energy's Sangomar Field Development if first oil, as defined in the sale and purchase agreement, is achieved in the first half of 2024 and the average Brent oil price during the first six months of production exceeds the $55/bbl or $60/bbl thresholds. A positive milestone was reached in February with the arrival of the Floating Production Storage and Offloading (FPSO) facility offshore Senegal and Woodside's announcement to continue to target first production for mid-2024.

In 2023, Egypt experienced low levels of US dollar reserves, which led to an increase in receivables due across the industry. Throughout my 12 years working in the country, and looking further back, the Government of Egypt has always met its payment obligations. In order to effectively do business in Egypt, fostering and maintaining communications is crucial. To this end, we maintain a close dialogue with our JV partner and the EGPC, and our relationship continues to improve as we build on our cooperative and collaborative approach to managing the Egyptian business.

The trust and mutual respect fostered by these relationships and open lines of communication support our efforts to achieve an amended and extended

"We remain committed to the potential of our Egypt assets, and maintain the view that Egypt is a promising jurisdiction for oil and gas companies to do business."

production sharing contract (PSC) portfolio to the benefit of all stakeholders. Improved terms would support investment, driving growth, which in turn increases the government's net take and the revenue share available to the Company. We are proud of our investment in the social responsibility investment programme in the Matrouh Governorate, in cooperation with the EGPC and the Orman Association, supported by the Egyptian Ministry.

We have continued to strengthen the current executive team, welcoming our new Chief Operating Officer Geoff Probert and Chief Financial Officer Edward Ok in the first quarter of 2024. These appointments bring deep industry experience and strong relationships in Egypt, coupled with strategic, financial and operational leadership to drive the delivery of profitable growth as the business evolves.

Focused on ongoing returns

Overhead cost reductions were a key focus for the Board and were already well progressed by the time I joined. Since then, we delivered a further 30% in cost savings, principally around the core structure of the business. In 2023, we reduced our UK headcount by 80%, giving us a total staff level of less than 50 people based in the UK and Egypt, which is the right size for our current business needs. These cost saving initiatives have led to a projected 80% reduction in G&A from 2022 to 2024. WI Egypt oil and gas production in 2023 was 30,044 boepd, comprising 47% liquids, which generated revenues from Egypt production of $200m at an average realised oil price of $81.2/bbl and a fixed gas price of $2.95/mmscf. Our average total production costs were $5.4/boe. Net cash generated from Egypt oil and gas production was $32m, with overall Group net cash of $76m, comprising of $190m cash and $114m debt.

As noted earlier, in 2023 we acted on the shareholder return commitment set out in our strategic review, with ~$450m of capital returned to shareholders in May and a further ~$100m special dividend paid in October. Additionally, during the year we started a $25m share buyback programme which, due to low trading volumes, will be completed in 2024. Egypt trade receivables at 31 December 2023 have increased to $169m (2022: $96m). Group capital expenditure on oil and gas assets stood at $140m, including general exploration costs, the operating loss was $87m and the loss after tax was $144m. Included in the Company's reported operating loss is an impairment charge of $44m taken against the carrying value of the Egypt producing assets $29m and the elimination of goodwill $15m recorded on the original acquisition.

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Transformed priorities – from exploration to production optimisation
The WI production in 2023 across the four main concession areas of Obaiyed (Capricorn 50% WI), Badr El Din (BED) (Capricorn 50% WI), North East Abu Gharadig (NEAG) (Capricorn 26% WI) and Alam El Shawish West (AESW) (Capricorn 20% WI) was below the low end of the original 32-36,000 boepd guidance. This was largely impacted by the timing of the delivery of key projects at Teen and in the BED area, along with lower than expected contributions from new wells. In order to confirm our understanding of the asset base, we commissioned GLJ Ltd. (GLJ) to prepare a reserves report on our assets.

Drilling activity at the end of 2023 was focused on the Abu Roash reservoir targets in the BED concession, where continued step-out and delineation wells have seen positive results. In both the BED15 and BEDC6 fields we saw encouraging reservoir net pay outcomes, also extending the limit of the fields. Incremental step-out drilling on these fields has been an area of success for Capricorn since acquisition.

A number of facilities projects were completed towards the end of 2023 at BED, Teen and Karam. These projects focused on optimising gas production with compression and low-pressure production optimisation, with production impact due to be assessed in Q1 2024; and no major projects planned in 2024.

Capricorn is in the process of transferring operatorship, however retains participation in three exploration concessions in the Western Desert, and we are working with our Partner to negotiate extensions to these concessions with EGPC, allowing a partial deferment of some of this exploration activity into at least 2025.

Importantly, there are a number of unconventional oil and gas plays present in our jointly held concessions. Unconventional oil and gas, both tight gas and shale oil, are an unexploited opportunity in Capricorn's Western Desert concessions which offer exciting resource potential and which the Company is working with its Partner to de-risk technically and commercially. The key reservoir, Abu Roash F source rock, is present across our licences, and neighbouring operators are currently working to de-risk it via drilling and stimulation programmes. The recovery rates for unconventional reservoirs are typically much lower than conventional opportunities, however, the potential scale of the opportunity is still significant and will factor into our amended and extended PSC portfolio negotiations.

Outlook
Looking ahead to 2024, we continue to focus on maximising shareholder value from Egypt against a backdrop of returning optimism following the announcement of significant capital injections from the UAE investment deal on the Egyptian north coast and the International Monetary Fund (IMF), as well as proposed financial support packages from the European Union (EU) and World Bank. We also continue to focus on the potential of our Egypt assets and I remain confident that we will progress our receivables position and move towards a renegotiation of the PSCs. We are working with our Partner in Egypt to ensure the appropriate scale of rig fleet is deployed to enable effective exploitation of the asset base. At this time, drilling activity in Egypt is expected to be lower in 2024 to better align capital activity to accessible funds generated in country. We are also turning our attention to growing a non-operated production base in the UK North Sea to maximise shareholder value, as demonstrated by the Columbus acquisition in December 2023. We remain committed to returning excess capital to shareholders with a planned special dividend payment of $50m in Q2 2024, accompanied by a share consolidation, subject to shareholder approval at the AGM.

I would like to take the opportunity to thank all our staff for pulling together and remaining focused throughout an incredibly demanding period of change in 2023. By working to maximise the potential of our assets, focusing on returns, and deepening our relationships with our Partner and the Egyptian Government, I am confident that our revitalised team will ensure that Capricorn successfully advances in 2024 and beyond.

Randy Neely
Chief Executive
28 March 2024