Annual Report and Accounts 2022

Capricorn Energy PLC

Capricorn

Capricorn is an Egypt-focused energy producer, with an attractive portfolio of onshore exploration, development and production assets in the Western Desert. Outside Egypt, the Company has selective exploration interests which it is seeking to monetise, farm-down or exit.

Capricorn is headquartered in Edinburgh, Scotland.

2022 Highlights

Net working interest oil and gas production averaged (boepd)

~34,200

Year-end net Group cash

US$597m

Cash and cash equivalents of US$757m less debt drawn of US$160m.

Egypt oil and gas sales revenue

US$229m

Returned to shareholders in 2022

US$529m

Strategic review launched in February 2023 following public shareholder campaign and Board changes

Net zero target

2040

or earlier in Scope 1 and 2 equity emissions

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Chair's Statement

Craig van der Laan
Chair

"I was appointed Chair of Capricorn in February 2023, alongside five other new members of Capricorn's Board following a public campaign by a number of shareholders. The overwhelming shareholder vote in favour of the new Board appointments underscored the expectations for change. Consistent with those expectations, we immediately commenced a strategy review after appointment. Today, 85 days later, we are pleased to report our initial findings, which include five areas of decisive strategic action. These include a decision to make a material return of capital to shareholders; a significant cost reduction as part of a broader plan to preserve shareholder cash; the curtailment of expensive exploration activities outside of near field activity in Egypt; plans to improve the Egypt business; and a drive for a culture change across the Company.

As we take the next actions in our review, I am pleased to announce that Capricorn will benefit from the leadership of Randy Neely, a highly accomplished industry figure with extensive experience of successful operations in Egypt, who will join the business as Chief Executive on 1 June 2023.

Our review of strategy continues, and I look forward to updating shareholders on our medium to long term findings in the months ahead. I would like to be very clear on our intention in the near term, and on an ongoing basis, to return all excess capital to our shareholders.

As we look to enact positive change in the business, I am grateful for the support that we have been given by our new colleagues as we execute our strategy for the benefit of all of our shareholders."

Maximising value for all stakeholders
The past year has seen unprecedented upheaval and change at Capricorn. A proposed recommended takeover by Tullow Oil plc was announced in June 2022 with the recommendation subsequently withdrawn by the Board in response to shareholders' objections. Thereafter, the Board recommended a reverse takeover of NewMed Energy (NewMed) which was also met with vigorous opposition and a public campaign by a number of shareholders, including demands for fundamental Board renewal and the termination of the NewMed deal. This culminated in the resignation of all but two members of the previous Board and overwhelming shareholder support for the appointment of six new Board members at an extraordinary general meeting held on 1 February 2023. I was elected to the Board and appointed Chair of Capricorn at that time and am honoured to serve in this role alongside the other new members of the Board. We bring to Capricorn a broad skillset of industry, shareholder engagement and capital markets expertise, which is essential for the Board to deliver against shareholders' strong mandate and expectations for change.

The three months since the shareholder meeting have been a period of extraordinary energy and renewal and this will continue as the Board works tirelessly to ensure Capricorn is managed for all of its diverse mix of shareholders, with an overriding focus on shareholder value generation. Since joining the Board, I have personally met a wide range of our investors, to ensure the Board understands shareholders' concerns and expectations as we develop our plans for Capricorn. Almost 75% of Capricorn's shares were voted at the February 2023 meeting, with over 99% of these supporting the appointment of six new Board members. Unsurprisingly, the messages from shareholders have therefore been consistent, at the heart of which is an expectation for change and a new approach. This culture of transparent engagement will continue, focusing on the acknowledgement of shareholder concerns and providing clear explanations for the positions we take.

Immediate priorities
Following the February general meeting, the Board announced a strategic review to explore options for Capricorn's future direction. Our immediate focus in the context of this review was to address the pressing matter of the NewMed transaction. Having considered the views of a significant number of shareholders and their unwillingness to support the proposed NewMed transaction, as well as recommendations to vote against the deal from leading proxy advisory agencies, and the need for the renewed Board to be able to consider all available alternative strategies for Capricorn, the Board advised shareholders to vote against the NewMed proposal. At the pending shareholder meeting, shareholders would have been asked to consider approving the NewMed deal, the completion of which remained subject to a range of conditions from NewMed, and as such no certainty that the deal would have been completed on the then contemplated terms. Shortly thereafter, the Company and NewMed mutually agreed on 15 February 2023 the termination with immediate effect of the business combination agreement, and therefore the NewMed transaction. The decision provided the Board with greater strategic optionality in deciding Capricorn's future direction.

We have heard clearly from shareholders and are pleased to outline five immediate priorities which have had our focus since taking office 85 days ago.

1. Return of value to shareholders

The tax refund in February 2022 from the Government of India of more than US$1bn enabled Capricorn to return US$529m of capital to shareholders in the form of a tender offer and buyback programme in 2022. As a newly constituted Board, our first commitment is to outline our plans to conduct another material distribution of cash to shareholders within operating requirements. We have stress tested the capital requirements of the business, so we have a clear understanding of how to manage safely our assets in the current market environment.

The Board is returning approximately US$575m via a special dividend of c.US$450m expected to be paid in May 2023, a further special dividend in Q4 2023 of US$100m dependent upon certain conditions and a share buyback of at least US$25m over the next twelve months. The US$100m special dividend in Q4 2023 is dependent upon a number of factors including: addressing our receivables position in Egypt; the outcome of conversations with stakeholders in Egypt around licence extensions and renegotiation of terms; actual oil and gas price outcomes for the remainder of 2023; and the conclusions of our strategic review as it relates to further cost actions and future investment in our Egypt business.

The special dividend of approximately US$$450m, which will be accompanied by a share consolidation and is subject to shareholder approval, is expected to be paid on 23 May as a final cash dividend of 115 pence per share. The consolidation and special dividend record date is expected to be 15 May, with dealings in the consolidated shares (ex-dividend) expected to commence on 16 May. The Board commits to return to shareholders all excess cash flow not required for our go forward core operational focus both today and on an ongoing basis.

In proposing these returns of value, the Board has been focused on the need to ensure Capricorn has sufficient capital and working capital to operate under a range of assumptions, in a market which is volatile and where significant cash receipts are in some cases beyond our control. Balancing this is a clear expectation from shareholders that surplus cash be returned, which is what we are announcing today.

2. Cost cuts and cash preservation

On 23 March 2023 we announced a material cost cutting exercise across Capricorn. We have commenced an employee consultation process which is anticipated to reduce the UK workforce by ~70% to c.40 people to better reflect the go forward needs of the business. This will create a new, leaner organisation to support the Egypt assets and result in a total global organisation of c.70 employees. Ongoing staff costs will be reduced by more than 50% while still retaining the necessary capability and headcount to safely and efficiently achieve our goals. In 2023, there will be costs associated with this restructuring which are expected to be offset by in-year savings, with the full annualised benefit of the cost reduction to be seen in 2024.

With fewer people, we will require much less office space and ancillary services. Capricorn will be moving out of its current office on Lothian Road, Edinburgh as planned but will not be moving into the new offices in Edinburgh which were outlined in last year's annual report. The search for smaller, lower cost alternative office space in Edinburgh is now underway. Significantly smaller, low-cost premises will also be found in London for those limited activities which need to take place there.

The Board has also reviewed its external consulting arrangements with a view to reducing costs and having a fresh start, ruling a line under the events of the last 12 months and presenting a new face to the market. We have therefore appointed Bank of America as corporate broker and financial adviser to replace four other banking advisers, and on the communications side, Camarco.

These cost saving initiatives are expected to realise identified total gross G&A savings of at least US$35m, representing a >50% reduction on 2022 gross G&A. These savings will be fully realised in 2024.

Opportunities for further savings will continue to be pursued, with costs to be aligned to activity on an ongoing basis.

All these initiatives are designed to preserve cash for the benefit of shareholders, to meet shareholders' expectations of commercial rigour and sound financial

Chair's Statement continued

management, and to ensure surplus cash is returned to shareholders as it becomes available. This renewed approach should in due course assist the Board to gain shareholder support for the proposed strategic direction, in whatever form it takes.

3. Ceasing exploration activities outside of near field activity in Egypt

We plan to monetise, farm down or exit all exploration activities that fall outside low cost, near term, short cycle exploration in Egypt which has the potential in the near term to increase Capricorn's profitability and value. This applies to all activities in Mauritania, Suriname, Mexico and the UK North Sea, where we will look to shortly conclude the best value outcomes for these elements of our portfolio. Large-scale, high-risk exploration in a market that is transitioning is not a model the new Board believes a business of Capricorn's size should pursue. Following the Q1 drilling of the Yatzil well in Mexico, Capricorn has no further international commitment wells outside Egypt, minimising spend on international exploration during the rest of 2023, with no committed spending in 2024 and any further activity in Mauritania and Suriname conditional on successfully farming down our interest, ensuring capital preservation and flexibility. A process has commenced for the potential sale of our UK assets.

4. Improve the Egypt business

The Egypt business contains a diverse portfolio of oil and gas assets with multiple reservoir levels, providing significant opportunities for reserves additions from drilling and improved recovery, and production optimisation. Our strategic goal in Egypt is to work with our joint venture partners to deliver reserves and production growth and reliable free cash flow generation for returns to shareholders. In the short term, the focus is on stabilising and growing production, particularly of liquids, in order to continue to benefit from today's high prices, whilst ensuring cost efficiency. This can be achieved through rapid development of our recent near field extension successes in the BED and Sitra areas, and renewed focus on well selectivity and rig performance. In particular, we will look to optimise the investment level to maximise free cash flows.

The Board is also, in conjunction with our JV Partner, considering options to improve the fiscal terms in country, more in line with other operators and such that our activities can deliver better economics (which will benefit us) which will allow us to invest more (which will benefit Egypt). This would support the potential unlocking of our material 82.6mmboe 2C contingent resources within the Egyptian portfolio. We will focus on how best to achieve this opportunity, which if successful has the potential to double our existing reserves base.

5. Culture change

The Board recognises the need for a change in culture, one which scrutinises every pound spent in the interest of shareholder value, one which is entrepreneurial and flexible such that market opportunities can be taken advantage of quickly, and one where we listen to our key stakeholders, not least our owners.

A renewed culture at Capricorn will prioritise:
- Focusing on shareholder value: effective and rigorous cost control and the ongoing measurement of returns, ultimately supporting our ability to ensure excess capital is returned to shareholders.
- Building effective and respectful relationships: we listen, we communicate openly and we engage effectively to improve our business and ensure we respect and deliver for our key stakeholders, notably in our host country of Egypt and our shareholders.
- Being transparent and open: we swiftly acknowledge issues as they arise, deal with concerns and learn lessons from things that we get wrong, as well as get right.
- Empowering people: we are building a lean, high performing team of people that will be trusted to deliver, and enabled to be entrepreneurial in order to quickly capture opportunities.

The Board recognises that there are a number of important matters 85 days in that remain work in progress and are a focus for action:
- Improving our receivables position in Egypt.
- Continued engagement with key stakeholders on Egypt licence extensions and renewed fiscal terms.
- Seeking to address restricted cash in Egypt.
- Final conclusions of the strategic review process and establishing a new leadership team.
- Delivering additional cost savings to align costs to activity on an ongoing basis.

We will update the market on these matters in due course and plan to hold a Capital Markets Day in Q4 2023.

Appointment of new Chief Executive
I am pleased to confirm that Randy Neely will join Capricorn as Chief Executive on 1 June. Randy was previously President and CEO of TransGlobe Energy, an Egypt-focused production and development business with operations in the Eastern and Western Deserts. At TransGlobe Energy Randy led negotiations which resulted in an amended, extended and consolidated Production Sharing Contract with EGPC in Egypt, and ultimately the negotiations which led to the merger between TransGlobe and VAALCO Energy in October 2022. He has more than 25 years of industry experience in executive and financial roles, including CFO of Zodiac Exploration, CFO of Pearl (Blackpearl) Exploration & Production and CFO of Trident Exploration. In accordance with Listing Rule 9.6.15, Capricorn confirms that there are no further details to be disclosed pursuant to Listing Rule 9.6.13.

Randy will succeed Chris Cox, Interim Chief Executive, who will leave the business after a handover period. On behalf of the Board, I would like to thank Chris for his significant contribution to the business since his appointment.

Medium to longer term strategy and business model
The Board has publicly stated that the Strategic Review involves the consideration of all options.

In the few weeks we have been in office, the Board's focus and capacity has been taken up by the immediate priorities of coming up to speed on all aspects of Capricorn and its business, to enable informed decisions on the return of capital, significantly reducing exploration activity and spend, costs, culture and improving the Egypt business. With an initial trajectory now set in these areas, we will progress our evaluation of the future strategic options available before landing on and announcing the right course of action. The decisions will all be anchored in what will deliver most value to shareholders.

Shareholders should be reassured that these decisions will be guided by discipline, returns, our existing producing assets, risk management, short-cycle capital returns, exploiting existing oil and gas deposits in Egypt, reviewing our role as an operator versus non-operator and how as an organisation we address the energy transition and the role we play in it.

Once our medium to long term strategic thoughts have been formalised, I look forward to engaging in a discussion with shareholders as to the options available to us, including at the Capital Markets Day to be held in Q4 2023.

Responsible business
Our activities will continue to advocate a responsible approach to our operations, stakeholders and communities, and we will continue to deliver our core operations efficiently and safely.

I am also pleased with the progress that we are making on our sustainability agenda. This has always been present in Capricorn's approach, but now more than ever is at the forefront of our decision-making and the considerations of our stakeholders. It is also an important factor both in terms of how we shape our portfolio and in the way that we operate.

Our people
In a year of major change and transformation, I would like to acknowledge the commitment and drive of colleagues at Capricorn. Our people have demonstrated steadfast commitment through a period of great uncertainty. A number of colleagues have left or are in the process of leaving the business following decisions taken to match organisational size to our activity set. On behalf of the Board, I would like to thank all of them for their service.

We will also continue in the coming year to focus on diversity and inclusion, recognising that we operate in a global industry and in many different countries. It is important to ensure that we benefit from the diverse perspectives that people bring.

Statement of purpose
As part of the review of strategy post the arrival of the new Board, a refreshed statement of purpose is being considered to ensure it is aligned with the new strategy. The Company's purpose will be anchored in the safe, responsible and sustainable discovery and production of oil and gas in Egypt to generate energy for individuals and organisations, value for Capricorn's shareholders and opportunity for Capricorn's broader stakeholders including our host country, our colleagues and supply chain.

Board Composition
Alongside my own appointment as Chair, Capricorn announced on 1 February 2023 the appointments of Chris Cox as Interim Chief Executive, Richard Herbert as senior independent director and Hesham Mekawi, Maria Gordon and Tom Pitts as independent non-executive directors.

On 24 January 2023, Nicoletta Giadrossi, Simon Thomson, Alison Wood, Luis Araujo and Peter Kallos resigned from the Board with immediate effect. James Smith and Keith Lough resigned from the Board on 1 February 2023.

In the 85 days since appointment, the new Board members have been greatly assisted by the two continuing Directors, Catherine Krajicek and Erik B. Daugbjerg. They have both provided continuity for the Board and valuable insight into Capricorn, its people and its operations. They have also demonstrated unswerving goodwill towards the new Directors, against the backdrop of an extraordinarily difficult period of change. As announced on 11 April 2023, Catherine and Erik have both advised that they will not stand for re-election at the 2023 Annual General Meeting. On behalf of the whole Board, I would like to thank them both for their contribution and support for the Board's strategy and initiatives and wish them well.

As a consequence of these changes, the Board will be seeking to find one or more new Directors as soon as possible. We will in particular be focussing on the appointment of diverse candidates, to address the current imbalance. These processes do take some time and it is important we appoint the right candidates. We will keep shareholders informed of our progress and provide a further update at the annual general meeting.

Strategic Outlook
Looking ahead, we are entering a period of renewal for Capricorn as we tighten costs, maintain discipline around capital preservation and capital allocation, and foster a strong culture. The Board has a clear mandate for change from shareholders and faces high expectations. We will provide further clarity on Capricorn's direction as a business in the months ahead, guided at all times by the imperative to maximise value and create opportunity for all our shareholders, host governments, communities and people. We as a Board are confident that we can realise the true value within Capricorn's portfolio and bring about a way forward for the Company that is in the best interest of all stakeholders.

I look forward to providing you with further updates as the strategy and its execution progress.

Craig van der Laan
Chair

Interim CEO's Review

Chris Cox
Interim Chief Executive

Operationally, the first full year of operations following the acquisition of Shell's Western Desert production and exploration portfolio in Egypt was completed. In common with other E&P businesses in the country, a number of operational challenges impacted the 2022 drilling programme, but Capricorn continues to see significant potential for production growth, operating efficiencies and reserves addition through successful exploration and development activity.

Capricorn further high-graded its exploration portfolio during 2022, reinforcing focus on lower-cost infrastructure-led opportunities with quicker payback potential, at the same time as limiting capital allocation to the remaining frontier positions, with no further commitment wells outside onshore Egypt exploration activity following the drilling of the Yatzil well in Mexico during Q1 2023, which was committed prior to the new Board being in place.

Capricorn remains committed to its Net Zero by 2040 target, with near term targets of a 15% GHG equity emissions reduction by 2025, and a 30% reduction by 2030. Our producing assets continue to demonstrate resilience to transition risks of climate change and the ability to deliver value for shareholders when tested against the International Energy Agency's Net Zero scenario, based on the economic assumptions we apply.

Operational Outlook

In Egypt, the 2023 drilling programme is expected to deliver >40 wells across the producing concessions, with the aim of optimising oil recovery in both existing and new discoveries. Included in this is a near-field extension well programme to improve reserves replacement and in the event of success, drive towards the higher end of our 2023 production guidance. The focus remains on liquid rich opportunities in the BED, Sitra, AESW and NEAG Concessions although we anticipate drilling new wells at the Obaiyed gas condensate field to help moderate underlying declines.

Chris Cox
Interim Chief Executive

Industry Context

The global energy crisis of 2022 has demonstrated the fragility of the world's, and in particular Europe's, energy system and led to unparalleled energy market pressures. Persistent underinvestment in energy supply has exacerbated the impact of geopolitical tensions.

Industry and policy makers have struggled to react to the energy crisis quickly enough to ensure sufficient short-term energy security. Longer-term policy responses are just now emerging and suggest that while demand for hydrocarbon-derived energy looks set to grow in the medium term, the policy response to the impact to global energy markets of Russia's invasion of Ukraine may yet make 2022 a key milestone in the acceleration of a distributed, decarbonised energy system.

Crisis highlights the need to change energy systems
2022 highlighted the critical challenge of providing reliable, affordable energy as a cornerstone of economic stability in very stark terms. Countries facing spiralling fuel and food inflation demanded increased domestic production, wherever short-cycle investment opportunities were possible. However, the scale of the issue and the time required to implement change in the energy system have been highlighted very clearly to governments and consumers. It is also becoming more widely accepted that companies need to develop integrated solutions to energy provision that acknowledge the near-term necessity of existing sources alongside the critical need to decarbonise. The most environmentally responsible of the existing hydrocarbon resources should be preferentially produced with a focus on improving environmental efficiency of production, including through carbon capture and storage (CCS), as companies including Capricorn are pursuing in Egypt. The critical role of upstream producers' in the energy supply chain is also creating opportunities to add value through the integration of renewable resources, both to improve upstream efficiency and for standalone generation, again as is being pursued in Egypt.

Persistent underinvestment
The 2022 energy crisis has also demonstrated the key need to invest further in gas production and transportation infrastructure, both fixed and floating. Record levels of global coal demand reached in late 2022 show that the potential for gas to enable the multi-decade transition to lower-emissions energy cannot be taken for granted. Investment, particularly in efficient, relatively low emissions sources in reliable jurisdictions will have the potential to generate very material value for shareholders and stakeholders. However, achieving the necessary doubling of gas production that is modelled to be required to enable a transition to net zero by 2050 will be extremely challenging (source: ThunderSaid Energy, 3/1/23). A switch away from Russian gas would see Europe needing to add liquefied natural gas (LNG) supplies of up to 100bcm per year by 2030 (source: Platts, Oct 2022 Long-term gas outlook, Goldman Sachs Research Aug 2022). Additional capacity is being sanctioned particularly in the US and

> A key phase in the multi-decade transition to emissions-free energy will be ensuring that relatively low-emissions hydrocarbon-based energy, particularly from reliable sources of gas, will be available to reduce the leverage of unreliable suppliers.

Qatar which will be available later this decade; however, the availability of material undeveloped LNG resources in other reliable jurisdictions is relatively limited. While the European gas price will return to the long-run marginal cost of production, probably set by US LNG exports, (source: IHS Markit 222 LNG Breakeven) it seems likely that it will take at least the next decade to return to this equilibrium, increasing our mid-term LNG and gas price outlook.

In the meantime governments should be incentivising increased production from reliable players. In Europe, conflicting messages regarding support for the upstream industry paired with the political inevitability of windfall taxes demonstrate that despite the market pressures, Europe remains a very uncertain investment location for the upstream industry.

The longer-term outlook, driven by EU's REPOWER initiative and the US's Inflation Reduction Act (IRA) mean that the ultimate consequences of 2022's geopolitical fractures may yet prove positive for the transition to a low-carbon energy system. These initiatives should provide unprecedented stimulus for industry to invest in a decentralised, decarbonised energy system, supported by CCS and with hydrogen as an energy transport and storage medium. Indeed, the scale and breadth of the IRA could potentially kick-start a race to develop cost-efficient clean energy technology that will ultimately reduce hydrocarbon demand.

Industry Context continued

Key drivers	Energy demand	Climate change and energy transition
	Continuing economic development and population growth drives growth in primary energy demand, particularly from emerging economies. Non-OECD economic growth tends to be an important influence on oil and gas demand, being economies with a greater manufacturing bias, which is more energy intensive than service sectors. These economies also have growing needs to move goods and people, with non-OECD countries seeing the fastest growth in vehicle ownership as incomes and populations rise.	The need to address climate change impacts energy demand and the energy mix. A range of actions affect global efforts to combat climate change: government intervention through policy, regulation and support for mitigation and adaptation, business commitments to net zero and associated actions, changes in consumer behaviour, deployment of new technologies and investment in alternative energies. The intergovernmental panel on climate change (IPCC) reports that delivering a 1.5 degree or 2 degree warming scenario requires emissions to fall between 2020 and 2025, a daunting goal made more challenging by the impact to energy supplies of the war in Ukraine. Some governments are actively seeking to diversify oil and gas supplies and increase the share of renewables and nuclear in the energy mix.
2022 Backdrop	– Global economic activity in 2022 experienced a broad-based slowdown. Despite this, limited oil supply and supply disruptions drove oil prices of US$100/barrel or above for much of the year, with gas spot prices at all-time highs. Russia's ongoing war with Ukraine contributed to a significant reduction in gas supplies to Europe, driving year-on-year gas prices many times higher. – In the second half of 2022, OPEC+'s decision to cut supply by around 2m barrels per day supported high prices.	– Major policy responses to support energy transition: US IRA, EU Fit for 55 and REPowerEU, Japan's GX programme and new clean energy targets for China and India. – Policies announced in 2022 will drive major clean energy investment out to 2030, a rise of more than 50% compared to today, according to the IEA.
Short-term opportunities and risks driver	– Rising demand for alternative sources of oil and gas to replace Russian exports. – New policies in major energy markets are encouraging increased investment in clean energy. – Increasing demand, coupled by restricted supply of capital for energy system investments creates tensions between host governments for sources of equity and debt finance.	– 2022 global carbon emissions remain at record levels at 40.6bn CO_2 (Global Carbon Project). – Global demand for natural gas is forecast to double to 2050 in some net zero scenarios, creating a material business opportunity. – Current spending on clean energy technology is outstripping that on fossil fuels (IEA).
Long-term opportunities and risks driver	– Fossil fuel share of global energy mix just below 75% by 2030 (IEA STEPS – Stated Policies Scenario). – IEA projects under STEPS scenario that natural gas demand plateaus by the end of this decade, with oil demand levelling off in the mid-2030s – Upstream oil and gas investment of US$650bn to 2030, a rise of 50% on recent years (IEA STEPS). – Long-term sales agreements provide certainty on pricing.	– On current projections, the world is considerably outside a pathway to 1.5 degree warming. – Annual clean energy investment projected to be US$2trn annually by 2030 (IEA STEPS). – Current growth rates for solar, wind, EV and battery deployment would lead to a more rapid transformation of the global energy system by 2030 than the IEA STEPS projections, if maintained.
Links to principal risks	– Volatile oil and gas prices. – Political and fiscal uncertainties. – Inability to access capital.	– Future challenges and costs to achieving pathway to net zero by 2040. – Political and fiscal uncertainties. – Inability to access capital.
Material issues	– Investment in clean technologies and business innovation.	– Reduction of GHG emissions. – Climate change and energy transition. – Reduction in fossil fuel consumption. – Managing a 'Just Transition'. – Investment in clean technology and business innovation.

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

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: governance, strategy, risk management and metrics and targets.

Solving the 'Energy Trilemma' while dealing with increasing ESG pressures
2022 has seen a significant ramping-up in pressure on global energy issues. The disruption caused by Russia's invasion of Ukraine in February 2022 caused a global energy crisis, with energy prices soaring to record highs.

Solving the Energy Trilemma became a priority, as governments tried to balance sustainable and affordable energy with security of supply.

Regulatory, societal and political pressures, emanating from Western Europe and North America, but now resonating internationally, are being reflected in the concerted development of global sustainability standards affecting virtually all ESG criteria. There has been a particular focus on climate change and the transition, notably formalised in the Corporate Sustainability Reporting Directive (CSRD) guidelines adopted by the EU Parliament in November 2022 and evolving Task Force on Climate-related Financial Disclosure (TCFD) requirements.

The Oil and Gas industry response
In response, at the industry level, it is clear that the European major oil and gas corporations are stepping up their investment allocation to low carbon energy solutions, on average now accounting for around 25% of their total investment spends[1] in the near term. The independent exploration and production (E&P) sector is also responding in its strategic thinking and reporting. From our own assessment Capricorn is positioned in the top quartile compared to its independent peers on its Carbon Disclosure Project (CDP) scoring, and similarly in terms of its targets for net zero emissions (under Scope 1 and Scope 2) by 2040.

Our net zero pathway
Consequently we are conscious of the need to set out our net zero pathway more clearly for our stakeholders, and to demonstrate real strategic progress in meeting those targets. In doing so we must nevertheless be transparent that this is a journey that cannot be completed overnight, and requires us to assure all our stakeholders, including investors, that we as a business can successfully position ourselves through the energy transition, while continuing to deliver attractive returns and sustainable assets.

We set out our updated net zero pathway in September 2022 which commits to reducing Scope 1 and 2 CO_2 emissions by 15% by 2025, 30% by 2030 and entirely by 2040 or earlier. The clear principles underpinning these targets are: Avoid, Reduce, Substitute, Sequester and Offset.

Decarbonisation and diversification
The short to medium-term strategy is based on decarbonisation of existing and planned oil and gas assets, through electrification of our operations, a move to no routine flaring, use of energy-efficient transport, services and infrastructure, and the reduction of fugitive emissions. Over the past year Capricorn has assessed a number of opportunities in the clean energy sector, across geothermal, hydrogen, solar and carbon capture, utilisation and storage (CCUS) themes. The strategy review, which is currently being conducted, is expected to provide further clarity on our medium to long-term energy transition strategy, including the diversification into clean technologies.

As we move along this pathway, offsetting will be undertaken to compensate for ongoing net emissions, but is regarded as only a temporary form of mitigation – ultimately the business will need to aim for a robust, fully net zero status operationally.

Early advances in Egypt
The advances being made in Egypt give us considerable confidence in our short to medium-term targets. We are anticipating a significant reduction in daily diesel consumption for power generation in three years. Using flare gas for power is expected to further reduce emissions, and installation of transmission lines to electric submersible pump (ESP) wells will significantly assist in electrification of operations. Longer-term opportunities in Egypt include CCUS, biofuel and waste heat recovery projects.

We are making progress with our carbon capture and storage study, with initial data collection and candidate storage and screening phases now completed. The next phase of the project will model and further screen potential storage sites.

(1) Source: Wood Mackenzie

Task Force on Climate-related Financial Disclosures (TCFD) Report continued

Our Net Zero Commitment in Action

Focus on Scope 1 and 2 equity emissions reduction

Zero routine flaring
First UK independent to commit to World Bank Zero Routine Flaring by 2030

Portfolio resilience
Current portfolio creates value in stringent transition scenario testing

Clear principles underpin target
Avoid, reduce and substitute

- Power generator rationalisation and fuel substitution of diesel for clean-burning gas progressing
- Electrification of Badr El Din (BED) area with completion in 2023
- Exploring feasibility for installation of waste heat recovery units at Obaiyed Central Processing Platform (CPP)
- Progression of workstream on solar integration at NEAG
- Assessing methane monitoring solutions

Sequester
Study to test technical and commercial feasibility for CCUS

Offset
Progression of workstream on diversified high-quality carbon offsets

Use of more energy-efficient vessels and services where practicable

Flare and vent reduction including zero flaring by 2030

Electrification of operations

Detect and reduce fugitive emission

Where we are now

Short-term target

By 2025 reduce emissions by

15%

2025

Climate change and transition governance
Capricorn attaches high importance to climate change considerations at Board level and throughout the organisation, together with broader environmental, societal and governance responsibilities. Internally climate change and energy transition are ranked as principal risks for the business. The formation of the Sustainability Committee, which meets twice a year, has embedded consideration of climate change, the transition and wider sustainability factors in to every Board decision. Examples include the screening of all new investment opportunities with resilience testing against transition and climate change, and the vetting of contractors for drilling, marine and aviation services for compliance with energy efficiency and emissions standards.

This approach will be further refined as part of the Company's strategic review.

TCFD risk assessment turns to physical risks
As part of its governance, the Company has progressed in its TCFD reporting, which now lies at the heart of its climate-related financial disclosure for the financial markets, investors and broader stakeholders. The main objective of TCFD compliance is to provide transparency on the risks and opportunities presented to the business by climate change. To the end of 2021, Capricorn had reported analysis of the transition risks for the Company on the value of its asset portfolio based on policy, legal, technological, market and reputational factors. In 2022, we extended this assessment to cover physical risks from climate change, including the severity and frequency of extreme weather, impacting our assets or operating environment.

Insurance specialist, Willis Towers Watson (WTW) was commissioned to assess the Value at Risk impacts associated with climate hazards, and the level of operational vulnerability on our current and future portfolio. Overall the assessment's modelling indicates that increased drought and heat stress and a decrease in correlated precipitation are likely across Capricorn sites by 2050. Due to the location of our assets, other climate hazards such as river flooding, cyclones and rising sea levels are predicted to be broadly stable.

In terms of Value at Risk, the likely impact was concluded to be very low under the Representative Concentration Pathways (RCP) 2.6 scenario, where global warming is kept below 2°C above pre-industrial temperatures. Under the more extreme RCP 8.5 'hothouse' scenario, drought stress was identified as the most material risk for the Company in the 2040-2050 timeframe, with medium Value at Risk (defined as US$1-10m impact on cash flow and potentially US$25-100m in terms of market capitalisation). These risks have been entered into the Company's risk register.

Mitigatory measures are already being put in place to address the impact of stressed water resources and high temperatures on our operations and employees in Egypt. As a result of the WTW report the Board will consider any further additional measures that should be actioned in the short to medium term to address issues raised.

Visit our Sustainability Report for further information

Operational improvement measure

Carbon capture and storage opportunities

Biofuels

Waste heat recovery

Renewable/ hybrid power

Short to medium-term target

By 2030 reduce emissions by

30%

2030

Long-term target

By 2040 reach

Net Zero

2040

Task Force on Climate-related Financial Disclosures (TCFD) Report continued

Task Force on Climate-related Financial Disclosures: Cross-reference table

Capturing all 11 recommendations for Governance, Strategy, Risk Management and Metrics & Targets.

	Recommendations	
Governance		
Disclose the organisation's governance around climate-related risks and opportunities	a) Describe the Board's oversight of climate-related risks and opportunities	Page 180
	b) Describe management's role in assessing and managing climate-related risks and opportunities	Pages 180 and 181
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.	Pages 182 and 183
	b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.	Page 183
	c) Describe the resilience of the organisation's strategy taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Pages 183 and 184
Risk Management		
Disclose management's role in assessing and managing climate-related risks and opportunities	a) Describe the organisation's processes for identifying and assessing climate-related risks	Page 181
	b) Describe the organisation's processes for managing climate-related risks	Page 181
	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	Page 181
Metrics and Targets		
Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Page 184
	b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	Page 184
	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Page 184

Case study

Emissions Reduction: Diadem exploration well

The operated Diadem exploration well, drilled in the UK Central North Sea, presented one of the first opportunities for Capricorn to put its emissions reduction planning into action.

The first stage of this was to develop and present our emissions reduction plan and corporate net zero strategy to the UK environmental regulators as part of our drilling permit environmental assessment. Through the development of this plan, we identified the aspects of the project that have the greatest impact on emissions and worked out the best process for reducing the atmospheric impact. Our planning also ensured that the Diadem work aligned with the Energy White Paper, the North Sea Transition Deal and OPRED's Net Zero Strategy.

With the implementation of this plan, Capricorn kept the emissions from drilling operations to a minimum.

The plan detailed how we use energy efficiency and emissions as a differentiating factor in our contractor selection, how we designed the project to minimise the environmental impact in the event of a discovery and how we selected a drilling rig equipped with specialist NO_x reducing units in its engines along with a suite of other emissions reduction strategies.

Our approach and presentation of our emissions reduction plan was highly commended during our drilling permit application process. Capricorn continues to look for new ways to reduce our emissions footprint and we shall be implementing similar emissions reduction plans in future operations.

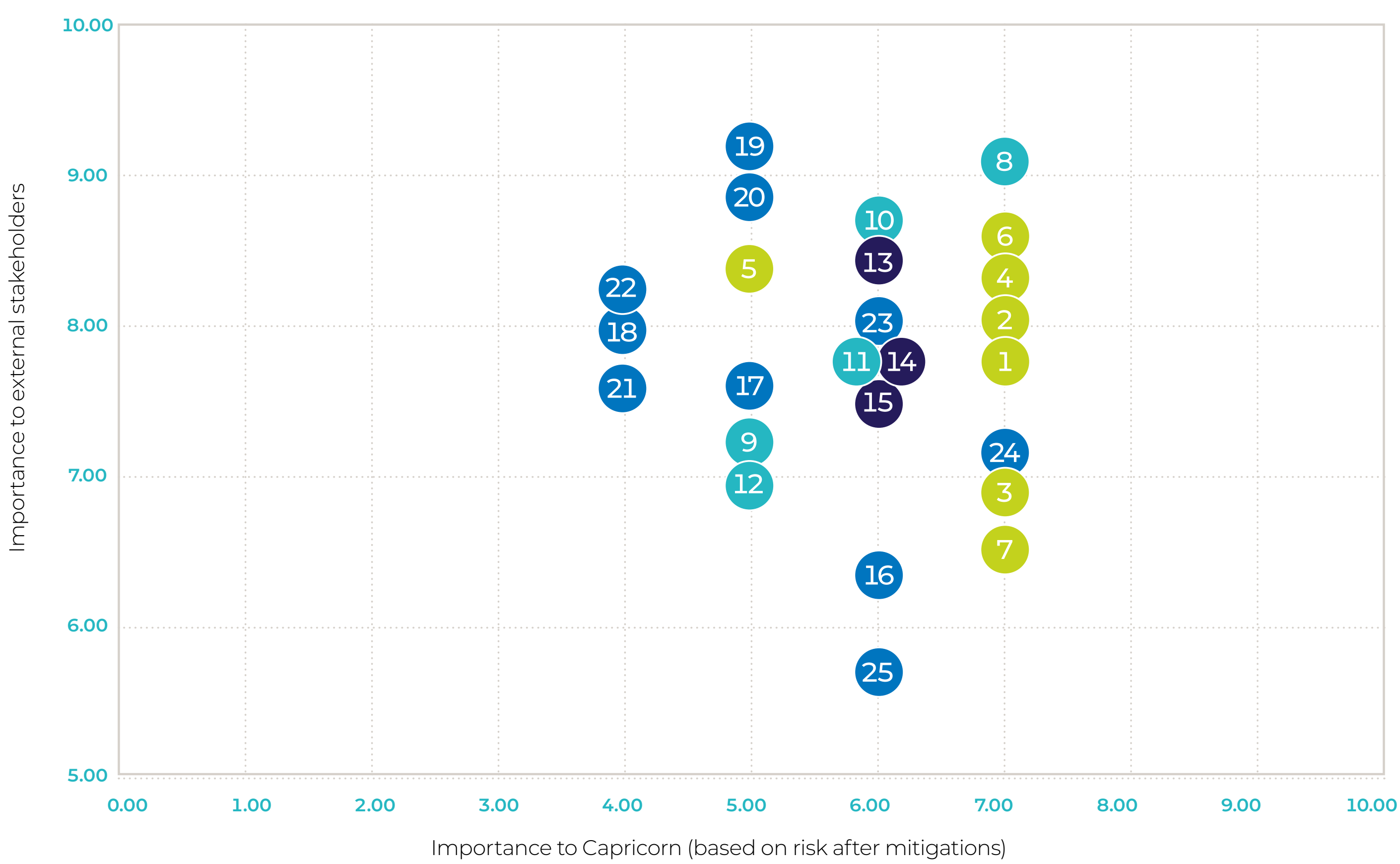
Materiality Review

To support our licence to operate and guide our approach to sustainability, we need to listen to our stakeholders so we understand what matters most to them.

We also need to make a careful assessment of the issues that we believe will have the most impact on the Company, both in terms of its finances and potential risks. The process we used to do so included a close review of international reporting requirements, benchmarking against our peers, increasing the focus of our scrutiny and conducting extensive engagement, including a survey and one-to-one interviews, with our stakeholders.

This year we have taken a more rigorous approach to our materiality assessment with the resulting Materiality Matrix clearly identifying which issues are of most importance, both internally and externally.

We address the issues deemed to be of 'high', 'significant' and 'medium' importance in our Sustainability Report at www.capricornenergy.com/working-responsibly.



Materiality Issues by Theme

Environment

1. Climate Change & Energy Transition
2. Reduction of GHG Emissions
3. Reduction of Fossil Fuel Consumption
4. Protection of Biodiversity & Ecosystems
5. Discharges to Air, Sea, Land & Sound
6. Protection of Fresh Water Resources
7. Circular Approach & Minimisation of Waste

People

8. Workplace Safety & Security
9. Diversity, Equality & Inclusion
10. Health & Well-being
11. Talent Management
12. Learning & Development

Society

13. Safeguarding Human Rights
14. Supporting & Safeguarding Local Communities
15. Investing in Local Skills, Recruitment & Procurement

Governance

16. Managing a 'Just Transition'
17. Building & Maintaining a Responsible Supply Chain
18. Decommissioning, Closure & Rehabilitation Commitment
19. Ethics, Transparency & Regulatory Compliance
20. Anti-Bribery & Corruption Practices
21. Robust Whistleblowing Mechanisms
22. Emergency Preparedness & Crisis Management
23. Data & Cyber Security
24. Investment in Clean Technologies & Business Innovation
25. Linking Remuneration & Incentivisation to Sustainability and Other Non-Financial Performance Measures

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

2022 KPIs

HSSE Lagging Indicators: Achieve lagging HSSE indicators measured against IOGP targets.

HSSE Leading Indicators: Achieve HSSE leading indicators surrounding safety leadership.

Environmental: Outline a roadmap and deliver opportunities to achieve Scope 1 and 2 emissions reductions versus our short-, medium- and long-term net zero targets.

Social: Agree, establish and track social investment across the Group, which helps to deliver a positive impact on the communities with which we work.

Governance: Communicate our climate change strategy, performance, and our processes for governance, risk management, target setting and carbon pricing.

Governance: Enhance our approach to Diversity & Inclusion.

Key Risks

- Future challenges and costs to achieving pathway to Net Zero 2040
- Lack of adherence to health, safety, environment and security policies
- Breach of Code of Ethics.

2022 Progress

Operated activities, including well drilling, resulted in zero reportable regulatory spills to the environment and, for Total Recordable Injury Rate and Lost Time Injury Frequency, as reported in International Association of Oil & Gas Producers (IOGP) statistics, scores which were better than the lowest number of all activity averages. This resulted in the stretch target being met.

The HSSE leadership visits that took place in 2022 were strongly supported across the business with contributions across the operational footprint. All participants used the Site Safety Visit Guide to plan, execute and report on their leadership visits with messaging communicated to staff, contractors and suppliers, which indirectly contributed to the positive outcome on the lagging indicators.

In July 2022, management visited the Bapetco assets in Egypt for the purpose of general management and observation, with good dialogue taking place on matters for follow-up.

In August 2022, management visited the Valaris 123, which drilled the operated Diadem well rig to demonstrate HSSE leadership and to focus on major accident hazard prevention.

Members of management visited the seismic operations being undertaken in the South-East Horus concession in Egypt, in September 2022. The focus of the visit was HSSE leadership and to demonstrate and assess safety behaviours and lifesaving rules. An action tracker was put in place for the operational period.

A field visit was undertaken to the Egypt production operations to undertake an Environmental and Safety Audit with good progress noted against previous findings.

A visit was made to the West El Fayium concession seismic operations to observe health and safety behaviours and a comprehensive visit report was prepared and disseminated.

On 7 December 2022, an HSSE & CSR day was held in the Edinburgh office, with over 140 participants from across the organisation in attendance.

Progress with GHG emissions reductions initiatives in Egypt gave confidence to set bolder Scope 1 and 2 targets, which were communicated to investors during the September 2022 update. A new, near-term target of 15% reduction by 2025 has been set, while the 2030 emissions reduction target was increased from 25% to 30%.

An emissions baseline assessment in Egypt was completed providing assurance on the quality of emissions reporting. This is fully in line with the latest American Petroleum Institute (API) GHG compendium (Nov-21). Bapetco have identified a suite of projects and a roadmap to deliver on an ambitious Scope 1 and 2 emissions reduction pathway. Significant progress was made on emissions improvement initiatives including mobile diesel generator reduction, electrification using gas as power fuel, planning for multiple flare reduction and waste heat recovery projects, and investigating feasibility for carbon capture and storage at Badr El Din and Obaiyed through subsurface evaluation.

In January 2022, Capricorn purchased high-quality carbon offsets with BP, Shell and Tradewater; all are verified with either Verra, Gold Standard or the American Carbon Registry.

The inputs and outcomes from 2022 social investment efforts were assessed and it was concluded that these meet the social investment guidelines for investments and that they were being actively managed by the social advisors in collaboration with a number of external stakeholders. A social management framework was developed in 2021 in line with the UN SDGs and this was first used in 2022, including using the social investment screening tool.

Social investment projects undertaken in 2022 in Mexico included: the second year of the Turtle Conservation Project where our donations funded the patrolling of 7,000km of beach, an increased number of hatchlings being released year-on-year and a technology transfer education and innovation programme with 25 participants.

Strategic objective: ESG and HSSE continued

2022 Progress

In Suriname, we assisted for a third year in the mangrove rehabilitation project, with our donation being used to acquire key pieces of equipment to support the construction of sediment trapping units which increased the area now protected. Donations were also given to create a community hub, with six local schools having access; 200-300 local students and youths accessed the hub on a weekly basis and gained IT skills and experience. Further donations funded the tuition fees for a two-year MSc in Public Health for seven students and also allowed the purchase of key pieces of equipment for the electrical engineering element of the oil and gas stream of NATIN Phase 2 programme which had 30 participants.

In the UK, a Clean Energy Scholarship at Heriot Watt University was supported, enabling three students to be supported through a clean energy PhD. Also at Heriot Watt University, a donation enabled 16 PhD students to be funded through GeoNetZero CDT.

In Egypt, a financial donation and the provision of volunteer trainers was made towards the Al Amal Graduate Training Programme, which had 42 participants.

CDP: In December 2022, we received our Water and Climate Change CDP ratings (both B) relating to 2021 ESG data, submitted in July 2022. Our prior-year submission for Climate Change was (-B) and Water (B). This puts us among the top performers amongst our peers, on both metrics.

TCFD: We delivered a detailed standalone TCFD report, published as part of the Annual Report 2021. We addressed all four pillars (Governance, Strategy, Risks and Metrics and Targets) and 11 disclosures as required by the framework, including the assessment of transition risks of climate change on our portfolio.

In 2022, we assessed the potential impact of the physical risks of climate change on our assets. We conducted a study with an independent provider, Willis Towers Watson, who helped us calculate Value at Risk (VaR) for three principal climate scenarios. The results of this analysis are included in the TCFD 2022 disclosures and published as part of the 2022 Annual Report and Sustainability Report.

SASB: To improve the quality and transparency of our reporting, we assessed and aligned our reporting against the Sustainability Accounting Standards Board (SASB) Oil & Gas – Exploration & Production Sustainable Accounting Standard (SASB, Oil & Gas – Exploration & Production Index 2021).

An independent D&I survey was commissioned in April 2022; 170 employees responded to the survey. We compared our results with those from 100+ energy companies operating in the UKCS and Capricorn achieved 7.7 (out of 10) on the D&I Index, 0.6 higher than the UKCS average of 7.1.

A D&I working group was formed in January 2022. The group identified several key initiatives to further embed D&I into our culture: to improve opportunities for under-represented groups to move into senior roles in the organisation; in January 2022 our 'Shadow4success' initiative started. A diverse group of female colleagues were independently selected for the programme to shadow our Executive Team throughout the year; in January 2022, we launched an 'Inclusion calendar', which is designed to provide an overview and raise awareness of key dates and activities to reflect the diverse population of our staff and the communities in which we work; and D&I training was delivered for all staff between September 2022 and November 2022.

Past performance in KPI category

Remuneration

Weighting
(as % of allocated proportion of maximum opportunity)

20.00%

Bonus awarded

20.00%

Read more in the Remuneration Report – pages 76 to 109

Measuring Our Progress continued

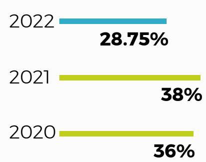
Strategic objective: Exploration and New Ventures

2022 KPIs	2022 Progress
Prospect Maturation & Well Planning: Mature our key exploration projects for planned drilling in 2022/23 in Egypt, UK and Mauritania.	The proposed prospects to be drilled in the SAS concession were agreed with the joint venture, with the first (Saqr) spudded in February 2023.
	Plymouth was evaluated using 2D seismic surveys – relative acoustic impedance attribute. Ion 3D was acquired in late 2021 and processed products delivered in May 2022.
Exploration Operations: Conduct our operated and non-operated exploration and appraisal activities (surveys and drilling) successfully, on time and on budget.	Farm-down work continued during the year. Drilling planning has progressed with the well design simplified and the ESIA preparations underway.
	All projects executed in 2022 met their original basis of design objectives. The Jaws exploration well was delivered on budget and the South East Horus 3D seismic and West El Fayium 3D seismic both completed more than 10% under budget. The Diadem exploration well completed, but over budget and, therefore, did not score.
Adding Resources: Add new commercial resources through E&A drilling, coupled with conceptual development studies.	The Jaws exploration well in the UKCS, operated by Shell (Capricorn 50% WI) was completed in late January 2022. The well encountered 31m of Jurassic Fulmar sands but was unfortunately water wet.
	The Capricorn operated Diadem well (50% WI) was completed in September 2022 but was also unsuccessful, failing to find hydrocarbons.
	As both wells were unsuccessful, no new contingent resources were added, resulting in a zero score. Both licences P2380 and P2379 were relinquished by year-end.

Key Risks

– n/a

Past performance in KPI category



Remuneration

Weighting
(as % of allocated proportion of maximum opportunity)

20.00%

Bonus awarded

5.75%

Read more in the Remuneration Report – pages 76 to 109

Strategic objective: Production

2022 KPIs

Reserves/Resource Conversion: Sanction incremental development investment to convert WI 2C Resources and 2P Undeveloped Reserves into WI 2P Producing Reserves.

Delivering Production and Opex Targets: Deliver Net production targets within public market guidance issued in January 2022.

Deliver operating cost/boe targets within public market guidance in January 2022 in relation to Egypt (US$4.5 – US$5.5 per boe).

Key Risks

- Underperformance of Egypt assets
- Reserves downgrade or impairment

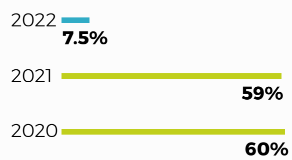
2022 Progress

The target of 15 mmbboe converted was based on 100% reserves replacement, where production was expected to be ~40 kboepd (or an annual volume of 14.6 mmboe) on the basis 40-50 wells would be drilled in 2022. The targets were not met.

The target was set with the ambition of drilling 40-50 new wells in the year. Due to various reasons, the joint venture was only able to deliver 31 new wells, impacting the production volumes. Oil and condensate volumes were above threshold of 12,950 bopd but below target of 15,000 bopd, scoring 1.5%. Gas production and oil equivalent production were below threshold of 140 mmscf/d and 40,000 boepd respectively, resulting in zero score.

Although the absolute opex was in line with guidance in terms of US$ annual expenditure, the overall performance was impacted by the production performance being below target and therefore pulled the opex/boe out of guidance, averaging US$5.7/boe.

Past performance in KPI category



Remuneration

Weighting
(as % of allocated proportion of maximum opportunity)

20.00%

Bonus awarded

1.50%

Read more in the Remuneration Report – pages 76 to 109

Measuring Our Progress continued

Strategic objective: Financial Performance

2022 KPIs

Headroom Test: Maintain 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 met.

Funding Plan: Executable funding plan presented and approved by the Board to effect the Company's strategy or as required in line with any approved acquisition.

Key Risks

- Volatile oil and gas projects
- Political and fiscal uncertainties
- Egypt receivables balance
- Inability to access capital

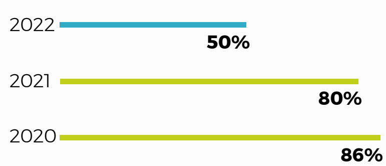
2022 Progress

This funding test was maintained and therefore scored fully for this element of the financial performance KPI.

The October 2022 redetermination for the reserve-based lending (RBL) debt facility associated with Egypt completed and the KPI fully met for this element of the financial performance KPI.

Following the annual strategic review, an all-share merger with Tullow Oil plc was proposed and a funding plan prepared accordingly. This plan changed following the recommendation to combine with NewMed Energy. In February 2023, the Company and NewMed mutually agreed to terminate the Business Combination Agreement with the associated funding plan not completed, meaning zero score achieved for this element of the financial performance KPI.

Past performance in KPI category



Remuneration

Weighting (as % of allocated proportion of maximum opportunity)

20.00%

Bonus awarded

10.00%

Read more in the Remuneration Report – pages 76 to 109

Strategic objective: Corporate projects

2022 KPIs Key risks

Identify projects agreed with the Board of strategic significance during the year to enhance the portfolio.

Key Risks

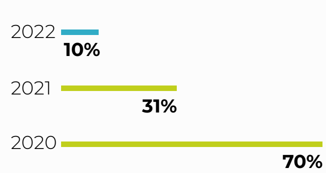
- Failure to unlock value from the strategic review.

2022 Progress

Whilst a number of business development opportunities were reviewed, no corporate projects concluded and no score was achieved in this element of the corporate projects KPI.

Pre-determined portfolio management projects (commercially confidential) were only partially achieved, scoring below half marks for this element of the corporate projects KPI.

Past performance in KPI category



Remuneration

Weighting (as % of allocated proportion of maximum opportunity)

20.00%

Bonus awarded

2.00%

Read more in the Remuneration Report – pages 76 to 109

Further information on the 2022 KPI weightings and scoring metrics can be found in the Directors' Remuneration Committee Report pages 76 to 109.


EDC RIG 52

Behaving Responsibly to the Environment

A responsible approach to the
Environment

We at Capricorn continue to deepen our commitment and energise our actions to take a responsible approach to the environment. We are refocusing our efforts on net zero emissions by 2040 or earlier, and reinforcing our approach to biodiversity and water management. Ours is 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. We are working hard to find ways to find a manageable trajectory for the oil and gas industry to meet the demand for reliable, affordable energy as it transitions to net zero emissions.

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.

At the end of 2022, the following environmental issues were identified as being of high materiality:

- Climate change and energy transition
- Reduction of GHG emissions
- Reduction of fossil fuel consumption
- Protection of biodiversity and ecosystems
- Discharges to air, sea, land and sound
- Protection of fresh water resources
- Circular approach – minimisation of waste

See our Materiality Matrix within our Sustainability Report

2022 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.
- Assessed physical risks of climate change on our portfolio.
- Improved our reporting against TCFD and SASB requirements.
- Began disclosing Scope 3 emissions from the use of our products.
- Applied newly developed biodiversity assessment tools and improved disclosure of biodiversity issues.
- Undertook an Environmental Baseline Survey, furthered knowledge of biodiversity and ecosystem services risks in Mauritania.
- Commenced the environmental and social impact assessment (ESIA) process for our exploration work in Mauritania, including engagement with key stakeholders.
- Applied our improved water resilience and stress ranking and reporting to opportunity screening.
- Completed environmental and social impact assessments for our operated exploration projects in Egypt.

See our Sustainability Report for more information about our SDG performance

Emissions and energy use

We are committed to promoting the efficient use of energy, with the aim of conserving natural resources, reducing atmospheric emissions and mitigating the impacts of our operations. Our net zero roadmap – see pages 12 and 13 for more detail – sets out our near to mid-term target to reduce absolute emissions by 15% by 2025 and 30% 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 Task Force on Climate-related Financial Disclosures (TCFD).

For more details, see our website: 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 2022, we improved our CDP rating from B- to B for both climate change and water questionnaires. This positions us among the top performers in our peer group.

We report on both an operated and an equity basis. We have set out targets against equity absolute 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, employee commuting and from the use of products sold.

Streamlined energy and carbon reporting (SECR)

Our GHG emissions from our Operated Activities are outlined in the SECR table below, and form part of our UK regulatory reporting requirements.

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. 2022 was a key year for improved GHG

emissions understanding associated with the Egyptian producing assets, whereby the JV completed a more comprehensive baseline survey in our first full year of ownership, with the applied methodologies independently confirmed as consistent with international standards. This gives us an opportunity to apply new approaches and techniques to lower emissions from this 2022 baseline over the next three years to achieve our target of a minimum of 15% reduction by 2025. We are pleased that Bapetco has already identified, and in some cases, started to execute measures that will move us to lower absolute emissions.

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.

Low-carbon assets and equipment

To minimise the energy used in our exploration activities, we assess the fuel consumption of rigs, vessels and helicopters. We continue to use fuel efficiency as one of our selection criteria when tendering vessels for geophysical and geotechnical surveys. 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 non-operated assets in the Western Desert, Egypt. These have been outlined in the 2022 Capricorn Equity Emissions table on page 24.
We have been working closely with our partners in Egypt to significantly improve confidence in emissions measurement and reporting, and to develop a suite of decarbonisation projects, which include:

- **electrification**, to reduce diesel consumption which is progressing well;
- **flare reduction** projects are underway with flare gas to power projects being developed;
- **fugitive identification** which has been completed with a corrective maintenance plan in place;
- **integration** of larger scale solar power, which is under consideration;
- **waste heat recovery** units with the potential to materially reduce emissions by removing hot oil heaters;
- **feasibility for waste heat recovery** which is being explored for certain sites;
- the potential for **carbon dioxide sequestration**, which is being studied; and
- the **use of biofuels and hydrogen**, which is being considered.

Our indirect (Scope 3) emissions are also reported, including emissions from products sold.

Reduction of GHG emissions

We know from our engagement with stakeholders that the reduction of greenhouse gas (GHG) emissions is a key demand of our external stakeholders, and is also seen as a principal business risk by the Company. Our approach to reducing our GHG emissions is based around clear, simple principles: **Avoid, Reduce, Substitute, Sequester and Offset**.

See our Sustainability Report for data on all emissions.

GHG emissions from operated activities (SECR)

	Unit	2022	2021
Scope 1 (direct) emissions from fuel combustion, flaring and waste incineration	tCO_2e		
UK		**3,659.41**	885
Capricorn total		**7,862.61***	911*
Scope 2 (indirect) emissions (location-based) from electricity consumption	tCO_2e		
UK		**183.90**	95
Capricorn total		**223.31***	107*
Total gross Scope 1 and Scope 2 emissions	tCO_2e		
UK		**3,843.31**	980
Capricorn total		**8,085.92***	1,018*
Total energy consumption	kWh		
UK		**1,754,673**	3,833,782
Capricorn total		**19,755,280**	3,971,555
GHG intensity ratio: of Scope 1 and Scope 2 emissions to 1,000 hours worked	tCO_2e/1,000 wh		
UK		**1.17**	3.35
Capricorn total		**3.12**	3.2
Scope 3 emissions from business travel	tCO_2e		
UK		**1,202.16**	451
Capricorn total		**1,202.16***	451*

* Deloitte have provided independent third-party limited assurance in accordance with the International Standard for Assurance Engagements 3000 ("ISAE 3000") and Assurance Engagements on Greenhouse Gas Statements ("ISAE 3410") issued by the International Auditing and Assurance Standards Board ("IAASB") over selected metrics, identified with *, within Capricorn Energy's energy consumption and greenhouse gas (GHG) emission disclosure. Deloitte's full unqualified assurance opinion, which includes details of the metrics assured, can be found on our website – www.capricornenergy.com/working-responsibly. Details about our corporate definitions, data and methodologies are outlined within our Basis of Reporting. Note: Figures do not include Scope 3 from the use of products.

Behaving Responsibly to the Environment continued

2022 Capricorn equity emissions

Operated and non-operated

	Measure	2022	2021
Total equity emissions	**tCO_2e**	**2,353,023**	3,388,119
Total equity CO_2e – Scope 1	tCO_2e	**269,412**	146,579
Operated	tCO_2e	**3,849**	549
Non-operated	tCO_2e	**265,563**	146,030
Total equity CO_2e – Scope 2	tCO_2e	**223**	107
Total equity CO_2e – Scope 3	tCO_2e	**2,083,388**	3,241,433
Category 1 – Purchased goods and services	tCO_2e	**3,401**	n/a
Category 3 – Fuel and energy-related activities	tCO_2e	**23**	n/a
Category 4 – Upstream transportation and distribution	tCO_2e	**1,027**	n/a
Category 5 – Waste generated in operations	tCO_2e	**44**	1
Category 6 – Business travel	tCO_2e	**1,202**	451
Category 7 – Employee commuting	tCO_2e	**393**	n/a
Category 9 – Downstream transportation and distribution	tCO_2e	**69,832**	50,989
Category 10 – Processing of sold products	tCO_2e	**68,010**	152,397
Category 11 – Use of sold products	tCO_2e	**1,939,457**	3,037,595
Intensity (Scope 1+2)*	$kgCO_2e/boe$	**47.4**	19.87

* Intensity is calculated on the entitlement basis.

Protecting Biodiversity and the environment

Capricorn is committing increasing time and resources to the protection of biodiversity and natural ecosystems in recognition of the importance of the sustainable use of nature in supporting the United Nations Sustainable Development Goals (UN SDGs) and the UN's crucial role in addressing climate change.

We updated our biodiversity policy at the end of 2021, and during 2022 we have implemented and built on new tools and guidelines for assessing and managing risk to biodiversity from our operations. We are also following the development of the numerous initiatives to support business action on nature such as Business for Nature, the Task Force on Nature-related Financial Disclosures (TNFD), the Science-Based Targets Network (SBTN) and the Aligning accounting approaches for Nature (Align) project.

In 2022 we delivered a number of training events to increase biodiversity awareness and management capacity including: a three-quarter-day session on no net loss for biodiversity (developed and delivered by The UN Environment Programme World Conservation Monitoring Centre (UNEP-WCMC), a Board education session addressing the evolving corporate nature management and reporting requirements, and a lunch and learn for all staff.

Protecting and screening biodiversity and sensitive areas

As nature and biodiversity risk are inherently location-specific, prior to entering new areas, we undertake detailed screening and consultation to identify protected areas and priority locations for biodiversity conservation. The finding of high biodiversity risk has led to recent decisions not to progress investment, or been followed by the commitment to implement Biodiversity Action Plans. We have an extensive and sophisticated toolset for assessing biodiversity risks.

For more detail see our Sustainability Report.

Assessing and managing our impact on biodiversity

On entry to new projects, Capricorn undertakes Environmental Baseline Surveys (EBS) to define existing environmental and biodiversity conditions around planned operations. In 2022 we completed an EBS and agreed the Environmental and Social Impact Assessment (ESIA) Terms of Reference with the Mauritanian Government for our proposed exploration drilling in the C7 licence block, offshore Mauritania. In Egypt we completed an Environmental Impact Assessment (EIA), and all related studies required for our activities such as Social Impact Assessment (SIA), as per national requirements, for our 3D seismic Projects in our operated concessions (West El Fayium and South East Horus) and for our exploration drilling campaign, which started in Q1 2023. The fundamental concept which Capricorn applies to manage potential impacts to biodiversity is that of the Mitigation Hierarchy; that is taking measures to Avoid, Minimise, Restore, and finally Offset negative impacts. We recognise the challenges in achieving this, particularly in the marine realm, and will be looking to develop KPIs to assist us with delivering this commitment.

Water, effluents and pollution

Discharges to air, sea, land & sound

An important part of our commitment to the environment is the minimisation of discharges and emissions from our operations. It ranks highly in the concerns of our external stakeholders. As we move into a more active phase in our Egyptian operations it is a subject on which we are putting a particular focus. As with our broader waste policy we are working towards a Reduce, Reuse, Recycle principle with our emissions.

See the Sustainability Report for details and our performance against KPIs.

Protection of freshwater resources

Climate change and increased water consumption are putting greater pressure on freshwater resources around the world. Access to clean, safe water for local communities is a fundamental human right and is enshrined within the UN SDGs. We therefore take our responsibility for protecting and maintaining the sources and quality extremely seriously. Our Corporate Environmental and Climate Change Policy outlines the Company's commitment to efficient operations regarding water usage. This policy aims to protect water sources and water quality where we operate, promotes the efficient use of water, and includes the need to engage with local communities to ensure environmental resources are conserved.

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 Egyptian General Petroleum Corporation (EGPC).

Behaving Responsibly to People

A responsible approach to our 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.

At the end of 2022, the following people issues were identified as being of high materiality:

- Workplace safety and security
- Diversity, equality and inclusion
- Health and well-being
- Talent management
- Learning and development

See our Materiality Matrix within our Sustainability Report

2022 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 the environment (HSE) and major accident safety in drilling operations.
- Revised our Project Delivery Process with improved integration of HSE elements within the Wells Project Management Procedure.
- Implemented an HSSE management system roadmap for our in-country team in Cairo.
- Established a system to track social investment across the Group that helps deliver a positive impact on the communities with which we work.
- Implemented an enhanced incident reporting system across the Company and provided training to users.
- Reviewed our security guidelines against the latest ISO standard, and assessed information sources and providers to identify potential improvements and updated our Business Continuity Plan.
- Revised our technical competencies project and strengthened links to our Corporate Major Accident Prevention Policy (CMAPP).
- Reviewed and updated our corporate policies to ensure alignment with latest legislation and clarity of messaging.
- 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 and achieved our stretch target for 2022.

See our Sustainability Report for more information about our SDG performance

Our 2022 performance

With over 1.5m total hours recorded throughout the year, one Restricted Work Day Case (RWDC) and zero Lost Time Injuries (LTIs) in our operated assets, our occupational safety performance exceeded our target; this was set using the IOGP benchmarks, which we use as lagging KPIs. This performance was exceptional, recognising that the activity level in 2022 was much higher and more complex than in 2021, featuring an offshore well in the UKCS and two seismic projects in the newly acquired Egyptian Western Desert concessions covering a total of 1,060 sq km.

Lost Time Injury Frequency (LTIF)

(lost time injuries per million hours worked)

Year	Capricorn	IOGP benchmark
2022	Capricorn: 0.00	IOGP benchmark: 0.22
2021	Capricorn: 0.00	IOGP benchmark: 0.24
2020	Capricorn: 0.00	IOGP benchmark: 0.26
2019	Capricorn: 0.00	IOGP benchmark: 0.24
2018	Capricorn: 0.00	IOGP benchmark: 0.26

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.

Total Recordable Injury Rate (TRIR)

(total recordable injuries per million hours worked)

Year	Capricorn	IOGP benchmark
2022	Capricorn: 0.65	IOGP benchmark: 0.70
2021	Capricorn: 0.00	IOGP benchmark: 0.92
2020	Capricorn: 0.00	IOGP benchmark: 0.99
2019	Capricorn: 0.98	IOGP benchmark: 0.92
2018	Capricorn: 0.00	IOGP benchmark: 0.99

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.

Behaving Responsibly to People continued

Total workforce

200

(2021: 238)
Employees and Direct Contractors

Gender split

Total workforce
Male/Female

	Male	Female
Employees	94	91
Direct Contractor	10	5
Management	9	3
People Managers	33	24

Average age of staff

43

(2021: 44)

Board members
Male/Female

	Male	Female
2022	6	3
2021	5	3
2020	6	3
2019	6	3
2018	7	2

Employment type

Employees	Direct contractors
185	15

Full time	Part time
172	13

During 2022, we welcomed 28 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 recognise that our success depends on a diverse range of talented people with the necessary skills and passion, and acknowledge diversity in all its dimensions: national origin, age, race and ethnicity, religion and belief, gender, sexual orientation and marital status. We nurture a diverse and inclusive culture, where everyone can uniquely contribute and thrive; a culture which values and encourages individual differences, unleashing the potential of our talent and flourishes under the collective strength and value that diversity brings.

See our Sustainability Report for more information about our SDG performance and details of our Policies.

Our D&I ambition

We aim to nurture a diverse and inclusive culture where everyone can uniquely contribute and thrive: a culture that values and encourages individual differences, unleashes the potential of our talent and flourishes under the collective strength and value that diversity brings.

Our people

We will focus our outreach across a breadth of communities to support a more diverse talent pool, as we strive to attract, develop and retain the very best talent.

Our communities

Our commitment to D&I reaches beyond the boundaries of our business to incorporate the diverse values and perspectives of the communities and societies of the countries within which we are privileged to work. We will continue to reflect these values and perspectives in our social investment decisions and practices in all countries in which we operate.

Employee engagement

Commitment to employee engagement

Our people are the foundation on which our success is built. We aim to create a positive, collaborative work environment that enables colleagues to fulfil their potential. We respect personal dignity and rights, and want everyone to feel involved and valued by their colleagues, managers and senior leaders.

In 2022, Capricorn Energy announced two potential merger activities. Later in the year, a voluntary redundancy programme was announced as part of these new strategic plans. Employees were given clarity about both the merger plans and the voluntary redundancy programme with a clear signpost of where they could access further information and support.

Measuring engagement: Pulse Surveys

2022 marked the fourth year of our 'Have your say' pulse surveys and the key areas of focus were the Company's merger strategy and the support given during this period of change. These short, regular snapshots continue to attract consistently high participation rates of around 90%, 4% above the industry average.

Our engagement scores at the end of each quarter of 2022 were 8.2, 7.5, 6.7 and 6.2 respectively, compared to the industry benchmark of 7.5. Throughout, the majority of the scores for each component of the survey tended to be higher than the industry average. The year-end figure of 6.2 – a 2.1 reduction compared to Q4 2021 – can largely be attributed to a period of uncertainty experienced by colleagues from June 2022 when plans for a potential merger were first communicated.

Employee Voice Forum

Our Employee Voice Forum gives our people direct access to the Board. There are two meetings each year, chaired by a Non-Executive Director, at which colleagues' material concerns, ideas and suggestions are discussed. The main themes explored in 2022 covered future working practices, long-term and short-term strategy and future focus of the Company.

Learning and development

Group-wide learning opportunities

Operating to the highest standard means providing optimised learning opportunities for our people. The right education also means our business is more efficient, effective and successful. We invest in developing our people, helping them to fulfil their potential, deliver our objectives and meet the changing demands of our industry.

Leadership and management development

We continued our partnership with a local provider to work with each senior leader on a one-to-one basis. The sessions provided coaching and insights on strengths and characteristics, and look at resilience, managing relationships, emotional intelligence, inclusive leadership and succession planning. Each individual also benefited from a robust development plan with short-, medium- and long-term actions.

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

Training

38 hours

Average amount of training given to non-management staff (2021: 31)

31 hours

Average amount of training given to management staff (2021: 30)

Workplace safety

Providing a safe working environment is central to working responsibly. 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. As an HSSE initiative, in 2022 we undertook several senior leadership visits to our operated and non-operated activities with the aim of promoting safety leadership across staff, contractors and suppliers. Additionally, we held the HSSE and Social Responsibility Day for our staff across the global offices promoting a wide range of safety, environmental and social challenges and mitigations.

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.

Employee well-being

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. We learned a great deal about the role of health and well-being at work during the COVID-19 lockdowns, and our programme of activities – now in its fourth year – 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 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. Following a phased return to office working, we have introduced hybrid working in the UK as part of our shift to more flexible working practices without impairing our ability to deliver our work programmes.

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).

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 (such as in Mexico City and Cairo) 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).

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. In 2022 field contractors accounted for approximately 79% of our workforce and 76% of hours worked across the business. These figures are up from 2021's 15% and 5% respectively.

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 improved our scrutiny of key equipment providers in terms of environmental performance and emissions monitoring as part of the tendering process. In 2022, we assessed the energy efficiency and emissions of vessels, rigs, seismic vehicles and helicopters, as well as contractor HSSE data metrics aligned with IOGP averages, 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. We continued to use the Achilles' Oil and Gas Europe platform to assess potential contractors in the European oil and gas market. This supported the identification of potential vendors for the Diadem project (see page 29).

Behaving Responsibly to Society

A responsible approach 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.

At the end of 2022, the following societal issues were identified as being of high materiality:

- Safeguarding human rights
- Supporting and safeguarding local communities
- Investing in local skills, recruitment and procurement

See our Materiality Matrix within our Sustainability Report

2022 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.
- Implemented new social investment projects and carried out scoping for potential projects across the Group.
- Applied the recently developed Social Investment screening tool to potential and new social investment projects.
- Developed Stakeholder Engagement Plans for all new projects demonstrating application of stakeholder engagement guidance.

See our Sustainability Report for more information about our SDG performance

Identifying and assessing human rights risks

Our starting point in safeguarding human rights in our business is to identify and assess potential internal and external risks of human rights transgressions within our sphere of influence. The standards that we work within include compliance with or consideration of the UN Universal Declaration of Human Rights; the UN Guiding Principles on Business and Human Rights; the International Finance Corporation (IFC) Performance Standards; and the ISO26000 Guidance for Social Responsibility.

With this in mind we have developed our own Human Rights Guidelines which define how we identify, assess and manage potential issues, not least when we are considering or entering new projects. The guidelines include a five-step process which has been incorporated into our Corporate Responsibility Management System (CRMS). Our overall position on human and labour rights is summarised in our Corporate Social Responsibility (CSR) policy and our Code of Ethics. The relevant documents can be found on our website and the key points are that in all activities, we will:

- **Respect, support and promote** internationally recognised human rights standards wherever we operate and seek to ensure non-complicity in human rights abuses aligned with the UN Guiding Principles on Business and Human Rights.
- **Identify, assess, prevent or mitigate** adverse human rights impacts resulting from or caused by our business through effective due diligence and mitigation processes.
- **Maintain zero tolerance** of all forms of modern slavery and not be complicit in the use of forced, compulsory, bonded or child labour or any form of human trafficking.
- **Provide human rights training** to our personnel and actively promote awareness of human rights issues with our stakeholders.

Ahead of any major project, we undertake extensive Environmental and Social Impact Assessments (ESIAs and SIAs), and where necessary Human Rights Impact Assessments (HRIAs). Where potential issues are identified we engage in detail with interested parties to consider how best to manage or mitigate risks and develop comprehensive Social Management Plans (SMPs).

Human rights training

The human rights and modern slavery modules of our training programme were each completed by 181 people during 2022, representing 98% of Capricorn's employees across our sites. This is undertaken through the e-learning platform of the Capricorn Learning Academy scheme.

As part of our wider training, in January 2022, the Institute of Human Rights presented a Lunch & Learn session in our Edinburgh office to help employees understand the context of this vital subject.

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; we 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.

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 2022, but it remains an important procurement consideration. For example, though our work in Mauritania is in its early stages as we prepare the ground for future drilling, we have a responsibility to get our approach to human rights and labour practices correct given the country's low scoring in the 2018 Global Slavery Index. 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.

In 2022, we undertook an audit of one of our Tier 1 vendors, providing services during the Diadem drilling campaign. The audit was to ensure prevention of modern slavery risks within the supply chain, and the key areas of focus included:

- determination of contractor's parent Company policy position on matters of modern slavery and conformance with Capricorn policies and procedures;
- test understanding of potential risks within the local supply chain used by the Contractor;
- assessment of conditions of employment of personnel and subcontract or agency personnel; and
- examine safeguards in place.

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 apply 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.

Behaving Responsibly to Society continued

Social investment plans around the world

Egypt

We followed a rigorous process, including site visits and presentations, to identify a select number of appropriate projects that were candidates for consideration as social investments in Egypt. We are now in the final stages of reviewing the preferred candidate. In line with the findings of the Social Impact Assessment (SIA), our focus was on veterinary issues, people's health, and water. It is crucial that we support projects that leave a lasting legacy.

Suriname

Capricorn continues to work on its licence commitments in Suriname, working closely with Staatsolie, the national oil company. During 2022 we held an Operators' Forum in the Suriname capital, Paramaribo, in November and participated in a Technical Committee Meeting. Through the Production Sharing Contract (PSC) started in 2018 we are committed to a spend of US$100,000 per annum on local social responsibility and community investment programmes and training.

In 2022, Capricorn agreed to support seven students taking a two-year MSc degree in Public Health at Anton de Kom University. This project, in which we cover the students' tuition fees for the two years of the course, meets criteria in both the Community Health and Education categories. The students we are supporting are drawn from community or other local hospitals or are current local government employees with a particular interest in public health.

Community hub in Coronie

Having previously invested in much-needed IT and office equipment at the Institute for Natural Resources and Engineering Studies in the Suriname capital, Paramaribo, in 2022 we supported a community hub in the district of Coronie in the same way. The hub provides local students with a place to study, complete homework and improve their IT skills. An investment from Capricorn of US$56,000 provided IT equipment and printers not otherwise available in the area. Six schools – four primary and two secondary – have access to the hub. The committee keeps an eye on how it is progressing and reports that it is popular and well-used and continues to run well.

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 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.

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.

When categorising local, national and international vendors we use definitions used within local legislation. Although we have only limited contracting requirements in both Mexico and Suriname we follow this principle in both. In Suriname, the national oil company (Staatsolie) provides guidance on national content.

In Mexico, the methodology is based on a framework that is mandatory by law, and under our Production Sharing Contract (PSC) with the Mexican National Hydrocarbons Commission (CNH), 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. To support our seismic exploration work in Egypt in 2002, we undertook 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 (see page 42).

Risk Management

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

Managing business risks
Managing existing and emerging 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.

As in previous years, Capricorn's risk management process is based on a holistic approach and 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, financial, strategic and reputational.

Risk governance
Overall responsibility for the system of risk management and internal control rests with the Board. The Board set the risk appetite each year and is responsible for reviewing and monitoring the application of the risk framework. Principal risks and opportunities, 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.

At the third line of defence is the internal Audit function which provide assurance on the effectiveness of our Risk Management process and other key controls to the Risk Management Committee, chaired by the Chief Executive Officer, and then to the Board and its Committees.

The Board carried out a robust assessment of the Group's principal and emerging risks in 2022.

Group's risk management framework

Outline the strategy	Define strategic objectives	Define risk appetite	Identify key risks	Apply risk assessment process	Deliver strategic objectives
Set a sustainable strategy to achieve Capricorn's near-and longer-term goals.	Set clear strategic objectives in the form of KPIs.	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 to the achievement of strategic objectives and associated opportunities, through discussions at Board, Risk Management Committee, Management Team, Regional and functional levels.	Apply the Group risk assessment process to ensure the ongoing management of key risks to our 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 and emerging risks

Risk Management Committee (RMC)

- Executive Committee chaired by CFO in 2022
- Responsibility for setting the direction for risk management
- Facilitates continual improvement of the risk management system

Audit Committee

- Chaired by Non-Executive Director in 2022
- 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 2022
- Performs a quarterly deep-dive review of the Group's 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

In accordance with the provisions of the UK Corporate Governance Code, the Board has assessed the viability of the Group over a period longer than the 12-month period required for its Going Concern assessment.

Period of assessment
The Directors have assessed the viability of the Group over a three-year period to April 2026. In selecting the length of period over which to assess viability, the Board has considered the following:
- The Group's financial outlook is assessed primarily through its business planning process. At least annually the Board considers the Group's business plan and cashflow projections over a three-year period.
- Key assumptions which underpin the Group's internal forecasts include forecast oil prices, production profiles, forecast cost levels for drilling and operations, and availability of debt under the Group's borrowing facilities. The Board considers that most significant risks to the business are shorter term in nature, in particular those associated with asset performance, volatility of commodity prices and availability and repayment of debt under the current facilities.
- The Group's longer-term work programme is in part dependent on the results of future exploration activity and optimisation of capital allocation.

Consequently, the Board has determined that three years is the appropriate period over which to assess the Group's viability.

Principal risks
The Directors have considered the impact of the principal risks of the business on the Group's financial viability over the assessment period as well as the mitigation strategy in respect of those risks. While all of the risks could potentially impact performance, the principal risks and uncertainties that are considered to affect the Board's assessment of the Group's financial viability in this period are:
- operational performance of its producing assets;
- the effect of volatile oil and gas prices on the business, on our partners, and other stakeholders' financial positions;
- volatility of cash revenue receipts in Egypt due to irregular settlements of trade receivables due from EGPC;
- the impact of operational performance and oil prices on contingent consideration in respect of divested assets;
- a lack of availability and/or increased cost of debt facilities to fund our capital programme and execute our strategy; and
- the results of any exploration or appraisal activities.

Financial forecasts
The Group's base case financial forecasts are based on the following key assumptions that reflect the principal risks:
- Production profiles and expenditure forecasts on an asset-by-asset basis based on the Group's business plan.
- Forecast oil prices in line with the two-year forward curve and US$60/bbl thereafter.
- Egypt trade receivables settlement forecasts based on a proportion of the balance due.
- Contingent consideration receipts in respect of divested assets based on expected production and forecast oil prices as above.
- Forecast availability and repayments of debt based on current position of redetermination process in respect of the RBL facility as well as the current amortisation schedule.

Further sensitivity analysis is also assessed around the base case, reflecting a more severe impact of the principal risks, both individually and in aggregate as follows:
- Lower crude oil prices, with both a sustained low oil price scenario of 20-25% of the base case as well as a more severe oil price crash case with a subsequent recovery modelled separately within the assessment period.
- A 10% reduction in forecast production volumes for the first half of the assessment period and 5% thereafter.
- Other downside assumptions in respect of contingent consideration receipts and Egypt trade receivables settlements.

The Group has considered two main downside scenarios:
- a sustained period of lower oil prices of 20-25% lower than the base case with all of the other sensitivities assumed to occur simultaneously and in aggregate; and
- a more severe oil price crash scenario assumed to occur in the current year, with prices dropping to US$35/bbl and then recovering over a period of 18 months, combined with a 10% reduction in production and downside sensitivities in respect of contingent consideration receipts and Egypt trade receivables settlements.

In each of these downside scenarios it is assumed that discretionary cash returns to shareholders planned in the base case would be cancelled or postponed as required to ensure sufficient financial headroom remained available.

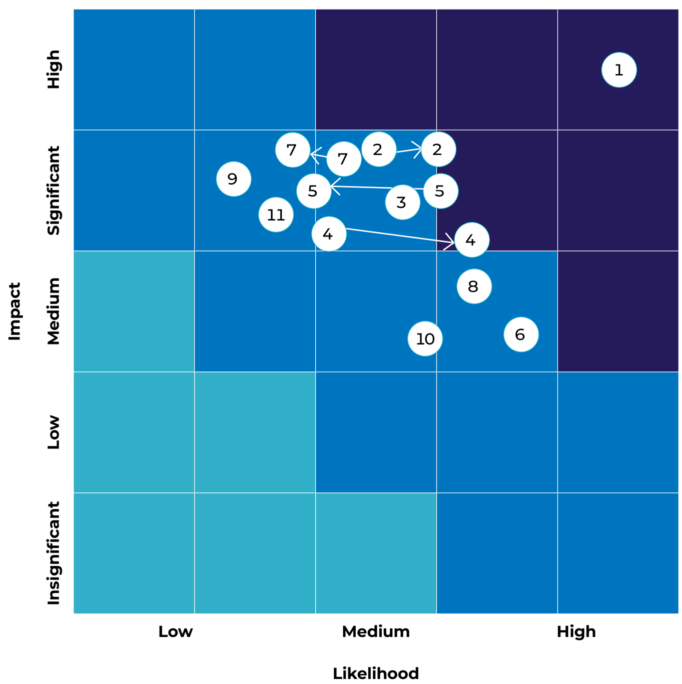
Taking this into account, in each of these combined downside scenarios the Group is forecasting sufficient financial headroom throughout the assessment period.

Conclusion
The Directors' assessment of viability is based on the Group's current position, prospects, and the principal risks and uncertainties affecting the business. As part of this analysis the Directors have also considered mitigations that could be deployed to increase headroom although they are not required in either of the main downside scenarios tested.

Based on this analysis, the Directors' have a reasonable expectation that the Group can continue in operation and meet its liabilities as they fall due over the three-year period to April 2026.

Principal Risks to the Group in 2022-2023

The following pages provide a summary overview of the principal risks to the Group at the end of 2022, the potential impacts, the mitigation measures and the risk appetite.



	Risk	Viability
1	Volatile oil and gas prices	✓
2	Underperformance of Egypt assets	✓
3	Failure to unlock value from strategic review	
4	Reserves downgrade or impairment	✓
5	Future challenges and costs to achieving pathway to net zero by 2040	
6	Political and fiscal uncertainties	
7	Lack of adherence to health, safety, environment and security policies	
8	Egypt receivables balance	✓
9	Breach of code of ethics	
10	Inability to access capital	✓
11	Major cyber risk	

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.

Cost inflation has been identified as an emerging risk. 2022 saw significant rate increases for rigs, equipment and personnel and whilst this has impacted on specific assets across the Group portfolio, the cumulative effect has been manageable. Should factors such as geopolitical concerns, supply chain challenges and an increase in global project activity continue to drive a rise in costs, the potential for material impacts on capital expenditure will increase.

Risk Management continued

Strategic objective: Production

Principal risk: Underperformance of Egypt assets

Owner: Managing Director, Egypt

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 or result in an impairment on the balance sheet.

Impact	Mitigation	2022 movement
– Cost/schedule overruns – Delay or reduction in cash flow – HSE incidents – Negative impact on asset value – Reputational damage	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. Conducting independent economic analysis on all investment opportunities and only voting in favour of those that meet Capricorn's requirements. Actively monitoring and looking for wells and project delivery improvement opportunities, in liaison with our partner, and via our Bapetco secondees. Proactive engagement and recommending solutions to challenges at Bapetco Board, and in JV meetings.	**This risk increased in 2022.** 2022 overall production averaged ~34,200 boepd, within revised full-year guidance of 33,000-36,000 boepd. This was lower than original full-year guidance principally due to the JV drilling fewer development wells than originally planned and targeting oil versus higher-rate lower-value gas; the Teen gas condensate project start-up date being delayed from 2022 to 2023; and, certain gas wells performing below year-end 2021 expectations.

Principal risk: Reserves downgrade or impairment

Owner: Chief Petroleum Engineer

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 or result in an impairment on the balance sheet.

Impact	Mitigation	2022 movement
– Reduction in cash flow – Reduction in share price – Reputational damage	Annual Reserves & Resources independently reviewed internally, and in parallel, the use of external Reserves Estimators. Appropriate allocation of capital to Near Field Exploration (NFE) wells to add more material new or additional reserves and resources. Maturation of opportunities within existing fields. Positive and regular engagement with operators and partners to share knowledge, offer support and exert influence.	**This risk increased in 2022.** Capricorn holds interests across four main concession areas: 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). 2022 oil production grew 10% year-on-year (YoY) and averaged ~14,500 bopd net to Capricorn's working interest (WI), with ~80% of revenues being generated from oil and condensate sales in a supportive price environment. The Group 2P reserves decreased by 10.2 mmboe during the year from 37.4 mmboe at year-end 2021 to 27.2 mmboe at year-end 2022 on an entitlement interest basis. This was principally due to Egyptian production of 4.7 mmboe and some downward revisions in gas reserves within the AESW and Obaiyed concessions.

Strategic objective: Financial performance

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	2022 movement
– 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.	**This risk remained static in 2022.** An underlying increase in demand, combined with below target supply from OPEC and increased tension over the Ukraine crisis helped to push prices higher in 2022. Oil price fluctuations are expected to continue in 2023 and this could materially impact on the cash flow from Egypt production and the value of the Catcher/Kraken earnout payments.

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	2022 movement
– 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 2022.** Capricorn has licences in jurisdictions with moderate to high risk of political or fiscal uncertainty. The elevated oil price has resulted in producers being targeted in certain jurisdictions, which has materially impacted on value. There is a risk that the Group is subject to fiscal penalties or claims in existing or recently exited licences.

Risk Management continued

Strategic objective: Financial performance continued

Principal risk: **Egypt receivables balance**

Owner: Managing Director, Egypt

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	2022 movement
– Requirement for cash injections from existing funds – Uncertain financial outcomes	Maintain positive relationships with governments and key stakeholders. Active and regular discussions with EGPC to agree payment schedules. Partial payment in Egyptian Pound where amounts can be immediately reinvested in the JV. Other settlement mechanisms available.	**New principal risk.** EGPC receivables position was US$97m at December 2022, including US$66m of amounts overdue. Discussions are ongoing with EGPC to agree 2023 payment schedules and other settlement mechanisms.

Principal risk: **Inability to access capital**

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	2022 movement
– Work programme restricted by reduced capital availability – Loss of value	Disciplined allocation of capital across the portfolio. Continue to assess multiple forms of financing.	**This risk remained static in 2022.** The divestment of Capricorn's interests in the Kraken and Catcher fields in the UK North Sea completed in Q4 2021. The sale provided flexibility to enhance the producing asset base while retaining exposure to oil price growth through the earnout considerations as part of the sale. In Q1 2022, Capricorn received a tax refund from the Government of India of ~US$1.06bn. This enabled a capital return to shareholders via a ~US$500m tender offer and an additional US$25m share buyback programme, completed in July 2022. Financing is also in place for Egypt operations. 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.

Strategic objective: ESG

Principal risk: Future challenges and costs to achieving pathway to net zero by 2040
Owner: Chief Executive Officer

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	2022 movement
– 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 decreased in 2022.** There was continued attention to climate change from a range of stakeholders in 2022. This attention has led, and we expect it to continue to lead, to additional regulations designed to reduce greenhouse gas (GHG) emissions. The Group's progress with GHG emissions reductions initiatives in Egypt has been positive. This has resulted in a new, near-term GHG reduction target of 15% by 2025 and 30% by 2030. The Company has set a net zero target of 2040 or earlier. Bapetco have identified a suite of projects and a roadmap to deliver on an ambitious Scope 1 and 2 emissions reduction pathway and expects to reduce GHG emissions by 23% over the period December 2019 to December 2023. Significant progress has been made on emissions improvement initiatives including mobile diesel generator reduction, electrification using gas as power fuel, planning for multiple flare reduction and waste heat recovery projects, and investigating feasibility for carbon capture and storage at BED and Obaiyed through subsurface evaluation.

Risk Management continued

Strategic objective: ESG continued

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

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	2022 movement
– 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 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 operated and non-operated 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 remained static in 2022.** The Group's lost time injury frequency (LTIF) for operated activity in 2022 was zero per million hours worked. Our total recordable injury rate (TRIR) for 2022 was 0.65 per million hours worked. There were zero recordable spills above the IOGP level to the environment. The Group will continue to work responsibly with all partners as part of our strategy to deliver value for all stakeholders.

Principal risk: Breach of Code of Ethics
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	2022 movement
– Fines – Criminal prosecution – Reputational damage	Business Code of Ethics and supporting compliance 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. Whistleblowing policy and process. Financial procedures in place to mitigate fraud.	**This risk remained static in 2022.** There were no reportable instances of breaches of the Group Code of Ethics. The Group operates in countries deemed high-risk for bribery and corruption. A compliance programme will be implemented for each area of operation.

Strategic objective: Corporate viability

Principal risk: Failure to unlock value from the strategic review
Owner: Chief Executive 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	2022 movement
– Negative shareholder reaction – Loss of value	Experienced new Board assembled to undertake strategic review of Capricorn's business including an assessment of the future cash needs of the business. Third party appointed to review organisational structure and requirements for the business going forward. Re-sizing of UK staff numbers to appropriate levels. Significant reductions planned as part of this process which commenced in March 2023.	**New principal risk.** Capricorn appointed six new Board members on 1 February 2023. The Board's first course of action is to conduct a comprehensive strategic review of Capricorn's business and the several potential directions for the future of the Company. These will be evaluated from the perspective of both maximising the Company's value and acting in the best interests of all stakeholders. There is a risk that the strategic review fails to identify an appropriate path forward for the Company resulting in negative stakeholder reactions.

Principal risk: Major cyber attack
Owner: Group IT Manager

Risk appetite	**Low** – Capricorn is committed to maintaining high standards in all the Group's business dealings. The Group has no tolerance for risks which may compromise its reputation for integrity or impact on the continuity of operations.

Impact	Mitigation	2022 movement
– Loss of value – Loss of stakeholder confidence – Impact on business continuity	Security awareness programme in place supported by regular staff susceptibility phishing training and testing. Annual mandatory security awareness e-learning training delivered to all staff. Cyber Incident Response Plan in place which has been verified and tested by Capricorn in combination with third parties. Security Operations Centre providing 24/7 network and device monitoring, alerting and response. Programme in place to align the Group's cyber controls with the National Institute of Standard and Technology (NIST) Cyber Security Framework.	**New principal risk.** The external cyber security threat environment is continuously evolving and becoming more sophisticated, and the risk of a significant cyber-attack is ever present. In 2022, Capricorn began a 3-year information security improvement programme to align the control framework with the NIST Cyber Security Framework. The original target was to achieve a maturity level of 3.3 over 3 years, from a start of 1.3. A recent third-party review of our progress against NIST assigned a score of 2.6 which was a positive result for the Group.

Stakeholders and S172 Statement

Understanding what matters to our stakeholders is fundamental to enabling us to operate. Continuous engagement is integral to our day-to-day operations and working together towards shared goals is a key factor in facilitating the long-term success of the business.

The Directors of Capricorn Energy PLC, and those of all UK companies, are bound by their duties under the Companies Act 2006 to promote the success of the Company for the benefit of its members, and in doing so, having regard to the interests and views of all relevant stakeholders.

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. Such engagement underpins the governance framework embedded throughout our business and helps to ensure we maintain the highest standards of business conduct.

Throughout the past year, there has been extensive engagement regarding a number of significant matters which has helped shape the Company's actions; these include the return of capital following receipt of the Indian tax refund proceeds, proposed mergers, Board composition, ongoing operational arrangements and the energy transition. All key business decisions considered include an analysis of stakeholder considerations, anticipated impact and any mitigating factors. 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.

Details of how the Board and senior management engage and foster strong relationships with some of our key stakeholders, and examples of the impact of this engagement are set out below.

Further information can also be found throughout the Strategic Report and in our exploration of key strategic decisions made in the Governance Report.

	Why is it important to engage?	How the Board and/or management engaged	Key topics of engagement	Examples of the impact of such engagement and actions taken
Investors	– The views of our investors 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 over 180 investor meetings including one-to-ones and attending roadshows /conferences · Conducting regular financial reporting · Responding in a timely manner to investor and analyst enquiries · Offering shareholders the opportunity to submit questions by email in advance of general meetings (as well as being able to raise questions at the meetings themselves) · Post-general meeting correspondence to discuss vote outcomes	– Return of capital to shareholders following receipt of the Indian tax refund – Proposed merger opportunities and transactions – ESG matters including energy transition – Board composition – Strategy and performance – Corporate governance	– Regular reviews of corporate objectives – Return of capital being conducted by way of tender offer as opposed to special dividend – Contributed to the decisions to not proceed with the proposed combinations with Tullow Oil plc and NewMed Energy Limited Partnership (as discussed on page 3) – Board composition changes (as discussed on page 56)
Governments	– We are responsible to them for compliance with local and/or international laws – Their permissions are required for us to access acreage and operate	– Meetings with Heads of State, UK and Country Ambassadors, Ministers and Civil Servants	– Legal Compliance – ESG matters – Major accident prevention – Investment and economic growth	– Continued monitoring of responsible performance at Board meetings and annual review of CRMS and objective KPI setting – Implementation of enhanced incident reporting system – Reviewing feedback and commentary from government and regulatory bodies regarding performance expectation – KPIs include performance against leading and lagging indicators for health, safety and environmental protection and are reviewed at all Board meetings

	Why is it important to engage?	How the Board and/or management engaged	Key topics of engagement	Examples of the impact of such engagement and actions taken
Business partners, peers and contractors	– We are reliant on our partners in joint ventures. – We are commercially responsible to contractors, suppliers and partners – Their performance directly impacts our financial, operational and responsible performance	– Meetings with partners, peers and contractors with Board members and senior executives in addition to regular joint venture and operations planning meetings – Maintaining membership of industry bodies – Active management of key projects and assets (including alignment of project deliverables)	– Policies and standards – Industry reputation – Investment opportunities for growth – Long-term relationships – ESG matters	– Careful selection of contractors (discussed on page 27) – Continued membership of IOGP Security Committee (performance against IOGP benchmarks discussed on page 25) – Actively engage with all JV partners early to establish good working relationships
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 – They provide an alternative perspective, strengthening our knowledge of local situations and/or specific demands	– Community meetings – Reviews of social investment strategies aligned with UN SDGs – Senior management visits – Media monitoring	– Protection of resources and livelihoods – Community development and social investment – Access to employment and business opportunities – Transparency of payments to governments – Education assistance	– Community investment focus to include adaptation 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 Egypt and Suriname including supporting further education in the health and energy sectors (discussed on page 30)
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 – Employee Voice Forum (EVF) meetings (discussed on page 26) – Working practice focus groups – General Meetings – Exit interviews	– Long-term and short-term strategy – Internal mobility – Working practices – Lessons learned from projects	– Introduced the Shadow4success programme to encourage under-represented groups to apply for senior roles within the Company (discussed on page 17 and see our Sustainability Report for more detail) – Adoption of a permanent hybrid working strategy. – Continuing the development and delivery of health and well-being initiatives – Formation of an employee representative group, providing support to employees primarily on cross-department matters

Stakeholders continued

Case study

Mauritania ESIA stakeholder management

Block C7 in Mauritania borders the Banc d'Arguin, a UNESCO national park where the local communities are populated by the Imraguen people who maintain proprietary and ancient fishing practices.

We undertake to protect the national park in full consultation with all concerned in order to protect their livelihood and mitigate any loss they may experience as a result of our work. We have undertaken detailed stakeholder engagement and reporting and are building an understanding of the needs and priorities of this community group, consulting with multiple Mauritanian and international organisations and NGOs over the course of 2022.

In November 2022 we held a public meeting in Nouamghar, a coastal village in the national park, at which we presented the Terms of Reference for our Environmental and Social Impact Assessment to around 90 local people.

We were there expressly to engage with the local communities; to present our plans clearly and to listen to their feedback and incorporate that feedback into our EIA planning. Many of their questions related to social investment, covering topics such as water and jobs, and to concerns about the impact our work may have on their fishing sites and practices. It was clear to us at the meeting that local people were highly engaged with the process and keen to be involved in the decision-making. We will continue to build on the feedback we received with a social investment scoping visit to these communities planned for early 2023.

We understand the importance of working through the national park management and are committed to minimising our impact on their environment as well as making a positive contribution to their society. If and when drilling begins in Mauritania, we will have laid good foundations in terms of our relationships with the local community.

Operational and Financial Review

Strategic Review – Initial Findings:

- Strategic review commenced on 1 February 2023
- Capital returns: the Board commits to return to shareholders all excess cash flow not required for our go forward core operational focus, resulting in a significant return of capital of approximately US$575m via a c.US$450m special dividend proposed to be paid in May 2023, a further special dividend in Q4 2023 of US$100m dependent upon certain conditions and a share buyback of at least US$25m over the next twelve months
  - The US$100m special dividend in Q4 2023 is dependent upon a number of factors including: addressing our receivables position in Egypt; the outcome of conversations with stakeholders in Egypt around licence extensions and renegotiation of terms; actual oil and gas price outcomes for the remainder of 2023; and the conclusions of our strategic review as it relates to further cost actions and future investment in our Egypt business
- Cost saving programme initiated: identified and actioned initial gross G&A reduction of at least US$35m on a run rate basis; opportunities for further cost savings to be pursued, with costs to be aligned to activity on an ongoing basis to maximise cash
- Materially scale back all exploration spend outside Egypt and monetise, farm-down or exit all other exploration positions. A process has commenced for a potential sale of our UK assets
- Focusing on maximising value of Egypt by optimising investment, well selection and rig performance, continuing to focus on liquids production growth and, alongside partners, exploring options to enhance fiscal terms
- Appointment of new Chief Executive: Randy Neely, former President and CEO of Egypt-focused operator TransGlobe Energy Corporation to join Capricorn on 1 June 2023
- Strategic review continues with medium to longer term strategic outcomes to be presented in due course, with a Capital Markets Day to be held in Q4 2023

ESG Highlights

- Net zero by 2040: good progress on decarbonisation pathway, on track for 15% GHG equity emissions reduction by 2025

2022 Financial Highlights

- Working interest Egypt oil and gas production ~34,200 boepd, comprising 42% liquids and within revised guidance of 33,000-36,000 boepd; net entitlement sales volumes 4.7 mmboe
- Revenues from Egypt production US$229m: average realised oil price of US$98.8/bbl and gas price of US$2.9/mcf (average total production cost US$5.7/boe)
- Net cash generated from Egypt oil and gas production US$104m, comprising US$129m net cashflow generated during the year and deferred consideration and settlements paid US$24m
- Tax refund of US$1.06bn in Q1 2022 resulting from Indian tax dispute resolution
- US$529m returned to shareholders in H1 2022 via tender offer and share repurchase programme
- Year-end Group cash and cash equivalents US$757m; net cash US$597m after debt drawn to 31 December 2022 of US$160m
- Egypt trade receivables at 31 December 2022 US$97m
- Earnout consideration on the disposal of the UK Catcher and Kraken interests in relation to 2022 production and oil prices US$137m received in Q1 2023; US$77m production earnout in relation to 2021 production received in H1 2022
- Group capital expenditure on oil and gas assets US$162m
- Operating loss after tax US$160m from continuing operations
  - Impairment charge of US$43m on Egypt producing assets
  - Non-Egypt unsuccessful exploration costs of US$94m
- Profit of US$109m from discontinued operations from increase in value of earnout from sale of UK producing interests
- Loss after tax of US$51m

2023 Outlook

- The Board is confident in the outlook for the Group. We believe that over time we can deliver meaningful improvement and efficiencies to the way Capricorn is run to deliver good returns for shareholders. The next stage of our strategic review will seek to address this point
- Capricorn WI production to average 32,000-36,000 boepd, remaining broadly flat on 2022 and continuing to focus on liquids opportunities
  - Oil and condensate production expected to average between 14,000-16,000 bopd on a WI basis, with gas expected to average 100-112 mmscf/d on a WI basis
- Operating costs forecast to be stable at US$5-US$7/boe influenced by liquids processing volume and absolute production levels
- Current estimates of 2023 capital expenditure total approximately ~US$155-175m, including:
  - Egypt production and development expenditure of US$100-120m, with five rigs in country focused on production and development drilling and influenced by the phasing of minor and major projects expenditure
  - Egypt exploration expenditure of ~US$25m to sustain the resource base
  - Committed non-Egypt exploration expenditure of up to US$30m, including costs associated with the Yatzil well in Mexico which was drilled in Q1 2023, with no further commitment wells in the international exploration portfolio outside Egypt
- Additional earnout consideration in respect of the Catcher and Kraken interests will be due in relation to production and oil prices in calendar years 2023 to 2025, subject to minimum production and oil price thresholds being met

Reserves

The Group 2P reserves decreased by 10.2 mmboe during the year from 37.4 mmboe at year-end 2021 to 27.2 mmboe at year-end 2022 on an entitlement interest basis. This was principally due to Egyptian production of 4.7 mmboe and some downward revisions in gas reserves within the AESW and Obaiyed concessions. The AESW revisions are related to disappointing reservoir properties in the Karam-11 well and a limited connected reservoir volume in the Assil-105 well. Obaiyed reserves have been downgraded due to a steeper production decline, which is partly attributed to lower activity as the consortium focuses on higher-value oil production.

Capricorn's 2P reserves have decreased by 10% relative to the year-end 2020 estimate provided in the shareholder circular for the Egypt acquisition, once adjusted for interim production and the re-classification of the Teen full-field development (3.9 mmboe) from reserves to contingent resources, as detailed in the 2021 Annual Report.

Operational and Financial Review continued

Production

Egypt
Working interest production across the four main concession areas in the Western Desert 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 ~34,200 boepd during the period, with ~42% of the production mix comprising oil and condensate, as liquids opportunities continued to offer the best returns in the current price environment.

The Joint Venture originally planned to drill >40 development wells in 2022, but this was not achieved due to logistical and rig acceptance challenges associated with the two rigs imported from Algeria into Egypt, and operational performance issues with the third new rig. These factors contributed to a 2022 new well count of 31 with five rigs operating by Q4 2022. With overall drilling and completion performance improving by year-end, ongoing improvement initiatives are required to achieve the targeted average ten new wells/year per rig to deliver overall production growth from the Western Desert.

Looking ahead, the 2023 well programme targeting >40 wells will use six rigs for both development and exploration wells while we continue to work to optimise the programme and improve overall drilling, completion and hook-up performance.

The Teen project is expected to come on stream during 2023, tying in three existing wells in a pilot evaluation to determine optimal full field exploitation.

Decarbonisation initiatives continue building on the work that commenced in 2022 relating to projects to reduce flaring, venting and identification of fugitive emissions. Additionally, verification of the overall calculation methodology for GHG emissions, associated with our 2022 baseline was completed in Q4 2022. Capricorn's short and medium term GHG equity emission reduction targets (15% by 2025/30% by 2030) are on track.

Exploration

Egypt
Post year-end, Capricorn's first operated drilling operations onshore Egypt began in Q1 2023 on the Saqr-1X well in the South Abu Sennan concession, resulting in a dry well. This was the first of an expected five well programme in 2023, with the next well in the sequence, Seman-1X, currently drilling. During 2022, the operated acquisition of two 500 sq km 3D seismic surveys was completed safely and under budget in the Southeast Horus and West El Fayium concessions in support of future exploration activity. A seismic survey was also completed in the non-operated North Um Baraka concession.

UK
Capricorn operates five UK Southern North Sea licences: P2428 and P2567 (Capricorn 60% WI) and P2560, P2561 and P2562 (Capricorn 70% WI) with partner Deltic Energy.

The Capricorn-operated Diadem exploration well spudded in Q2 2022, reaching total depth in Q3 2022. Hydrocarbons were not found, and the well was permanently plugged and abandoned. The non-operated Jaws well completed operations in Q1 2022 and was unsuccessful. Across the five Mid North Sea High licences, seismic reprocessing and prospect maturation continues ahead of well investment decisions in H2 2023. There is no further capital commitment on the remaining UK licences and a process has commenced for the potential sale of the UK assets.

During 2022, Capricorn relinquished the P2379, P2380, P2381 and P2468 licences.

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).

Capricorn's final commitment exploration well in Mexico, Yatzil-1X in Block 7 (Eni Operator) was drilled in Q1 2023 and discovered hydrocarbons. According to preliminary Operator estimates, around 200 million barrels of oil may be in place and the Operator is examining options to determine commerciality. Capricorn internal analysis led to the decision not to participate in the forthcoming phases and the Company has therefore informed partners of its decision to withdraw from the Block 7 licence. Capricorn's withdrawal processes in Blocks 9 and 10 and the JV relinquishment process in Block 15 are ongoing with completion expected during the course of 2023.

Suriname
Capricorn operates Block 61 (100% WI), situated in the Guyana-Suriname basin where significant discoveries continue to be made. Capricorn is seeking to farm-down its interest in the licence.

Mauritania
Capricorn has a 90% WI as Operator in Block C7 offshore Mauritania. An environmental baseline and drilling site survey was completed in Q1 2022 with data gathered to inform a drilling decision ahead of the next licence phase. Capricorn has requested a six-month extension on the licence which it is discussing with the Mauritanian authorities, with a drill or drop decision due in September 2023. Discussions with potential partners are ongoing with a view to farming down Capricorn's working interest.

Financial review

Key production statistics

	Year ended 31 December 2022	Year ended 31 December 2021*
Production – net WI share (boepd)	**34,228**	36,459
Sales volume – net El oil (bblpd)	**5,028**	5,360
Sales volume – net El gas (mmscfd)	**44,471**	51,599
Average price per bbl (US$)	**98.8**	77.8
Revenue from production (US$m)	**228.9**	56.2
Average production costs per boe (US$)	**5.70**	6.00

* from date of acquisition to 31 December 2021

Loss for the Year

	Year ended 31 December 2022 US$m	Year ended 31 December 2021 US$m
Loss from Egypt operating segment	**(19.2)**	(6.7)
Loss from other Capricorn Group continuing operations	**(141.1)**	(194.5)
Exceptional income – India tax refund	**–**	1,070.7
Profit from discontinued operations	**109.3**	25.0
Loss/(Profit) after taxation	**(51.0)**	894.5

Egypt Operating Segment Results
In Capricorn's first full year of production in Egypt, total revenue was US$228.9m. US$181.4m was generated on sale of liquids with an average price of US$98.8 per bbl on net sales volumes of 1.8 mbbls. Gas revenue was US$47.5m from volumes of 16,230 mmscf at the contracted rate of US$2.9/mscf.

Cost of sales in the year were US$71.2m. Production costs decreased slightly to US$5.7 per boe, on working interest production, while depletion charges were US$124.1m, at a weighted average rate of US$23.3 per boe across the concessions.

Following the downward reserves revisions on the Obaiyed and AESW concessions, impairment charges of US$42.6m arise, with related deferred tax credits of US$17.3m.

Capricorn records other income on additional production that is notionally allocated to the Group to cover tax due on profits from the concessions. This is offset by an equal and opposite tax charge. In the current year, the value of this income and notional tax gross-up is US$54.8m.

Net finance costs in Egypt of US$21.4m, include US$14.9m of loan interest and charges and the Group recognised a fair value loss of US$12.7m on deferred consideration payable on the 2021 business combination.

The total tax charge on Egypt operations for the year is US$31.8m, being the tax gross-up charge of US$54.8m offset by deferred tax credits on impairment and other deferred tax movements. These include the recognition of deferred tax assets of US$7.1m on two concessions, which is supported by future profits forecast.

Results from Other Continuing operations
The loss on other Capricorn continuing operations of US$141.1m includes unsuccessful exploration costs of US$94.1m and administration charges of US$64.1m, with offsetting net finance income of US$18.9m.

Unsuccessful costs during the year included UK Diadem and Jaws well costs of US$29.3m and US$13.5m. Remaining costs of US$19.3m on Block 7 in Mexico have been expensed following the results of the Yatzil well. After internal analysis, Capricorn decided not to participate in forthcoming phases and the Company has informed partners of its decision to withdraw from Block 7.

Administration costs include costs associated with the India tax refund of US$13.1m and transaction costs of US$8.1m incurred in relation to the two deals recommended to shareholders by the previous Board.

Net finance income of US$18.9m includes interest earned on deposits and money market funds of US$14.7m.

Discontinued Operations
Earn-out consideration on disposal of UK Producing assets
Year-on-year increases in the fair value of the earn-out consideration due increased by US$110.4m, offset by a deferred tax charge of US$4.1m. Interest due on the 2021 receivable and a refund of prior year costs totalling US$3.0m, brought the total profit for the year to US$109.3m.

Cash received in 2022 was US$77.2m and the second payment due of US$136.7m, including interest from 1 January 2023, was received on 31 March 2023.

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. No revenue has been recognised for this payment to date.

Operational and Financial Review continued

Financial review continued

Net cash inflow for the Period

	US$m
Opening net cash as at 1 January 2022	132.7
India tax refund	1,056.0
Return of cash to shareholders and share buy-back	(528.6)
Net cash inflow from Egypt operations	128.6
Egypt deferred consideration and working capital settlement	(24.1)
Egypt exploration expenditure	(27.9)
Egypt development expenditure	(62.2)
UK earnout consideration and working capital settlement	67.6
Exploration expenditure – non-Egypt	(67.0)
Pre-award costs and carbon credits	(16.0)
Administration expenses, business development and other	(53.9)
Net finance income less equity movements	(8.3)
Closing cash as at 31 December 2022	**596.9**

* other costs include non oil and gas asset expenditure of US$4.9m and lease costs of US$2.5m.

Cash balances at 31 December 2022 of US$756.8m were offset by borrowings in Egypt of US$159.9m. Cash includes restricted cash balances of US$52.5m which may not be distributed to shareholders. Of this amount, US$43.5m is available for use to fund non-operated concessions in Egypt.

The India tax refund of INR 79 billion was settled in February 2022. On settlement of the INR refund, Capricorn immediately converted the amounts received into US$ and £, realising US$1,056.0m. Subsequently cash was returned to shareholders through a tender offer and share re-purchase programme which, together with costs, totalled US$528.6m.

Cash inflows from operations in Egypt of US$104.5m, include settlement of deferred consideration and can be reconciled to cash flows from operations per the statutory cash flow as follows:

	US$m
Operating cash flow per statutory cash flow statement	**63.5**
Non-GAAP Adjustments:	
Discontinued operations – working capital settlements	9.6
Pre-award and new venture costs reallocated	25.1
Administration expenses and India arbitration costs	30.4
Net cash inflow from operations	**128.6**

Balance Sheet

The Group's net asset position at 31 December 2022 is summarised as follows:

	US$m
Exploration assets	95.2
Development assets and goodwill	274.9
Other non-current assets	14.1
Financial assets at fair value through profit and loss	230.6
Trade and other receivables and payables and inventory	94.9
Net cash, including unamortised facility fees	598.2
Deferred consideration on business combination	(61.8)
Net deferred taxation and other liabilities	(31.5)
Net assets	**1,214.6**

Exploration assets
At the year end, the Group held exploration assets of US$95.2m, with US$26.8m in Egypt, US$39.3m in Mauritania, US$17.0m in Suriname and US$12.1m across remaining UK licences.

In Egypt, exploration is focused on the Group's operated concessions, where a six well programme commenced in 2023, and on near-field exploration opportunities across the non-operated concessions.

In Mauritania and Suriname, Capricorn is seeking to farm-down its working interest before committing further expenditure to these two licences.

Development assets and goodwill
At the year end, the carrying value of the Group's producing assets in Egypt was US$249.5m. Additions in the year of US$71.5m were offset by a reversal of accruals of US$29.2m. These accruals were included in the opening balances following the acquisition of the Egypt business, but without further information to reconcile these accruals to subsequent spend, Capricorn has reversed in full.

Depletion and impairment charges in the year were US$166.7m. Goodwill of US$25.4m relating to the Egypt business combination was also tested for impairment, with none identified.

Other assets and liabilities
Financial assets at fair value through profit and loss include US$224.1m of the earn-out due in relation to the sale of the Group's UK producing assets, with US$134.4m due within one year and subsequently settled in Q1 2023, with additional interest of US$2.3m. Deferred consideration due on the Egypt business combination is also held at fair value and the current liability of US$25.0m was settled in January 2023.

Trade receivables at the year end were US$96.9m, an increase of US$33.6m across the year. US$66.0m of this amount was overdue.

The Group's net deferred tax position in Egypt was a liability of US$26.8m, with a UK deferred tax liability of US$4.1m. It is anticipated that deferred taxes will reverse without any future cash outflow.

Equity movements

Return of cash to shareholders and share buy-back

Following the receipt of the India tax refund, Capricorn returned US$511.5m to shareholders by way of a tender offer and share buy-back programme in H1 2022. After adjusting for opening accruals, cash outflows in relation to the returns were US$528.6m across the year.

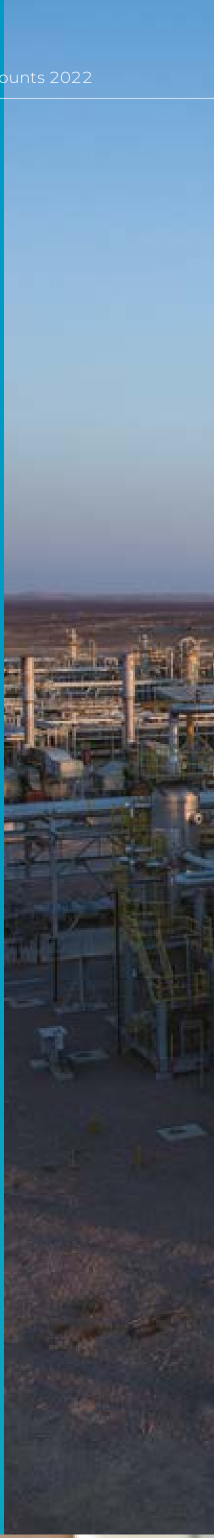
Post-balance sheet capital reduction

In anticipation of further returns to shareholders, Capricorn undertook a share premium cancellation which completed in 2023, following a shareholder vote on 15 December 2022. The cancellation received the required confirmation for the Court of Session in late January 2023 and was registered with the Register of Companies on 31 January 2023, which is the effective date of the cancellation. The full amount of the Company's share premium accounts transferred to retained earnings increasing distributable reserves available for future returns.

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

Chris Cox
Interim Chief Executive

27 April 2023



Leadership and Governance

Board of Directors

Craig van der Laan
Non- Executive Chair (57)

Committee membership

N

Term of office

Craig was appointed as Non-Executive Chair in February 2023.

Independent

Yes

Skills and experience

- B.A. and Bachelor of Laws (LL.B.), University of Sydney

A qualified lawyer, Craig has nearly three decades of senior international executive experience across a wide range of industries, including multinational public companies at FTSE100 and ASX20 level with exposure to operations in over 50 countries. He is an experienced driver of strategic initiatives, complex transactions, portfolio reconstructions and capital market activities with a strong commitment to delivering the highest standards of corporate governance at Capricorn.

Key external appointments

Public companies:

Non-Executive Director of SHAPE Group

Non-public companies:

None

Chris Cox
Interim Chief Executive (62)

Committee membership

EC RM

Term of office

Chris was appointed as a Director and Interim Chief Executive Officer in February 2023.

Independent

No

Skills and experience

- Bachelor's degree in Petroleum Engineering, Imperial College, University of London

Chris has over 40 years' experience in the global oil and gas upstream sector. Most recently, he was CEO of Spirit Energy and Managing Director of Centrica E&P where he delivered significant and sustainable improvements in complex businesses. Chris possesses deep knowledge of a broad range of disciplines relevant to Capricorn's portfolio, including subsurface, drilling, projects, operations, M&A and JV management.

Key external appointments

Public companies:

Non-Executive Director of Nostrum Oil & Gas PLC

Non-public companies:

None

Erik B. Daugbjerg
Non-Executive Director (53)

Committee membership

R SC

Term of office

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

Independent

Yes

Skills and experience

- BA in Business Administration, Southern Methodist University, Dallas

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

Key external appointments

Public companies:

Director of Kimbell Royalty Partners

Non-public companies:

Co-Founder of Pecos Operating Company, LLC

Maria Gordon
Non-Executive Director (49)

Committee membership

R A N

Term of office

Maria was appointed as a Non-Executive Director in February 2023.

Independent

Yes

Skills and experience

- Master's degree, Fletcher School of Law and Diplomacy, Tufts University
- Bachelor's degree in Political Science, University of Wisconsin
- Chartered Financial Analyst
- Corporate Director Certificate, Harvard Business School

Maria has strong governance experience, having served as chair, senior director and committee member of various public companies. She currently serves as Non-Executive Chair of Constellation Oil Services, a deep-water drilling oil services company based in Brazil. She has two decades of direct investment experience in senior roles, including as Head of Emerging Markets Equity Strategy at Goldman Sachs and PIMCO. With that she brings considerable expertise in portfolio management and equity and debt capital markets.

Key external appointments

Public companies:

None

Non-public companies:

Non-Executive Chair of Constellation Oil Services

Committee membership key

- Committee Chair
- A Audit Committee
- R Remuneration Committee
- N Nomination & Governance Committee

Richard Herbert

Senior Independent Director (64)

Committee membership

EV A N

Term of office

Richard was appointed as a Non-Executive Director and Senior Independent Director in February 2023.

Independent

Yes

Skills and experience

- Bachelor's degree in Geology, University of Bristol

Richard is a petroleum geologist with over 40 years' experience in the oil and gas sector, including leading executive roles across the world's major hydrocarbon provinces. Most recently, Richard served as CEO of Frontera Energy Corporation and Global Head of Exploration for BP.

His career started at Phillips Petroleum, followed by 19 years at BP in senior exploration and development positions spanning Southeast Asia, Latin America, the US, Angola and the UK North Sea. After leaving BP, Richard spent six years with TNK-BP in Russia, serving first as VP Exploration and then EVP Technology. After that he worked in Canada as Vice-President, Exploration of Talisman Energy for five years, before returning to BP as Head of Exploration in 2013.

Key external appointments

Public companies:

Chief Executive Officer of Angus Energy PLC

Non-Executive Director of PGS ASA

Non-public companies:

None

Catherine Krajicek

Non-Executive Director (61)

Committee membership

SC A

Term of office

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

Independent

Yes

Skills and experience

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

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

Key external appointments

Public companies:

None

Non-public companies:

None

Hesham Mekawi

Non-Executive Director (62)

Committee membership

N SC

Term of office

Hesham was appointed as a Non-Executive Director in February 2023.

Independent

Yes

Skills and experience

- Advanced Management Program (AMP), Harvard Business School
- MBA, Boston University
- Bachelor's degree in Engineering, Cairo University

Hesham is an accomplished senior corporate executive with over 30 years of experience at BP, serving most recently as Regional President of BP North Africa. He brings considerable industry knowledge and experience of the North Africa region, having developed strong political and business relationships in the region.

Key external appointments

Public companies:

Non-Executive Director of Orange Egypt

Non-public companies:

Non-Executive Director of Egypt's Sovereign Infrastructure & Utilities Sub-Fund

Tom Pitts

Non-Executive Director (57)

Committee membership

A R

Term of office

Tom was appointed as a Non-Executive Director in February 2023.

Independent

Yes

Skills and experience

- Master's degree, Queens' College, University of Cambridge

Tom has over 25 years' investment banking and private equity experience in public and private markets. He is currently a partner at LionRock Capital, having previously served in senior leadership positions at firms including Credit Suisse, Morgan Stanley and D.E. Shaw. Tom has broad experience in emerging markets, capital markets and structuring of complex financial products.

Key external appointments

Public companies:

None

Non-public companies:

Non-Executive Vice Chairman of Harmony Advisors

Non-Executive Director of SiGi Capital

EC Executive Committee **RM** Group Risk Management Committee **EV** Employee Voice Forum **SC** Sustainability Committee

Responsible Governance

Responsible

Governance

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

Business Principles

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

At the end of 2022, the following governance issues were identified as being of high materiality:

- Managing a Just Transition
- Responsible supply chain
- Decommissioning closure and rehabilitation
- Ethics, transparency and regulatory compliance
- Anti-bribery and corruption practices
- Robust whistleblowing mechanisms
- Emergency preparedness and crisis management
- Data and cyber security
- Investment in clean technologies and business innovation
- Remuneration

See our Materiality Matrix within our Sustainability Report

2022 Performance against Sustainability Objectives

- Further strengthened our Climate and Energy Transition roadmap, committing to net zero by 2040 or earlier, with a reduction of emissions of 15% by 2025 and 30% by 2030.
- Continued to communicate about climate change for the investment community and our wider stakeholders.
- Recorded, tracked and reported our Scope 1 and 2 equity emissions, reporting against additional Scope 3 listings.
- Set up a Sustainability Committee in March 2022, which featured all Board members meeting twice to discuss sustainability-related issues and review policies.
- Developed a new Operating Management System based on the IOGP OMS model, designed to focus on all phases of an asset life.
- Undertook a detailed review of our CMAPP and resource base to meet the need for major accident prevention.
- Enhanced our approach to Diversity & Inclusion, and commissioned an independent D&I survey with 170 employee respondents to compare our results with those from 100+ other energy companies.
- Set up a D&I working group to identify several key initiatives to focus on.

1 NO POVERTY · 10 REDUCED INEQUALITIES · 16 PEACE, JUSTICE AND STRONG INSTITUTIONS · 17 PARTNERSHIPS FOR THE GOALS

See our Sustainability Report for more information about our SDG performance

Working responsibly

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

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

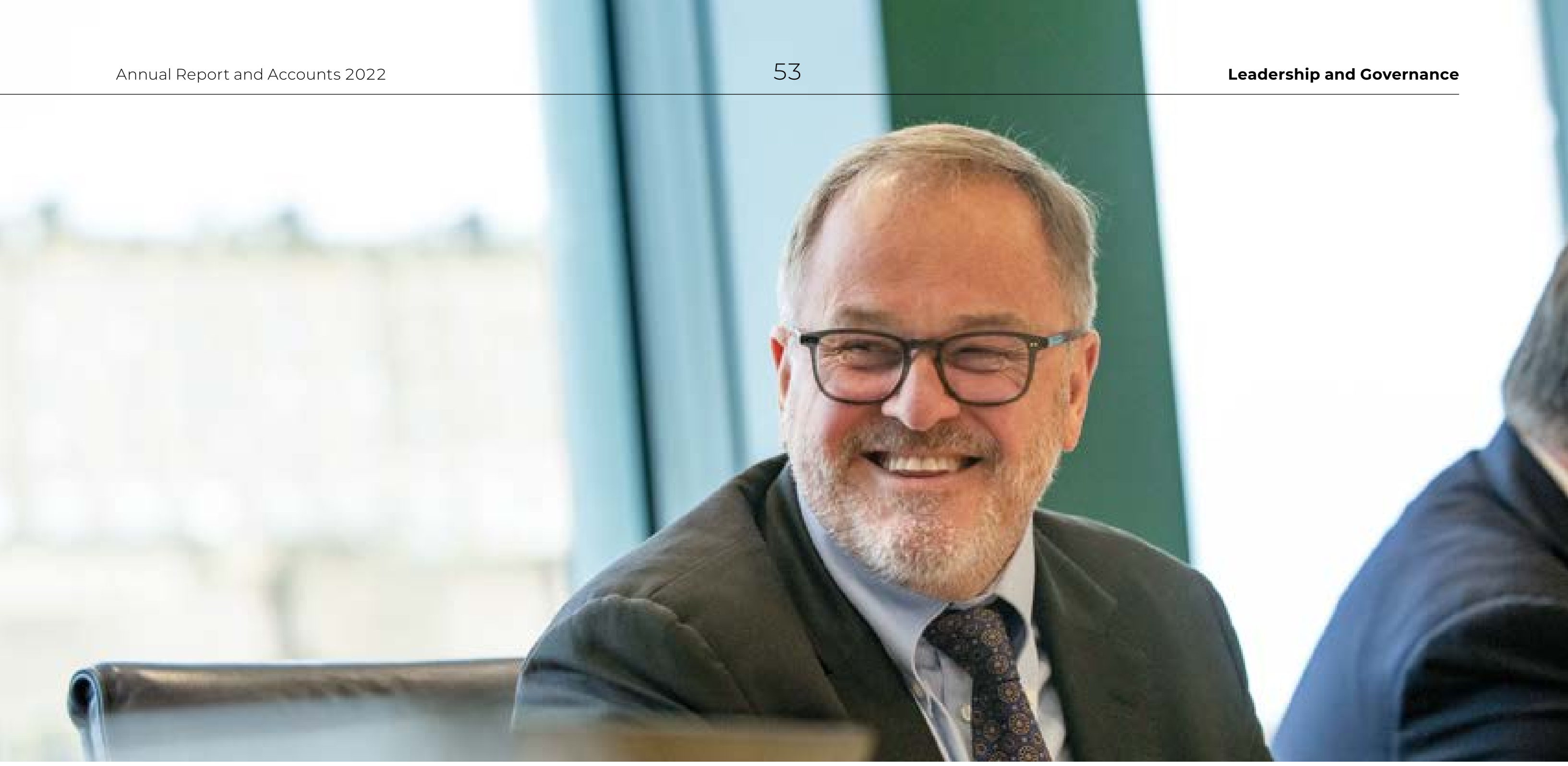
We have the right values, principles and policies in place to deliver this, and we make sure our people understand and uphold them. Our comprehensive systems and standards reinforce our culture, while externally, we support agreements and frameworks that promote responsible working practices and the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

Code of Ethics

Our Code of Ethics describes how we do business and outlines our core values, High Performing Behaviours and Business Principles. It sets out our position on environmental and social themes, and provides guidance on issues including conflicts of interest, bribery and corruption, political contributions, tax principles and anti-competitive behaviour. Our Code of Ethics applies to everyone who carries out work for or on behalf of, or provides services to, Capricorn. Employees are encouraged to report any non-compliance with the Code, or other concerns surrounding ethical issues, by speaking directly to their line manager, using a confidential phone line or contacting the whistleblowing charity, Protect. Where appropriate, independent investigations are conducted.

Anti-Bribery and Corruption (ABC) practices

Maintaining transparent relationships, free from bribery, fraud and corruption, with governments, authorities, contractors and suppliers is a high priority for us. Our zero-tolerance position helps us to maintain our strong culture of ethics and compliance, and protects the Group's reputation. All entries into new jurisdictions require an ABC risk assessment to highlight exposure to potential risks and ensure the necessary level of due diligence. New venture and business development activity spans a range of locations with varying risk profiles, so it is critical to identify the level of risk in locations where corruption could impact our operations and our reputation. Through the Capricorn Academy, we provide annual staff training on bribery and corruption. Bespoke sessions to staff in higher risk roles were delivered during the year. The Management Team and the Board continue to receive ABC training.



Transparency and reporting

As a listed public company, we report annually in line with UK regulations. In 2022, we responded to all queries associated with our Annual Report and Accounts, and to information requests from stakeholders including investor analysts and shareholder representatives. The Company continued to apply the executive remuneration policy that was strongly supported at the 2020 AGM and at the Company's AGM in May 2022, the Directors' Remuneration Report received 95% of votes in favour of it, following a lower approval vote of 65.13% in 2021. More details of that policy can be found in our Directors' Remuneration Report, pages 79 to 87. Following the UK corporate governance framework, we will be seeking shareholder approval for the remuneration policy at the 2023 AGM, being three years since its last approval, which will be operated for the rest of 2023.

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

Climate change and energy transition are considered principal risks to our business. We continue to consider the specific challenges, risks and opportunities they represent to improve our understanding and response. We have revised and improved our Climate and Energy Transition roadmap and set a clear target.

Payments to governments

We are committed to financial transparency and compliance in the jurisdictions where we work, many of which are complex and uncertain from a legislative perspective. As in previous years, our 2022 disclosures included the payments to governments detailed in our Extractive Industries Transparency Initiative (EITI) reporting. We also report additional payments, including VAT, payroll taxes and social security costs.

Public policy and lobbying

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

Economics and funding

Expanding and diversifying our production base is a strategic imperative. It helps us to add value, fund our exploration and development activity, and generate returns for shareholders. We actively manage our portfolio of assets and work with our JV partners to allocate capital and financial resources efficiently.

Creating and distributing value

In 2022, our portfolio continued to move towards production following a strategic change in 2021. A focus on two potential mergers in 2022 meant no further divestments were made during the year. The sale of assets allows us to distribute value to our shareholders and makes funds available for strategic investments such as the 2021 investment in Egypt. 2022 saw our first full year of operations, and the investment used funds from the sale of our Senegal operations at the end of 2020. Egypt's onshore operations had lower production costs and strong production and development growth opportunities, while providing the opportunity for us to reduce our GHG emissions.

Although no divestments occurred during the year, the new Board elected in early 2023 will continue to make strategic and timely decisions on the sales of our assets if financially prudent; returning dividends to shareholders and providing further opportunity to invest in low-cost, sustainable production assets.

Corporate Governance Statement

Craig van der Laan
Chair

Dear Shareholder

The past few months have seen significant change in the organisation from a corporate governance perspective. Following the proposed combination with NewMed Energy Limited Partnership in late September 2022 (and preceding recommendation to shareholders in June 2022 to approve an all-share merger with Tullow Oil Plc), a shareholder notice to requisition a general meeting at which resolutions would be proposed to make changes to the Board, led to the appointment of six new Directors, including my appointment. Seven members of the Board in place during 2022 resigned from the Board in advance of the new Director appointments on 1 February 2023.

This Board, in place from 1 February 2023, believes that having strong corporate governance practices in place is a vital enabler for Capricorn and its Board to navigate its stated strategic review and the ongoing growth of the Company efficiently and appropriately. This belief, combined with the commitment of the Board to ensure that decisions are made responsibly and with consideration of the Company's many stakeholders, are values that each of the Directors are committed to demonstrating both within and outside of the organisation.

As has been the case for many years, key to the Company's successful future, is its people (see pages 25 to 27). The organisation faced considerable change during 2022, with long periods of uncertainty during that time. It is a testament to the people and the culture within Capricorn that individuals, teams and the business as a whole continued to promote the responsible, supportive and dedicated culture of the business. The Board works with integrity and in an honest and open environment and I have seen this, firsthand, reflected throughout the organisation.

As we continue to move through the energy transition, the formation of the Sustainability Committee of the Board in March 2022 has supported the Company's work in this area, demonstrating its commitment to environment-, social- and governance-related matters. More information on the work and membership of this committee can be found on pages 110 and 111.

Both 2022 and to date in 2023 have seen significant engagement with stakeholders, both internally to the organisation and in the wider, external environment. The strategic announcements made during the year were the main focus of those engagements with employees and contractors. The Executive Directors and other Board members in place during the year engaged frequently with shareholders and interested parties as the proposed transactions proceeded. The Company's approach to stakeholder engagement during the year is set out on pages 40 and 41, which also includes a statement from our Directors in accordance with Section 172 of the Companies Act 2006. Some of the key issues, including the proposed transactions announced, that were engaged on during the year, are noted there.

Details on our strategy and key performance indicators can be found on pages 16 to 20. The Board regularly reviews and develops its framework of effective and prudent controls, which enables risks and opportunities to the execution of the strategy to be identified and addressed. The risk management section of this Annual Report is on pages 33 to 39 and the internal control statement on pages 63 to 65 further describes these processes and controls.

During 2022, succession planning continued to be an important matter for the Board. The Nomination & Governance Committee and full Board frequently considered the required competencies and skills at Board, executive and senior management levels, taking into account matters such as term in office, diversity and strategic goals. The Board considered this an area of particular importance given the corporate changes proposed during the year and the movements at Board and senior management levels that were announced alongside those changes. Change will continue for the organisation in 2023 as we progress the announced headcount reduction. Further information on our succession planning work can be found in the Nomination & Governance Committee Report on pages 72 and 73.

Given the challenges and uncertainties being faced as a result of the proposed corporate transactions during 2022, employee engagement remained a key focus of the Company and of the Board. The Employee Voice Forum (EVF), which is our formal workforce advisory panel, established in 2019 in line with the Financial Reporting Council's UK Corporate Governance Code, continued during 2022 under the chairmanship of Peter Kallos, then Senior Independent Director. Following his appointment on 1 February 2023, Richard Herbert assumed the role of chair of the EVF. The EVF currently comprises four employees from a range of functions and regions, and has a rotating membership. Members gather questions and areas of consideration from employees in their allocated departments and bring these to the forum for discussion. These issues of importance to employees are then discussed with the Board, allowing Board members to gain a greater understanding and feel for the Company's culture and to identify any areas that may be impacting it or which are enhancing it. Appropriate consideration of matters raised to the Board through the forum can then be made in the context of the Board's decision-making. The EVF's scheduled meetings were in May and September 2022. An additional meeting was added to the schedule in Q1 2023, following the appointment of the current Board in February 2023, to introduce Richard as chair to the employee members and to allow questions to be raised with him. Given the period of change that the organisation is experiencing, further meetings of the EVF are proposed to be added to those already scheduled for 2023.

In advance of the EVF meetings, the employee members of the forum hold a pre-meeting, without the Chair present, to identify agenda items and topics for consideration by the EVF. Following a number of years during which the COVID-19 pandemic required that the meetings be held using video-conferencing, the meetings in 2022 were held in person. In the event that a member was based in another region to the location of the meeting, or was unable to be present at the meeting in person, video-conferencing technology was once again utilised to ensure full participation by members or their alternates. The results of employee engagement surveys (see page 26) are shared with the Board and summarised results of those surveys are provided to employee members of the EVF to allow them to further consider topics for prioritised discussion in the forum. Engagement levels were impacted by the proposed transactions announced during the year, and the employee voice forum assisted the Directors in understanding the variety of reasons for this and allowed them to discuss at Board level what steps could be taken to help address these matters, which included, for example, more frequent 'townhall' meetings with all staff to ensure they were kept updated appropriately on progress being made.

Compliance with the UK Corporate Governance Code
As a company incorporated in the United Kingdom with a Premium Listing on the London Stock Exchange, Capricorn is required to report against the UK Corporate Governance Code. This statement reports compliance with the version published in July 2018. Capricorn is fully committed to achieving compliance with the principles and provisions set out in the Code and the Board is responsible for ensuring that an appropriate framework is in place to do so.

The information in this statement (together with the Strategic Report, Audit Committee Report, Nomination & Governance Committee Report, Sustainability Committee Report, Directors' Remuneration Report, and Directors' Report) describes the manner in which the Company has applied the main principles of governance set out in the Code and complied with the individual Code provisions. As explained in the 2020 Annual Report and Accounts, the pension contribution rates for Executive Directors and staff would be aligned at 12.5% with effect from 1 January 2023. Save for this element of non-compliance during 2022 (which has now been remedied), it is the Board's view that the Company has complied with the 2018 version of the Code throughout 2022.

Period of non-compliance
On 24 January 2023, Capricorn announced that the Board, having continued to engage with its shareholders ahead of a 1 February 2023 general meeting to approve the proposed combination with NewMed Energy, had understood the concerns that had been raised in relation to the alignment of the general meeting to approve the merger with NewMed (the "GM") and the general meeting requisitioned by a shareholder to remove seven of the nine then Board members and appoint six new Directors (the "Requisitioned GM"), both then scheduled for 1 February 2023. The Board announced that it intended to adjourn the GM to 22 February. Alongside this, Nicoletta Giadrossi (Chair), Simon Thomson (CEO), Peter Kallos (SID), Alison Wood (independent Non-Executive Director) and Luis Araujo (independent Non-Executive Director) announced they would be stepping down from the Board with immediate effect, with Keith Lough (independent Non-Executive Director and Chair of Audit Committee) and James Smith (CFO) remaining in place until the Requisitioned GM. Catherine Krajicek and Erik B. Daugbjerg would also remain on the Board and continue post the Requisitioned GM, with the aim of ensuring an orderly transition and an appropriate continuation of governance.

It was agreed by the Board that James and Keith's retention was key to ensure the ongoing good governance of the Company and allow for an effective handover of key processes including the annual reporting/audit to the new Directors following the Requisitioned GM. No other changes were made to the reporting or corporate governance structure of the Company. In the interim, work was undertaken to support the onboarding of the new Directors and to ensure that the Company would remain fully able to comply with its ongoing obligations as a Premium Listed issuer and to ensure that at all times a Board that had the information it needed to maintain orderly management and oversight of the Company.

Whilst the Company remained in compliance with the vast majority of the principles of the UK Corporate Governance Code (the "Code") during the period of its reduced membership ahead of the Requisitioned GM, there were some in respect of which it temporarily did not, most notably provisions 15, 25 and 32 of the Code, all of which related to the minimum membership of Board committees and/or the appointment of specific Board roles. Given the short and defined duration of this non-compliance (~ seven days), and the lack of any clearly required responsibilities for these committees/Board roles in that transitory period, the non-compliance did not have an impact on the standard of the Company's ongoing corporate governance. For example, there were no Directors' Remuneration Committee meetings scheduled for the interim period, nor did the Company expect there to be a significant risk that any meeting would need to be convened in the period prior to the Requisitioned GM.

Following the appointment of six new Directors to the Board and the appointment of reconstituted Board committees, those provisions of the Code were once again fully complied with.

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

The Board
It is important that the Capricorn Board has the required skills, experience and expertise to allow it to operate effectively and efficiently across a number of geographies and disciplines given the international nature of its business. The Board has, following the change in its membership in February 2023, considered the competencies of its Directors, which includes industry experience in addition to financial, regulatory, risk-management and sustainability experience, to ensure that it is fit-for-purpose in pursuing the strategy of the Company. The Board will continually review these competencies to ensure they are appropriate for the Company's requirements, taking into account the strategy of the organisation and the environment in which it operates. Board appointments, for both executive and non-executive positions, consider an individual's objectivity and integrity along with the abilities, skills, experience and diversity that they can bring to the Board. This process is applied below Board level in senior management and other appointments and such matters are taken into account when considering succession plans.

Independent and objective challenge from non-executive directors is encouraged at Capricorn and changes to the Board membership can support this. It is important that new perspectives are complemented with experience in the Company to provide continuity for the business and its stakeholders.

Corporate Governance Statement continued

Board changes

During the year, Luis Araujo joined the Capricorn Board as a Non-Executive Director with effect from 11 May 2022. Luis had many years' experience gained from working in Brazil and other countries, and brought his emerging market insights to matters considered by the Board during the year; his experience with energy transition issues was valuable, notably in his role on the Sustainability Committee. As noted, Luis stood down from the Board in late January 2023. For further detail, please see the Nomination & Governance Committee Report, set out on page 73.

The Board currently comprises one Executive Director and seven Non-Executive Directors, including the Chair. The Directors of the Company as at the date of this statement are set out in the table below and further biographical information about our Directors is also included in the Board of Directors section on pages 50 and 51.

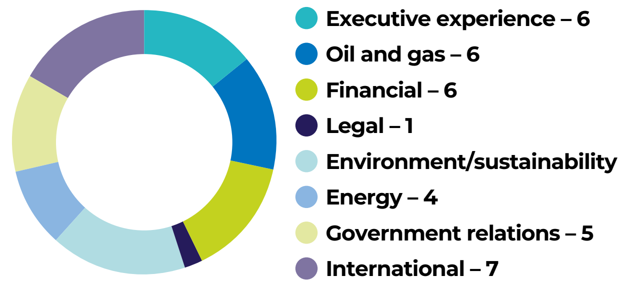
Name	Role	Date of appointment (in current role)	Date of last re-election
Chris Cox	Interim Chief Executive	February 2023	–
Craig van der Laan	Non-Executive Chair	February 2023	–
Catherine Krajicek	Non-Executive Director	July 2019	May 2022
Erik B. Daugbjerg	Non-Executive Director	May 2020	May 2022
Maria Gordon	Non-Executive Director	February 2023	–
Richard Herbert	Non-Executive Director	February 2023	–
Hesham Mekawi	Non-Executive Director	February 2023	–
Tom Pitts	Non-Executive Director	February 2023	–

Diversity is a fundamental tenet of the Capricorn Board. This extends beyond gender to culture, experience, nationality, cognitive diversity and heritage. From 2019 to February 2023, there were three women on the Board, and, following Nicoletta's appointment to Chair on 1 January 2021, a women occupied a senior Board position. Following the change of the Board composition on 1 February 2023, we currently have two female Directors and a female, Clare Mawdsley, occupies the role of acting Chief Financial Officer. The Board demonstrates diversity in a broader sense in terms of UK and international experience. During 2022, the Board deepened this diversity following Luis' appointment in May of that year. Luis, with South American heritage and citizenship in Brazil, Portugal and the United Kingdom, joined Erik B. Daugbjerg and Catherine Krajicek (both from the USA) and Nicoletta Giadrossi, from Italy, as members of the Board from outside of the UK. Since February 2023, in addition to continuing members Erik and Catherine from the USA, I join the Board with Australian nationality, Hesham Mekawi is from Egypt, Tom Pitts from Canada, Maria Gordon has both British and Russian nationality and Richard Herbert and Chris Cox are from the UK. Following these Board changes, we remain compliant with the targets of the 2017 Parker Review.

Further information on the diversity within the Capricorn Board, including in terms of its wide range of experience and expertise across the industry, governance, technical and commercial arenas, is included in the Nomination & Governance Committee Report on page 74 and in the Strategic Report section of this Annual Report.

As announced on 11 April 2023, Erik B. Daugbjerg and Catherine Krajicek will not seek re-election at the AGM this year. We recognise that the Board composition following, in particular, Catherine's departure, falls short of our ambitions for a diverse membership and that of the FRC as announced in April 2022. We will be seeking to add to the Board as soon as possible, focusing on the appointment of diverse candidates to address the imbalance. An update on progress will be provided at the AGM in June.

Current Board Competencies



Division of responsibilities between the Chair and the Chief Executive

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

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

Senior Independent Director

During 2022, Peter Kallos was the Company's Senior Independent Non-Executive Director. Since his appointment on 1 February 2023, Richard Herbert has assumed the role of Senior Independent Director. The main responsibilities of this role are as follows:

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

Board performance evaluation

The annual performance evaluation process is considered by the Board as an opportunity to improve its effectiveness and to enhance its processes and procedures where appropriate. As reported in the Company's Annual Report and Accounts 2021, the performance evaluation process in 2021 was externally facilitated by Gould Consulting, in line with the Code recommendation that this evaluation be conducted by an external party at least every three years. Previously externally facilitated evaluations took place in 2018, 2015 and 2012, with evaluations conducted internally in the intervening years.

The main action points arising from the 2021 externally facilitated performance evaluation process, and the progress made against these during 2022 are set out in the table below.

Key action points (disclosed in last year's Corporate Governance Statement)	Implementation
Increase Chair-led engagement with Non-Executive Directors individually between meetings	Prior to each Board meeting, the Chair conducted informal dialogue with each Non-Executive Director to aid discussion at the relevant upcoming meetings and to discuss key agenda items in advance. In addition, the Senior Independent Director and Chair increased the frequency of their out-of-round discussions. In addition to the conversations held between the Chair and each Director in advance of Board meetings, there were a significant number of discussions held with Board members throughout the year to update and discuss with Non-Executive Directors the progress being made on the announced proposed corporate transactions.
Ensure a smooth transition between the first and second days of Board meetings	The Non-Executive Directors have time allocated in the Board meeting schedule, without executives or management present, at the end of day one to discuss matters raised and to determine if further discussion is required and a summary of discussions held is provided by the Chair at the start of the second day of each Board meeting.
Restructure of management presentations	Whilst continuing the advanced distribution of the management presentation to Board members, the management presentation itself has been further focused on the key issues for consideration by the Board, allowing more time for discussion amongst Board members and senior management, where relevant, on these key issues.
Refresh the Board strategy day	Discussions were held amongst the Board in advance of the strategy focused Board meeting to determine the key issues to be discussed and what internal and external input and range of speakers would benefit the strategy discussion.
Board Committee Papers for wider distribution	In addition to the ongoing process of providing reports to the Board from each committee chair and the distribution of committee minutes to all Board members, all Board committee papers are now sent to all members of the Board.

As previously noted, the 2021 performance evaluation was externally facilitated by Gould Consulting. That was the first evaluation of Capricorn's Board performance that Gould Consulting had undertaken and they had no other connection to the Board or to the Company.

It was agreed at the meeting of the Board in September 2022, that the Board performance evaluation for the year would be undertaken internally. The Company Secretary prepared a questionnaire to assist this process, which was reviewed and approved by the Chair and Senior Independent Director. Each Director was asked to complete the questionnaire and provide the responses to the Chair, save in respect of questions relating to the performance of the Chair, responses to which were submitted to the Senior Independent Director. A questionnaire was also sent to several members of senior management who have regular interaction with the Board. The responses to that questionnaire were submitted to the Company Secretary who then compiled the responses and, following anonymisation, sent a summary to the Chair to assist in the evaluation process. Each of the questionnaires sought views on the performance of the Board in relation to the corporate transaction activity that took place during 2022.

Following receipt of the questionnaires, meetings were held with the Chair and each of the Non-Executive Directors to discuss the questionnaire responses. The Senior Independent Director then met with the Directors, excluding the Chair, to discuss the responses to the chair performance questionnaire. The outcome and findings from the 2022 Board performance evaluation were then discussed in detail at the December 2022 meeting of the Board.

The main action points resulting from the 2022 Board performance evaluation are set out below.

Key action points	Implementation
Communication with staff	During times of strategic change, ensure more regular communication from Board members in addition to those communications already given by the Executives on a regular basis.
Management presentation structure	It was noted that the attendance at the management presentation from staff was beneficial for succession planning and business awareness purposes, and this would be developed with further streamlining of topics discussed to allow deeper discussion with relevant employees and amongst the Board, with Board feedback provided after meetings.

Corporate Governance Statement continued

Given the changes that took place to the membership of the Board on 1 February 2023, the Board intends to regularly review the format and planning of Board meetings to refine the proceedings, if required, throughout the year. The annual performance review that will take place in Q4 2023 will be a valuable tool to assist this process and Board performance into 2024.

Having undertaken the Board performance evaluation process in 2022, the Board and Board committees were satisfied that they were operating effectively and that each Director had performed in respect of their individual role on the Board and its committees.

The reconstituted Board believes that all of the Directors now in place are effective and that each demonstrates commitment to their role.

The performance of the Executive Directors is further reviewed by the Remuneration Committee against the Group KPIs which are set annually (further details of the KPIs and how achievement has been measured against them can be found on pages 16 to 20). The 2022 bonuses payable to the Executive Directors under the Company's discretionary cash bonus scheme (described in further detail in the Directors' Remuneration Report on pages 76 to 109) are linked directly to the Group's performance against these KPIs. The KPIs set out the Company's strategic objectives, ensuring that executive performance is directly linked to Group strategy.

In respect of the position of the interim Chief Executive, given the term of the appointment, shorter-term performance targets were put in place and the performance of the interim Chief Executive will be reviewed by the Remuneration Committee against these as appropriate, with disclosure made in the 2023 Annual Report and Accounts. For more information, see page 107 of the Directors' Remuneration Report.

Independence of Non-Executive Directors

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

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

Six of the eight Directors of the Board were nominated by a shareholder of the Company to be appointed as Directors from 1 February 2023. These Directors are independent in their appointment and have no relationship, other than by being nominated, with the nominating shareholder.

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

Time commitment of Non-Executive Directors

The Board recognises its responsibility under the Code to take into account other demands on each Director's time, with a view to ensuring that its Directors (particularly those Non-Executive Directors who sit on other public company boards) have sufficient time to devote to their role on the Capricorn Board. Prior to appointment, each individual's other significant commitments are disclosed and there is also a policy in place to ensure that additional external appointments are not undertaken without prior consultation. The other directorships held by each Non-Executive Director (where applicable) are disclosed in the Board of Directors section on pages 50 and 51.

None of our Non-Executive Directors sits on more than four public company boards (including Capricorn) and those who do sit on other public company boards have taken appropriate steps to ensure that they have sufficient time to devote to their role on the Capricorn Board.

Re-election of Directors

In accordance with the Code, each of the Company's Directors are subject to annual re-election by shareholders. As such, each of the current Directors, save for Erik B. Daugbjerg and Catherine Krajicek, who, as announced on 11 April 2023, will not be standing for re-election at this year's AGM, will seek re-election at the AGM to be held on 20 June 2023.

Induction and development

New Directors, including Luis Araujo following his appointment in May 2022 and each of Craig van der Laan, Richard Herbert, Maria Gordon, Hesham Mekawi, Tom Pitts and Chris Cox, following their appointment on 1 February 2023, received a full and appropriate induction on joining the Board. This involves a tailored programme of meetings with other Board members, senior management and the Company Secretary.

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

Board	Board papers and minutes of previous meetings; schedule of matters reserved to the Board; list of Board and committee members and dates of appointment; and schedule of dates for Board and committee meetings.
Committees	Terms of reference for all Board committees.
Risk	Terms of reference for Risk Management Committee and minutes of last meeting; current Group Risk Matrix and Risk Appetite Statement; FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.
Key policies	Capricorn Operating Standards, Group Corporate Responsibility Guiding Principles; Group Code of Ethics; Anti-Bribery-and-Corruption (ABC) Management System; Dealing Code; Insider Lists Process; Procedures, Systems and Controls for Compliance with the Market Abuse Regulation, the Listing Rules and the Disclosure Guidance and Transparency Rules.
Organisation	Organisational Structure, Group Structure Chart; latest Annual Report and Accounts.
Governance	UK Corporate Governance Code; supporting FRC Guidance on: Board Effectiveness; Audit Committees and audit tenders; and Risk Management Internal Controls and Related Financial Business.

Legal/regulatory	Memorandum on continuing obligations of directors of premium listed companies; ICSA Guidance on Directors' General Duties; ICSA Guidance on Liability of Non-Executive Directors; Section 172 and Stakeholder Considerations.
Insurance	Full details of Directors' and Officers' liability cover.

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

The Company provides, on an ongoing basis, the necessary resources for developing and updating its existing Directors' knowledge and capabilities. In particular, the Company is committed to the provision of continuing professional development training for its directors. In 2022, the Company continued with its practice of providing a Directors' education programme consisting of a number of seminars for Board members, which are presented by the Company's external advisers, guest speakers or members of senior management, on subjects appropriate to the Company's business, including changes to legislation, regulation and market practice. During 2022, the subjects covered by these seminars included:

- Drilling on the UK Continental Shelf – presented by the Company's Drilling & Operations Manager and Risk & Compliance Manager;
- UK Takeover Code Obligations – presented by Company advisers;
- A presentation and discussion on updates in the governance environment – presented by the Company Secretary; and
- Biodiversity and its upcoming regulation – presented by the Company's Senior HSE Advisor and Energy Transition Director.

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

Information and support

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

The Company Secretary is responsible for advising the Board, through the Chair, on all UK Corporate Governance Code and related matters, and each Director has access to the advice and services of the Company Secretary.

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

Conflicts of interest

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

Whistleblowing

The Group has a robust Whistleblowing Policy in place through which the workforce can raise any matters of concern – further information on the Group's Whistleblowing Policy is included in the Audit Committee Report on pages 70 and 71.

Matters reserved to the Board and delegation of authority

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

By way of example, some of the matters which the Board considered and/or approved during 2022 and 2023 to date were:

Corporate	Board/Directors
The Company's 2021 and 2022 Annual Report and Accounts and 2022 Half-Yearly Report	Appointment of new Non-Executive Directors
The Company's 2022 AGM circular	Creation of the Sustainability Committee
The Company's Risk Appetite Statement	Expansion of the Nomination & Governance Committee to include wider governance considerations
Review of the Company's Corporate Responsibility Management System	Detailed review of talent management and of succession contingency planning

Financial/Operational	Legal/Regulatory
Approval to recommend the all-share merger with Tullow Oil plc and thereafter to withdraw that recommendation and recommend to shareholders to approve a combination with NewMed Energy. In February 2023, the reconstituted Board recommended to shareholders to vote against the NewMed transaction, which resulted in the mutual agreement with NewMed to terminate the relevant business combination agreement.	Oversight of the resolution of the Indian tax issue and subsequent return of value of US$500m to shareholders by way of tender offer
The appropriateness of the Group going concern sign-off for the 2021 and 2022 full year accounts and 2022 half-year Financial Statements	Approval of the Company's Modern Slavery Statement and its publication on the Company's website
The Company's viability statement included in the 2021 and 2022 Annual Report and Accounts	Approval of the Group Tax Strategy and its publication on the Company's website
The Company's annual work programme and budget	

Corporate Governance Statement continued

Financial/Operational	Legal/Regulatory
Group Reserves and Resources	
The acquisition of production and exploration assets in Egypt	
The recommendation to shareholders to approve the cancellation of the share premium account of the Company	

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

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

During 2022, the senior management structure beneath Board level comprised an Executive Committee (ExCo) and Management Team (MT), each which played a key role in supporting the Board.

Board and management committee structure during 2022

* Further information on our Board committees is contained later in this statement on pages 61 to 63 and in the separate Audit Committee Report, Nomination & Governance Committee Report and Directors' Remuneration Report.

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

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

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

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

A number of members of the MT are also members of the RMC, which identifies and reviews key business risks – further information on the role of the RMC is contained in the internal control section of this statement on page 65.

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

Board meetings

During 2022, a total of 11 scheduled meetings of the Board were held. Five of these meetings were conducted over two consecutive days following the usual format for Board meetings, described below, with another six shorter meetings held to update the Board and/or to approve specific matters during 2022. In addition to these formal meetings, there were a large number of Board calls that took place to discuss, primarily, matters relating to the proposed transactions. As part of the strategic discussions taking place during the year, an M&A Committee of the Board, comprising independent Non-Executive Directors was formed to discuss progress and met regularly with the Executive Directors, senior management and advisors with weekly updates as appropriate sent to the full Board.

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

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

Details of attendance at each of the Board meetings during 2022, and at meetings of each of the Board committees, are set out below. The Company has very successfully used its technological communication platforms to ensure that Directors who are unable to attend any meeting in person are still able to attend all scheduled Board and committee meetings and were also able to do so 'on camera'.

The annual timetable for Board and committee meetings is discussed early to allow the Directors to plan their time accordingly. This process ensures that the Chair can be comfortable that each Director is able to devote sufficient time and resources to their role on the Board and, where relevant, its committees.

The formal agenda for each scheduled Board meeting is set by the Chair in consultation with the Chief Executive and the Company Secretary. The system for establishing agenda items means that the Chair, the Board and each of the Board committees have the confidence that all required items are included on their agenda at the most appropriate time of the year and that there is sufficient time allocated for discussion, allowing the Directors to discharge their duties effectively.

Formal minutes of all Board and committee meetings are circulated to all Directors prior to the subsequent Board meeting and are considered for approval at that Board meeting. In addition, the members of the Board are in frequent contact between meetings. There is also a procedure in place to allow Board meetings to be convened at short notice where required to deal with specific matters which need to be considered between scheduled Board meetings. This process was utilised when matters surrounding the transaction proposals in 2022/early 2023 required discussion and decision in short order.

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

Directors' attendance at 2022 Board and Committee meetings

The table below sets out the attendance record of each Director at scheduled Board and Board committee meetings during 2022.

Board	Board	Audit Committee	Remuneration Committee	Nomination & Governance Committee	Sustainability Committee
Meetings held during 2022[1]	11	4	4	4	2
	Meetings Attended	Meetings Attended	Meetings Attended	Meetings Attended	Meetings Attended
Executive Directors					
Simon Thomson (Chief Executive)	11	n/a[3]	n/a[3]	4	2
James Smith (Chief Financial Officer)	11	n/a[4]	n/a	n/a	2
Non-Executive Directors					
Nicoletta Giadrossi (Chair)	11	n/a	4	4	2
Peter Kallos (Senior Independent Director)	11	n/a	4	4	2
Keith Lough	11[2]	4	n/a	4	2
Alison Wood	11	4	4	n/a	2
Catherine Krajicek	11	4	n/a	2[5]	2
Erik B. Daugbjerg	11	n/a	4	n/a	2
Luis Araujo	8[6]	n/a	n/a	n/a	2

Notes:

n/a not applicable (where a Director is not a member of the committee).

1 During 2022, certain Directors who were not committee members attended meetings of the Audit Committee, Remuneration Committee and Nomination & Governance Committee by invitation. These details have not been included in the table.

2 Keith Lough was unable to attend the second day of one of the two-day Board meetings due to illness.

3 Simon Thomson is not a member of the Remuneration Committee but attends its meetings by invitation (other than parts of meetings where he would be conflicted). Mr Thomson also attends Audit Committee meetings by invitation.

4 James Smith is not a member of the Audit Committee but attends its meetings by invitation.

5 Catherine Krajicek attended both meetings of the Nomination & Governance Committee that were held following her appointment to the committee in March 2022.

6 Luis Araujo attended all meetings of the Board from his appointment in May 2022.

Corporate Governance Statement continued

Board committees
Board committee structure during 2022

Each of the Board committees is provided with all necessary resources to enable them to undertake their duties in an effective manner and has formal terms of reference approved by the Board. Copies of the terms of reference, which were reviewed and updated in line with the 2018 version of the Code and approved by the Board in March 2022, are available on the Company's website. The Company Secretary acts as secretary to the Board committees. The minutes of all committee meetings are circulated to all Directors.

In line with best practice, more detailed reports from the Audit, Nomination & Governance and Sustainability Committees are presented as separate reports (on pages 66 to 111) rather than including these in the Corporate Governance Statement. In addition, full details of the Company's remuneration policy are given in the separate Directors' Remuneration Report on pages 76 to 109. Summary details of the composition of each committee and meetings held during 2022 are set out below.

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

The Audit Committee met four times during 2022 and comprised three independent Non-Executive Directors. In line with Code requirements and following her appointment as Chair of the Company, Nicoletta Giadrossi retired as a member of the committee with effect from 31 December 2020 and Catherine Krajicek was appointed a member of the committee with effect from 1 January 2021. The Chair of the Board is not a member of the committee but attends its meetings by invitation. Further information on the role, responsibilities and work of the Audit Committee is included in the Audit Committee Report on pages 66 to 71.

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

The Remuneration Committee met four times during 2022 and, with effect from 1 January 2021, comprised four independent Non-Executive Directors. In line with Code requirements and following her appointment as Chair of the Company, Nicoletta Giadrossi retired as Chair of the committee but remained a member of the committee. With effect from 1 January 2021, Alison Wood was appointed Chair of the committee and Erik B. Daugbjerg was appointed a member of the committee. The Chief Executive was not a member of the committee but attended its meetings by invitation. The committee's remuneration advisers during 2022 are also invited to attend the committee's meetings as required.

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

Further information on the role, responsibilities and work of the Remuneration Committee is included in the Directors' Remuneration Report on pages 76 to 109.

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

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

From 3 March 2022, the Nomination & Governance Committee expanded its remit to include corporate governance in a broader sense. Whilst corporate governance is a key consideration at all times for the Board, including corporate governance within the committee's responsibilities demonstrates the commitment of Capricorn to good governance.

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

Further information on the role, responsibilities and work of the Nomination & Governance Committee is included in the separate Nomination & Governance Committee Report on pages 72 to 74.

Changes to Board Committee structure during the year

Sustainability Committee
In addition to the expansion of the Nomination & Governance Committee's remit to include broader corporate governance matters, with effect from 3 March 2022, a new committee, the Sustainability Committee, was established. The Sustainability Committee met two times in 2022. Matters relating to the environment, safety, social responsibility and sustainability are considered within every Board decision and, therefore, are a key element of each Board meeting, but establishing a committee dedicated to these matters further embeds the importance within the Board and wider organisation. The energy transition and Capricorn's role in it is of particular importance to the Board and the formation of this new Committee, the membership of which during 2022 comprised the full Board, allows it further dedicated time. The terms of reference of this committee include:
- advising and supporting the Board in the drafting of the sustainability and net zero roadmap and assessing its progress and reviewing disclosures being made regarding the roadmap;
- reviewing the policies, practices and performance relating to sustainability and the disclosures and annual reporting on sustainability;

- reviewing the policies, practices and performance relating to safety, including in particular regarding the safe and responsible performance of the Group's operations;
- reviewing the policies, practices and performance relating to social responsibility; and
- reviewing the policies, practices and performance relating to environmental matters including, in particular, protection of the environment and disclosure of Greenhouse Gas emissions.

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

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

A list of the Company's major shareholders can be found in the Directors' Report on page 114. The Company recognises that the success of the comply-or-explain approach under the Code depends on an ongoing and open dialogue with shareholders, and remains committed to engaging with shareholders, as well as governance and proxy voting agencies, on any matter which they wish to discuss in relation to the Company's governance.

The Company has a rolling programme of investor roadshows to ensure that senior management are regularly engaging with current and potential investors. During the last 18 months, certain Directors have also engaged directly (either through meetings or by telephone/written correspondence) with specific investors, investor groups, and proxy advisory agencies on a range of matters including progress against strategic objectives, diversity and remuneration. During 2022, engagement with investors was of notably high importance following the corporate transactions proposed and investor meetings were held either through virtual communications platforms or in person.

AGM details (2022 and 2023)	Overview
2022 AGM: the first AGM since the 2019 meeting to be held as an open meeting since restrictions were put in place due to COVID-19 in 2020, was held on 11 May 2022 at The Galley, Kimpton Charlotte Square Hotel, 38 Charlotte Square, Edinburgh	– Full Director attendance save for one Director who had taken ill the previous evening; – At least 54.52% of all issued shares voted by shareholders in each resolution – Highest votes in favour >97% for 13 resolutions and all votes passed with at least 93.65% in favour
2023 AGM: to be held on Tuesday, 20 June 2023 at The Galley, Kimpton Charlotte Square Hotel, 38 Charlotte Square, Edinburgh (full details in Notice of AGM)	– Full Director attendance expected other than one Director who is expected to be out of the country on the date of the meeting – 12 ordinary resolutions and five special resolutions being proposed to shareholders

The Board uses the AGM to communicate with private and institutional investors and has always welcomed their participation in annual general meetings. The Directors were pleased, therefore, that the 2022 meeting could be held in person following the lifting of COVID-19 related restrictions and that the 2023 meeting will also be held in person.

It is policy for all Directors to be present at the AGM, when possible, with the Chair of each of the Board committees also expected to attend and be prepared to answer shareholder questions on areas within their remit. Our employees based in Edinburgh are also invited to attend the AGM as the Directors recognise that this provides a valuable opportunity for workforce engagement with the Board.

As part of our commitment to transparency, we look to involve shareholders fully in the affairs of the Company and to give them the opportunity at the AGM to ask questions about the Company's performance and activities. Details of resolutions to be proposed at the AGM on 20 June 2023 and an explanation of each resolution can be found in the separate Notice of AGM Circular accompanying this Annual Report and Accounts.

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

At the AGM held on 11 May 2022, the remuneration report received over 95% of votes in favour, following a lower vote in favour (65.13%) to approve the remuneration report in 2021. Following shareholder engagement, the 2021 Annual Report looked to address matters raised by stakeholders such as: the need for a more comprehensive explanation of the alignment between Company performance and bonus outcomes; and more detailed disclosure of the KPIs used in the annual bonus scheme. The 2021 Annual Report addressed these concerns and included significantly increased levels of disclosure.

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

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

The Company has in place an Integrated Internal Control and Assurance Framework (the "Framework"), which plays a critical role in setting out how the Company manages and assures itself that the risks relating to the achievement of corporate vision, strategy and objectives are effectively controlled. The Framework is based on the Committee of Sponsoring Organisations (COSO) framework

Corporate Governance Statement continued

and its five key components, which is a commonly used and recognised international framework for considering internal control systems. The COSO framework seeks to help organisations develop systems of internal control which help facilitate the achievement of business objectives and improvements in Company performance. The COSO framework also supports organisations in adapting to increasingly complex business environments and managing risks to acceptable levels with the aim of safeguarding shareholders' interests and Company assets.

The Framework has been in place for the 2022 financial year and up to the date of approval of the Annual Report and Accounts. The Board, supported by the Audit Committee, has carried out a review of the effectiveness of the systems of internal control during 2022 and will ensure that a similar review is performed in 2023. In so doing, the Board and Audit Committee took into account the assurance provided by the year-end internal control report in respect of the effectiveness of the Group's system of internal control. The Board is accordingly satisfied that effective controls are in place and that risks have been mitigated to a tolerable level across the Group in 2022.

Particular attention has been placed by the Company's management on ensuring that an effective system of internal control has been maintained during the year in relation to the key risks in the Company's business activities. Enhancements have been made during 2022 to the following key controls, business processes and procedures:

- The Capricorn Board incorporates an annual workshop into one of its Board meetings to consider and address a key risk to the business. The theme for this year's session was 'ESG- What lies ahead for Capricorn?'. The objective of the workshop was to give the Board further insight into the ESG macro environment and the potential risks and opportunities for Capricorn. The workshop was facilitated by the Energy Transition Director and Risk & Compliance Manager;
- 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;
- Compliance certificates were completed by all staff members and contractors confirming compliance with the Group's Code of Ethics;
- Capricorn commenced a project in 2022 to improve the business management system used throughout the Company. The management system structure follows that as recommended by the International Association of Oil & Gas Producers (IOGP), of which Capricorn is a member. It will deliver a single system applicable across the whole Company that is simple to describe to stakeholders, including contractors, other operators, and governments and provide a platform to access all organisational documentation which is consistent, connected and without duplication;
- The Group's Business Resilience Plan and Cyber Incident Response Plan were both revised and updated in 2022;
- 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 regulations (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;
- IT continued to progress the plan to implement the NIST Cyber Security Framework. Several initiatives were completed in 2022 and the Group is on course to deliver the three-year plan;
- EY, the Group's internal auditor in 2022, delivered the annual internal audit plan which consisted of several risk areas identified from the risk register. Topics covered in 2022 included culture, values and internal communications and Egypt operations. The Group has been working through the year to implement the identified improvements; and
- To ensure awareness, understanding and compliance on important governance, regulatory and security topics, mandatory e-learning was 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. Bespoke training was also provided to the Egypt and Mexico offices on bribery and corruption.

The following describes the key elements of the Framework and the processes used by the Board during 2022 to review the effectiveness of the system and the approach to be taken in 2023.

1. Strategic direction

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

2. Operating management

The Company operates two regional units covering different countries and assets and with multiple partners on both an operated and non-operated basis. The assets within each region are the principal focus for our asset managers, who are tasked with delivering the strategic objectives for their particular region, with a combination of operational and technical teams as well as functional departments providing support to each of the assets. The implementation of the Capricorn Operating Standards supports this process, providing assurance, standards and consistency in the delivery of our strategic objectives.

In 2022, the Executive Directors continued to be supported by the ExCo as well as by the MT and ELT. There are also a number of functional department heads whose roles include providing expert input and challenge to the Company's work programmes, budgets and business plan; and supplying the Directors with full and accurate information with which to make statements on the adequacy of internal control.

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

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

3. Risk management

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

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

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

In 2022, risk management updates were presented at each Board meeting and as part of an annual process, the Board undertook a strategic risk workshop in December 2022.

The RMC, which meets on a quarterly basis, was chaired by the Chief Financial Officer in 2022 and comprised the Executive Directors and senior functional management. The internal auditor also attends RMC meetings, in order to ensure integration of the Group's internal audit plan with the risk management process. Regular MT risk sessions were also held during 2022 to manage and facilitate the assessment and treatment of business risks that may affect the Company's ability to deliver its strategy.

The RMC reports on the Company's risk profile to both the Audit Committee and the Board. Additionally, the Audit Committee and the Board receive internal reviews of the effectiveness of internal controls relative to the key risks. The conclusion of the Board following these reviews during 2022 is that the internal controls in respect of key risks are effective.

4. Assurance

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

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

During 2022, the Directors reviewed the effectiveness of the Company's system of financial and non-financial controls, including operational and compliance controls, risk management and high-level internal control arrangements through the completion of internal control self-assessment questionnaires. These questionnaires, which are tailored to each region or function, are designed to provide an internal assessment of the effectiveness of key controls for the Group's principal risks.

Additionally, assurance maps for principal risks are developed, which outline the key sources of assurance across the 'three lines of defence'. The 'three lines of defence model' is a method of assessing different sources of assurance the Group can rely on when analysing key risks and controls. Assurance is gained through the application of the business management system which directs the day-to-day running of the business (first line), the oversight functions within Capricorn which provide challenge to the risk and control environment (second line) and any third-party reviews the Group instructs to assess the status of a risk/control (third line). The assurance maps help identify potential areas of control weakness and/or ineffective use of assurance resources across the Group, which influenced the topics included in the 2022 Group internal audit plan.

The Directors derived assurance from the following internal and external controls during 2022:

- A schedule of matters specifically reserved for decision by the Board;
- Implementation of the Capricorn Operating Standards for key business activities;
- An appropriate organisational culture and structure;
- Control over non-operated joint venture activities through delegated representatives;
- Specific delegations of authority for all financial transactions and other key technical and commercial decisions;
- Segregation of duties where appropriate;
- Business and financial reporting, including KPIs;
- Functional management reviews;
- An annual 'letters of assurance' process, through which asset and functional managers review and confirm the adequacy of internal financial and non-financial controls and their compliance with Company policies, and report any control weaknesses identified in the past year and actions taken in respect of any weaknesses identified in the prior year;
- An annual internal audit plan, which is approved by the Audit Committee and Board and is driven by risks and key controls;
- Reports from the Audit Committee and RMC;
- Reports from the external auditor on matters identified during its statutory audit;
- Reports from audits by host governments and co-venturers;
- Independent third-party reviews; and
- The skills and experience of the workforce.

Craig van der Laan
Chair

27 April 2023

Audit Committee Report
Members and Meetings in 2022

Tom Pitts
Chair of the Audit Committee

"Following the 2023 Board changes, the new Audit Committee have engaged with key internal and external stakeholders to ensure a successful induction, strengthening governance where weaknesses were identified and revising the Group's approach to internal audit to better suit the organisation moving forward."

Dear Shareholder

Composition of the Audit Committee
Following the changes to the Capricorn Energy PLC Board, I was appointed Chair of the Audit Committee in February 2023. Serving alongside me are my fellow, newly appointed independent Non-Executive Directors, Maria Gordon and Richard Herbert and additionally Catherine Krajicek provided continuity having served on the Audit Committee under both the previous and current Board of Directors.

The members of the committee have been chosen to provide the wide range of financial and commercial experience needed to fulfil these duties. Maria, Richard and Catherine are considered by the Board to be independent.

Prior to my appointment, the Audit Committee was chaired by Keith Lough, with fellow Non-Executive Director Alison Wood serving alongside Catharine. Nicoletta Giadrossi also continued to attended meetings in her capacity as Chair of the Board of Capricorn Energy PLC but was not a member of the committee. Keith, Alison and Nicoletta resigned from the Board in 2023.

Summary of Audit Committee meetings during 2022 and subsequent to the year end
The previous Audit Committee met four times in 2022, with meetings arranged around the key external reporting dates. The first meeting in March 2022 focused on the 2021 year-end external audit process (reported in the 2021 Annual Report and Accounts). Meetings in June and September both centred on the Group's half-year reporting and a December meeting focused on planning for the 2022 year-end.

Following the change in the composition of the Audit Committee, a series of induction meetings were held to familiarise the new members of the Audit Committee with the current issues facing the Company in its financial reporting and risk management activities. These consisted of the following:
- a general induction meeting with Capricorn senior management summarising the Group's approach to risk management and the standing items to be considered on an annual basis by the Audit Committee;
- a meeting with the Group's internal auditor and Risk and Compliance manager discussing the Group's internal control framework and approach to internal audit going forward;

2023 Audit Committee

Tom Pitts (Chair)
Member since February 2023

Maria Gordon
Member since February 2023

Richard Herbert
Member since February 2023

Catherine Krajicek
Member since July 2019

Members and meetings in 2022

	Member since	Meetings attended
Keith Lough (Chair)	May 2014	
Catherine Krajicek	July 2019	
Alison Wood	July 2019	

– a presentation from Capricorn senior finance staff on the Group's significant accounting policies, focusing on key issues for the 2022 year-end Financial Statements; and
– a meeting with the Group's external auditors including a summary of the approved audit plan for the 2023 year-end and the materiality levels to which the auditors will be planning their work.

A formal meeting of the Audit Committee was held in March 2023 to update on the 2022 audit and significant accounting issues and an update on the going concern and viability statements. A second meeting was held in April 2023 to approve the Group's 2022 year-end Financial Statements.

Meetings are attended by senior Capricorn staff from finance, including the Chief Financial Officer, risk management and other departments as appropriate. The Group's external auditors also attend all meetings and the Group's internal auditors attended during 2022 before being stood-down in 2023, discussed below.

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

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

	Principal responsibilities of the committee	Activities during the year	Key areas formally discussed
Financial Statements	– Monitoring the integrity of the Financial Statements of the Group and formal announcements relating to the Group's financial performance; – Reviewing any significant financial reporting judgements; and – Reviewing the appropriateness of accounting policies, their consistent application and disclosures in Financial Statements.	– March 2022: 2021 Financial Statements approval (included in 2021 Annual Report and Accounts). – June 2022: Half-year key accounting issues, estimates and assumptions. – September 2022: Approval of half-year Financial Statements. – December 2022: Year-end key accounting issues, estimates and assumptions. – March/April 2023: Approval of 2022 year-end Financial Statements.	– Going concern conclusions, linkage to the viability statement and impact of proposed transactions; and – Significant accounting issues at the half-year and year-end (see below);
External audit	– Overseeing the Group's relationship with the external auditors, including: • making recommendations to the Board as to the appointment or reappointment of the external auditor; • reviewing their terms of engagement and engagement for non-audit services; and • monitoring the external auditor's independence, objectivity and effectiveness.	– At each meeting the committee receives an updated report from the external auditors which either explains their plans and scope for the forthcoming audit or review or contains the conclusions from their work performed.	– Reviewing the external auditor's scope and audit plan for the 2022 year end; – Discussing the materiality levels set by the auditor; – Approval of the auditor's remuneration; – Consideration of the results of the external audit with the auditor and management; and – Assessment of the effectiveness of the external audit (see overleaf).
Internal risk management and assurance	– Reviewing the Group's internal financial controls and internal control and Risk Management systems and oversight of the Group's Risk Management Committee; and – Monitoring and reviewing the effectiveness of the Group's internal audit function.	– At each meeting, the Audit Committee receives: • An update from management on the latest Risk and Assurance Committee meetings and risk management process; and • a report from the internal auditors, tracking the progress of internal audits and their output and recommendations.	– Reviewing the Group's corporate and operational risk register; – Reviewing reports on the activities of the Risk Management Committee; – Consideration of internal audit work planned for 2023 and for future years; and – Assessment of key findings raised from internal audits conducted in the year.
Whistleblowing procedures	– Reviewing the Group's whistleblowing procedures and ensuring that arrangements are in place for the proportionate and independent investigation of possible improprieties in respect of financial reporting and other matters and for appropriate follow-up action.	– The committee's annual review and approval of the Group's whistleblowing procedures was performed at the December 2022 meeting.	– Reviewing and approving of the Group's whistleblowing procedures.

Audit Committee Report continued

Other matters	– Reviewing the Group's policy for approval of non-audit work to the Company's auditor; and – Reviewing booking of Group reserves and resources.	– The committee's annual review and approval of the Group's policy for approval of non-audit work was undertaken at the December meeting.	– Review and approval of the Group policy for approval of non-audit work to the Company's auditor; and – Classification of reserves and resources for disclosure in the Annual Report.

Following the change in the composition of the Audit Committee, the governance of the Group's hydrocarbon reserves and resources estimation process has been strengthened. Capricorn's Reserves and Resources Reporting Committee, responsible for recommending the booking of Group reserves and resources to the Board, will now be chaired by a Non-Executive Director. We believe having a non-executive Chair this sub-committee and report into the Audit Committee will strengthen oversight of the Group's processes in this matter. For the current year end, Catherine and Richard have had several meetings with the Group's Senior Petroleum Engineer to conclude on the Group's 2022 year-end reserves and resources bookings.

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

Financial Statements

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

The key issues identified at the December 2022 year-end were: the impairment review performed on the Group's intangible exploration/appraisal assets, property, plant and equipment, development/producing assets and goodwill, the valuation of contingent consideration receivable and trade receivables after expected credit loss adjustments and a change in accounting policy regarding exploration/appraisal assets as a consequence of the NewMed transaction. As always, the assessment of the ability of the Group to continue to operate as a going concern and the viability statement is also considered by the Audit Committee, including the implications of the NewMed combination.

2022 year-end significant accounting issues

Impairment review

Impairment reviews have been performed across the Group's exploration/appraisal, asset portfolio and the Group's Egypt development/producing assets. Reductions to reserve estimates and increased capital expenditure costs in Egypt indicated that impairment may exist on the Egypt development/producing assets and these were tested for impairment along with goodwill allocated to the Egypt operating segment.

Audit Committee action	Audit Committee conclusions
The Audit Committee reviewed management's conclusion on the impairment tests performed on the Group's exploration/appraisal assets. In determining the appropriateness of the value of assets used in Egypt assets impairment tests, the Audit Committee confirmed that the corporate assumptions used in the supporting economic models were consistent with those approved by the PLC Board. The Audit Committee reviewed the assumptions proposed, comparing against the market range of assumptions noted by the external auditor, challenging management.	Corporate assumptions approved by the PLC Board in place before the February meeting had been applied in the impairment test calculations. The Audit Committee were satisfied that the impairment tests had been performed correctly and that the impairment on two Egypt concession areas had been properly recorded. The Audit Committee noted that a single corporate discount rate may not be appropriate and that a move to country-specific discount rates should be considered, though took comfort from management confirming that there would be no material change to the impairment recorded if the discount rate were increased to fall within the market range expected to be applied to assets in Egypt.

Expected credit loss: Earn-out considerations, contingent consideration and trade receivables

Expected credit losses on the Group's receivables classified as financial instruments, are reviewed at each reporting date.

Audit Committee action	Audit Committee conclusions
The Audit Committee reviewed management's calculation for the expected credit loss adjustments posted against the earn-out consideration receivable from Waldorf and trade receivables due from EGPC in Egypt. The Audit Committee challenged management on the assumptions underlying the credit loss adjustments proposed.	The Audit Committee were satisfied that expected credit loss adjustments were appropriate provided in the Financial Statements.

Change in accounting policy for Exploration Assets

As part of the proposed combination with NewMed, Capricorn indicated its intention to change its accounting policy in relation to exploration/appraisal. With that deal now terminated the Audit Committee reconsidered the proposed change.

Audit Committee action	Audit Committee conclusions
The Audit Committee discussed the rationale proposed by management for the change in accounting policy under the proposed combination, which would have led to an immediate expensing of all non-well specific exploration costs.	The Audit Committee concluded that with Capricorn continuing to execute an exploration-focused strategy during 2022, it was appropriate to maintain the Group's existing policy of capitalising all general exploration and appraisal costs, pending allocation to successful or unsuccessful exploration wells, or impairment on cessation of exploration activity. The Audit Committee will further review the accounting policy choice on completion of the strategic review which will determine the outlook for the business going forward.

Going concern and viability

At each reporting date, management considers the factors relevant to support a statement of going concern included in note 1.2 to the Financial Statements. The Audit Committee reviews and challenges management's conclusions so that we may, in turn, provide comfort to the Board that management's assessment has been considered, challenged and is appropriate.

The Audit Committee carefully reviewed management's going concern conclusion based on the Group's latest cash and debt position, factoring in the planned shareholder returns. As well as the Group's base case scenario, a downside scenario, with sustained low oil prices, reduced production, cost increases and a reduction in available finance, and an oil-price crash scenario, with a sharp fall and slow recovery in oil price, were reviewed, ensuring that the Group's planned returns to shareholders did not lead to a potential going concern issue. The Audit Committee subsequently recommended to the Board that the Group continues to use the going concern basis in preparing its Financial Statements.

The committee also reviews and challenges management on the sensitivity analysis performed to support the Group's viability statement, included in the Strategic Report on page 32. The viability statement review included assessing both the operational risks identified by management, including reserve downgrades and major emergency incidents and corporate risks identified, including volatile oil prices, failure to deliver the net zero 2040 roadmap, a failure to expand the production base and a failure to deliver exploration success. Following this challenge, the committee recommended approval of the viability statement to the Board.

External audit

The current version of the UK Corporate Governance Code states that FTSE 350 companies should put the external audit contract out to tender at least every ten years. Capricorn complied with this provision before it came into force and completed an external audit re-tendering process in 2013. PwC were subsequently appointed as external auditors of the Group, on the recommendation of the Audit Committee at that time. The 2022 year-end audit therefore represents the tenth year of PwC's tenure as Group auditors.

Capricorn had previously indicated that it intended to re-tender for the role of Group auditors during 2022 for appointment of the new auditors (or re-appointment of PwC) at the AGM in 2023 in compliance with the Competition and Markets Authority 2014 Order requiring a mandatory tender after ten years. Following the announcements of proposed merger combinations during 2022, the Audit Committee wrote to the FRC seeking a one-year extension to the tender process. The FRC granted the Company's request agreeing that with the proposed transactions, running a robust tender process would not be possible. The Group therefore propose to run a re-tender process for the external audit during 2023 for appointment at the AGM in 2024. PwC will continue for an eleventh year as auditor of the Group. Bruce Collins remains lead audit partner.

Assessment of external audit process

The Audit Committee has an established framework to assess the effectiveness of the external audit process that will continue going forward. This comprises:

Audit Committee action	Audit Committee conclusion
An assessment of the independence of the auditors.	The Audit Committee considered PwC to be independent.
A review of the audit plan including the materiality level set by the auditors and the process they have adopted to identify Financial Statement risks and key areas of audit focus (summarised in the Independent Auditors' Report on pages 118 to 125).	The Audit Committee accepted the level of materiality set by the auditors.
A review of the Audit Quality Inspection ("AQI") report on our auditor, published by the FRC with particular emphasis on any key messages applicable to Capricorn.	There were no matters raised in the AQI report that caused concern for the Audit Committee.
A review of the final audit report, noting key areas of auditor judgement and the reasoning behind the conclusions reached.	The Audit Committee reviewed findings on the key audit issues identified. The committee was satisfied that appropriate challenge had been made of management and that the audit process was robust.
Regular communications through formal papers submitted and presentations to the committee, including a review by the committee of the extent to which the auditors have challenged management.	The audit plan for the year ending 31 December 2022 was originally presented to the Audit Committee in September, re-presented to the reconfigured Committee during the induction meeting in February 2023 and is summarised in the Independent Auditor's Report on pages 118 to 125. Audit findings on significant matters are presented to the committee, together with the work performed by the auditors to challenge management's key estimates and assumptions.

Audit Committee Report continued

Separate meetings were held between myself and my predecessor as Chair of the Audit Committee and the lead audit engagement partner.	Separate meetings were held regularly during the year, both with myself and my predecessor as Chair.
A formal questionnaire issued to all Audit Committee members and senior Capricorn management who are involved in the audit covering the robustness of the audit process, the quality of delivery, the quality of reporting and the quality of the auditor's people and service.	Steps have been taken by both management and the auditors to ensure that inefficiencies identified after the 2021 audit have not been repeated. The questionnaire approach will be actioned after the completion of this report, though tailored to reflect the Audit Committee changes in the period.

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

The Audit Committee noted the level of planned materiality and agreed on the levels of misstatements to be reported to the committee. The final audit report was presented to the Audit Committee in April 2023. The committee agreed with the conclusions reached by the auditors, noting the degree of judgement around areas of significant audit risk.

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

At the end of each annual reporting cycle, the Audit Committee reflect on the quality of the audit provided by the auditors. At each Audit Committee meeting, the auditor presents an update on their progress and, where appropriate, conclusions on their half-year review and full-year audit and how the audit has been conducted in relation to the plan presented to the Audit Committee, with the committee able to challenge the audit at any point. Following conclusion of the 2022 year-end audit, the committee discussed the quality of the audit service provided, using the questionnaire responses as a basis for the discussion, and concluded that the auditors had delivered an audit of appropriate quality. The Audit Committee noted that there were certain inefficiencies in the performance of the audit, largely driven by the acquisition of the Egypt assets and partially reflected in increased fees for the year and the committee were pleased to see that management had worked with the auditors to agree on improvements ahead of the current year-end audit.

Though the formal assessment of the 2022 audit has yet to be formally undertaken, provisional discussions held at the March 2023 Committee meeting did not identify any matter where the Audit Committee believed that the quality of the audit had regressed from previous years. The committee were pleased to hear that inefficiencies encountered in 2021 had not repeated in 2022.

Internal risk management and assurance

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

The Group's principal risk dashboard is updated in advance of every meeting and changes to operational and corporate risks noted and discussed. The Audit Committee will challenge management on the classification of risks where further clarification is sought on either the assessment of the likelihood of a risk materialising or its estimated financial impact. During the current period, risks were reviewed against a back-drop of uncertainty caused by the proposed corporate transactions, together with the risks associated with the continued integration of the Egyptian business into the Group.

Internal audit

Ernst & Young LLP ("EY") continued in the role of internal auditor throughout the year ending 31 December 2022.

Prior to the beginning of the year, an internal audit plan was developed by the internal auditors, in consultation with senior management, based on a review of the outcome of the previous year's internal audits, the outcome of the annual assessment of effectiveness of internal control (refer to page 118 to 125), the results of historical audits of fundamental business processes and the significant risks in the Group Risk Matrix and identified mitigation measures. The plan was then presented to the Audit Committee for review and approval. During 2022, the Group's internal auditors conducted audits on 'Culture, Values and Internal Communications' and 'Egypt Country Review'. No high-risk findings were identified across the audits conducted. A further planned audit on 'HSE Incident Reporting and Investigation'.

No plan had been presented by EY for 2023 internal audits pending conclusion of the business combination recommended by the previous Board, thus allowing EY the opportunity to tender for the audit of the potential combined Group. Following termination of that transaction and a re-assessment of Group's approach to internal audit, the Audit Committee have decided to bring management of the internal audit process in-house.

The Group's external auditor did not place any reliance on the work undertaken by the Group's internal audit function due to the nature of the scope and the timing of their work. Going forward the Audit Committee will develop their audit plan to ensure that future internal audits are aligned with the external audit, avoiding duplication, as the Audit Committee continue to ensure that the Group's controls are operating effectively.

Working responsibly – Whistleblowing and related policies

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

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

Committee at the March 2022 meeting and most recently re-approved at the December 2022 meeting.

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

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

Other matters:

Provision of non-audit services

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

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

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

PwC provided other services during the year including audit-related services on corporate transactions and non-statutory audits of the Group's timewriting recharges to operated assets.

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

Board and Committee performance evaluation

Details on the internal evaluation conducted during 2022 can be found on pages 57 and 58 of the Corporate Governance Statement. There were no action points directly impacting the Audit Committee.

Tom Pitts
Chair of the Audit Committee

27 April 2023

Nomination & Governance Committee Report

Craig van der Laan
Chair
Nomination & Governance Committee

Capricorn's Nomination & Governance Committee plays a leading role in ensuring that the composition of the Board is appropriate to enable the Company to deliver on its strategic aims whilst promoting its values and culture. It is vital that the Board has in its membership what is needed to provide appropriate challenge and effective leadership for the business, and the committee looks to ensure the Board maintains the correct balance of skills and representation. Board succession is an important area of planning for the ongoing success of the Company and is a key focus of the Nomination & Governance Committee.

The membership of the committee during 2022 is set out in the table to the right and comprised a majority of independent Non-Executive Directors. The Chief Executive was also a member of the committee. With effect from 3 March 2022, the remit of the committee was expanded to include a greater focus on governance. At the same date, the membership of the committee was also expanded as independent Non-Executive Director, Catherine Krajicek became a member of the Nomination & Governance Committee.

Prior to the committee's role expansion, the then named Nomination Committee's remit included:

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

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

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

2023 Nomination & Governance Committee

Craig van der Laan (Chair)
Member since February 2023

Maria Gordon
Member since February 2023

Richard Herbert
Member since February 2023

Hesham Mekawi
Member since February 2023

Members and meetings in 2022

	Member since	Meetings attended
Nicoletta Giadrossi (Chair)	May 2018 Jan 2021 (Chair)	
Simon Thomson	Mar 2013	
Keith Lough	May 2015	*
Peter Kallos	Sept 2015	
Catherine Krajicek	Mar 2022	**

* Keith missed one meeting due to illness.
** Catherine attended both meetings of the committee that were held following her appointment to the committee in March 2022.

Board changes during 2022

Whilst the membership of the Board was diverse in terms of the range of nationalities, culture and international experience represented, as a result of its ongoing review and evaluation of the composition of the Board during 2021, the committee then in place recognised that the Board would benefit from further enhancing the diversity of its membership.

The Parker Review on ethnic diversity of UK Boards was published in 2017, with the target that no member company of the FTSE 250 lack a person of colour as a director on its board by 2024. The Board, and the committee, recognised that ethnic diversity, and the benefits it brings, was missing amongst the Company's Board membership. In Q4 2021, a search was commenced for a new Non-Executive Director. The Company instructed recruitment consultants, Ridgeway Advisors, in connection with this appointment. Apart from providing prior recruitment advice, Ridgeway had no other connection with the Company or any of its individual Directors. The Board was pleased to announce that its diversity was deepened from May 2022 upon the appointment of Luis Araujo, who had South American heritage and citizenship in Brazil, Portugal and the UK. With experience gained working in Brazil and other countries, Luis brought his emerging market insights to the Board along with a focus on energy transition issues.

Also during 2022, as the Chair of the Audit Committee was approaching eight years in post as a Non-Executive Director, a search was commenced, assisted by Ridgeway, for a new Non-Executive Director, with appropriate experience to enable that individual to be appointed chair of the Audit Committee. This process started in early 2022 but was put on hold following the announcement in June 2022 of the proposed merger with Tullow Oil plc.

Board changes in 2023

In December 2022, shareholder Palliser Capital Master Fund Ltd requisitioned a general meeting to consider resolutions to remove seven of the Company's nine Directors from the Board of Directors of the Company and to appoint six new Directors to the Board. The general meeting was held on 1 February 2023. At the end of January, in advance of that general meeting, five Directors, including the then Chair, Nicoletta Giadrossi and CEO, Simon Thomson, stepped down from the Board. In addition to Catherine Krajicek and Erik B. Daugbjerg, who continue as Non-Executive Directors, Keith Lough and James Smith remained on the Board up to the date of the general meeting, to ensure ongoing oversight of reporting obligations and other corporate governance requirements. For the week in advance of the general meeting, the Nomination & Governance committee membership consisted of Keith Lough and Catherine Krajicek, both independent Non-Executive Directors.

On 1 February 2023, six new Directors were appointed to the Board by an overwhelming shareholder vote to sit alongside continuing Board members, Catherine Krajicek and Erik B. Daugbjerg. On the same date, it was agreed that the membership of the Nomination & Governance Committee would comprise myself, as chair of the committee, Maria Gordon, Richard Herbert and Hesham Mekawi. The newly formed Nomination & Governance Committee carefully considered the roles of Chair of the Board, Senior Independent Director and Chief Executive. The committee evaluated the balance of skills, knowledge, independence, experience and diversity on the Board and considered candidates on merit and against objective criteria and, within that context, sought to ensure that any appointment made would promote diversity of gender, social and ethnic backgrounds, and cognitive and personal strengths, ensuring also that appointees would have enough time available to devote to the relevant position. No member of the Nomination & Governance Committee, who was also a proposed appointee, would vote on his or her own appointment. After careful consideration, it was recommended to the Board, by whom it was agreed, that I be appointed as Chair of the Board, Richard Herbert be appointed as Senior Independent Director and that Chris Cox be appointed as an Executive Director of the Company, to serve as interim CEO, each appointment being made with immediate effect.

On 11 April 2023, it was announced that Erik B. Daugbjerg and Catherine Krajicek would not be standing for re-election at this year's AGM. The Nomination & Governance Committee will shortly be considering the membership of the affected Board committees.

Succession planning

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

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

The Company's talent management strategy, for both Executive Board and other senior management positions, focuses on growing talent through a number of measures including: active succession planning and mentoring; programmes designed to aid leadership and management development; and annual objective and development plan setting.

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

During 2022, the Company undertook a voluntary redundancy programme for UK employees. It was important to ensure that succession planning remained fit-for-purpose following the departure of those employees electing to leave the organisation. This is also a vital piece of ongoing work as we progress through the stated headcount reduction.

The Board has a good understanding of the Company's talent management and succession planning, receiving regular updates from the Group HR Manager, as well as knowledge of the range of measures being used to continue to develop and recruit talented senior employees. During 2022, our mentor programme, which commenced in May 2019, continued to provide invaluable support to colleagues whose ambitions are to grow and develop into senior roles within the business. A second cohort of individuals identified as employees who would benefit from the mentoring programme started the programme in the middle of 2021. These colleagues were partnered with non-executive Board members as well as senior managers to gain knowledge and strategic understanding from their experience in these areas.

Nomination & Governance Committee Report continued

Diversity

As noted, the Nomination & Governance Committee very much values the benefits of building a diverse Board, not just in terms of gender and social and ethnic background, but also to promote diversity of cognitive and personal strengths. Women currently represent 25% of the Board membership (being two women out of eight members) and Clare Mawdsley sits as acting Chief Financial Officer. The committee, and the Board, recognise that, to gain the benefits of a diverse membership, further female representation is required. This will be of even greater importance following Catherine Krajicek's announced departure from the Board after the AGM in June 2023. We will be seeking to add to the Board as soon as possible, with a focus on diverse candidates to address this imbalance. We intend to provide an update on progress made at this year's AGM.

The Directors' range of knowledge and practice covers not only a wealth of experience of operating in the oil and gas industry but also extensive technical, operational, financial, governance and commercial expertise. Following 1 February 2023, the Board continues to be diverse in terms of the range of nationalities, culture and international experience of its members and meets the ambitions of the Parker Review. The committee will continue to monitor and consider diversity for all future Board appointments, whilst also continuing to recruit on merit.

At levels below the Board, we continue to think more broadly than gender diversity in all areas of our work, taking into account diversity in many dimensions. Our diversity and inclusion strategy aims to nurture an inclusive and sustainable culture, where differences are encouraged, embraced and recognised as key drivers of value to all our stakeholders. A diverse and inclusive culture, where everyone can uniquely contribute and thrive and which values and encourages individual differences is nurtured throughout Capricorn. The Board is committed to ensuring such a culture is embedded in the organisation. In February 2023, we were pleased to appoint Clare Mawdsley to the role of acting Chief Financial Officer. Clare's appointment is a welcome deepening of the diversity on our previously all-male Executive Committee. As at 31 December 2022, following a reorganisation as a result of a process of voluntary redundancy, including interim reporting lines, the number of female direct reports to the Executive Committee was seven female and 18 male (2021: six female, 14 male). Of the business critical roles identified in our talent management programme, 24% of the talent pool is female. The gender split of our management population has greatly increased in female representation from one-third female/two-thirds male at the end of 2021 to 42% female and 58% male at the end of 2022. Looking at our broader talent pool, the gender diversity of our employee population is 49% female and 51% male. These numbers will change as a result of the announced headcount reduction process, the consultation in respect of which is ongoing. Diversity and inclusion will remain an important focus of the Company going forward.

In recognition of the Company's diversity challenges within its management and executive populations, a new pilot programme was introduced in 2022, called the Shadow4success programme, with the aim to provide an opportunity for under-represented groups to gain a better understanding of how the Executive Committee and Board operate and to ultimately seek to increase the diversity of applications for more senior roles within Capricorn. The Shadow4success programme, which formed part of the Company's diversity and inclusion strategy, had eight participants, each with an assigned member of the Executive Committee that would rotate during the year to provide a broad range of experience for the participant during the course of the programme. Following completion of the pilot, feedback will be provided for taking into account in the designing of future programmes.

As noted in the strategic review section of this report (pages 2 to 47), the Company has developed our strategic framework which is designed to cultivate D&I across the business and developed methods to embed it within the way we do work.

The Company has continued to participate fully in the annual submission of gender performance data as part of the FTSE Women Leaders Review (formerly the Davies Review and the Hampton-Alexander Review) aimed at improving the representation of women in leadership positions in the FTSE 350. The FTSE Women Leaders Review published in February 2023 noted our increased percentage of female direct reports to the Executive Committee but highlighted that this committee was, at the time of data submission in 2022, all-male. The Board and Nomination & Governance Committee, alongside the Capricorn organisation, will continue to promote diversity in its widest possible sense. Our strategies, polices and practices encourage this and seek to ensure the potential of our team can be met, driving the success of the individuals within it and the business as a whole.

Board and Committee performance evaluation

The Board is committed to annual evaluations of its performance in order to assess and improve its effectiveness on an ongoing basis, with the individual Directors also evaluated to determine whether each Director continues to contribute effectively. In line with the UK Corporate Governance Code, which provides that FTSE 350 companies should have an externally facilitated board evaluation process at least every three years, the Board appointed Gould Consulting to facilitate the 2021 Board performance evaluation (previous externally facilitated evaluations took place in 2018, 2015 and 2012, with internally run evaluations conducted in the intervening years). Gould Consulting had no prior connection to the Board or its Directors. For the 2022 Board performance evaluation, the process was undertaken internally (see pages 57 and 58).

The Board retains overall responsibility for implementation of its annual performance evaluation and the process and outcomes of the 2022 internally conducted evaluation are described in the Corporate Governance Statement on pages 57 and 58. The process included a review of all Board committees and it was concluded that the relationship between the Board and its committees was functioning well, with all committees fully meeting their remit. The Nomination & Governance Committee works together with the Board in seeking to address any performance evaluation outcomes relating to Board composition and succession planning.

It is an important role of the newly reconstituted Board to ensure that the Board and its committees function as appropriate to best enable the Company to deliver on its strategy as we progress through the year and beyond.

Craig van der Laan
Chair of the Nomination & Governance Committee

27 April 2023

Directors' Remuneration Report

Maria Gordon
Chair
Directors' Remuneration Committee

Part 1 – Annual Statement from the Chair of the Committee

Dear Shareholder,

I am pleased to present our Directors' Remuneration Report for 2022, my first since accepting the position of Remuneration Committee Chair following my election to the Board on 1 February 2023. Many of the key decisions set out in this report relate to the implementation of the policy prior to my appointment, however the approach for 2022 is consistent with the remuneration policy endorsed by shareholders at the 2020 AGM. In this report we have also sought to provide an indication of our future approach to senior executive pay matters.

This report comprises three sections:
Part 1 – this Annual Statement;
Part 2 – our new Directors' Remuneration Policy, which will be put to a binding shareholder vote at the forthcoming AGM; and
Part 3 – our Annual Report on Remuneration, setting out how our existing policy was implemented in 2022 and how we intend to implement the new Policy in 2023; together with this Annual Statement, it will be put to an advisory vote at the AGM.

Remuneration Policy renewal and implementation for 2023
The current policy was approved by shareholders in 2020 and therefore, under the UK corporate governance framework, we are required to seek re-approval for a new policy in 2023.

The past year has been a period of exceptional change at Capricorn. In February 2023, the Board announced a strategic review to explore options for Capricorn's future direction. There have also been substantial changes in the constitution of the Board, with the Company in the process of making permanent executive appointments. Given this context, the Remuneration Committee determined to delay our full review of the remuneration policy until there was greater clarity regarding the future direction of the business. The objective is to ensure that any future remuneration strategy fully supports our strategic priorities as a business and the investment proposition presented to our shareholders.

2023 Directors' Remuneration Committee

Maria Gordon (Chair)
Member since February 2023

Erik B. Daugbjerg
Member since January 2021

Tom Pitts
Member since February 2023

Members and meetings in 2022

	Member since	Meetings attended
Alison Wood (Chair)	Jan 2021	4
Erik B. Daugbjerg	Jan 2021	4
Nicoletta Giadrossi	Jan 2017	4
Peter Kallos	Sept 2015	4

The policy renewal at the 2023 AGM will, therefore, be largely technical in nature, with only minor changes being proposed. Key decisions include:

- **Base salary** – Although the policy will remain unchanged, base salary levels for incoming executives are expected to be positioned more modestly than for previous incumbents.
- **Benefits** – The value of regular ongoing benefits will be reduced. The current car allowance has been eliminated for permanent Executive Directors. Pension benefits for new Executive Directors will be capped at the all-employee rate.
- **Annual bonus** – The maximum opportunity is unchanged. We are increasing bonus deferral so that 25% of any awarded bonus is deferred into shares, to ensure greater long-term alignment with investors (previously only the portion over 100% of salary was subject to deferral). Targets for 2023 will focus on our short-term operational priorities and re-stabilising the business.
- **LTIP** – No change proposed to the policy. However, the committee is minded to review both operational award levels and performance criteria for any 2023 grants to ensure that they reflect the strategic priorities of the group.

Overall, we intend to take a more measured approach to pay than has been the case historically. Our full policy is set out in Part 2 of this report (pages 79 to 87).

Whilst formulating our approach to the new policy, we took into account the views of the Company's largest shareholders and investor representative bodies on our existing approach to remuneration. Following the conclusion of the strategic review, we intend to undertake a more holistic review of our approach to pay. We would once again consult with our major shareholders regarding our proposed approach and, where necessary, seek approval for a revised policy at a future general meeting.

Executive Board changes

Simon Thomson and James Smith stepped down from their positions as Chief Executive Officer and Chief Financial Officer on 24 January 2023 and 1 February 2023, respectively. The exit arrangements for Simon Thomson and James Smith were largely limited to contractual terms. Although the current policy provides scope to enable partial vesting of unvested LTIP awards subject to time pro-rating and performance, the committee determined that all unvested LTIP share awards subject to performance should lapse in full. Given that both individuals were in office for the entirety of the 2022 performance year, they were eligible to receive a bonus award in respect of 2022 in light of performance against targets set in early 2022. As detailed below, the committee exercised downward discretion to reduce the bonus outcomes for both individuals.

Chris Cox was appointed interim CEO on 1 February 2023 on a short-term contract. His salary was positioned at £550k, which is ~13% lower than the previous permanent incumbent. The annual bonus maximum was also set at 100% of salary, which is lower than the 125% of salary limit under our policy. No long-term share awards have been granted. In order to provide alignment with shareholders during the course of his tenure, the committee have agreed to deliver any FY22 bonus earned in shares, based on the share price at the point of appointment.

As noted above, we intend to take a more measured approach when determining the remuneration arrangements for any executives appointed during the course of 2023. While the detail of pay arrangements will need to reflect the nature of the candidates appointed, our current intention is for the levels of fixed pay and long-term incentives to be lower than for the previous incumbents, and for a significant proportion of the package to be clearly aligned with performance, execution of the strategy and the interests of our shareholders. The performance criteria for incentive awards to incoming directors, including future LTIP awards, will be set based on business circumstances at the time of appointment. We will suitably engage with investors regarding the performance targets applicable to any long-term incentive awards granted to incoming Executive Directors and provide suitable disclosures in due course.

Summary of 2022 Business Context and Key Remuneration Decisions

As noted elsewhere in the Annual Report and Accounts, the Company had considered various transactions during 2022 that were intended to realise value for our shareholders. During this period the Company continued to progress its key strategic initiatives whilst working in a safe, sustainable, environmentally and socially responsible manner for all stakeholders. Highlights of work undertaken during the year included the following:

- successful conclusion of a long-running dispute between Capricorn and the Government of India dating back to a January 2014 retrospective taxation claim and subsequent asset seizure in relation to the 2007 initial public offering of Cairn India Limited. This resulted in Capricorn receiving a tax refund from the Government of India of approximately US$1.06bn;
- a US$500m return of value to shareholders by way of tender offer, completed in April 2022; and
- working towards the first operated exploration wells in Egypt, which spudded in Q1 2023.

Against this background, the committee was required to review the bonus outcome against the targets previously set in respect of 2022. The formulaic outcome under the 2022 bonus was 39.25% of maximum. The committee undertook a review of the outcome in the context of the Company's overall financial and operational performance during the year and determined that discretion should be exercised to reduce the final outcome by more than 40%. As a result of this discretion the actual bonus payable to former Executive Directors was limited to 22.5% of maximum.

The 2019 LTIP was subject to TSR performance conditions, with the award vesting at 73.7% of maximum for the 'core' elements. No part of the 'kicker' elements vested and they lapsed in full. As noted above, the LTIP awards granted to Executive Directors in 2020, 2021 and 2022 lapsed in full on cessation of employment.

Further details of incentive outcomes are set out in Part 3 of this Report.

Consideration of remuneration arrangements for the wider workforce during 2022

In accordance with best practice, the committee regularly takes into account remuneration practices in the wider organisation when determining senior executive pay arrangements.

The committee as previously constituted had determined that annual salary increases for the Executive Directors would be capped at 4%, which was below the level of standard annual salary increase awarded to other employees at that time of 6%.

During the year, members of staff were also given the opportunity to raise issues on a variety of matters, including executive pay, via a number of mechanisms. These included the Company's Employee Voice Forum which enables two-way communication between employees and the Board; throughout 2022 this was chaired by Peter Kallos who was a member of the committee during the whole of the year.

Decisions have been made in the context of the requirements of the 2018 UK Corporate Governance Code and, in particular, after considering the various factors set out in its Provision 40, being clarity, simplicity, risk, predictability, proportionality and alignment to culture. The committee is satisfied that, during 2022, the approved remuneration policy operated as intended and delivered outcomes that fairly reflected business achievements over the year.

Directors' Remuneration Report continued

Feedback on Directors' Remuneration Report
This has been a period of major change for the business and as your new Remuneration Committee Chair I am committed to an approach to pay which is aligned with our strategy and which is in the best interests of the business and our stakeholders. I am also keen to maintain a dialogue with our investors so that the different perspectives on pay are taken into account by the committee when making key decisions.

We welcome questions and feedback from all those interested on both the content and style of this report. We also look forward to receiving your support for the Directors' Remuneration Report and new Directors' Remuneration Policy at the AGM to be held on 20 June 2023.

Maria Gordon
Remuneration Committee Chair

27 April 2023

Part 2 – Directors' Remuneration Policy

Introduction

Background and details of approval process

This Directors' Remuneration Policy provides an overview of the Company's policy on directors' pay that will be applied in 2023, subject to shareholder approval at the 2023 AGM. It sets out the various pay structures that the Company will operate and summarises the approach that the committee will adopt in certain circumstances such as the recruitment of new directors and/or the making of any payments for loss of office. In accordance with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) (the "Regulations"), the policy contained in this part will be subject to a binding vote at the AGM to be held on 20 June 2023 and will take effect immediately upon receipt of such approval from shareholders.

Overview of the decision-making process that was followed for the determination of the new policy

As explained in the Chair's introduction on pages 76 to 78, the Board is currently undertaking a strategic review of the business. In light of this ongoing process, no material changes are being proposed to the Company's existing policy. It is the committee's intention to review the remuneration arrangements during 2023 to ensure the remuneration framework is aligned with our strategy going forward. The committee will seek to engage with shareholders if any material changes are being proposed at that point.

As part of the policy renewal, the committee took into account the remuneration-related provisions contained in the 2018 UK Corporate Governance Code and, in particular, sought to ensure that the proposals for the new policy adequately addressed the requirements contained in its Provision 40 (relating to clarity, simplicity, risk mitigation, predictability, proportionality and alignment to culture).

In its deliberations, the committee received support and advice from Deloitte, its newly appointed independent external advisor. No other committee was involved in the decision-making process, but the Non-Executive Directors took into account broader Board discussions when developing the final approach.

The final decisions around the structure of the new policy were taken by the committee alone in order to avoid any conflicts of interest arising.

Significant revisions made to the previous policy

The proposed policy largely mirrors the previous policy approved by shareholders at the 14 May 2020 AGM. However, and as noted in the Chair's introduction on pages 76 to 78, a relatively small number of changes have been made in order to aid the operation of the policy and increase flexibility in certain areas, and to reflect evolving market and best practice. In particular:

- the pension policy for Executive Directors has been updated so as to ensure that the levels of Company contributions they receive will be in line with those offered to the wider UK workforce;
- for any annual bonus payment, 25% of the amount will be awarded in shares under the Company's Deferred Bonus Plan; and
- the removal of the previous car allowance for Executive Directors.

Purpose and role of the Remuneration Committee

The Remuneration Committee determines and agrees with the Board the overall remuneration policy for the Executive Directors and the Group's PDMRs (Persons Discharging Managerial Responsibilities). Within the terms of this agreed policy, the committee is also responsible for:

- determining the total individual remuneration package for each Executive Director and the PDMRs;
- determining the level of awards made under the Company's LTIPs and employee share award schemes and the performance conditions which are to apply;
- determining the KPIs used to measure performance for the annual bonus scheme;
- determining the bonuses payable under the Company's annual bonus scheme;
- determining the vesting levels of awards under the Company's LTIPs and employee share award schemes; and
- determining the policy for pension arrangements, service agreements and termination payments for Executive Directors and PDMRs.

The committee also reviews the overall remuneration levels and incentive arrangements (including the Group-wide bonus scheme) for employees below senior management level but does not set individual remuneration amounts for such individuals. This oversight role allows the committee to take into account pay policies, employment conditions and culture within the Group as a whole when designing the reward structures of the Executive Directors and PDMRs. For example, the committee considers the standard increase applied to basic pay across the Group when setting Executive Directors' base salaries for the same period.

The committee operates within written terms of reference agreed by the Board. These are reviewed periodically to ensure that the committee remains up-to-date with best practices appropriate to Capricorn, its strategy and the business and regulatory environment in which it operates. The current version of the terms of reference are available on the Company's website.

Consultation with relevant stakeholders

The committee is always keen to ensure that, in carrying out its mandate, it takes into account the views and opinions of all the relevant stakeholders in the business. During 2022, discussions were held with a number of shareholders around any impacts of the proposed corporate transactions on Executive Director pay.

The Company will engage with its major investors and a selection of proxy agencies regarding the policy renewal, to explain the proposed approach and offer a meeting to discuss the changes being put to shareholder at this year's AGM.

Historically, the committee has not undertaken a formal consultation exercise with employees in relation to the Group's policy on senior management remuneration. Members of staff are, however, regularly given the opportunity to raise issues on a variety of matters, including executive pay, via a number of mechanisms such as the Company's Employee Voice Forum, the attendance of Directors at team meetings and employee engagement surveys. The committee believes that this mechanism ensures that its obligations under Provision 41 of the 2018 UK Corporate Governance Code are met.

Directors' Remuneration Report continued

Overview of proposed remuneration policy
A description of each of the elements comprised in the pay packages for Capricorn's directors under its remuneration policy is as follows:

Policy Table – elements of directors' remuneration package

<table>
<tr><th>Remuneration element</th><th>Purpose and link to strategy</th><th>Operation</th><th>Opportunity</th><th>Framework for assessing performance</th></tr>
<tr><td>Base salary</td><td>Helps recruit and retain employees.

Reflects individual experience and role.</td><td>Normally reviewed annually (with changes taking effect on 1 January) and/or when otherwise appropriate, including when an individual changes position or responsibility.

Aim is to provide a competitive base salary relative to the market (although the committee does not place undue emphasis on benchmarking data and exercises its own judgement in determining pay levels).

Decision influenced by:
– role and experience;
– average change in broader workforce salaries;
– individual performance; and
– remuneration practices in companies of a broadly similar size and value and relevant oil and gas exploration and production companies.</td><td>Whilst the committee has not set a monetary maximum, annual increases will not normally exceed the level of standard increase awarded to other employees except that more significant increases may be awarded at the discretion of the committee taking into account factors such as:
– an increase in the scope and responsibility of the individual's role; or
– the individual's development and performance in the role following appointment; or
– a re-alignment with market rates.</td><td>None</td></tr>
<tr><td>Benefits</td><td>Helps recruit and retain employees.</td><td>Directors are entitled to a competitive package of benefits. For UK executives, the major elements include, but are not limited to, permanent health insurance, private health insurance, death-in-service benefit and a gym and fitness allowance. Directors may also participate in any all-employee plans on the same basis as other employees.

The committee reserves the right to provide further benefits where this is appropriate in the individual's particular circumstances (for example costs associated with relocation as a result of the director's role with the Company). Executive Directors are also eligible for other benefits which are introduced for the wider workforce on broadly similar terms.</td><td>Benefits are intended to be market competitive. The committee has not set a monetary maximum for other benefits as the cost of these may vary from time to time. The maximum value for any all-employee plans will be in line with the maximum value for all other employees.</td><td>None</td></tr>
</table>

Remuneration element	Purpose and link to strategy	Operation	Opportunity	Framework for assessing performance
Annual bonus	Rewards the achievement of annual KPIs and/or other objectives linked to the Company's strategic goals.	Bonuses are awarded by reference to performance against specific targets normally measured over a single financial year. 75% of any amounts awarded to an individual under this arrangement are paid out in full shortly after the assessment of the performance targets has been completed. The remainder of the bonus will normally be deferred into an award of shares for a three-year period, (or such other period as determined by the committee), with the vesting of deferred amounts typically subject to continued employment only. Annual bonuses may be subject to clawback, and the extent to which deferred share awards vest may be reduced, if certain events occur in the period of three years from the end of the relevant financial year. These include the committee becoming aware of: – a material misstatement of the Company's financial results; – an error in the calculation of performance targets which, had it been known at the relevant time, would have reasonably been expected to have resulted in a lower award being made; – an act committed by the relevant participant that has (or could have) resulted in summary dismissal by reason of gross misconduct; or – a corporate failure which arose due to the conduct of management and which has resulted in the appointment of a liquidator or administrator. The detailed terms of the clawback mechanism applicable to the cash element of any annual bonus award are set out in an individual agreement entered into between the Company and the relevant Executive Director. This provides the committee with a variety of alternative means by which value can be recovered including: – the reduction of future bonus awards; – the application of a reduction in the number of shares in respect of which share awards would otherwise vest or be exercisable; and – requiring the individual to make a cash payment to the Company.	Maximum % of salary: 125%	The measures and targets applicable to the annual bonus scheme (and the different weightings ascribed to each of them) are set annually by the committee in order to ensure they are relevant to participants and take account of the most up-to-date business plan and strategy. All, or a significant majority, of the bonus opportunity will normally be determined by reference to performance against demanding Group KPIs. Further detail in respect of the approach taken for 2022 and 2023 is set out in the Annual Report on Remuneration. The remaining part of a director's bonus (if any) will normally be based on the achievement of personal objectives relevant to that individual's role within the business. Where possible, a payment scale (ranging from 0% at 'threshold', not more than 50% at 'target' and 100% at 'maximum') for different levels of achievement against each KPI and/or other objective is specified by the committee at the outset of each year. The payment scale may be varied to reflect the stretch of the underlying targets set. The committee has discretion to vary the measures and weightings during the year if events arise which mean that it would be inappropriate to continue with the originally prescribed structure. The committee expects that this discretion will only be exercised in exceptional circumstances and not to make the bonus scheme for that year less demanding than when it was originally set. In addition, the committee has discretion to adjust awards or outcomes to ensure that the ultimate bonus payment for a financial year is fair and reasonable and properly reflects performance over that period.

Directors' Remuneration Report continued

Remuneration element	Purpose and link to strategy	Operation	Opportunity	Framework for assessing performance
Long Term Incentive Plan	Incentivises Executive Directors to deliver long-term performance for the benefit of shareholders, thereby aligning the interests of the directors with those of the Company's investors.	The LTIP was established by the Company following receipt of the necessary shareholder approvals at the 2017 AGM. Awards will normally be made annually with vesting dependent on achievement of performance conditions chosen by the committee that are typically measured over a period of at least three years. Vesting of awards will generally take place on the third anniversary of grant or shortly following the date on which the performance conditions are assessed by the committee. All awards that vest will normally be subject to a holding period in terms of which the relevant shares will only be released/become exercisable after a further period of at least two years following the end of the performance period. The committee reviews the quantum of awards annually, taking into account factors such as market rates and overall remuneration. The committee also retains the discretion to adjust award levels in certain circumstances e.g. where there has been a significant movement in the Company's share price. Under the rules of the LTIP, awards may be subject to malus and/or clawback provisions if certain events occur after their grant but before the expiry of the period of three years from the end of the relevant performance period. These events include: – the committee becoming aware of a material misstatement of the Company's financial results; – the committee becoming aware of an error in the calculation of performance targets which, had it been known at the relevant time, would have reasonably been expected to have resulted in a lower award being made; – the relevant participant committing an act that has (or could have) resulted in summary dismissal by reason of gross misconduct; or – a corporate failure arising, due to the conduct of management, which has resulted in the appointment of a liquidator or administrator.	Normal total maximum % of salary: 250%.	Vesting of awards granted under the LTIP will be determined based on performance against stretching targets, normally measured over a period of at least three years. The committee will review and set weightings and targets for each LTIP grant to ensure they remain appropriate. A significant proportion of any award will normally be linked to share price-based measures. The Remuneration Committee may change the balance of the measures, or use different measures for subsequent awards, as appropriate. Where material changes are made to the type of performance conditions, the committee will consult with major shareholders prior to making any such decision. Up to 25% of the maximum award may vest for threshold performance. The committee retains the discretion to vary the vesting outcome level produced by the formulaic operation of the performance conditions in circumstances where, based on its independent judgement, it considers it appropriate to do so (e.g. where the outturn from the assessment of the prescribed targets is not, in the committee's view, a genuine reflection of the underlying performance of the Company). As noted in the Chair's statement, the details of performance criteria for 2023 onwards will be determined in due course based on the strategic priorities at the time of award.

Remuneration element	Purpose and link to strategy	Operation	Opportunity	Framework for assessing performance
Retirement benefits	Rewards sustained contribution.	The Company operates a defined contribution group personal pension plan in the UK. The scheme is non-contributory and all UK permanent employees, including the Executive Directors, are eligible to participate. The Company contributes a specified percentage of basic annual salary for senior employees, including Executive Directors. Where an Executive Director has an individual personal pension plan (or overseas equivalent), the Company pays its contribution to that arrangement. If an Executive Director's pension arrangements are fully funded or applicable statutory limits are reached, an amount equal to the Company's contribution (or the balance thereof) is paid in cash.	For Executive Directors, the Company's pension contributions are at a level that is capped at the maximum amount payable to the wider UK employee population (currently 12.5% of basic salary).	None
Share ownership policy	Aligns Executive Director and shareholder interests and reinforces long-term decision-making.	During their employment, Executive Directors are obliged to build up and maintain a target holding of shares worth 200% of salary. Executive Directors are also normally required to maintain a shareholding equal to 200% of final salary for a period of two years after they step down from the Board. Further details relating to both the above requirements (including the particular shares to which they relate and the enforcement mechanisms that have been put in place) are set out on page 103 and 104.	Not applicable.	None

Directors' Remuneration Report continued

Remuneration element	Purpose and link to strategy	Operation	Opportunity	Framework for assessing performance
Non-Executive Chair's fees and Non-Executive Directors' fees	Helps recruit and retain high-quality, experienced individuals. Reflects time commitment and role.	Non-Executive Directors' fees are considered annually and are set by the executive members of the Board and the Non-Executive Chair taking into account a range of relevant factors such as: – market practice; – time commitment; and – responsibilities associated with the roles. Additional fees may be payable for additional Board responsibilities such as membership and/or chair of a committee. The Non-Executive Chair's fee is similarly considered annually and is determined in light of factors such as market practice, the time commitment and responsibilities associated with the role and other relevant factors. Role-appropriate benefits may be provided in certain circumstances. This includes the reimbursement of any expenses incurred in the performance of duties (and associated tax on those expenses). None of the Non-Executive Directors nor the Non-Executive Chair participates in any of the Company's share schemes and they are not entitled to a bonus or pension contributions. Their fees can however be paid in cash or in shares (or a balance of both)	The aggregate fees of the Non-Executive Chair and Non-Executive Directors will not exceed the limit from time to time prescribed in the Company's Articles of Association.	None

Notes:

(1) A description of how the Company intends to implement the policy set out in this table during the financial year to 31 December 2023 is provided on pages 107 and 108.

(2) The following differences exist between the Company's above policy for the remuneration of directors and its approach to the payment of employees generally:
- Participation in the LTIP is typically aimed at the Executive Directors and certain selected senior managers. Other employees are eligible to participate in the Employee Share Award Scheme (details of which are provided in section 4.4 of the notes to the Financial Statements on page 154).
- A lower level of maximum annual bonus opportunity applies to employees other than the Executive Directors and certain PDMRs.
- Benefits offered to other employees generally comprise permanent health insurance, private health insurance, death-in-service benefit and gym and fitness allowance.

In general, these differences arise from the development of remuneration arrangements that are market competitive for the various categories of individuals. They also reflect the fact that, in the case of the Executive Directors and PDMRs, a greater emphasis is placed on variable pay.

(3) The choice of the performance metrics applicable to the annual bonus scheme reflect the committee's belief that any incentive compensation should be tied to appropriately challenging measures of both the overall performance of the Company against its strategic KPIs and (where appropriate) those areas that the relevant individual can directly influence.

(4) The performance conditions applicable to the LTIP will be selected by the committee to ensure that they align with the Company's strategic objectives going forward.

(5) Where a nil-cost option award under the LTIP becomes exercisable, it will generally remain so until the 10th anniversary of the date on which it was granted.

Detailed provisions

Common terms of share awards

Awards under any of the Company's discretionary share plans may:

– be granted as conditional share awards or nil-cost options or in other such form that the committee determines has the same economic effect;
– have any performance conditions applicable to them amended or substituted by the committee if an event occurs which causes the committee to determine that an amended or substituted performance condition would be more appropriate and not materially less difficult to satisfy;
– incorporate the right to receive an amount (in cash or additional shares) equal to the value of dividends which would have been paid on the shares under the award that vest up to the time of vesting (or, where the award is subject to a holding period, release). This amount may be calculated assuming that the dividends have been reinvested in the Company's shares on a cumulative basis;
– be settled in cash at the committee's discretion;
– be adjusted in the event of any variation of the Company's share capital or any demerger, delisting, special dividend or other event that may affect the Company's share price; and
– otherwise be adjusted or amended in accordance with the provisions of the relevant plan rules.

Legacy awards

The committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed (i) before 15 May 2014 (the date the Company's first shareholder-approved directors' remuneration policy came into effect); (ii) before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved directors' remuneration policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a director of the Company and, in the opinion of the committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes 'payments' includes the committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

Minor amendments

The committee may make minor amendments to the policy to aid its operation or implementation without seeking shareholder approvals (e.g. for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) provided that any such change is not to the material advantage of the participant.

Annual variable pay arrangements for the interim CEO

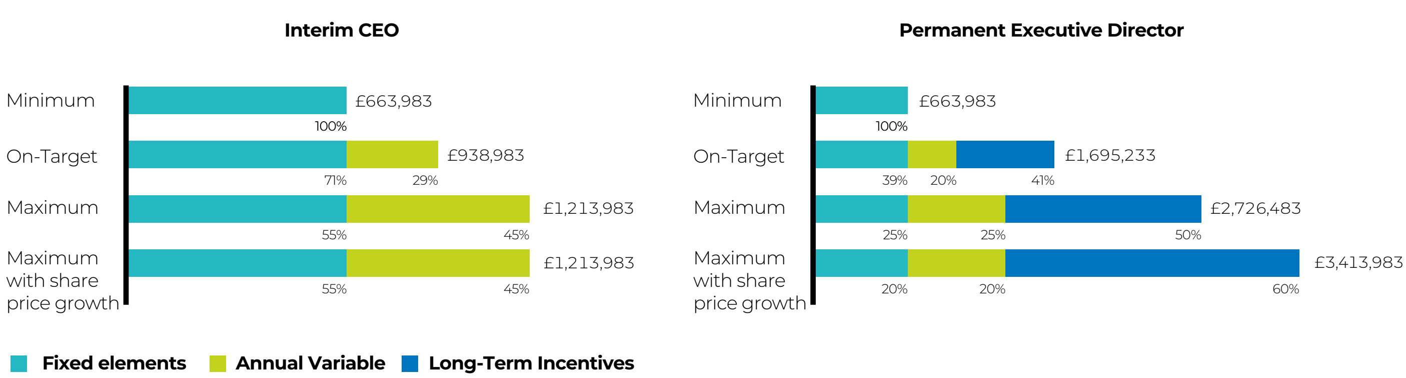
Notwithstanding the terms of the policy table set out on pages 80 to 84, the committee retains the discretion to operate a different annual bonus structure in 2023 for the interim CEO in terms of which:

– his maximum opportunity will be capped at 100% of base salary per annum;
– short-term targets will be set to reflect the interim nature of the role;
– any bonus awarded will be satisfied wholly by the delivery of unrestricted shares (with the number of those shares being determined by reference to their value on 1 February 2023, being his commencement date); and
– alternative clawback arrangements may be applied.

Remuneration scenarios relating to the above policy

The Regulations require the Company to present charts illustrating the level of remuneration that would be received by each person who is an Executive Director in the first year of operation of the proposed policy set out in Part 2 of this report. However, at the time of drafting this policy, the Company does not have any permanent Executive Directors on the Board. As a result, and in order to ensure appropriate levels of transparency, the charts below show remuneration outcomes for the proposed policy that would be received under minimum, on-target and maximum scenarios by both:

– the current interim CEO; and
– a theoretical permanent Executive Director.



Directors' Remuneration Report continued

In developing the above scenarios, the following assumptions have been made:
- The 'minimum' columns are intended to show the fixed level of remuneration to which the interim CEO and permanent Executive Director are, or would be, entitled in 2023 irrespective of performance levels, namely base salary (with the current rate payable to the interim CEO being used in both cases), benefits (using, for both charts, the former CEO's details set out in the 2022 single total figure table provided on page 90) and pension (calculated by applying the percentage entitlement for those individuals set out in the policy table against the above salary figures).
- The 'on-target' scenario seeks to illustrate the remuneration the interim CEO and permanent Executive Director would receive if performance was in line with expectation. In addition to the fixed elements summarised above, it assumes a 50% of maximum payout under the annual bonus scheme (with the interim CEO having a 100% of salary maximum opportunity and a 125% of salary maximum being applied to the permanent Executive Director). In the case of the permanent Executive Director, this scenario also assumes a 50% vesting of an LTIP award granted over shares worth 250% of salary. No such LTIP award has been included for the interim CEO.
- The 'maximum' columns demonstrate total remuneration levels in circumstances where the above variable elements pay out in full.
- For the 'maximum with share price growth' column, share-price appreciation of 50% over the relevant performance period has been assumed for any LTIP award. For all other columns, any post-grant share price movements have not been taken into account for the purposes of valuing LTIP and deferred bonus awards.
- The Executive Directors are entitled to participate in the SIP on the same basis as other employees. The value that may be received under this arrangement is subject to legislative limits and, for simplicity, has been excluded from the above chart.

Recruitment policy

Base salaries

Salaries for any new director hires (including internal promotions) will be set to reflect their skills and experience, the Company's intended pay positioning and the market rate for the role. Where it is appropriate to offer a below-market salary initially, the committee will have the discretion to allow phased salary increases over time for newly appointed directors, even though this may involve increases in excess of the rate for the wider workforce and inflation.

Benefits

Benefits for new appointees to the Board will normally be provided in line with those offered to other Executive Directors and employees taking account of local market practice, with relocation expenses/arrangements provided for if necessary. Tax equalisation may also be considered if an executive is adversely affected by taxation due to their employment with Capricorn. Legal fees and other reasonable costs and expenses incurred by the individual may also be paid by the Company. Retirement benefits for any new Executive Directors will be in accordance with the terms of the policy.

Variable pay

Where an individual is appointed to the Board, the committee will ensure that ongoing variable remuneration arrangements are framed in accordance with the terms of, and are subject to the limits contained in, the Company's policy table set out above, however, different performance measures may be set for the year of joining the Board, taking into account the individual's role and responsibilities and the point in the year the executive joined.

For an internal appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment.

Buy-outs

The committee may make awards to 'buy-out' a candidate's remuneration arrangements and contractual terms that are forfeited as a result of joining the Company. In doing so, the design of these awards would appropriately reflect the value, nature, time horizons and performance requirements attaching to the forfeited remuneration. Shareholders will be informed of any such arrangements at the time of appointment.

Non-Executive Chair and Non-Executive Directors

On the appointment of a new Non-Executive Chair and other Non-Executive Directors, the fees will be set taking into account a range of relevant factors such as market practice, time commitment and the responsibilities associated with the role. Where specific cash or share arrangements are delivered to Non-Executive Directors, these will not include share options or other performance-related elements.

Permanent Executive Directors' service contracts

Executive Directors have a rolling service contract that provides for 12 months' notice by the director or the Company. The committee believes that this policy on notice periods provides an appropriate balance between the need to retain the services of key individuals who will benefit the business and the need to limit the potential liabilities of the Company in the event of termination. The service contracts may also include restrictive covenants which may apply after leaving the Company.

The Executive Directors' service contracts are available for inspection, on request, at the Company's registered office.

Exit payment policy for Executive Directors

Executive Directors' contracts allow for termination with contractual notice from the Company or termination with a payment in lieu of notice, at the Company's discretion. The contracts also allow for phased payments to be made on termination with an obligation on the individual to mitigate loss. Neither notice nor a payment in lieu of notice will be given in the event of gross misconduct. The committee's approach when considering payments in the event of termination is to take account of the individual circumstances including the reason for termination and the contractual obligations of both parties as well as the relevant share plan and pension scheme rules.

In the event of termination by the Company, an Executive Director would be entitled to receive an amount representing base salary and the value of benefits and pension contributions due under the individual's service contract for the notice period. Directors are not entitled to participate in any additional redundancy scheme. The committee will have the authority to settle legal claims against the Group (e.g. for unfair dismissal, discrimination or whistle-blowing) that arise on termination. The committee may also authorise the provision of outplacement services and pay reasonable legal expenses associated with the termination.

On termination of employment, the committee has discretion as to the amount of bonus payable in respect of the year of termination. The bonus paid would reflect the Company's and the individual's performance during that period. However, any bonus payable (in cash and/or share awards as determined by the committee) on termination would not normally exceed a pro-rated amount to reflect the period for which the individual had worked in the relevant year.

As a general rule, if an Executive Director ceases employment, all unvested share awards granted pursuant to the Company's deferred bonus arrangements will lapse immediately. However, if such cessation occurs by reason of death, injury, permanent disability, or because the individual's employing company or part of the business in which he/she is employed is transferred out of the Group, retirement with the agreement of the Company, or in any other circumstances determined by the committee other than where an individual has been summarily dismissed (in each case, a 'good leaver'), those awards will not lapse and will normally continue to vest at the end of the original vesting period. The committee may determine that a deferred bonus award should vest before the normal time in certain circumstances, for example where an individual has died. The committee also has the discretion to time pro-rate any awards held by such a good leaver.

As a general rule, if an Executive Director ceases employment, all unvested awards granted pursuant to the Company's LTIP will lapse immediately. However, if such cessation occurs by reason of death, injury, permanent disability, or because the individual's employing company or part of the business in which he/she is employed is transferred out of the Group, or in any other exceptional circumstances determined by the committee (in each case, a 'good leaver'), those awards will not lapse and will normally continue to vest at the end of the original performance period but only if, and to the extent that, the applicable performance conditions are satisfied. The committee may determine that an award should vest before the normal time in certain circumstances, for example where an individual has died. It is the Remuneration Committee's normal policy to time pro-rate any awards held by such a good leaver, although it retains the discretion to refrain from doing so in exceptional circumstances. Any holding period attached to the share awards would normally continue to apply unless the committee determines otherwise.

If an Executive Director ceases employment, LTIP awards subject to a holding period will normally be released (or if structured as nil-cost options, become exercisable) on the original timescales. These awards will, however, lapse where cessation occurs due to the individual's gross misconduct, or if the committee considers it appropriate, the individual's bankruptcy. The committee has the discretion to accelerate the release of shares in certain circumstances, for example death.

In the event of a change of control or winding up of the Company, treatment of share awards will be in accordance with the relevant plan rules. The committee has the discretion to disapply time pro-rating in the event of a change of control.

If there is a demerger or special dividend, the committee may allow awards to vest on the same basis as for a change of control.

Non-Executive Directors' letters of appointment
None of the Non-Executive Directors nor the Non-Executive Chair has a service contract but all have letters of appointment that set out their duties and responsibilities, the time commitment expected by the Company, and the basis on which their fees will be paid. These letters of appointment have either: no fixed term but can be terminated with immediate effect by either the director concerned or the Company; or have a fixed term of three years but can be terminated with one month's notice by either the director concerned or the Company, and, in both cases, are subject to the Company's Articles of Association, which provide for the annual election or re-election by shareholders of all the Company's directors. There are no provisions for compensation payable on termination of appointment.

None of the Non-Executive Directors nor the Non-Executive Chair participates in any of the Company's share schemes and they are not entitled to a bonus or pension contributions.

The Non-Executive Directors' and Non-Executive Chair's letters of appointment are available for inspection, on request, at the Company's registered office.

Directors' Remuneration Report continued

Part 3 – Annual Report on Remuneration

Introduction

This Annual Report on Remuneration provides details of the way in which the committee operated during the financial year to 31 December 2022 and explains how Capricorn's approved Directors' Remuneration Policy that was in force during that period was implemented. It also summarises how the new Directors' Remuneration Policy set out on pages 79 to 87 will be applied in 2023, assuming it is approved by shareholders at the AGM to be held on 20 June 2023.

In accordance with the requirements of the Regulations, this part of the report, together with Part 1 – Annual Statement from the Chair of the Committee, will be subject to an advisory vote at the 2023 AGM.

The Company's auditor is required to report to Capricorn's shareholders on the 'auditable parts' of this Annual Report on Remuneration (which have been highlighted as such below) and to state whether, in their opinion, those parts have been properly prepared in accordance with the Regulations and the Companies Act 2006.

On the basis that Capricorn has fewer than 250 UK employees, the Company is not required to publish or report its gender pay gap information.

Operation of the Remuneration Committee during 2022

Members of the Remuneration Committee

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

The individuals who served on the committee during 2022, each of whom was an independent Non-Executive Director of the Company throughout the period, had no personal financial interest (other than as shareholders) in the matters decided, no potential conflicts of interest from cross-directorships and no day-to-day involvement in running the business. Prior to her appointment as Chair in January 2021, Alison Wood (Chair of the committee in 2022) had served on the remuneration committees of other listed companies for more than 12 months. Details of attendance at the committee's meetings during 2022 are shown on page 76.

Following recent Board changes, details of current Remuneration Committee membership is set out below:
- Maria Gordon (current Chair of the committee)
- Erik B. Daugbjerg; and
- Tom Pitts

Biographical information on the individuals who are currently committee members is shown on pages 50 and 51.

Internal assistance provided to the Committee

The Company's Chief Executive is not a member of the Remuneration Committee but may attend its meetings by invitation and is consulted in respect of certain of its proposals. The Chief Executive is not involved in any discussions in respect of their own remuneration. During the year, the committee also received assistance and advice on remuneration policy from the Company Secretary.

External assistance provided to the Committee

As and when the Remuneration Committee considers it appropriate, it takes external advice on remuneration from a number of sources. During the year, it received the following assistance:

Adviser	Assistance provided to the committee during 2022	Fees for committee assistance in 2022[1]	Other services provided to the Company during 2022
Alvarez & Marsal Taxand UK LLP[2]	Appointed by the committee to give periodic advice during the period to 11 March 2022 on various aspects of the directors' remuneration packages. Also assisted with the preparation of the 2021 Directors' Remuneration Report and provided support on a number of miscellaneous remuneration-related projects.	£16,319	Provided advice on various aspects of remuneration practice across the Group in the period to 11 March 2022.
Mercer LLC[2]	Appointed by the committee to give periodic advice during the period from 11 March 2022 on various aspects of the directors' remuneration packages.	£19,500	Provided advice on various aspects of remuneration practice across the Group in the period from 11 March 2022.
Ernst & Young LLP	Appointed by the Company to carry out an independent verification of its achievement against performance conditions applicable to the Company's LTIPs and share option schemes.	n/a – no advice provided to the committee	Internal auditor of the Company throughout the year.
Shepherd and Wedderburn LLP	Appointed by the Company to carry out regular calculations in relation to the LTIP performance conditions. Also assisted with the preparation of the 2021 and 2022 Directors' Remuneration Reports.	£20,485	General legal services to the Group throughout the year.

Notes:
(1) The bases for charging the fees set out in the table were agreed by the committee at or around the time the particular services were provided and, in general, reflected the time spent by the adviser in question on the relevant matter.
(2) Both Alvarez & Marsal Taxand UK LLP and Mercer LLC are (or were when providing advice to the committee) members of the Remuneration Consultants Group and their work is governed by the Code of Conduct in relation to executive remuneration consulting in the UK.
(3) The committee reviews the performance and independence of all its advisers on a continuous basis. No issues relating to performance or independence were noted by the committee during the year.

Statement of Shareholder Voting at General Meetings

The table below shows the voting outcome at the last general meeting(s) at which shareholders were asked by the Company to approve a resolution relating to its Directors' Remuneration Report and Directors' Remuneration Policy:

Description of resolution	Date of general meeting	Number of votes 'For' and 'Discretionary'	% of votes cast	Number of votes 'Against'	% of votes cast	Total number of votes cast	Number of votes 'Withheld'[1]
To approve the 2021 Directors' Remuneration Report	11 May 2022	169,523,838	95.75%	7,529,592	4.25%	177,053,430	172,162
To approve the 2020 Directors' Remuneration Policy	14 May 2020	417,923,175	93.01%	31,405,942	6.99%	449,329,117	26,501

Note:
(1) A vote withheld is not a vote in law.

The committee welcomed the endorsement of both the above resolutions that was shown by the vast majority of shareholders at the relevant meetings and gave due consideration to any concerns raised by investors who did not support the resolutions.

Departure of Simon Thomson and James Smith

As previously announced, Simon Thomson and James Smith stepped down from their positions as Chief Executive Officer and Chief Financial Officer on 24 January 2023 and 1 February 2023, respectively.

On 1 February 2023, Simon Thomson was served with 12 months' notice to terminate his employment with Capricorn and, with effect from 3 February 2023, was placed on garden leave. A similar notice was served on James Smith on 27 February 2023, with his garden leave commencing on that same date. During the period of garden leave, individuals continued to receive salary and benefits including pension contributions.

James Smith's garden leave continued until 14 April 2023 at which point the Company exercised its right to end his employment and make a payment in lieu of notice in respect of the balance of his notice period. This payment in lieu of notice, which reflected application of mitigation, totalled £68,802.66. He also received a payment in respect of 14.5 days of accrued annual leave.

Simon Thomson's employment was brought to an end on 21 April 2023. Going forward, he will be paid an amount equivalent to salary, pension and benefits in monthly instalments in lieu of the remainder of his contractual notice period. Such amounts will be subject to reduction to take account of any sums earned during the payment period from any alternative roles that he fulfils.

Both individuals were considered for a bonus in respect of 2022. Further details of the way in which these amounts were calculated (and the reduced level awarded to Simon Thomson and James Smith compared to the wider employee base) and paid are set on pages 91 to 100.

Consistent with the rules of the Company's Long Term Incentive Plan (or "LTIP"), both Simon Thomson and James Smith will retain any awards that vested prior to the date on which they ceased employment. For the avoidance of doubt, any outstanding holding periods applicable to those awards will continue to operate as before. All unvested LTIP awards held by James Smith and Simon Thomson, however, immediately lapsed on the cessation of their employment (i.e. the committee declined to exercise its discretion to treat these individuals as "good leavers" for the purposes of the plan rules).

All "free" or "matching" shares awarded to Simon Thomson and James Smith under the all-employee Share Incentive Plan (or "SIP") less than three years prior to their leaving date were forfeited for no consideration on cessation of their employment. The balance of their shares under this arrangement have been released to them in accordance with the rules of the SIP.

Directors' Remuneration Report continued

Single total figure table for 2022 (audited)

The tables below set out the remuneration received by Executive Directors and Non-Executive Directors during the year in the following categories.

Salary + Benefits + Pension + SIP + Annual Bonus + Long-term incentives = Total remuneration

Executive Directors during 2022

		Fixed Remuneration				Variable Remuneration				Totals		
						Annual bonus[4]...						
Directors	Financial year	Salary and fees	Benefits[1]	Pension[2]	SIP[3]	...paid in cash	...deferred into shares	...total bonus	Long-term incentives[5]	Total remuneration	Total fixed remuneration	Total variable remuneration
Simon Thomson	**2022**	**£610,293**	**£45,233**	**£91,544**	**£7,199**	**£171,645**	**£0**	**£171,645**	**£982,859**	**£1,908,773**	**£754,269**	**£1,154,504**
	2021	£592,517	£42,400	£88,878	£7,197	£448,091	£0	£448,091	£771,809	£1,950,892	£730,992	£1,219,900
James Smith	**2022**	**£396,938**	**£39,652**	**£59,541**	**£7,199**	**£111,639**	**£0**	**£111,639**	**£639,255**	**£1,254,224**	**£503,330**	**£750,894**
	2021	£385,377	£37,537	£57,807	£7,197	£291,441	£0	£291,441	£501,990	£1,281,349	£487,918	£793,431

Notes:

(1) Taxable benefits available to the Executive Directors during 2022 were a company car/car allowance, private health insurance, death-in-service benefit and a gym and fitness allowance. This overall package of taxable benefits was largely unchanged from 2021, with the higher figures for both Simon Thomson and James Smith primarily being attributable to increased charges for their company cars.

(2) Additional disclosures relating to the pension provision for the Executive Directors during 2022 are set out on page 91.

(3) This column shows the face value (at date of award) of matching and free shares provided to Executive Directors under the SIP during the relevant period. Further details on the way in which the SIP was operated during 2022 are set out on page 103.

(4) Further information in relation to the annual bonus scheme for 2022 is provided on pages 91 to 100. For the avoidance of doubt, the quantum of awards made under this arrangement is not attributable, either wholly or in part, to share price appreciation.

(5) This column shows the value of shares that vested in respect of LTIP awards with performance conditions that ended during the period in question. Further details of the LTIP's operation during 2022, including how the level of award was determined, confirmation of the amount (if any) of the above vesting value that was attributable to share price appreciation and a summary of any discretions that were exercised, are provided on pages 100 to 103.

(6) Following the end of the year to 31 December 2022, the committee considered whether there were any circumstances that could or should result in the recovery or withholding of any sums pursuant to the clawback arrangements contained within the Company's remuneration policy. The conclusion reached by the committee was that it was not aware of any such circumstances.

Non-Executive Directors

		Fixed Remuneration			Variable Remuneration		Totals		
Directors	Financial year	Salary and fees[1]	Benefits	Pension[2]	Annual bonus[2]	Long-term incentives[2]	Total remuneration	Total fixed remuneration	Total variable remuneration
Nicoletta Giadrossi	**2022**	**£185,400**	**–**	**–**	**–**	**–**	**£185,400**	**£185,400**	**–**
	2021	£180,000	–	–	–	–	£180,000	£180,000	–
Keith Lough[3]	**2022**	**£87,765**	**–**	**–**	**–**	**–**	**£87,765**	**£87,765**	**–**
	2021	£85,500	–	–	–	–	£85,500	£85,500	–
Peter Kallos	**2022**	**£77,765**	**–**	**–**	**–**	**–**	**£77,765**	**£77,765**	**–**
	2021	£75,500	–	–	–	–	£75,500	£75,500	–
Alison Wood[4]	**2022**	**£87,765**	**–**	**–**	**–**	**–**	**£87,765**	**£87,765**	**–**
	2021	£85,500	–	–	–	–	£85,500	£85,500	–
Catherine Krajicek	**2022**	**£77,765**	**–**	**–**	**–**	**–**	**£77,765**	**£77,765**	**–**
	2021	£75,500	–	–	–	–	£75,500	£75,500	–
Erik B. Daugbjerg	**2022**	**£77,765**	**–**	**–**	**–**	**–**	**£77,765**	**£77,765**	**–**
	2021	£75,500	–	–	–	–	£75,500	£75,500	–
Luis Araujo[5]	**2022**	**£49,432**	**–**	**–**	**–**	**–**	**£49,432**	**£49,432**	**–**
	2021	–	–	–	–	–	–	–	–

Notes:

(1) As disclosed in the 2021 Annual Report on Remuneration, the annual fee payable to the Company's Chair for 2022 was increased from £180,000 to £185,400. Similarly, the basic annual fee for Non-Executive Directors in 2022 was increased from £75,500 to £77,765.

(2) The Non-Executive Directors do not participate in any of the Company's long-term incentive arrangements and are not entitled to a bonus or pension contributions.

(3) A further annual fee of £10,000 was payable to Keith Lough for his role as Chair of the Audit Committee during 2021 and 2022.

(4) A further annual fee of £10,000 was payable to Alison Wood for her role as Chair of the Remuneration Committee during 2021 and 2022.

(5) Luis Araujo was appointed as a Non-Executive Director on 11 May 2022. His fees for 2022 reflect the period from that date to the year-end.

Executive Directors' base salaries during 2022
Based on a review carried out in November 2021, the following salary increases for Executive Directors became effective on 1 January 2022:

2022 Annual Salary Details

	Job title	Annual salary as at 31 December 2021	Annual salary as at 1 January 2022	% increase with effect from 1 January 2022
Directors				
Simon Thomson	Chief Executive	£592,517	£610,293	3.0%
James Smith	CFO	£385,377	£396,938	3.0%

The increases shown in the above table for both Simon Thomson and James Smith were consistent with the level of standard annual salary increase awarded to other employees on 1 January 2022.

Executive Directors' pension provision during 2022 (audited)
In accordance with the terms of the Directors' Remuneration Policy, the Company operates a defined contribution, non-contributory Group personal pension plan which is open to all UK permanent employees. During 2022, the Company contributed 10% of basic annual salary (15% in respect of current Executive Directors) on behalf of all qualifying employees.

With effect from 1 January 2023, and in accordance with the terms of the new Directors' Remuneration Policy set out on pages 79 to 87, the above contribution rates were aligned so that all employees and Executive Directors now benefit from an annual Company pension contribution of 12.5% of basic salary.

The Company also has a pension committee which meets on a regular basis to assess the performance and suitability of the Company's pension arrangements.

Throughout 2022, James Smith was a member of the Company scheme and, during the year, received Company contributions up to his statutory annual allowance. The balance of his 15% of basic salary entitlement for the year ended 31 December 2022 was paid in cash.

During the year, Simon Thomson received an amount equal to 15% of his annual basic salary in the form of additional cash as his pension arrangements have already reached the relevant lifetime limit.

Details of the actual amounts of pension contributions/additional cash that were paid to the Executive Directors during 2022 are set out in the 'pension' column of the single total figure table on page 90.

Annual bonus – 2022 structure and outcome (audited)
During 2022, Capricorn operated an annual bonus scheme for all employees and Executive Directors. The maximum level of bonus award for Executive Directors and certain PDMRs for the year was 125% of annual salary.

For all participants other than the Executive Directors, 2022 bonus awards were based on achievement against a mixture of personal objectives, project-based KPIs and Group-wide KPIs. When determining the level of award attributable to the personal performance element of these individuals' bonuses, consideration was also given to the extent to which they demonstrated the Company's 'high performance behaviours' during the period and also the level of their understanding, application and compliance with the Company's various standards and policies. The final level of all bonuses awarded to employees below Executive Director/PDMR level was reviewed and approved by the committee.

Consistent with the approach adopted in 2021, 100% of each Executive Director's bonus opportunity for the year to 31 December 2022 was determined by reference to the extent to which certain Group KPIs were achieved. A summary of the relevant targets, ascribed weightings, payment scales and achievement levels is set out below.

Directors' Remuneration Report continued

KPI measures and performance achieved in 2022

Purpose	2022 KPI	Measurement and payment scale
ESG and HSSE		
Deliver value in a safe, secure and environmentally and socially responsible manner.	– **HSSE Lagging Indicators:** Achieve lagging HSSE indicators measured against IOGP targets.	– An important focus for the business across our operated portfolio of surveys and onshore and offshore wells, with increased weighting allocated in 2022 than in the prior year given planned activities. Threshold, target and stretch goals identified at the start of the year.
	– **HSSE Leading Indicators:** Achieve HSSE leading indicators surrounding safety leadership.	– A number of executive/management visits were targeted to take place during 2022 to embed, monitor and audit safety culture amongst staff, contractors and joint ventures, with threshold (one visit), target (two or more visits) and stretch (four visits plus Group-wide HSSE day held) numbers of visits agreed at commencement of the year.
	– **Environmental:** Outline a roadmap and deliver opportunities to achieve Scope 1 and 2 emissions reductions versus our short-, medium- and long-term net-zero targets.	– Target-based scoring identified with threshold (0% score) for securing project(s) that contributed towards our 2040 target, target (50% score) for securing project(s) that contributed towards our 2030 target, and stretch (100% score) for securing project(s) that contributed to our 2040 target plus project(s) that contributed towards our 2030 target plus project(s) that helped to deliver improvements before 2025.

2022 performance	Weighting	Bonus awarded	KPI remuneration committee decision
	(as % of allocated proportion of maximum opportunity)		
– Operated activities, including well drilling, resulted in zero reportable regulatory spills to the environment and, for Total Recordable Injury Rate and Lost Time Injury Frequency, as reported in International Association of Oil & Gas Producers (IOGP) statistics, scores which were better than the lowest number of all activity averages. This resulted in the stretch target being met.	4%	4%	Fully achieved
– The HSSE leadership visits that took place in 2022 were strongly supported across the business with contributions across the operational footprint. All participants used the Site Safety Visit Guide to plan, execute and report on their leadership visits with messaging communicated to staff, contractors and suppliers, which indirectly contributed to the positive outcome on the lagging indicators. – In July 2022, management visited the Bapetco assets in Egypt for the purpose of general management and observation, with good dialogue taking place on matters for follow-up. – In August 2022, management visited the Valaris 123, which drilled the operated Diadem well rig to demonstrate HSSE leadership and to focus on major accident hazard prevention. – Members of management visited the seismic operations being undertaken in the South-East Horus concession in Egypt in September 2022. The focus of the visit was HSSE leadership and to demonstrate and assess safety behaviours and lifesaving rules. An action tracker was put in place for the operational period. – A field visit was undertaken to the Egypt production operations to undertake an Environmental and Safety Audit with good progress noted against previous findings. – A visit was made to the West El Fayium concession seismic operations to observe health and safety behaviours and a comprehensive visit report was prepared and disseminated. – On 7 December 2022, an HSSE & CSR day was held in the Edinburgh office, with over 140 participants from across the organisation in attendance.	4%	4%	
– Progress with GHG emissions reductions initiatives in Egypt gave confidence to set bolder Scope 1 and 2 targets, which were communicated to investors during the September 2022 update. A new, near-term target of 15% reduction by 2025 has been set, while the 2030 emissions reduction target was increased from 25% to 30%. – An emissions baseline assessment in Egypt was completed providing assurance on the quality of emissions reporting. This is fully in line with the latest American Petroleum Institute (API) GHG compendium (November 2021). Bapetco have identified a suite of projects and a roadmap to deliver on an ambitious Scope 1 and 2 emissions reduction pathway. Significant progress was made on emissions improvement initiatives including mobile diesel generator reduction, electrification using gas as power fuel, planning for multiple flare reduction and waste heat recovery projects, and investigating feasibility for carbon capture and storage at Badr El Din and Obaiyed through subsurface evaluation. – In January 2022, Capricorn purchased a portfolio of high-quality carbon offsets with BP, Shell and Tradewater; all are verified with either Verra, Gold Standard or the American Carbon Registry.	5%	5%	

Directors' Remuneration Report continued

Purpose	2022 KPI	Measurement and payment scale
ESG and HSSE continued		
	– **Social:** Agree, establish and track social investment across the Group that helps to deliver a positive impact on the communities with which we work.	– A milestone-based scoring requiring the development of the existing framework, in line with the UN SDGs, for the social investment plans across the Group, including quantifying the overall impact of the programme(s).
	– **Governance:** Communicate our climate change strategy, performance, and our processes for governance, risk management, target setting and carbon pricing.	– Target based scoring identified with threshold (0% score) for the Carbon Disclosure Project (CDP) rating maintained or improved, target (50% score) for the CDP rating being maintained or improved plus TCFD reporting requirements met, and stretch (100% score) achieved if the CDP rating was maintained or improved plus TCFD reporting requirements being met plus Sustainability Accounting Standards Board (SASB) requirements being met.
	– **Governance:** Enhance our approach to Diversity & Inclusion	– A milestone-based target of completing an independent survey with staff to provide a benchmark to D&I awareness in the oil and gas industry and the countries where we participate; and increase and further embed D&I into our culture at Board, Management and general staff levels.

2022 performance	Weighting	Bonus awarded	KPI remuneration committee decision
	(as % of allocated proportion of maximum opportunity)		
– The inputs and outcomes from 2022 social investment efforts were assessed and it was concluded that these met the social investment guidelines for investments and that they were being actively managed by the social advisors in collaboration with a number of external stakeholders. A social management framework was developed in 2021 in line with the UN SDGs and this was first used in 2022, including using the social investment screening tool. – Social investment projects undertaken in 2022 in Mexico included: the second year of the Turtle Conservation Project where our donations funded the patrolling of 7,000km of beach, an increased number of hatchlings being released year-on-year and a technology transfer education and innovation programme with 25 participants. – In Suriname, we assisted for a third year in the mangrove rehabilitation project, with our donation being used to acquire key pieces of equipment to support the construction of sediment trapping units which increased the area now protected. Donations were also given to create a community hub, with six local schools having access; 200-300 local students and youths accessed the hub on a weekly basis and gained IT skills and experience. Further donations funded the tuition fees for a two-year MSc in Public Health for seven students and also allowed the purchase of key pieces of equipment for the electrical engineering element of the oil and gas stream of NATIN Phase 2 programme which had 30 participants. – In the UK, a Clean Energy Scholarship at Heriot Watt University was supported, enabling three students to be supported through a clean energy PhD. Also at Heriot Watt University, a donation enabled 16 PhD students to be funded through GeoNetZero CDT. – In Egypt, a financial donation and the provision of volunteer trainers was made towards the Al Amal Graduate Training Programme, which had 42 participants.	3%	3%	
– **CDP:** In December 2022, we received our Water and Climate Change CDP ratings (both B) relating to 2021 ESG data, submitted in July 2022. Our prior-year submission for Climate Change was (-B) and Water (B). This puts us among the top performers amongst our peers, on both metrics. – **TCFD:** We delivered a detailed standalone TCFD report, published as part of the Annual Report 2021. We addressed all four pillars (Governance, Strategy, Risks and Metrics and Targets) and 11 disclosures as required by the framework, including the assessment of transition risks of climate change on our portfolio. . – In 2022, we assessed the potential impact of the physical risks of climate change on our assets. We conducted a study with an independent provider, Willis Towers Watson, who helped us calculate Value at Risk (VaR) for three principal climate scenarios. The results of this analysis are included in the TCFD 2022 disclosures and published as part of the 2022 Annual Report and Sustainability Report. – **SASB:** To improve the quality and transparency of our reporting, we assessed and aligned our reporting against the Sustainability Accounting Standards Board (SASB) Oil & Gas – Exploration & Production Sustainable Accounting Standard (SASB, Oil & Gas – Exploration & Production Index 2021).	2%	2%	
– An independent D&I survey was commissioned in April 2022; 170 employees responded to the survey. We compared our results with those from 100+ energy companies operating in the UKCS and Capricorn achieved 7.7 (out of 10) on the D&I Index, 0.6 higher than the UKCS average of 7.1. – A D&I working group was formed in January 2022. The group identified several key initiatives to further embed D&I into our culture including: to improve opportunities for under-represented groups to move into senior roles in the organisation; and commenced in January 2022 our ‘Shadow4success’ initiative. A diverse group of female colleagues was independently selected for the programme to shadow our Executive Team throughout the year; in January 2022, we launched an ‘Inclusion calendar’, which is designed to provide an overview and raise awareness of key dates and activities to reflect the diverse population of our staff and the communities in which we work; and D&I training was delivered for all staff between September 2022 and November 2022.	2%	2%	

Directors' Remuneration Report continued

Purpose	2022 KPI	Measurement and payment scale
Exploration and New Ventures		
Grow the reserves and resources base to provide a basis for future growth.	– **Prospect Maturation & Well Planning** • Mature our key exploration projects for planned drilling in 2022/23 in Egypt, UK and Mauritania.	– Milestone-based targets: Prospect selection for Egypt operated exploration drilling: gain approval from JV partners for the Capricorn recommended drilling prospects and associated optimum timing. – Finalise prospect maturation and selection from new 3D seismic in the MNSH in UKCS, and secure approved budget funds from JV partner(s) for drilling operations in 2023. – Secure a JV partner in Mauritania Block C7 with approved budget funds for drilling operations in 2023.
	• **Exploration Operations:** Conduct our operated and non-operated exploration and appraisal activities (surveys and drilling) successfully, on time and on budget.	– Target-based scoring identified with threshold (0% score) for operations meeting the basis of design objectives, target (50% score) for operations completing on time and on budget (+/- 10%), and stretch (100% score) for operations completing on time and 10% less than budget.
	• **Adding Resources:** Add new commercial resources through E&A drilling, coupled with conceptual development studies.	– Target-based scoring determined by net 2C Contingent Resources added with threshold (0% score) for 0 net mmboe added, target (50% score) for 15 net mmboe added, and stretch (100% score) for 30 net mmboe added.
Production		
Maximise revenues through efficient operations.	– **Reserves/Resource Conversion:** Sanction incremental development investment to convert WI 2C Resources and 2P Undeveloped Reserves into WI 2P Producing Reserves.	– Measured according to the conversion of Contingent Resources and Undeveloped Reserves to 2P Reserves with threshold (0% score) for 10mmboe converted, target (50% score) for 15mmboe converted, and stretch (100% score) for 20mmboe converted.
	– **Delivering Production and Opex Targets:** Deliver Net production targets within public market guidance issued in January 2022.	– Measured against the public production guidance communicated to the markets via the RNS in January 2022 (37,000 to 43,000 boepd net, with oil and condensate anticipated to be between 35-40% of the overall production), with threshold (0% score) for achieving low-end of guidance, target (50% score) for achieving middle of guidance, and stretch (100% score) for achieving at or above top-end of guidance.
	– **Deliver Operating Cost/boe Targets:** Delivering operating cost/boe targets within public market guidance in January 2022 in relation to Egypt (US$4.5 – US$5.5 per boe).	– Assessed against the 2022 budget values converted into an Opex/boe guidance as presented to the market in January 2022, with threshold (0% score) for achieving low-end of guidance, target (50% score) for achieving middle of guidance (US$5/boe), and stretch (100% score) for achieving at or above top-end of guidance.

2022 performance	Weighting	Bonus awarded	KPI remuneration committee decision
	(as % of allocated proportion of maximum opportunity)		
– The proposed prospects to be drilled in the SAS concession were agreed with the joint venture, with the first (Saqr) to be spudded in early February 2023. – Farm-down work continued during the year. Drilling planning has progressed with the well design simplified and the ESIA preparations underway.	8%	2%	Partially achieved
– All projects executed in 2022 met their original basis of design objectives. The Jaws exploration well was delivered on budget and the South East Horus 3D seismic and West El Fayium 3D seismic both completed more than 10% under budget. The Diadem exploration well completed, but over budget, and, therefore, did not score.	6%	3.75%	
– The Jaws exploration well in the UKCS, operated by Shell (Capricorn 50% WI) was completed in late January 2022. The well encountered 31m of Jurassic Fulmar sands but was unfortunately water wet. – The Capricorn operated Diadem well (50% WI) was completed in September 2022 but was also unsuccessful, failing to find reservoir hydrocarbons. – As both wells were unsuccessful, no new contingent resources were added, resulting in a zero score. Both licences P2380 and P2379 were relinquished by year-end.	6%	0%	
– The target of 15 mmbboe converted was based on 100% reserves replacement, where production was expected to be ~40 kboepd (or an annual volume of 14.6 mmboe) on the basis 40-50 wells would be drilled in 2022. The targets were not met.	5%	0%	Partially achieved
– The target was set with the ambition of drilling 40-50 new wells in the year. Due to various reasons, the joint venture was only able to deliver 31 new wells, impacting the production volumes. Oil and condensate volumes were above threshold of 12,950 bopd but below target of 15,000 bopd, scoring 1.5%. Gas production and oil equivalent production were below threshold of 140 mmscf/d and 40,000 boepd respectively, resulting in zero score.	10%	1.5%	
– Although the absolute opex was in line with guidance in terms of US$ annual expenditure, the overall performance was impacted by the production performance being below target and therefore pulled the opex/boe out of guidance, averaging US$5.7/boe.	5%	0%	

Directors' Remuneration Report continued

Purpose	2022 KPI	Measurement and payment scale
Financial Performance		
Maintain Financial Strength and flexibility	– **Headroom Test:** maintain 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.	– Milestone-based scoring requiring maintenance of a US$50m 'headroom'.
	– **Debt Liquidity:** covenants or applicable facility tests met.	– Milestone-based scoring based on meeting appropriate tests.
	– **Funding Plan:** executable funding plan presented and approved by the Board to effect the Company's strategy or as required in line with any approved acquisition.	– Milestone-based scoring based on approval of funding plan in accordance with the KPI.
Corporate Projects		
Deliver a sustainable business	– Identify projects agreed with the Board of strategic significance during the year to enhance the portfolio.	– Develop and execute plans to enhance the portfolio to: (i) increase the scale of operating cash flow (5%); (ii) diversify the cash flow generating base (5%); (iii) integrate new assets in a timely and effective manner, (5%) and (iv) achieve predetermined portfolio management projects (5%, commercially confidential).

2022 performance	Weighting	Bonus awarded	KPI remuneration committee decision
	(as % of allocated proportion of maximum opportunity)		
– This funding test was maintained and therefore scored fully for this element of the financial performance KPI.	5%	5%	Partially achieved
– The October 2022 redetermination for the reserve-based lending (RBL) debt facility associated with Egypt completed and the KPI fully met for this element of the financial performance KPI.	5%	5%	
– Following the annual strategic review, an all-share merger with Tullow Oil plc was proposed and a funding plan prepared accordingly. This plan changed following the recommendation to combine with NewMed Energy. In February 2023, the Company and NewMed mutually agreed to terminate the Business Combination Agreement and the associated funding plan was not completed, meaning zero score achieved for this element of the financial performance KPI.	10%	0%	
– Whilst a number of business development opportunities were reviewed, no corporate projects concluded and no score was achieved in this element of the corporate projects KPI.	15%	0%	Partially achieved
– Pre-determined portfolio management projects (commercially confidential) were only partially achieved, scoring below half marks for this element of the corporate projects KPI	5%	2%	
Total	**100%**	**39.25%**	

Directors' Remuneration Report continued

2022 annual bonus scheme – overview of awards and actual payments made

In accordance with its normal practice, the above outturn from the assessment of the Group KPIs was subject to a further review by the committee in order to assess whether the resulting level of awards that it would generate for Executive Directors under the annual bonus scheme structure for 2022 would be fair and reasonable in the context of the Company's overall financial and operational performance during the year. The conclusion reached was that, in the circumstances, it would be appropriate for the committee to exercise its overarching discretion (contained within the approved remuneration policy) and apply a reduction to these amounts.

In particular, it decided that, for the purposes of calculating the Executive Directors' bonuses, the assumed level of overall achievement for the Group KPIs would be limited to 22.5% rather than the 39.25% shown in the table above. The impact of this decision is illustrated below.

2022 annual bonus scheme – overview of awards and actual payments made

The application of the outturn from the above performance condition assessments resulted in the following bonuses becoming payable to Simon Thomson and James Smith:

		Simon Thomson	James Smith
		Group KPI measures	Group KPI measures
Award elements	Weighting (as % of max. bonus opportunity)	100%	100%
	x		
	Assumed achievement level (after the application of the committee's above noted discretionary reduction)[1]	22.5%	22.5%
	=		
	Award percentage (as % of max. bonus opportunity)	22.5%	22.5%
Award calculation	Max. bonus opportunity (as % of salary)	125%	125%
	x		
	Award percentage (as calculated above)	22.5%	22.5%
	=		
	Total award (as % of salary)	28.125%	28.125%
	Total award (as an amount)	£171,645	£111,639
Form of payment	Cash payment[2]	£171,645	£111,639
	Deferred share award[3]	£0	£0

Notes:
(1) In the absence of the committee's discretionary reduction to the Group KPI achievement level, the total award (as a percentage of salary) for both Simon Thomson and James Smith would have been 49.06% (i.e. 39.25% achievement x 125% of salary maximum opportunity).
(2) Cash payments due under the annual bonus scheme were paid to the relevant individuals shortly after completion of the assessment of the relevant performance measures and conditions.
(3) Under the Company's annual bonus scheme for 2022, any amounts awarded in excess of 100% of salary would have been delivered in the form of share awards granted under the Company's Deferred Bonus Plan.

Long-Term Incentives

Introduction

During the year to 31 December 2022, the Executive Directors participated in the Company's LTIP (which was approved by shareholders at the AGM held on 19 May 2017).

The LTIP enables selected senior individuals to be granted conditional awards or nil-cost options over ordinary shares, the vesting of which is normally dependent on both continued employment with the Group and the extent to which pre-determined performance conditions are met over a specified period of three years.

Overview of performance conditions

For the awards granted to Executive Directors under the LTIP since its original adoption (including those granted in 2022), the performance conditions compromise two distinct elements, namely:

- **Conditions applicable to the 'core award'**
  The first condition applies to that element of each award which is over ordinary shares normally worth 200% of the individual's salary (the 'core award') and involves an assessment of the Company's TSR performance over a three-year performance period (commencing on the date of grant) relative to the performance achieved by a pre-determined comparator group of companies in the same sector (details of which are set out on page 103). Vesting will then take place as follows:

Ranking of Company against the comparator group	Percentage of ordinary shares comprised in core award that vest
Below median	0%
Median	25%
Upper quartile or above	100%
Between median and upper quartile	25%–100% on a straight-line basis

- **Conditions applicable to the 'kicker award'**
  The second condition applies to the remaining part of each grant (the 'kicker award'), being an element that is granted over ordinary shares normally worth 50% of salary. This part of the award will vest in full if, over the same three-year measurement period (i) the

Company achieves an upper quartile ranking (or above) in the comparator group; and (ii) the TSR actually achieved by the Company is at least 100%. For the avoidance of doubt, if either of these requirements is not satisfied, no part of the kicker award will vest.

No part of an award granted under the LTIP during 2019 and earlier years will vest unless the Remuneration Committee is satisfied that there has been an overall satisfactory and sustained improvement in the performance of the Company as a whole over the performance period. In the case of awards granted in 2020 and later years, the committee retains the discretion to adjust the vesting level produced by the formulaic operation of the performance conditions described above in circumstances where, based on its independent judgement, it considers it appropriate to do so (e.g. where the outturn from the assessment of the prescribed targets is not, in the committee's view, a genuine reflection of the underlying performance of the Company).

Dividend equivalent rights

All outstanding awards under the LTIP have been granted on terms that participants will receive a payment (in cash and/or shares) on, or shortly following, the settlement of their awards of an amount equivalent to the dividends that would have been payable on the shares acquired between the date of grant and the expiry of any applicable holding period. Where required, the committee will decide the basis on which the value of such dividends shall be calculated, which may assume the reinvestment of dividends. The rules of the LTIP also give the committee the discretion to disapply these provisions in relation to all or part of any special dividend.

LTIP awards granted during 2022 (audited)

On 11 March 2022, the following awards under the LTIP were granted to Executive Directors:

	Description of award	Form of award	Basis of award granted	Share price at date of grant[3]	No. of shares over which award originally granted	Face value (£000) of shares over which award originally granted[4]	% of shares over which award originally granted that vest at threshold	Vesting determined by performance over
Directors								
Simon Thomson	Core award	Nil-cost option	2 x base salary of £610,293	£1.957	623,702	£1,221	25%	3 years until 10 March 2025
	Kicker award	Nil-cost option	0.5 x base salary of £610,293	£1.957	155,925	£305	100%	
James Smith	Core award	Nil-cost option	2 x base salary of £396,938	£1.957	405,659	£794	25%	3 years until 10 March 2025
	Kicker award	Nil-cost option	0.5 x base salary of £396,938	£1.957	101,414	£198	100%	

Notes:
(1) Details of the performance conditions applicable to the awards granted in 2022 are provided on pages 100 and 101.
(2) No price is payable by participants for their shares on the exercise of a nil-cost option granted under the LTIP.
(3) This figure represents the closing mid-market price of a share in the Company for the dealing day immediately preceding the date of grant. (The actual closing price on 11 March 2022 was £1.911.)
(4) The values shown in these columns have been calculated by multiplying the 'number of shares over which the award was originally granted' by the 'share price at date of grant'.
(5) In the period following the grant of the above awards, no change was made to their exercise price or the date on which they will become exercisable.

As explained on page 77, the above awards immediately lapsed in full on the cessation of employment of Simon Thomson and James Smith.

LTIP – awards vesting during the year (audited)

On 12 March 2022, the three-year performance period applicable to the awards granted under the LTIP on 13 March 2019 to various participants (including Executive Directors) came to an end. Thereafter, the Remuneration Committee assessed the relevant performance conditions. The results of this assessment, which was completed on 16 March 2022, can be summarised as follows:

Award	Performance measure	% of award subject to measure	Performance achieved 2019-2022	% of award vested
Core award	Relative TSR performance against a comparator group of 17 companies.	100%	Capricorn's TSR over the period placed it between the fifth and sixth highest ranked companies in the comparator group. After a careful consideration of a variety of factors, the committee also concluded that there had been a sustained improvement in the overall performance of the Company over the three years in question.	73.72%
Kicker award	For any part of the kicker award to vest, (i) the Company must achieve at least an upper quartile ranking in the above comparator group; and (ii) the TSR actually achieved by the Company must be at least 100%.	100%	As Capricorn's ranking in the comparator group was below upper quartile, no part of the kicker award vested and it lapsed immediately on completion of the committee's above noted assessment.	0%

Notes:
(1) Further details of the performance conditions that applied to the above awards are set out on pages 100 and 101.
(2) No discretions relating to the vesting of the above awards were exercised by the Remuneration Committee during or after the relevant performance period.
(3) The TSR calculations used to inform the committee's determinations in relation to the above awards were independently verified by Ernst & Young LLP.

Directors' Remuneration Report continued

The following table shows, for each of the Executive Directors, details of the LTIP awards that vested during the year:

	Description of award	Form of award	Date of grant	No. of shares over which award originally granted	Date of vesting	% of award to vest as per performance condition assessment	No. of shares that vested[1]	Value of shares vesting[2]	Amount of vesting value attributable to share price appreciation[3]
Directors									
Simon Thomson	Core award	Nil-cost option	13/03/19	687,947	16/03/22	73.72%	507,151	£982,859	£132,365
	Kicker award	Nil-cost option	13/03/19	171,986	16/03/22	0%	0	£0	£0
James Smith	Core award	Nil-cost option	13/03/19	447,444	16/03/22	73.72%	329,853	£639,255	£86,090
	Kicker award	Nil-cost option	13/03/19	111,861	16/03/22	0%	0	£0	£0

Notes:
(1) Following their vesting, the above awards became subject to a two-year holding period during which they cannot normally be exercised. As highlighted on page 89, this holding period will continue to operate notwithstanding the cessation of employment of the relevant individuals.
(2) The values shown in this column (which are included in the single total figure table for 2022) have been calculated by multiplying the number of shares that vested by £1.938, being the closing mid-market price of a share in the Company on the day such vesting occurred.
(3) The values shown in this column have been calculated by (i) multiplying the grant date face value of the relevant award (as disclosed in previous Directors' Remuneration Reports) by the above noted vesting percentage; and (ii) deducting that amount from the applicable 'value of shares vesting' figure.
(4) No discretions were exercised in relation to the awards set out in the above table as a result of share price appreciation or depreciation.

LTIP – awards exercised during 2022 (audited)
No LTIP awards were exercised by the Executive Directors during the year to 31 December 2022.

LTIP – other awards held by Executive Directors during the year
For the sake of completeness, and in order to allow comparisons to be made with the awards granted during 2022, set out below are details of the other unvested awards under the LTIP that were held by the Executive Directors during the year:

	Date of grant	Plan	Description of award	Form of award	Basis of award granted[2]	Share price at date of grant[3]	No. of shares over which award originally granted	Face value (£000) of shares over which award originally granted[4]	% of shares over which award originally granted that vest at threshold	Vesting determined by performance over three years until...
Directors										
Simon Thomson	28/07/20	LTIP	Core award	Nil-cost option	1.6 x base salary of £586,650	£1.323	709,478	£939	25%	27/07/23
		LTIP	Kicker award	Nil-cost option	0.4 x base salary of £586,650	£1.323	177,369	£235	100%	
	17/03/21	LTIP	Core award	Nil-cost option	2 x base salary of £592,517	£1.801	657,986	£1,185	25%	16/03/24
		LTIP	Kicker award	Nil-cost option	0.5 x base salary of £592,517	£1.801	164,496	£296	100%	
James Smith	28/07/20	LTIP	Core award	Nil-cost option	1.6 x base salary of £381,561	£1.323	461,449	£611	25%	27/07/23
		LTIP	Kicker award	Nil-cost option	0.4 x base salary of £381,561	£1.323	115,362	£153	100%	
	17/03/21	LTIP	Core award	Nil-cost option	2 x base salary of £385,377	£1.801	427,958	£771	25%	16/03/24
		LTIP	Kicker award	Nil-cost option	0.5 x base salary of £385,377	£1.801	106,989	£193	100%	

Notes:
(1) Further details of the performance conditions that apply to these awards are set out on pages 100 and 101.
(2) Capricorn's normal practice is to grant awards on the basis of 2 x salary (in the case of the 'core' award) and 0.5 x salary (for the 'kicker' award). The reduced grant levels in 2020 reflected the fact that, at the time those awards were made, Capricorn had experienced a material fall in its share price (when compared to the 'pre-COVID 19' level). Further information on this issue was set out in the 2020 Directors' Remuneration Report.
(3) This figure represents the closing mid-market price of a share in the Company for the dealing day immediately preceding the relevant date of grant.
(4) The values shown in this column have been calculated by multiplying the relevant 'number of shares over which the award was originally granted' by the appropriate'share price at date of grant'.
(5) During 2022, no changes were made to the exercise prices of the above awards or the date on which they will become exercisable.

As explained on page 77, each of the awards detailed in the table above immediately lapsed in full on the cessation of employment of Simon Thomson and James Smith.

Comparator group companies applicable to LTIP awards

The table below provides details of the comparator groups applicable to each tranche of awards granted under the LTIP to Executive Directors that were outstanding (and unvested) during 2022.

	Comparator group applicable to LTIP awards granted on....			
Company	13/03/19	28/07/20	17/03/21	11/03/22
Africa Oil Corp.	✓	✓	✓	✓
Aker BP ASA	✓	✓	✓	✓
DNO ASA	✓	✓	✓	✓
Energean PLC (formerly named Energean Oil & Gas PLC)	✓	✓	✓	✓
EnQuest PLC	✓	✓	✓	✓
Genel Energy PLC	✓	✓	✓	✓
Harbour Energy PLC (formerly named Premier Oil PLC)	✓	✓	✓	✓
Hurricane Energy PLC	✓	✓	✓	✓
Kosmos Energy Limited	✓	✓	✓	✓
Lundin Energy AB (formerly named Lundin Petroleum AB)*	✓	✓	✓	
Nostrum Oil & Gas PLC	✓	✓	✓	✓
Pharos Energy PLC (formerly named SOCO International PLC)	✓	✓	✓	✓
Rockhopper Exploration PLC	✓	✓	✓	✓
Santos Limited	✓	✓	✓	✓
Seplat Energy PLC (formerly named Seplat Petroleum Development Company PLC)	✓	✓	✓	✓
Serica Energy PLC				✓
Sound Energy PLC	✓	✓	✓	✓
Tullow Oil PLC	✓	✓	✓	✓
Vår Energi ASA				✓

* Denotes companies that have delisted during the applicable performance period. For awards granted under the LTIP, the committee's normal policy is to remove from the relevant comparator group any company that has delisted less than half way through the applicable performance period. For delistings that occur after that time, the relevant company is retained and moved in line with the remaining members of the group.

Participation of Executive Directors in all-employee share schemes during 2022

Introduction

In order to encourage increased levels of long-term share ownership amongst its general employee population, the Company launched an HM Revenue and Customs-approved SIP in April 2010. The SIP provides eligible employees, including Executive Directors, with the following benefits:

- 'Partnership shares' – employees can authorise deductions of up to £1,800 per tax year from pre-tax salary, which are then used to acquire ordinary shares on their behalf.
- 'Matching shares' – the Company can award further free shares to all participants who acquire partnership shares on the basis of up to two matching shares for every one partnership share purchased. For the tax year 2022/2023, the Company awarded two matching shares for every one partnership share purchased and intends to continue using this award ratio for the tax year 2023/2024.
- 'Free shares' – employees can be given up to £3,600 worth of ordinary shares free in each tax year. On 14 April 2022, an award of free shares was made to employees.

In certain circumstances, the rules of the SIP also allow participants to reinvest dividends paid on their plan shares in further 'dividend shares'.

As the SIP is an 'all employee' arrangement, no performance conditions are imposed in relation to any matching or free shares awarded pursuant to its terms.

Details of Executive Directors' SIP participation in 2022

Details of the shares purchased by and awarded to the Executive Directors under the SIP during the course of the year are as follows:

	Total SIP shares held at 01/01/22	Free shares awarded on 14/04/22 at a price of £1.967 per share	Partnership shares awarded on 06/05/22 at a price of £2.076 per share	Matching shares awarded on 06/05/22 at a price of £2.076 per share	Total SIP shares held at 31/12/22
Directors					
Simon Thomson	40,685	1,830	867	1,734	45,116
James Smith	27,433	1,830	867	1,734	31,864

The total number of shares held by each of the above Executive Directors under the SIP is included in their beneficial shareholdings disclosed in the Directors' Report on pages 112 and 113.

Shareholding guidelines for Directors (audited)

A formal share ownership policy for Executive Directors has been in place for a number of years under which they are required, during employment, to build up and maintain a target holding, currently equal to 200% of salary. In order to facilitate the achievement of the requirement, the share ownership policy provides that, until the necessary holding is achieved, an Executive Director is normally obliged to retain shares with a value equal to 50% of the net-of-tax gain arising from any vesting or exercise under the Company's share incentive plans.

Directors' Remuneration Report continued

In addition, and with effect from 14 May 2020, being the date the 2020 Directors' Remuneration Policy was approved by shareholders, Executive Directors (and certain other senior managers) are normally obliged to maintain a specified holding of shares for a period of two years following cessation of employment. In particular:

– the requirement is to maintain a post-employment holding of relevant shares equal to 200% of final salary;
– if this targeted holding has not been achieved at the point employment ceases, the requirement will apply to all relevant shares held at that time;
– 'relevant shares' will include all shares acquired by the individual on the exercise of awards that vest under any of the Company's discretionary share plans, including the LTIP and the Deferred Bonus Plan, on or after 1 January 2020 (other than those that are sold in order to satisfy tax liabilities arising on exercise)
– shares subject to awards that vest on or after 1 January 2020 but which remain unexercised (e.g. because a holding or deferral period applies), or which have been granted under the Deferred Bonus Plan, will also count as 'relevant shares', but on a net-of-tax basis
– until such time as the 200% of salary target is achieved, any relevant shares acquired by an individual will be placed in a nominee structure;
– relevant shares held by or on behalf of an individual will also count towards the satisfaction of the existing share ownership policy that is described above;
– for the avoidance of doubt, any shares acquired by an individual other than pursuant to a discretionary share plan (e.g. purchases using his/her own resources) will not be subject to the post-employment holding requirement; and
– the committee will retain the discretion to reduce or waive the post-employment holding requirement in limited circumstances (such as on the death of the individual or where his/her personal circumstances change).

The following table discloses the beneficial interest of each Director in the ordinary shares of the Company as at 31 December 2022 (or date of cessation of directorship, if earlier).

	Shares held			Awards over shares under the LTIP			Compliance with shareholding requirements	
							In-service requirement	Post-cessation requirement
	Ordinary shares[2]	Ordinary shares held in the SIP[3]	Total holding of ordinary shares	Ordinary shares subject to vested but unexercised awards[4]	Ordinary shares subject to unvested awards[5]	Total interest in ordinary shares	Value of holding as a % of salary on 1 January 2023[6 7]	Value of holding as a % of salary on 1 January 2023[6 8]
Executive directors								
Simon Thomson	658,074	45,116	703,190	1,136,751	2,488,956	4,328,897	507%	232%
James Smith	0	31,864	31,864	739,349	1,618,831	2,390,044	251%	232%
Non-Executive Directors								
Nicoletta Giadrossi	–	–	–	–	–	–	–	–
Peter Kallos	9,292	–	9,292	–	–	9,292	–	–
Keith Lough	–	–	–	–	–	–	–	–
Alison Wood	–	–	–	–	–	–	–	–
Catherine Krajicek	–	–	–	–	–	–	–	–
Erik B. Daugbjerg	–	–	–	–	–	–	–	–
Luis Araujo	–	–	–	–	–	–	–	–
	667,366	76,980	744,346	1,876,100	4,107,787	6,728,233		

Notes:
(1) Details of the Company's share ownership policies for Executive Directors are set out on pages 103 and 104.
(2) Includes shares held by connected persons.
(3) Under the rules of the SIP, certain shares awarded to participants must be retained in the plan for a specified 'holding period' of up to five years. The receipt of these shares is not subject to the satisfaction of performance conditions.
(4) This column shows all vested but unexercised awards under the LTIP that were held by the director concerned as at 31 December 2022.
(5) This column shows all unvested and outstanding awards under the LTIP that were held by the director concerned as at 31 December 2022 (i.e. including those granted during the year). Details of these entitlements, the vesting of which is subject to the satisfaction of performance conditions, are set out on pages 101 to 103.
(6) Share price used is the average share price for the period of 90 days up to and including 31 December 2022.
(7) This holding includes (i) all shares held by the individual; and (ii) the net-of-tax number of all shares subject to vested but unexercised LTIP awards.
(8) This holding includes the net-of-tax number of all shares subject to vested but unexercised LTIP awards.
(9) The shareholding numbers noted above were unchanged as at the earlier of the date of this report or the date of cessation of directorship of the individual listed.

Payments to past Directors during 2022 (audited)
During the year to 31 December 2022, there were no payments to past directors of the kind that require to be disclosed in terms of the Regulations.

Dilution of share capital pursuant to share plans during 2022
In any 10-year rolling period, the number of ordinary shares which may be issued in connection with the Company's 'discretionary share plans' (which includes the LTIP and the share option/award schemes used to incentivise less senior employees) cannot exceed 5% of the Company's issued ordinary share capital.

In addition, in any 10-year rolling period, the number of ordinary shares which may be issued in connection with all of the Company's employee share schemes (whether discretionary or otherwise) cannot exceed 10% of the Company's issued ordinary share capital.
It should also be noted that all shares acquired by or awarded to participants under the SIP and the Deferred Bonus Plan are existing ordinary shares purchased in the market. As a result, neither the SIP nor the Deferred Bonus Plan involves the issue of new shares or the transfer of treasury shares.

Board appointments with other companies during 2022

The Board believes, in principle, in the benefits of Executive Directors accepting positions as Non-Executive Directors of other companies in order to widen their skills and knowledge for the benefit of the Company, provided that the time commitments involved are not unduly onerous. The Executive Directors are permitted to retain any fees paid for such appointments.

The appointment of any Executive Director to a Non-Executive position with another company must be approved by the Nomination & Governance Committee. In the case of a proposed appointment to a company within the oil and gas industry, permission will only normally be given if the two companies do not compete in the same geographical area.

Details of the non-executive positions with other companies that were held by Capricorn's Executive Directors during 2022, and the fees that were payable, are as follows:

Director	Position held	Fees received for the year to 31/12/22
Simon Thomson	Non-Executive Director, Graham's The Family Dairy Limited	£14,583
	Non-Executive Director, Edinburgh Art Festival	£0

Relative importance of spend on pay

Set out below are details of the amounts of, and percentage change in, remuneration paid to or receivable by all Group employees and distributions to shareholders in the years ended 31 December 2021 and 2022.

	Financial Year 2021	**Financial Year 2022**	% change
Employee costs (US$m)	36.1	**34.3**	(5.0)%[3]
Distributions (US$m)[1]	284.0[2]	**511.5**	80.1%

Notes:
(1) For the purposes of the above table, 'Distributions' include amounts distributed to shareholders by way of dividend and share buyback. The figure for 2022 represents the aggregate of (i) the share purchases undertaken as part of the tender offer that was completed in April 2022; and (ii) the regular share-buybacks that occurred throughout the year.
(2) The above distributions figure for 2021 has been updated to correct an error that appeared in last year's Directors' Remuneration Report (where it was incorrectly stated as being US$257.2m).
(3) This fall in employee costs is largely attributable to lower levels of annual bonuses being awarded in 2022 when compared to 2021.

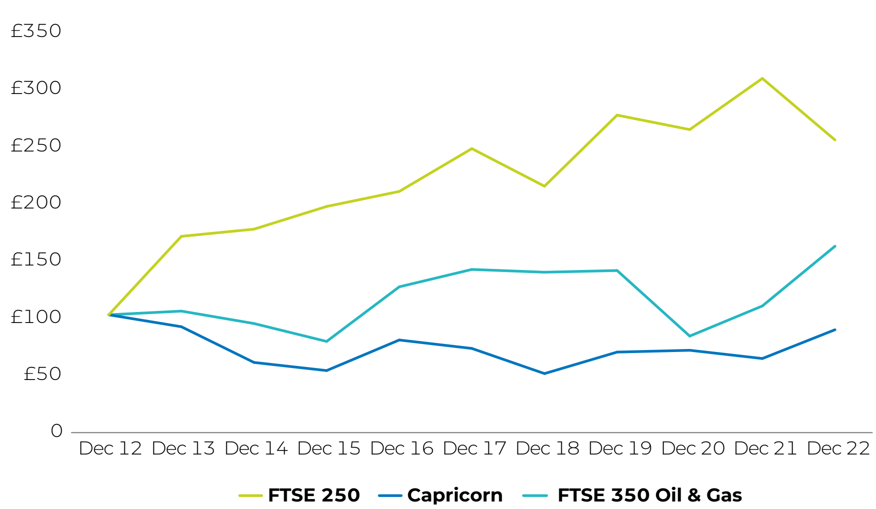
TSR performance graph and further information on Chief Executive pay

Introduction

The following chart demonstrates the growth in value of a £100 investment in the Company and an investment of the same amount in both the FTSE 250 Index and the FTSE 350 Oil & Gas Producers Index over the last 10 years. These comparisons have been chosen on the basis that: Capricorn was a constituent member of the FTSE 250 Index for the whole of 2022; and the FTSE 350 Oil & Gas Producers Index comprises companies that are exposed to broadly similar risks and opportunities as Capricorn.

The table following the graph illustrates the movements in the total remuneration of the Company's Chief Executive during the same 10 year period.

Performance graph – comparison of ten-year cumulative TSR on an investment of £100



Directors' Remuneration Report continued

Total remuneration of Chief Executive during the same ten-year period

Financial year	Chief Executive	Total remuneration of Chief Executive[1]	Annual variable element award rates for Chief Executive (as % of max. opportunity)	Long term incentive vesting rates for Chief Executive (as % of original award level)
2022	Simon Thomson	£1,908,773	22.5%	59%[2]
2021	Simon Thomson	£1,950,892	60.5%	67.7%
2020	Simon Thomson	£1,479,731	75%	27.4%
2019	Simon Thomson	£1,173,630	65%	0%
2018	Simon Thomson	£2,204,001	70%	56.7%
2017	Simon Thomson	£2,992,615	76.9%	90.8%
2016	Simon Thomson	£2,081,601	80.2%	81.7%
2015	Simon Thomson	£1,292,167	75%	23.4%
2014	Simon Thomson	£1,073,425	78.5%	0%
2013	Simon Thomson	£962,765	63%	0%

Notes:

(1) The amounts disclosed in this column have been calculated using the same methodology prescribed by the Regulations for the purposes of preparing the single total figure table shown on page 90.

(2) As explained on page 101, Simon Thomson's 2019 LTIP award vested in respect of 73.7% of its 'core' award (being the element granted over ordinary shares worth 2 x base salary). This represents 59.0% of the total award (i.e. 'core' plus 'kicker' awards) that was granted over shares worth 2.5 x salary.

Pay Ratio information in relation to Chief Executive's remuneration

The Regulations require certain companies to disclose the ratio of the Chief Executive's pay, using the amount set out in the single total figure table, to that of the median, 25th and 75th percentile total remuneration of full-time equivalent UK employees.

Although the above requirement does not technically apply to Capricorn (on the basis that it had fewer than 250 UK employees during 2022), the committee felt that it would be appropriate to include the relevant disclosures this year on an entirely voluntary basis as it helps to demonstrate the link between the Chief Executive's pay and the remuneration of the wider workforce. A similar decision was made for the last four years, with the result that the following table shows the relevant ratios from 2018 to 2022.

Year	Method of calculation adopted	25th percentile pay ratio (Chief Executive: UK employees)	Median pay ratio (Chief Executive: UK employees)	75th percentile pay ratio (Chief Executive: UK employees)
2022	**Option A**	**28 : 1**	**18 :1**	**10 : 1**
2021	Option A	29 : 1	20 : 1	11 : 1
2020	Option A	22 : 1	14 : 1	8 : 1
2019	Option A	19 : 1	12 : 1	7 : 1
2018	Option A	36 : 1	22 : 1	11 : 1

The median, 25th percentile and 75th percentile figures used to determine the above ratios were calculated by reference to the full-time equivalent annualised remuneration (comprising salary, benefits, pension, SIP, annual bonus and long-term incentives) of all UK-based employees of the Group as at 31 December 2022 (i.e. "Option A" under the Regulations). The committee selected this calculation methodology as it was felt to produce the most statistically accurate result.

The committee considers that the median pay ratio for 2022 that is disclosed in the above table is consistent with the pay, reward and progression policies for the Company's UK employees taken as a whole. It reflects the fact that a greater proportion of Executive Director pay is linked to performance through a higher annual bonus opportunity (a percentage of which may be subject to deferral into shares) and a higher level of long-term incentive award grants.

The committee notes that each of the pay ratios for 2022 is marginally lower than in the immediately preceding year. This is largely attributable to the discretionary reduction that was applied by the committee when calculating the 2022 annual bonus award for Executive Directors (see page 100 for further details). No such reduction was applied to the bonus awards made to any other employees.

For the avoidance of doubt, the differences in the ratios between 2022 and 2021 are not attributable to any material change in the Company's employment models or the use of a different calculation methodology.

Pay details for the individuals whose 2022 remuneration is at the median, 25th percentile and 75th percentile amongst UK-based employees are as follows:

	Chief Executive	25th percentile	Median	75th percentile
Salary	£610,293	£47,380	£56,486	£101,021
Total pay and benefits	£1,908,773	£68,761	£104,733	£182,137

Percentage annual change in Directors' remuneration elements compared to all Group employees

The table below compares the percentage change in various elements of each Directors' remuneration between:

- 2021 and 2022
- 2020 and 2021; and
- 2019 and 2020,

and the percentage change in the same remuneration elements of all the Group's employees in respect of those same periods.

	Between 2021 and 2022			Between 2020 and 2021			Between 2019 and 2020		
	% change in base salary/fees	% change in taxable benefits	% change in annual bonus	% change in base salary/fees	% change in taxable benefits	% change in annual bonus	% change in base salary/fees	% change in taxable benefits	% change in annual bonus
All Group employees	4.4%[1]	(0.25)%	(13.02)%	2.0%	(6.1)%	(16.7)%	3.0%	(0.4)%	2.2%
Executive Directors									
Simon Thomson	3.0%	6.7%	(61.7)%[4]	1.0%	20.1%	(18.5)%	1.7%	2.7%	17.3%
James Smith	3.0%	5.6%	(61.7)%[4]	1.0%	(2.8)%	(18.5)%	1.7%	5.0%	17.3%
Non-Executive Directors									
Nicoletta Giadrossi	3.0%	0%	n/a	110.5%	0%	n/a	0%	0%	n/a
Keith Lough	2.6%	0%	n/a	0%	0%	n/a	0%	0%	n/a
Peter Kallos	3.0%	0%	n/a	0%	0%	n/a	0%	0%	n/a
Alison Wood	2.6%	0%	n/a	13.2%	0%	n/a	100.0%	0%	n/a
Catherine Krajicek	3.0%	0%	n/a	0%	0%	n/a	100.0%	0%	n/a
Erik B. Daugbjerg	3.0%	0%	n/a	58.9%	0%	n/a	n/a	n/a	n/a
Luis Araujo[2]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Notes:

(1) The standard level of salary increase across the Group in 2022 was 3.0%. However, a small number of individuals received higher percentage increases which raised the average for all employees to 4.4%.

(2) Luis Araujo was appointed as a Non-Executive Director on 11 May 2022.

(3) The Non-Executive Directors are not eligible to participate in the annual bonus scheme.

(4) The greater reduction in the annual bonus figures for Simon Thomson and James Smith (when compared to all employees) arose due to the discretionary adjustment applied to their 2022 awards by the committee (see page 100 for further details).

Implementation of remuneration policy in 2023

The following table provides details of how the Company intends to implement the key elements of the new Directors' Remuneration Policy described in pages 79 to 87, assuming it is approved by shareholders at the AGM to be held on 20 June 2023.

Remuneration element	Implementation during 2023
Base salary	Chris Cox was appointed interim CEO on 1 February 2023 on a short-term contract which can be extended subject to agreement between both Chris and the Company. He will receive an annual base salary of £550,000.
Benefits	It is expected that there will be no change to the benefit provision in 2023 save for the removal of the previous car allowance for permanent Executive Directors. Executive Directors will be given the opportunity to participate in the SIP on the same terms as apply to all other eligible employees in the arrangement.
Annual bonus	In accordance with the requirements of the policy, Executive Directors will be eligible to receive a bonus of up to 125% of base salary depending on the extent to which specified measures are satisfied over 2023. For the interim CEO, his bonus opportunity has been capped at 100% of base salary per annum. Short-term targets have been set for the interim CEO for 2023 to reflect the interim nature of the role. In addition, any bonus awarded to the interim CEO will be paid in unrestricted shares (with the number of such shares being determined by reference to their value on 1 February 2023, being his commencement date). Similar to prior years, for senior executives in the wider Group, the 2023 bonus will be based on a corporate scorecard incorporating financial, strategic and operational measures. Detailed targets for any incoming Executive Directors would be based on the outcomes of the strategic review. Retrospective disclosure of targets applying to Executive Directors will be provided in next year's remuneration report.
LTIP	To the extent that LTIP awards are granted to Executive Directors in 2023, the committee will await the finalisation of the strategic review before publishing the performance measures and targets applicable to the award. The committee will suitably engage with major shareholders if material changes to the current LTIP framework are proposed. Once the performance measures and targets are finalised for any incoming executive directors, the committee intends to publish them on the Company's website. The committee does not intend to grant LTIP awards to individuals who have been appointed to the Board in an interim capacity. As such, Chris Cox has not been granted an LTIP award in his interim capacity.

Directors' Remuneration Report continued

Remuneration element	Implementation during 2023
Retirement benefits	During 2023, and in accordance with the requirements of the new policy, the Company will contribute 12.5% of basic salary on behalf of the Executive Directors (including the interim CEO) or pay them an equivalent amount of additional salary. This rate of pension contributions is equal to the amount paid to the wider UK employee population.
Non-Executive Chair's and Non-Executive Directors' fees	The fees for Non-Executive Directors have been adjusted to reflect additional time commitments associated with execution of the role, particularly in the context of the changes to the Board and the current transition within the business. The approach will continue to be kept under review to ensure that fees suitably reflect the scope and responsibilities associated with the role. The annual Non-Executive Chair's fee for 2023 will be £270,000. For 2023, the annual Non-Executive Director fee will be £80,000. The additional fees for committee chair and membership are set out below.

	Chair	2023 supplement (for Chair only)	Member
Audit committee/ Remuneration Committee	£15,000	£10,000	£10,000
Sustainability Committee	£10,000	n/a	£5,000
Nomination & Governance Committee	–	n/a	£5,000

Non-Executive letters of appointment

The following table sets out the dates of the letters of appointment for the Non-Executive Chair and each of the current Non-Executive Directors and specifies the dates on which those individuals are next subject to election or re-election:

Director	Date of original appointment	Date when next subject to election or re-election
Craig van der Laan	1 February 2023	20 June 2023
Catherine Krajicek	01 July 2019	20 June 2023*
Erik B. Daugbjerg	14 May 2020	20 June 2023*
Maria Gordon	1 February 2023	20 June 2023
Richard Herbert	1 February 2023	20 June 2023
Hesham Mekawi	1 February 2023	20 June 2023
Tom Pitts	1 February 2023	20 June 2023

* Catherine Krajicek and Erik B. Daugbjerg do not intend to stand for re-election at the AGM on 20 June 2023.

The Directors' Remuneration Report was approved by the Board on 27 April 2023 and signed on its behalf by:

Maria Gordon
Chair of the Remuneration Committee

27 April 2023

Sustainability Committee Report

Catherine Krajicek
Chair
Sustainability Committee

I am pleased to present Capricorn's first Sustainability Committee report, following the committee's formation in March 2022.

Matters of environment, safety, social responsibility and sustainability are considered within each Board deliberation and decision and are, therefore, a key element of the Company's Board meetings. Given the importance of these issues, with effect from 3 March 2022, a dedicated committee, the Sustainability Committee, was established to further embed these matters in Board process and in the culture of the wider organisation. The membership of the committee upon its formation was the full Board of Capricorn, enabling the committee to establish its role during its inception year. From 1 February 2023, I was pleased to be appointed the Chair of the Sustainability Committee and am joined in membership of the committee by Erik B. Daugbjerg and Hesham Mekawi, both of whom have extensive industry knowledge and awareness of the importance of sustainability in this industry and wider environment as we move through the Energy Transition. The Company's Energy Transition Director, Valentina Kretzschmar, is a non-Board attendee at the committee's meetings. The Company Secretary acts as secretary to the committee and attends all of its meetings.

The role of the committee includes:
- advising and supporting the Board in the drafting of the sustainability and net zero roadmap and assessing its progress and reviewing disclosures being made regarding the roadmap;
- reviewing the policies, practices and performance relating to sustainability and the disclosures and annual reporting on sustainability;
- reviewing the policies, practices and performance relating to safety, including in particular regarding the safe and responsible performance of the Group's operations;
- reviewing the policies, practices and performance relating to social responsibility; and
- reviewing the policies, practices and performance relating to environmental matters including, in particular, protection of the environment and disclosure of Greenhouse Gas emissions.

2023 Sustainability Committee

Catherine Krajicek (Chair)
Member since March 2022

Erik B. Daugbjerg
Member since March 2022

Hesham Mekawi
Member since February 2023

Members and meetings in 2022

	Member since	Meetings attended
Nicoletta Giadrossi (Chair)	Mar 2022	
Luis Araujo	Mar 2022	
Erik B. Daugbjerg	Mar 2022	
Peter Kallos	Mar 2022	
Catherine Krajicek	Mar 2022	
Keith Lough	Mar 2022	
James Smith	Mar 2022	
Simon Thomson	Mar 2022	
Alison Wood	Mar 2022	

The inaugural meeting of the committee took place in June 2022, with full Board attendance, and considered, amongst those matters listed above, the following key issues, with follow-up and ongoing discussion of these items at the committee's second meeting of the year in September:

- the external environment relating to ESG and the Energy Transition;
- Capricorn's work within the ESG and Energy Transition environment; and
- A peer analysis of work being undertaken in these areas.

Following the announcement on 1 June 2022 of a proposed merger with Tullow Oil plc and, thereafter, the Board's revised recommendation in late September 2022, proposing a combination with NewMed Energy, the impact of each proposal on the Company's energy transition and net zero pathway were considered in depth at committee and/or Board-level.

Of absolute importance to the Company is its illustrative pathway to Scope 1 and Scope 2 net zero. This pathway, and the work that had commenced on delivering it, was considered by the committee during the year. Our stakeholders rightly place significant importance on this pathway and we will continue to focus on this as a key objective of the organisation in 2023. Further information on the Company's net zero pathway and other sustainability matters can be found in the Strategic Report on pages 22 to 24.

As announced on 11 April 2023, I shall not be standing for re-election at this year's AGM. The Nomination & Governance Committee will shortly be considering the membership and chair ship of the sustainability committee following my departure, with the vital work of this committee continuing in 2023.

Catherine Krajicek
Chair of the Sustainability Committee

27 April 2023

Directors' Report

The Directors of Capricorn Energy PLC (registered in Scotland with company number SC226712) (the "Company") present their Annual Report and Accounts for the year ended 31 December 2022 together with the audited consolidated Financial Statements of the Group and Company for the year. These will be laid before shareholders at the AGM to be held on 20 June 2023. The Directors' Report and the Strategic Report (which includes trends and factors likely to affect future development, performance and position of the business, our Section 172 Statement and a description of the principal risks and uncertainties of the Company's Group can be found on pages 2 to 47 and is hereby incorporated by reference), collectively comprise the management report as required under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules.

Results and dividend
The Group made a loss after tax of US$51.0m (2021: profit after tax of US$894.5m).

The Directors do not recommend the payment of a dividend for the year ended 31 December 2022 and did not for the year ended 31 December 2021.

Further to the Company's strategic review which began on 1 February 2023, the Board is committed to returning to shareholders all excess cash flow not required for its future core operational focus. This process will include a special dividend of approximately US$450m proposed to be paid in May 2023 and a further special dividend in Q4 2023 of US$100m subject to the satisfaction of certain conditions. Additional details regarding this return of capital are available in the Chair's Statement on page 3.

Strategic report
Details of the Group's strategy and business model during the year and the information that fulfils the requirements of the Strategic Report can be found in the Strategic Report section on 2 to 47 of this document, which are deemed to form part of this report by reference.

Details of Capricorn's offices and Capricorn's advisers are given at the end of this report.

Change of control
All of the Company's share incentive plans contain provisions relating to a change of control and further details of these plans are provided in the Directors' Remuneration Report on pages 76 to 109. Generally, outstanding options and awards will vest and become exercisable on a change of control, subject to the satisfaction of performance conditions, if applicable, at that time.

Other than in respect of the US$325m senior debt facility agreement entered into by Capricorn Egypt Limited and its partner Cheiron Oil & Gas Ltd ("Cheiron") with Société Générale and other syndicated banks dated 24 June 2021 and the US$80m junior debt facility agreement entered into by Capricorn Egypt Limited and its partner Cheiron with Trafigura Ventures V B.V. and Deutsche Bank AG. dated 24 June 2021 (together the "Egypt Facility Agreements"), there are no significant agreements to which the Company or a member of the Group is a party that take effect, alter or terminate in the event of a change of control of the Company. In terms of each of the Egypt Facility Agreements, if there is a change of control of the Company, the majority lenders may cancel the commitments and all outstanding amounts will become immediately due and payable.

Corporate governance
The Company's Corporate Governance Statement is set out on pages 54 to 65 and is deemed to form part of this report by reference.

Directors
The names and biographical details of the current Directors of the Company are given in the Board of Directors section on pages 50 and 51. The beneficial interests of the Directors in the ordinary shares of the Company are shown below:

	As at 31 December 2021 Number of shares	As at 31 December 2022 Number of shares	As at 26 April 2023 Number of shares
Chris Cox[1]	–	–	0
Craig van der Laan[1]	–	–	0
Maria Gordon[1]	–	–	0
Richard Herbert[1]	–	–	0
Hesham Mekawi[1]	–	–	0
Catherine Krajicek	0	0	0
Erik B. Daugbjerg	0	0	0
Tom Pitts[1]	–	–	0
Former Directors			
Simon Thomson[2]	1,150,319	703,190	–
James Smith[3]	27,433	31,864	–
Nicoletta Giadrossi[2]	0	0	–
Keith Lough[3]	0	0	–
Peter Kallos[2]	9,292	9,292	–
Alison Wood[2]	0	0	–
Luis Araujo[4]	–	0	–

Notes:
1 Appointed as a Director on 1 February 2023.
2 Resigned as a Director on 24 January 2023.
3 Resigned as a Director on 1 February 2023.
4 Luis Araujo was appointed as a Director on 11 May 2022 and resigned from this appointment on 24 January 2023.

Details of outstanding awards over ordinary shares in the Company held by the Directors (or any members of their families) are set out in the Directors' Remuneration Report on pages 102 to 104.

None of the Directors have a material interest in any contract, other than a service contract or letter of appointment, with the Company or any of its subsidiary undertakings. Details of the Directors' service contracts and letters of appointment are set out in the Directors' Remuneration Report on pages 86 and 87.

Share capital
The issued share capital of the Company is shown in section 7.1 of the notes to the Financial Statements. As at 26 April 2023, 315,072,439 ordinary shares of 21/13 pence each have been issued, are fully paid up and are quoted on the London Stock Exchange. The rights attaching to the ordinary shares are set out in the Company's Articles of Association. There are no special control rights in relation to the Company's shares and the Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

Voting rights
The following paragraph details the position in relation to voting rights attaching to shares set out in the Company's Articles of Association. However, the Company recognises that best practice is now to hold a poll on all shareholder resolutions. It is the Company's current practice, therefore, to hold a poll and it is committed to doing so going forward.

Subject to any special rights or restrictions attaching to any class of shares, at a general meeting or class meeting, on a show of hands, every member present in person and every duly appointed proxy entitled to vote shall have one vote and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every share held by him/her. In the case of joint holders of a share, the vote of the senior member who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding. Under the Companies Act 2006, members are entitled to appoint a proxy, who need not be a member of the Company, to exercise all or any of their rights to attend and to speak and vote on their behalf at a general meeting or class meeting. A member may appoint more than one proxy in relation to a general meeting or class meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A corporation which is a member of the Company may authorise one or more individuals to act as its representative or representatives at any meeting of the Company, or at any separate meeting of the holders of any class of shares. A person so authorised shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual member of the Company.

Restrictions on voting
No member shall, unless the Directors of the Company otherwise determine, be entitled in respect of any share held by him/her to attend or vote at a general meeting of the Company either in person or by proxy if any call or other sum presently payable by him/her to the Company in respect of shares in the Company remains unpaid. Further, if a member has been served with a notice by the Company under the Companies Act 2006 requesting information concerning interests in shares and has failed in relation to any shares to provide the Company, within 14 days of the notice, with such information, the Directors of the Company may determine that such member shall not be entitled in respect of such shares to attend or vote (either in person or by proxy) at any general meeting or at any separate general or class meeting of the holders of that class of shares. Proxy forms must be submitted not less than 48 hours (or such shorter time as the Board may determine) (excluding, at the Board's discretion, any part of any day that is not a working day) before the time appointed for the holding of the meeting or adjourned meeting or, in the case of a poll taken more than 48 hours after it was demanded, not less than 24 hours (or such shorter time as the Board may determine) before the time appointed for the taking of the poll at which it is to be used.

Variation of rights
Whenever the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class may, subject to statute and unless otherwise expressly provided by the rights attached to the shares of that class, be varied or abrogated either with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. At every such separate general meeting, the quorum shall be two persons holding or representing by proxy at least one-third in nominal value of the issued shares of the class. These provisions also apply to the variation or abrogation of the special rights attached to some only of the shares of any class as if the shares concerned and the remaining shares of such class formed separate classes. The rights attached to any class of shares shall, unless otherwise expressly provided by the terms of issue of such shares or the terms upon which such shares are for the time being held, be deemed not to be varied or abrogated by the creation or issue of further shares ranking pari passu with, or subsequent to, the first mentioned shares or by the purchase by the Company of its own shares.

Transfer of shares
Subject to any procedures set out by the Directors in accordance with the Articles of Association, all transfers of shares shall be effected by instrument in writing in any usual or common form or in any other form acceptable to the Directors of the Company. The instrument of transfer shall be executed by, or on behalf of, the transferor and (except in the case of fully paid shares) by, or on behalf of, the transferee. The transferor shall be deemed to remain the holder of the shares concerned until the name of the transferee is entered in the register of members of the Company.

The Directors may, in their absolute discretion and without assigning any reason therefor, refuse to register a transfer of any share which is not a fully paid share unless such share is listed on the Official List of the UK Listing Authority and traded on the London Stock Exchange's main market for listed securities. The Directors may also refuse to register a transfer of a share in uncertificated form where the Company is entitled to refuse (or is excepted from the requirement) under the Uncertificated Securities Regulations 2001 to register the transfer and they may refuse any such transfer in favour of more than four transferees.

The Directors may also refuse to register any transfer of a share on which the Company has a lien.

The Directors may, in their absolute discretion and without assigning any reason therefore refuse to register a transfer of any share in certificated form unless the relevant instrument of transfer is in respect of only one class of share, is duly stamped or adjudged or certified as not chargeable to stamp duty, is lodged at the transfer office or at such other place as the Directors may determine, is accompanied by the relevant share certificate(s) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer and is in favour of not more than four transferees jointly. If the Directors refuse to register a transfer,

Directors' Report continued

they shall, as soon as practicable and in any event within two months after the date on which the transfer was lodged with the Company (in the case of a share in certificated form) or the date on which the operator instruction (as defined in the Uncertificated Securities Regulations 2001) was received by the Company (in the case of a share in uncertificated form) (or in either case such longer or shorter period (if any) as the Listing Rules may from time to time permit or require), send to the transferee notice of the refusal.

Major interests in share capital

As at 31 December 2022 and 17 April 2023 (being the latest practicable date prior to the date of this report), the Company had received notification that shareholdings of 3% and over were as set out in the table below.

Fund Manager	Shares as at 31 December 2022	% Share Capital	Shares as at 17 April 2023	% Share Capital
Madison Avenue Partners	25,380,902	8.06	25,380,902	8.06
Kite Lake Capital Management	23,293,368	7.39	23,293,368	7.39
Palliser Capital	21,596,799	6.85	23,559,258	7.48
Newtyn Partners	19,064,348	6.05	22,034,542	6.99
BlackRock	16,765,359	5.32	17,897,874	5.68
Vanguard Group	14,996,549	4.76	11,231,682	3.56
Dimensional Fund Advisors	14,142,546	4.49	14,144,523	4.49
Legal & General Investment Management	12,219,212	3.88	13,092,320	4.16
Sand Grove Capital Management	9,791,451	3.11	9,791,451	3.11
Irenic Capital Management	5,055,155	1.60	17,302,847	5.49

Political donations

No political donations were made and no political expenditure was incurred during the year.

Greenhouse gas emissions

Details of the Group's greenhouse gas emissions can be found in the Strategic Report section on pages 22 to 24, which are deemed to form part of this report by reference. Our response to the Streamline Energy and Carbon Reporting (SECR) framework has been provided on pages 22 and 23 of this Annual Report and Accounts and is also deemed to form part of this report by reference.

Employee and stakeholder engagement

Details of the Company's engagement with employees and external stakeholders are noted in the Strategic Report on pages 25 to 27 and in our Section 172 Statement on pages 40 and 41, which are hereby incorporated in this report by reference.

Financial instruments

The financial risk management objectives and policies of the Company are detailed in Section 3.8 of the Financial Statements.

Disclosure of information under LR 9.8.4C

For the purposes of Listing Rule 9.8.4C, the Company confirms there are no disclosures to be made in respect of Listing Rule 9.8.4R.

Acquisition of Own Shares

Following receipt of the India tax refund proceeds of approximately US$1.06 billion, Capricorn undertook to return up to US$700 million to shareholders. Having consulted with shareholders on the capital return options, it was determined that the most appropriate means of returning value was to conduct a tender offer to return up to US$500 million and to return a further sum of up to US$200 million by way of an ongoing share repurchase programme.

In November 2021, the Company commenced a share buyback programme of an initial amount of up to £20 million out of the planned US$200 million programme, to be purchased for cancellation. Capricorn entered into an agreement with its brokers, Morgan Stanley, to repurchase for cancellation ordinary shares in the capital of the Company on the Company's behalf and within certain pre-set parameters. This programme finished on 28 February 2022, at which point, 4,432,805 ordinary shares had been repurchased and were subsequently cancelled. The nominal value of the shares purchased was £71,606.85 and the aggregate amount of consideration paid by the Company (excluding dealing and associated costs) for those shares was £8,381,754.12.

On 7 April 2022, the Company commenced another share buyback programme as part of the wider return of up to US$200 million. For this tranche, Capricorn entered into a non-discretionary arrangement with JP Morgan Securities plc in relation to the purchase by JP Morgan Securities plc of ordinary shares in the capital of the Company for an initial aggregate purchase price of up to US$25,000,000 and the on-sale of such shares to Capricorn for cancellation. This programme finished on 6 July 2022 and resulted in the purchase and subsequent cancellation of 9,427,439 ordinary shares in the capital of the Company.

The tender offer opened in March 2022, through which shareholders were invited to tender some or all of their shareholding for purchase pursuant to terms set out in the corresponding shareholder circular. The tender offer completed on 6 April 2022 and 171,073,128 ordinary shares (representing approximately 34.52% of the issued ordinary share capital of the Company as at that date) were purchased at the strike price of 223 pence per share and were subsequently cancelled. The total value of the ordinary shares purchased through the tender offer was £381,493,075, being the equivalent of approximately US$500 million.

Additionally, further to the Company's strategic review which began on 1 February 2023, the Board is committed to returning to shareholders all excess cash flow not required for its future core operational focus. This process will include a share buyback of at least US$25m over the next twelve months.

Appointment and replacement of Directors

The Company's Articles of Association provide that Directors can be appointed by the Company by ordinary resolution, or by the Board. The Nomination & Governance Committee makes recommendations to the Board on the appointment and replacement of Directors. Further details of the rules governing the appointment and replacement of Directors are set out in the Corporate Governance Statement on page 58 and in the Company's Articles of Association.

Directors’ indemnities
As permitted by the Company’s Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 (a “Qualifying Third Party Indemnity Provision”). The indemnity was in force throughout the last financial year and is currently in force.

Powers of the Directors
Subject to the Company’s Articles of Association, UK legislation and any directions given by special resolution, the business of the Company is managed by the Board. The Directors currently have powers both in relation to the issuing and buying back of the Company’s shares and are seeking renewal of these powers at the forthcoming AGM.

Articles of Association
Unless expressly specified to the contrary therein, the Company’s Articles of Association may be amended by a special resolution of the Company’s shareholders.

Directors’ responsibility statement
The Directors are responsible for preparing the Annual Report and Accounts, the Directors’ Remuneration Report and the Financial Statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and parent Company Financial Statements in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006. Additionally, the Financial Conduct Authority’s Disclosure Guidance and Transparency Rules require the Directors to prepare the Group Financial Statements in accordance with international financial reporting standards adopted by the UK. Under company law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and Company for that period. In preparing these Financial Statements, the Directors are required to:
– select suitable accounting policies and then apply them consistently;
– make judgements and accounting estimates that are reasonable and prudent;
– state whether for the Group and Company, international accounting standards in conformity with the requirements of the Companies Act 2006 and, for the Group, UK-adopted international financial reporting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
– prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the Financial Statements and the Directors’ Remuneration Report comply with the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company’s website (www.capricornenergy.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Following careful review and consideration of the Capricorn Energy PLC Annual Report and Accounts 2022 (the ‘Accounts’), the Directors consider that the Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group’s performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Board of Directors section on pages 50 and 51, confirm that, to the best of their knowledge:
– the Group Financial Statements, which have been prepared in accordance with UK-adopted International Financial Reporting Standards (IFRS), give a true and fair view of the assets, liabilities, financial position, and loss of the Group and profit of the Company; and
– the Strategic Report section on pages 2 to 47 of this document includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Disclosure of Information to Auditors
Each of the Directors of the Company as at 27 April 2023, being the date this report is approved, confirm that, as far as they are aware, there is no relevant audit information of which the Company’s auditors are unaware. In making this confirmation, the Directors have taken appropriate steps to make themselves aware of the relevant audit information and to establish that the Company’s auditors are aware of this information.

AGM 2023
The AGM of the Company will be held at The Gallery, Kimpton Charlotte Square Hotel, 38 Charlotte Square, Edinburgh EH2 4HQ at 12.00 noon on Tuesday 20 June 2023. The resolutions to be proposed at the AGM are set out and fully explained in the Notice of AGM which has been posted to shareholders together with this Annual Report and Accounts. Full details are included in the Notice of AGM.

Recommendation
The Board considers that all of the resolutions to be considered at the AGM are in the best interests of the Company and its shareholders as a whole and unanimously recommends that you vote in favour of all of the proposed resolutions.

This Annual Report was approved by the Board of Directors and authorised for issue on 27 April 2023.

By order of the Board

Anne McSherry
Company Secretary

27 April 2023

Financial Statements

Independent Auditors' Report to the Members of Capricorn Energy PLC

Report on the audit of the financial statements

Opinion

In our opinion, Capricorn Energy PLC's group financial statements and company financial statements (the "financial statements"):
- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2022 and of the group's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Group and Company Balance Sheets as at 31 December 2022; the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Company Statements of Cash Flows and the Group and Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 7.5, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Context

Capricorn Energy PLC is an independent, UK-based energy company, focused on oil and gas exploration, development and production. Capricorn's activities are focused in North West Europe, North and West Africa and Latin America. In the comparative period Capricorn sold its interest in the Catcher and Kraken North Sea producing assets and acquired a working interest in production, development and exploration assets in Egypt. Capricorn's headquarters and finance team are in Edinburgh supported by small finance teams in Mexico and Egypt.

Overview

Audit scope
- We conducted audit work on 8 components. 3 of these components were subject to a full scope audit, the remaining 5 were subject to specified scope. All audit work performed to support the group audit report was performed by the group engagement team in the UK. Our audit scope covered 92% of total assets.

Key audit matters
- Going Concern Assessment (group and company)
- Valuation of production assets (group)
- Valuation of Goodwill (group)
- Valuation of intangible exploration assets (group)
- Valuation of contingent consideration receivable arising from sale of North Sea assets (group)
- Valuation of Investments in subsidiaries (company)

Materiality
- Overall group materiality: US$15,300,000 (2021: US$15,450,000) based on 1% of Total Assets.
- Overall company materiality: US$12,500,000 (2021: US$12,000,000) based on 1% of Total Assets.
- Performance materiality: US$11,475,000 (2021: US$11,600,000) (group) and US$9,375,000 (2021: US$9,000,00) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Going concern assessment, valuation of producing assets, valuation of Goodwill and valuation of investments in subsidiaries are new key audit matters this year. Valuation of the producing assets acquired and contingent consideration payable in Egypt and Presentation of settlement from Government of India, which were key audit matters last year, are no longer included because of the fact that they did not represent a significant risk or area of significant focus. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Going Concern Assessment (group and company) As disclosed in Note 1.2 Going concern, the company's board are proposing a return of US$450.0m cash to shareholders and with further planned cash returns of US$100.0m and a US$25.0m share buy-back. Under the terms of the borrowing facilities entered into in connection with the group's Egypt assets, a subsidiary of the group jointly and severally guarantees performance of the obligations of the joint venture counterparty. Should the counterparty fail to meet its repayment obligations, the lenders could enforce this guarantee. Significant auditor attention was required in assessing the group's cash flow forecasts under various scenarios and evaluating the sufficiency of the group's funding to meet its current and contracted commitments as and when they fall due for at least the 12 month period from the date of approval of the Financial Statements.	Our audit procedures and conclusions relating to going concern are set out in the "Conclusions relation to going concern" section below.
Valuation of production assets (group) Under IAS 36, where there is an impairment trigger, assets must be evaluated for impairment. Following the performance from producing wells being below expectation and a downgrade in reserve volumes management have assessed that there is an impairment trigger on the Group's producing assets in Egypt. Management estimates the recoverable amount of the producing assets using a discounted cash flow model, which estimates the future cash flow projections over the licence period of the assets, discounted back to present day. The key assumptions used by management include the following: Discount rate, Short term oil price, Long Term oil price, future capital and operating costs and estimates of hydrocarbon reserves. Based upon the discounted cash flow projections used by management, there was an impairment charge of US$42.6m recognised in relation to the AESW and Obaiyed concession areas in the current year. Refer to notes 2.3 and 2.7 to the financial statements	In auditing the impairment of producing assets for the year ended 31 December 2022, we have performed the following procedures: – Validated the reserves estimates prepared by management's internal and external experts. We evaluated management's internal and external reserves experts for competence and objectivity; – Discussed reserves estimates with management's reserves experts to assess any key judgements or differences between the internal and external experts. Where there were differences, we sought explanations for these; – Understood the source of the operator's forecasts of oil and gas production, validated to reserves data, compared to operator budgets and assessed Capricorn's previous ability to forecast oil and gas production figures; – Assessed the operating and capital cost forecasts used in the model by validating to operator forecasts and other evidence where appropriate; – Benchmarked key assumptions including comparing the commodity price, inflation and discount rates used to expected ranges prepared by our own Valuation experts; – Assessed each of the individual concession agreements to confirm terms that may affect the valuation; – Assessed the composition of each CGU based on the requirements of IAS 36; – Validated the mathematical accuracy and integrity of the model for each concession and agreeing the net book values to Capricorn's books and records; – Assessed the results of management's sensitivity analysis, and performed our own sensitivities; – Considered the global focus on clean energy transition and climate change in the context of the key assumptions made, in particular in relation to the estimation of the cost of carbon; and – Assessed the disclosures in the financial statements to confirm that they are in line with the model reviewed. We found that the discount rate used by management to be below our independently assessed market benchmark range. Our audit therefore focused on the sensitivity of the impairment assessments to movements in the key assumptions and there was not a material difference when we applied assumptions within the acceptable range. We determined that management's disclosures were appropriate.

Independent Auditors' Report to the Members of Capricorn Energy PLC continued

Valuation of Goodwill (Group)

Goodwill of US$25.4m arose on the acquisition of the Western Desert assets in Egypt in 2021.

Under IAS 36 Goodwill is required to be tested for impairment annually, and management performed this test as at 31 December 2022.

Management estimates the recoverable amount of the producing assets using a discounted cash flow model, which estimates the future cash flow projections over the licence period of the assets, discounted back to present day.

The key assumptions used by management include the following: Discount rate, Short term oil price, Long Term oil price, future capital and operating costs and estimates of the reserves.

Based upon the discounted cash flow projections used by management, there was no impairment to Goodwill in the current year.

Refer to notes 2.4, 2.7 and 6.3 to the financial statements.

In auditing the valuation of goodwill for the year ended 31 December 2022, we have completed the following procedures:

- Compared the following assumptions used in the assessment of the valuation of goodwill to the assumptions audited as part of the producing assets impairment testing as per above:
  - reserves estimates;
  - forecast oil and gas production per concession;
  - historical costs used in the calculations;
  - the operating and capital cost forecasts;
  - impact of climate change on the forecasts; and
  - key assumptions including comparing the commodity price, inflation and discount rates
- Validated the mathematical accuracy and integrity of the model and agreeing the net book value of assets and liabilities into Capricorn's books and records;
- Assessed the results of management's sensitivity analysis, and performed our own sensitivities; and
- Assessed the disclosures in the financial statements.

We found that the discount rate used by management to be below our independently assessed market benchmark range, however there was no difference in the conclusion that there was not an impairment of goodwill in the current year.

We also assessed management's conclusion on sensitivity disclosures and agree that no impairment arises under any of the sensitivities performed.

Therefore we have concluded that management's conclusion and disclosures are appropriate.

Valuation of intangible exploration assets (group)

The Group has exploration and appraisal assets of US$95.2m at 31 December 2022.

IFRS 6 requires exploration and evaluation assets to be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. Management's assessment for impairment triggers conducted on the Group's capitalised exploration and evaluation assets did not identify any indicators of impairment beyond the unsuccessful exploration costs and impairment charges recognised in the Group's income statement.

Refer to note 2.2 to the financial statements

In auditing the valuation of intangible exploration and evaluation assets for the year ended 31 December 2022, we have completed the following procedures:

- Obtained and challenged management's assumptions in relation to impairment triggers;
- Obtained evidence that the licences are still held by Capricorn and expiry is not imminent or there is evidence to support the likelihood of licence extension;
- Obtained budgets to evidence plans for further exploration works at the assets at 31 December 2022, including meeting minimal work commitments under the licences;
- Reviewed the results of any exploration activities in the period;
- Reviewed board minutes for any evidence as at 31 December 2022 that would indicate that the licences will not be maintained; and
- Reviewed the financial statement disclosures.

We did not identify any additional triggers that had not been identified by management.

Valuation of contingent consideration receivable arising from sale of North Sea assets (group) On 8 March 2021, Capricorn agreed to sell its interests in the UK Catcher and Kraken producing assets to Waldorf Production Limited, and following approval from joint operation partners and relevant authorities the sale was completed on 2 November 2021. Included in the consideration receivable for the sale is an additional contingent consideration ("earn-out consideration"), which is dependent on future oil prices from 2021 to the end of 2025 and the production levels being achieved by the assets in that period. As at 31 December 2022 management recorded the contingent consideration at a fair value of US$224.1m. Refer to note 6.1 to the financial statements.	In auditing the valuation of the contingent consideration, we have performed the following procedures: – Obtained the sale and purchase agreement to verify terms and conditions under which the contingent consideration is calculated and payable; – Obtained corroborative evidence to support the estimation of future production figures, including comparing to actual historical production and previous forecasts provided by the operators of Kraken and Catcher; – Obtained the external valuation report provided to management and assessed oil price assumptions utilised by management through comparison to oil price assumptions provided by our valuations experts; – Engaged PwC Valuation experts to assess the appropriateness of the contingent consideration valuation methodology and model used by management's experts to determine their fair value of the award; – Challenged the application of credit risk in management's calculation including engaged PwC Valuations experts to independently assess the credit risk adjustment relating to the counterparty; – Validated the mathematical accuracy of management's final model and performed sensitivities on the fair value of the consideration; – Verified payment of the amounts due in March 2023 to the bank statements; and – Evaluated the disclosure in the financial statements. We found that the credit risk assumption used by management was different from that determined by our internal valuation experts, however the difference did not materially impact the valuation. We found that management's methodology was appropriate and the other assumptions were supportable. We determined that management's disclosures were materially appropriate.
Valuation of Investments in subsidiaries (company) The carrying value of investments in the company balance sheet is US$597.8m. At the year end, investments in subsidiaries were reviewed for indicators of impairment and impairment tests conducted where indicators were identified. Following this review, management concluded that the investment in Cairn UK Holdings Limited was fully impaired due to the distribution of the settlement from the Government of India, resulting in a charge to the income statement of US$387.7m. In addition, the Company's investment in Capricorn Oil Limited was also impaired to reflect the fair value of the underlying assets of the Capricorn Oil Group. The fall in the value of the investments in the Capricorn Oil Group is principally due to a reduction in the fair value of the Group's underlying assets. This resulted in a charge of US$178.6m to the Income Statement in 2022. This is an area of audit focus because the support for the carrying value is based on judgements and estimates made by management in their impairment assessment, in particular in respect of projected cash flows and discount rate. Refer to note 8.2 to the financial statements	In assessing the carrying value of investments in subsidiaries, we undertook the following work: – For the investment in Cairn UK Holdings we verified dividends paid by the entity during 2022 to board minutes in order to conclude that the asset had no remaining value after the distribution of the proceeds arising from the settlement with the Government of India; – For the investment in Capricorn Oil Group, we compared the resulting investment balance to our audit work on the other assets and liabilities of the Group, including considering the impact on underlying fair value; – Validated the mathematical accuracy and integrity of the model and agreed the net book value of assets and liabilities into Capricorn's books and records; – Agreed the cash balances in the group to the underlying confirmations of cash for the in scope subsidiaries; and – Evaluated the disclosure in the financial statements. Based on the procedure, we concluded that the valuation of investments in subsidiaries is appropriate.

Independent Auditors' Report to the Members of Capricorn Energy PLC continued

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The Group's activities are managed centrally from the Group's Head Office in Edinburgh, with components representing each of the geographical locations in which they operate. We have included components which accounted for the largest share of the Group's results or where we considered there to be areas of significant risk. We identified 3 components which, in our view, required an audit of their complete financial information due to their relative size or risk characteristics. The work in the remaining 5 components was determined by their individual contribution to the Group's overall financial performance or balance sheet, and their risk profile. All components were audited by the Group engagement team in the UK.

The impact of climate risk on our audit

Our audits considered the impact of climate change. As part of our audit, we made enquiries with management to understand the process adopted to assess the extent of the potential impact of climate risk on the Group's financial statements and to support the disclosures made in the Sustainability Review in the Strategic Report. We also read the Group's governance process in response to climate risk.

Using our knowledge of the business, we focused our work on how the impact of climate commitments made by the Group would impact the assumptions within the discounted cash flows prepared by management that are used in the Group's goodwill and producing asset impairment tests. We also evaluated whether the impact of both physical and transitional risks had been appropriately included in management's going concern and viability assessments. We challenged the completeness of management's climate impact assessment by reading the external reporting made by management as well as internal climate plans and Board minutes.

We also considered the completeness of the impact on financial statement line items by comparing management's assessment of the impact of climate risk, including the potential impact on the underlying assumptions and estimates as outlined in the basis of preparation in note 1.2 of the Notes to the Group financial statements.

Finally, we assessed the consistency of the information in the front half of the Annual Report regarding the Task Force on Climate-Related Financial Disclosures (TCFD) and the financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – group	Financial statements – company
Overall materiality	US$15,300,000 (2021: US$15,450,000).	US$12,500,000 (2021: US$12,000,000).
How we determined it	1% of Total Assets	1% of Total Assets, capped at 90% of the group materiality
Rationale for benchmark applied	We believe that total assets is an appropriate measure that reflects the size of the Group's operations	The company's purpose is to hold investments in the subsidiaries of the group. The company has limited income statement transactions, therefore the appropriate benchmark for assessing materiality is total assets.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was US$532,000 and US$14,100,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to US$11,475,000 (2021: US$11,600,000) for the group financial statements and US$9,375,000 (2021: US$9,000,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above US$765,000 (group audit) (2021: US$685,000) and US$625,000 (company audit) (2021: US$615,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining and evaluating management's going concern assessment, base case forecasts and downside scenarios, and comparing the forecasts to approved budgets;
- Considering the historical reliability of management's cash flow forecasting;
- Assessing key inputs into the models, including cost assumptions, commodity prices, production forecasts, forecast distributions and payment profiles, comparing these to the inputs used in other key accounting estimates in the financial statements or other sources of evidence;
- Assessing the mitigating actions identified by management in downside scenarios and corroborating these to internal and external sources of evidence;
- Obtaining and confirming the opening cash balances and the terms and conditions associated with debt facilities and ensuring these are appropriately considered in the model;
- Assessing management's consideration of the impact on the going concern analysis of the cross guarantee clauses contained within the Group's debt facility relating to its assets in Egypt;
- Assessed management's sensitivity analysis to understand the impact of changes in cash flow on the resources available to the group;
- Assessing the mathematical accuracy of management's model; and
- Evaluating the disclosures in relation to management's going concern assessment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Independent Auditors' Report to the Members of Capricorn Energy PLC continued

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group and company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibility Statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to compliance with production sharing contracts in Egypt and other oil and gas regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries in relation to management override of controls. Audit procedures performed by the engagement team included:

- Enquiries of management around known or suspected instances of non-compliance with laws and regulations, claims and litigation, and instances of fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Review of board minutes;
- Challenging management on judgements and on the assumptions and judgements made in their significant accounting estimates;
- Identifying and testing journal entries, including any journal entries representing unusual account combinations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

– we have not obtained all the information and explanations we require for our audit; or
– adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
– certain disclosures of directors' remuneration specified by law are not made; or
– the company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 23 May 2013 to audit the financial statements for the year ended 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement is 10 years, covering the years ended 31 December 2013 to 31 December 2022.

Other matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

Bruce Collins (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
27 April 2023

Group Income Statement
For the year ended 31 December 2022

	Note	2022 US$m	2021 US$m
Continuing operations			
Revenue	2.1	**229.6**	57.1
Other income	2.1	**54.8**	7.3
Cost of sales	2.1	**(71.2)**	(20.5)
Depletion charge	2.3	**(124.1)**	(31.2)
Gross profit		**89.1**	12.7
Pre-award costs	4.2	**(9.2)**	(15.8)
Unsuccessful exploration costs	2.2	**(93.5)**	(50.6)
Impairment of intangible exploration/appraisal assets	2.2	**–**	(19.6)
Impairment of property, plant & equipment – development/producing assets	2.3	**(42.6)**	–
Other operating income		**5.8**	0.6
Administrative and other expenses	4.3	**(65.0)**	(58.2)
Operating loss		**(115.4)**	(130.9)
Fair value loss – deferred consideration on business combinations	3.5	**(12.7)**	(7.2)
Gain on financial assets at fair value through profit or loss		**2.3**	5.5
Finance income	4.5	**15.7**	4.5
Finance costs	4.6	**(18.2)**	(68.9)
Exceptional income – India tax refund	4.8	**–**	1,070.7
(Loss)/Profit before tax from continuing operations		**(128.3)**	873.7
Taxation			
Tax charge	5.2	**(32.0)**	(4.2)
(Loss)/Profit from continuing operations		**(160.3)**	869.5
Profit from discontinued operations	6.1	**109.3**	25.0
(Loss)/Profit for the year attributable to equity holders of the Parent		**(51.0)**	894.5
Earnings per share for (loss)/profit from continuing operations:			
(Loss)/Profit per ordinary share – basic (cents)	4.7	**(44.88)**	175.58
(Loss)/Profit per ordinary share – diluted (cents)	4.7	**(44.88)**	170.91
Earnings per share for (loss)/profit attributable to equity holders of the Parent:			
(Loss)/Profit per ordinary share – basic (cents)	4.7	**(14.28)**	180.63
(Loss)/Profit per ordinary share – diluted (cents)	4.7	**(14.28)**	175.82

Group Statement of Comprehensive Income
For the year ended 31 December 2022

	Note	2022 US$m	2021 US$m
(Loss)/Profit for the year attributable to equity holders of the Parent		**(51.0)**	894.5
Other Comprehensive (Expense)/Income – items that may be recycled to the Income Statement			
Currency translation differences		**(16.7)**	2.0
Currency translation differences recycled on disposal of subsidiaries	4.6	**–**	54.7
Fair value loss on hedge options		**–**	(14.2)
Hedging loss recycled to the Income Statement		**–**	14.9
Fair value on hedge options recycled to the Income Statement on cessation of hedge accounting		**–**	2.7
Other Comprehensive (Expense)/Income for the year		**(16.7)**	60.1
Total Comprehensive (Expense)/Income for the year attributable to equity holders of the Parent		**(67.7)**	954.6
Total Comprehensive (Expense)/Income from:			
Continuing operations		**(177.0)**	874.9
Discontinued operations		**109.3**	79.7
		(67.7)	954.6

Group Balance Sheet
As at 31 December 2022

	Note	2022 US$m	2021 US$m
Non-current assets			
Intangible exploration/appraisal assets	2.2	**95.2**	98.3
Property, plant & equipment – development/producing assets	2.3	**249.5**	373.9
Goodwill	2.4	**25.4**	25.4
Other property, plant & equipment and intangible assets	2.5	**14.1**	5.7
Financial assets at fair value through profit or loss	3.5	**96.2**	120.4
Deferred tax asset	5.3	**7.1**	–
		487.5	623.7
Current assets			
Cash and cash equivalents	3.1	**756.8**	314.1
Inventory	3.3	**8.1**	10.8
Trade and other receivables	3.4	**142.5**	1,211.2
Financial assets at fair value through profit or loss	3.5	**134.4**	86.6
		1,041.8	1,622.7
Total assets		**1,529.3**	2,246.4
Current liabilities			
Loans and borrowings	3.2	**25.4**	10.9
Lease liabilities		**1.9**	2.4
Deferred consideration on business combinations	3.5	**25.0**	20.9
Trade and other payables	3.6	**55.7**	152.2
		108.0	186.4
Non-current liabilities			
Loans and borrowings	3.2	**133.2**	166.1
Lease liabilities		**2.4**	1.3
Provisions – well abandonment		**3.4**	2.2
Deferred consideration on business combinations	3.5	**36.8**	49.1
Deferred tax liabilities	5.3	**30.9**	42.7
		206.7	261.4
Total liabilities		**314.7**	447.8
Net assets		**1,214.6**	1,798.6
Equity attributable to equity holders of the Parent			
Called-up share capital	7.1	**8.0**	12.6
Share premium	7.1	**495.4**	490.9
Shares held by ESOP/SIP Trusts	7.1a,b	**(15.3)**	(17.5)
Foreign currency translation	7.1c	**(90.8)**	(74.1)
Merger and capital reserves	7.1d	**45.5**	40.9
Retained earnings		**771.8**	1,345.8
Total equity		**1,214.6**	1,798.6

The Financial Statements on pages 126 to 167 were approved by the Board of Directors on 27 April 2023 and signed on its behalf by:

Chris Cox
Interim Chief Executive

Group Statement of Cash Flows
For the year ended 31 December 2022

	Note	2022 US$m	2021 US$m
Cash flows from operating activities:			
(Loss)/Profit before tax from continuing operations		**(128.3)**	873.7
Profit before tax from discontinued operations	6.1	**113.4**	198.8
(Loss)/Profit before tax including discontinued operations		**(14.9)**	1,072.5
Adjustments for non-cash income and expense and non-operating cash flows:			
Other income – tax entitlement volumes		**(54.8)**	(7.3)
Release of deferred revenue		**–**	(21.7)
Unsuccessful exploration costs		**93.5**	50.6
Depreciation, depletion and amortisation		**129.9**	73.6
Impairment of intangible exploration/appraisal assets		**–**	19.6
Impairment of property, plant & equipment – development/producing assets		**42.6**	–
Share-based payments charge		**10.5**	10.2
Impairment of disposal group property, plant & equipment – development/producing assets		**–**	56.0
Exceptional income – India tax refund		**–**	(1,070.7)
Fair value loss – deferred consideration on business combinations		**12.7**	7.2
(Gain)/Loss on financial assets at fair value through profit or loss		**(112.7)**	2.6
Finance income		**(15.7)**	(4.5)
Finance costs		**18.2**	78.7
Adjustments to operating cash flows for movements in current assets and liabilities:			
Inventory movement		**2.7**	(4.6)
Trade and other receivables movement	3.4	**(38.7)**	(70.8)
Trade and other payables movement	3.6	**(9.8)**	(11.5)
Net cash flows from operating activities		**63.5**	179.9
Cash flows from investing activities:			
Exceptional income – India tax refund	4.8	**1,056.0**	–
Expenditure on intangible exploration/appraisal assets		**(94.9)**	(62.5)
Expenditure on property, plant & equipment – development/producing assets		**(62.2)**	(24.0)
Expenditure on other property, plant & equipment and intangible assets		**(11.7)**	(2.9)
Deferred consideration received – discontinued operations		**75.7**	–
Consideration paid for assets acquired through business combination		**(3.2)**	(310.1)
Deferred consideration paid on business combination		**(20.9)**	–
Expenditure on financial assets at fair value through profit and loss		**–**	(6.9)
Proceeds on disposal of financial assets		**12.8**	–
Proceeds on disposal of intangible exploration/appraisal assets – continuing operations		**–**	23.6
Proceeds on disposal of oil and gas assets – discontinued operations		**–**	63.9
Proceeds on disposal of purchaser bonds on sale of oil and gas assets – discontinued operations		**–**	30.0
Costs incurred on disposal of oil and gas assets		**–**	(7.3)
Tax paid on investing activities		**(0.2)**	–
Interest received and other finance income		**12.5**	0.2
Net cash flows from/(used in) investing activities		**963.9**	(296.0)
Cash flows from financing activities:			
Return of cash to shareholders	7.2	**–**	(257.2)
Share re-purchase	7.1	**(528.6)**	(7.8)
Debt arrangement fees		**–**	(4.6)
Other interest and charges		**(11.7)**	(5.8)
Proceeds from borrowings	3.2	**–**	181.4
Repayment of borrowings	3.2	**(21.5)**	–
Proceeds from issue of shares		**4.5**	0.9
Cost of shares purchased	7.1a	**(19.8)**	(8.7)
Lease payments		**(2.5)**	(46.1)
Net cash flows used in financing activities		**(579.6)**	(147.9)
Net increase/(decrease) in cash and cash equivalents		**447.8**	(264.0)
Opening cash and cash equivalents at beginning of year		**314.1**	569.6
Foreign exchange differences		**(5.1)**	8.5
Closing cash and cash equivalents	3.1	**756.8**	314.1

Group Statement of Changes in Equity
For the year ended 31 December 2022

	Equity share capital and share premium US$m	Shares held by ESOP/ SIP Trusts US$m	Foreign currency translation US$m	Merger and capital reserves US$m	Hedge reserve US$m	Retained earnings US$m	**Total equity US$m**
At 1 January 2021	502.7	(13.4)	(130.8)	40.8	(3.4)	729.7	1,125.6
Profit for the year	–	–	–	–	–	894.5	894.5
Fair value loss on hedge options	–	–	–	–	(14.2)	–	(14.2)
Hedging loss recycled to the Income Statement	–	–	–	–	14.9	–	14.9
Fair value on hedge options recycled on cessation of hedge accounting	–	–	–	–	2.7	–	2.7
Currency translation differences	–	–	2.0	–	–	–	2.0
Currency translation differences recycled on disposal of subsidiary	–	–	54.7	–	–	–	54.7
Total comprehensive income	–	–	56.7	–	3.4	894.5	954.6
Return of cash to shareholders	–	–	–	–	–	(257.2)	(257.2)
Share-based payments	–	–	–	–	–	10.2	10.2
Exercise of employee share options	0.9	–	–	–	–	–	0.9
Share re-purchase	(0.1)	–	–	0.1	–	(26.8)	(26.8)
Cost of shares purchased	–	(8.7)	–	–	–	–	(8.7)
Cost of shares vesting	–	4.6	–	–	–	(4.6)	–
At 31 December 2021	503.5	(17.5)	(74.1)	40.9	–	1,345.8	1,798.6
Loss for the year	–	–	–	–	–	(51.0)	**(51.0)**
Currency translation differences	–	–	(16.7)	–	–	–	**(16.7)**
Total comprehensive expense	**–**	**–**	**(16.7)**	**–**	**–**	**(51.0)**	**(67.7)**
Share-based payments	–	–	–	–	–	10.5	**10.5**
Exercise of employee share options	4.5	–	–	–	–	–	**4.5**
Share re-purchase	(4.6)	–	–	4.6	–	(511.5)	**(511.5)**
Cost of shares purchased	–	(19.8)	–	–	–	–	**(19.8)**
Cost of shares vesting	–	22.0	–	–	–	(22.0)	**–**
At 31 December 2022	**503.4**	**(15.3)**	**(90.8)**	**45.5**	**–**	**771.8**	**1,214.6**

Section 1 – Basis of Preparation

This section includes the Group's general accounting policies applicable across the Financial Statements. Accounting policies specific to individual notes to the accounts are embedded in the notes themselves.

1.1 Accounting Policies

a) Basis of preparation

The consolidated Financial Statements of Capricorn Energy PLC ('Capricorn' or 'the Group') for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of the Directors on 26 April 2023. Capricorn is a limited company incorporated and domiciled in the United Kingdom whose shares are publicly traded. The registered office is located at 50 Lothian Road, Edinburgh, Scotland, EH3 9BY. The registered company number is SC226712.

Capricorn prepares its Financial Statements on a historical cost basis, unless accounting standards require an alternate measurement basis. Where there are assets and liabilities calculated on a different basis, this fact is disclosed either in the relevant accounting policy or in the notes to the Financial Statements. The Financial Statements comply with the Companies Act 2006 as applicable to companies using International Financial Reporting Standards ('IFRS'). Accounting policies have been applied consistently across all periods disclosed.

The Group's Financial Statements are prepared on a going concern basis.

b) Accounting standards

The Financial Statements of Capricorn have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

Effective as of 1 January 2022, Capricorn adopted the following amendments to the standards:
- Amendments to IFRS 16 'Leases';
- Amendments to IAS 16 'Property, plant and equipment';
- Amendments to IAS 37 'Provisions, contingent liabilities and contingent assets'; and
- Annual improvements including minor amendments to IFRS 9 'Financial instruments' and IFRS 16 'Leases'.

The adoption of the amendments above has had no material impact on Capricorn's results or Financial Statement disclosures.

There are no new standards or amendments issued by the IASB and endorsed under the Companies Act, which have yet to be adopted by the Group that will materially impact the Group's Financial Statements.

c) Basis of consolidation

The consolidated Financial Statements include the results of Capricorn Energy PLC and its subsidiary undertakings to the balance sheet date. Where subsidiaries follow differing accounting policies from those of the Group, those accounting policies have been adjusted to align with those of the Group. Intercompany balances and transactions between Group companies are eliminated on consolidation, though foreign exchange differences arising on intercompany balances between subsidiaries with differing functional currencies are not offset.

The results of subsidiaries acquired or incorporated in any year are included in the Income Statement and Statement of Cash Flows from the effective date of acquisition, while the results of subsidiaries disposed of or liquidated during the year are included in the Income Statement and Statement of Cash Flows to the date at which control passes from the Group.

d) Joint arrangements

Capricorn is a partner (joint operator) in oil and gas exploration, development and production licences which are unincorporated joint arrangements. All of the Group's current interests in these arrangements are determined to be joint operations. A full list of oil and gas licence interests can be found on page 177.

Costs incurred relating to an interest in a joint operation other than costs relating to production activities are capitalised in accordance with the Group's accounting policies for oil and gas assets as appropriate (notes 2.2 and 2.3). All the Group's intangible exploration/appraisal assets and property, plant & equipment – development/producing assets relate to interests in joint operations.

Capricorn's working capital balances relating to joint operations are included in trade and other receivables (note 3.4) and trade and other payables (note 3.6). Any share of finance income or costs generated or incurred by the joint operation is included within the appropriate income statement account.

Section 1 – Basis of Preparation continued

1.1 Accounting Policies continued

e) Foreign currencies
These Financial Statements continue to be presented in US dollars (US$), the functional currency of the Parent.

In the Financial Statements of individual Group companies, Capricorn translates foreign currency transactions into the functional currency at the rate of exchange prevailing at the transaction date (or an approximation thereof where not materially different). Monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are taken to the Income Statement except for those incurred on borrowings specifically allocable to development projects, which are capitalised as part of the cost of the asset, though there were none in either the current or preceding year.

The Group maintains the Financial Statements of the Parent and subsidiary undertakings in their functional currency. Where applicable, the Group translates subsidiary Financial Statements into the presentation currency, US$, using the closing rate method for assets and liabilities which are translated at the rate of exchange prevailing at the balance sheet date and rates at the date of transactions for income statement accounts. Capricorn takes exchange differences arising on the translation of net assets of Group companies whose functional currency is non-US$ directly to reserves.

Rates of exchange to US$1 were as follows:

	Closing 2022	YTD Average 2022	Closing 2021	YTD Average 2021
GBP	**0.827**	**0.808**	0.739	0.727

f) Exceptional items
Where items have a significant impact on profit or loss, occur infrequently and are not part of the Group's normal operating cycle, such items may be disclosed as exceptional items on the face of the Income Statement.

1.2 Going concern

The Directors have considered the factors relevant to support a statement of going concern. In assessing whether the going concern assumption is appropriate, the Board considered the Group cash flow forecasts under various scenarios, identifying risks and mitigating factors and ensuring the Group has sufficient funding to meet its current and contracted commitments as and when they fall due for a period of at least 12 months from the date of signing these Financial Statements.

At the balance sheet date and the date of this report, the Group has significant surplus cash balances, following receipt of the India tax refund, exceeding debt drawn on the Senior Secured Borrowing and Junior Debt Facilities which part-funded the Egypt acquisition. This cash surplus has been adjusted for the immediate proposed return of US$450.0m cash to shareholders, an additional cash return of US$100.0m, subject to certain conditions, and a US$25.0m share buy-back planned by the Board. After adjusting for these planned returns, under both Capricorn's and the lenders' assumptions, the Group has sufficient resources to maintain compliance with the financial covenant associated with the facilities in terms of a 12-month forward-looking liquidity test.

A downside scenario run includes a return to lower oil prices of US$60 per bbl in the short-term, a reduction in forecast production, increases to forecast operating and drilling costs, and a cancellation of guarantees that would require to be cash collateralised. An oil price crash scenario assumes a sharp fall in oil price to US$35 per bbl before a gradual return to the downside price assumptions by Q2 2024. Both the downside and oil-price crash scenarios assume that the proposed additional US$100.0m cash return and share buy-back would be cancelled or postponed. Further mitigants identified by the Directors include the ability to reduce forecast but uncommitted capital expenditure, the sale of non-oil and gas assets held on the balance sheet, cancellation of discretionary share purchases and the realisation of contingent assets expected to be recovered over the coming twelve months.

Under the terms of the borrowing facilities entered into in connection with the Group's Egypt assets, Capricorn as borrowers jointly and severally guarantee performance of the obligations of the joint venture counterparty. Should the counterparty fail to meet its repayment obligations, the lenders could enforce this guarantee, though other routes to recovery would be more likely. Capricorn would also have legal routes to recover any sums paid on behalf of the counterparty under this guarantee. The Directors planned returns ensure that sufficient resources remain within the Group in order to meet its contracted commitments as and when they fall due for at least the twelve month period from the date of approval of the Financial Statements in event of default by the counterparty.

The Board and Audit Committee assessments of risk and mitigants to the Group's operational existence beyond this 12-month period is included in the Viability Statement on page 32.

Section 2 – Oil and Gas Assets, Operations and Other Non-Current Assets

This section contains details of Capricorn's oil and gas assets, including the profit generated from operations in Egypt, exploration costs capitalised at the year end and development/producing assets and associated impairment tests performed.

Key estimates and assumptions in this section:

Climate change assumptions

Capricorn's cost of carbon assumptions are included in the fair value models used to attribute value to the assets acquired through the business combination in Egypt, detailed below. Those models will also determine the useful life-of-field assumptions for each producing asset and increasing costs of carbon could result in reduced commercial reserve volumes. Sensitivities performed on alternate carbon cost assumptions did not have a significant impact on the acquisition fair values of the assets in Egypt.

Capricorn's models have no residual value attributed to producing assets as at the end of the economic field life title passes to the Egyptian Government. There are therefore no decommissioning assets or liabilities to record. There are currently no assets that have been identified as at risk of becoming stranded.

Estimation of hydrocarbon reserves and long-term oil price assumption

Oil and gas reserve volumes and related production profiles are estimated based on Capricorn's internal process manual which follows industry best practice. This represents Capricorn's best estimate of reserves as at the reporting date. Capricorn's Reserves and Resources Reporting Committee, which provides oversight, advice and guidance while providing senior level review, reports to the Group's Audit Committee before ultimately requesting approval of annual reserve volumes by the Board.

A third-party audit of Capricorn's reserves and resources estimates is conducted annually. At the year end, the third-party auditor's reserve estimates are higher than Capricorn's internal estimates, largely due to different assumptions on the number and timing of future development wells and their inclusion of reserves that Capricorn classifies as contingent resources pending approval of a field development plan. Capricorn believe it is appropriate to remain with the Group's internal reserve estimates.

A change in reserve volumes would impact depletion charges and related deferred tax liabilities and indicate a possible impairment of assets.

Capricorn increased its long-term oil price assumption from US$55/bbl to US$60/bbl unescalated. The Group's short-term assumption remains linked to the forward curve over a two-year period.

Estimation of fair value of assets for use in impairment tests

The fair value of property, plant & equipment – development/producing assets in Egypt and related goodwill, acquired through the 2021 business combination (see note 6.3), used in the Group's impairment tests has been measured using the net present value of discounted future cash flows.

The key assumptions used in the Group's discounted cash flow models reflect past experience and take account of external factors. These assumptions include:
- short/medium-term oil price based on a six-month average forward curve for two years from the balance sheet date;
- long-term oil price of US$60/bbl (2021: US$55/bbl) unescalated;
- Egypt price differentials to base oil prices;
- cost of carbon offsets in line with Capricorn's commitment to offsetting emissions and reaching net zero by 2040;
- reserve estimates of 2P discovered resource based on P50 reserve estimates;
- production profiles based on Capricorn's internal estimates including assumptions on performance of assets;
- cost profiles for future development spend and operating costs escalated at 4.0% per annum (2021: 4.0% per annum); and
- post-tax discount rates of 10% (2021: 10%).

The assumptions applied in 2021 were used to measure the fair value of assets acquired through the business combination.

Section 2 – Oil and Gas Assets, Operations and Other Non-Current Assets continued

2.1 Gross Profit: Revenue and Cost of Sales

Accounting policies

Revenue

Revenue from oil sales represents the Group's share of sales from its producing interests in Egypt, at the point in time when ownership of the oil has passed to the buyer. On domestic sales, the point of sale is determined to be the point when oil is delivered to the communal storage tanks in the onshore facilities. Sales relating to the export of oil are recognised once the cargo is fully loaded onto a crude tanker and the necessary export documentation received. Revenue is measured using the monthly average Brent oil price, plus or minus the applicable price differential premium or discount to reach the Official Selling Price and is recorded at fair value including estimates to reduce revenue to the Group's expected entitlement share of sales volumes.

Revenue from the sale of gas in Egypt is recorded based on the volume of gas accepted each day by customers at the delivery point.

Revenue from royalties is calculated on production from fields in Mongolia.

Other income – tax entitlement volumes

Under the concession agreements in Egypt, income tax due on taxable profit is paid on Capricorn's behalf by EGPC. To achieve this through the agreements, Capricorn notionally receive a greater share of hydrocarbon production in excess of the Group's entitlement interest share of production equal to the amount required to cover the tax payable. The oil is produced and sold on Capricorn's behalf and proceeds remitted to the tax authorities. This income falls outwith the definition of revenue and is therefore shown as other income with an equal and opposite tax charge recorded through current taxation.

Cost of sales and inventory

Production costs include Capricorn's share of costs incurred by the joint operation in extracting oil and gas. Also included are marketing and transportation costs and loss-of-production insurance costs payable over the year.

Oil inventory is measured at market value in accordance with established industry practice.

	Year ended 31 December 2022 US$m	Year ended 31 December 2021 US$m
Oil sales	**181.4**	41.3
Gas sales	**47.5**	14.9
Revenue from oil and gas sales	**228.9**	56.2
Royalty income	**0.7**	0.9
Total revenue	**229.6**	57.1
Other income – Tax entitlement volumes	**54.8**	7.3
Other income	**54.8**	7.3
Production costs and inventory movements	**(71.2)**	(20.5)
Cost of sales	**(71.2)**	(20.5)
Depletion (note 2.3)	**(124.1)**	(31.2)
Gross profit	**89.1**	12.7

Section 2 – Oil and Gas Assets, Operations and Other Non-Current Assets continued

2.1 Gross Profit: Revenue and Cost of Sales continued

Revenue

Capricorn receives oil and gas revenue from eight producing concessions in Egypt, based on an entitlement interest. Payment terms are within 30 days from the date of the invoice for oil sales and 45 days from the date of the invoice for gas sales.

Oil and gas revenue in Egypt for the year ended 31 December 2022 was US$228.9m (period from 24 September 2021 to 31 December 2021: US$56.2m), from net entitlement production of 4.7 mmboe (period from 24 September 2021 to 31 December 2021: 1.4 mmboe) of which ~39% (period from 24 September 2021 to 31 December 2021: ~39%) was liquids. Oil sales averaged US$98.8/boe (period from 24 September 2021 to 31 December 2021: US$77.8/boe) and with gas sales fixed at US$2.9/mcf (period from 24 September 2021 to 31 December 2021: US$2.9/mcf). Other income represents tax paid on Capricorn's behalf by EGPC, see section 5.

Production costs over the period were US$71.2m (period from 24 September 2021 to 31 December 2021: US$20.5m), or US$5.7/boe (period from 24 September 2021 to 31 December 2021: US$6.0/boe) (on a working interest ("WI") basis).

2.2 Intangible Exploration/Appraisal Assets

Accounting policy

Capricorn follows a successful efforts-based accounting policy for oil and gas assets.

Costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Income Statement as pre-award costs.

Expenditure incurred on the acquisition of a licence interest is initially capitalised on a licence-by-licence basis. Costs are held, undepleted, within intangible exploration/appraisal assets until such time as the exploration phase on the licence area is complete or commercial reserves have been discovered and a field development plan approved.

Exploration expenditure incurred in the process of determining oil and gas exploration targets is capitalised initially within intangible exploration/appraisal assets and subsequently allocated to drilling activities. Costs are recognised following a cost accumulation model where any contingent future costs on recognition of an asset are recognised only when incurred. This includes where Capricorn has entered into a 'farm-in' agreement to either acquire or part-dispose of an exploration interest.

A farm-in is an agreement in which a party agrees to acquire from one or more of the existing licencees an interest in an exploration licence, for a consideration which may consist of the performance of a specified work obligation on behalf of the existing licencees. This obligation may be subject to a monetary cap. Refund of full or partial costs incurred to date may also be included in a farm-in agreement. Where Capricorn has part-disposed of an exploration licence interest through a farm-in arrangement, a 'farm-down', the contingent consideration payable by the third party on Capricorn's behalf is not recognised in the Financial Statements. The future economic benefit which Capricorn will receive as a result of the farm-down will be dependent upon future success of any exploration drilling.

Exploration/appraisal drilling costs are capitalised on a well-by-well basis until the success or otherwise of the well has been established. The success or failure of each exploration/appraisal effort is judged on a well-by-well basis. Drilling costs are written off on completion of a well unless the results indicate that hydrocarbon reserves exist and there is a reasonable prospect that these reserves are commercial and work to confirm the commercial viability of such hydrocarbons is intended to be carried out in the foreseeable future. Where results of exploration drilling indicate the presence of hydrocarbons which are ultimately not considered commercially viable, all related costs are written off to the Income Statement.

Following appraisal of successful exploration wells, if commercial reserves are established and technical feasibility for extraction demonstrated and approved in a field development plan, then the related capitalised intangible exploration/appraisal costs are transferred into a single field cost centre within property, plant & equipment – development/producing assets, after testing for impairment (see below).

Proceeds from the disposal or farm-down of part or all of an exploration/appraisal asset are credited initially to that interest with any excess being credited to the Income Statement.

Impairment

Intangible exploration/appraisal assets are reviewed regularly for indicators of impairment and tested for impairment where such indicators exist. An indicator that one of the Group's assets may be impaired is most likely to be one of the following:
- there are no further plans to conduct exploration activities in the area;
- exploration drilling in the area has failed to discover commercial reserve volumes;
- changes in the oil price or other market conditions indicate that discoveries may no longer be commercial; or
- development proposals for appraisal assets in the pre-development stage indicate that it is unlikely that the carrying value of the exploration/appraisal asset will be recovered in full.

In such circumstances the intangible exploration/appraisal asset is allocated to any property, plant & equipment – development/producing assets within the same cash-generating unit (CGU) and tested for impairment. Any impairment arising is recognised in the Income Statement for the year. Where there are no development assets within the CGU, the excess of the carrying amount of the exploration/appraisal asset over its recoverable amount is charged immediately to the Income Statement.

Section 2 – Oil and Gas Assets, Operations and Other Non-Current Assets continued

2.2 Intangible Exploration/Appraisal Assets continued

	Egypt US$m	Eastern US$m	Western US$m	**Total US$m**
Cost				
At 1 January 2021	–	34.9	113.2	148.1
Additions	6.6	12.2	61.2	80.0
Unsuccessful exploration costs	(2.9)	(18.2)	(29.5)	(50.6)
Disposals	–	–	(59.6)	(59.6)
At 31 December 2021	3.7	28.9	85.3	117.9
Additions	22.5	10.5	57.4	**90.4**
Unsuccessful exploration costs	0.6	(0.1)	(113.6)	**(113.1)**
At 31 December 2022	**26.8**	**39.3**	**29.1**	**95.2**
Impairment				
At 1 January 2021	–	–	36.0	36.0
Impairment charges	–	–	19.6	19.6
Disposals	–	–	(36.0)	(36.0)
At 31 December 2021	–	–	19.6	19.6
Unsuccessful exploration costs	–	–	(19.6)	**(19.6)**
At 31 December 2022	**–**	**–**	**–**	**–**
Net book value				
At 31 December 2020	–	34.9	77.2	112.1
At 31 December 2021	3.7	28.9	65.7	98.3
At 31 December 2022	**26.8**	**39.3**	**29.1**	**95.2**

Additions to intangible exploration/appraisal assets were funded through cash and working capital.

Egypt
Additions in Egypt of US$22.5m mainly relate to North Um Baraka, Badr El Din and the three Capricorn operated concessions, South Abu Sennan, West El Fayium and South East Horus. Unsuccessful exploration costs of US$2.9m recorded in 2021, offset by an accrual reversal of US$0.6m in 2022, relate to the North Um Baraka concession, where an unsuccessful well completed in January 2022.

Eastern
Additions in the year of US$10.5m include US$10.4m which were incurred on Mauritania Block 7 and total costs of US$39.3m remain capitalised at the year end.

Western
Additions of US$57.4m include US$11.4m in Mexico, US$44.5m in the UK and US$1.5m in Suriname.

In the UK, additions of US$22.7m and US$13.5m were incurred on the P2379 and P2380 licences containing the Diadem and Jaws wells completed in the year, with remaining additions of US$8.3m incurred across the rest of the UK portfolio. US$10.4m of the Diadem additions were short-term lease costs. Both Diadem and Jaws wells were unsuccessful, and costs of US$29.3m and US$13.5m respectively were charged to the Income Statement, with a further US$1.9m of unsuccessful costs incurred on other UK portfolio licences. Further costs of US$17.4m relating to the Jaws well were charged to the Income Statement in 2021. At 31 December 2022 costs of US$12.1m remain capitalised in respect of UK licences.

In Mexico additions for the year of US$11.4m were spread across Blocks 7, 9, 10 and 15. Unsuccessful costs of US$68.9m include US$49.6m which were charged to the Income Statement for Blocks 9, 10 and 15 where Capricorn has or will be exiting from the licences. This includes costs of US$19.6m impaired in 2021 on Block 9 (discussed further below). The remaining unsuccessful costs of US$19.3m relate to Block 7 where the Yatzil well completed in 2023. Capricorn internal analysis led to the decision not to participate in the forthcoming phases and the Company has therefore informed partners of its decision to withdraw from the licence.

In Suriname total costs of US$17.0m remain capitalised at the year end.

Impairment review
At the year end, Capricorn reviewed its remaining intangible exploration/appraisal assets for indicators of impairment. No indicator of impairment was identified on any of the Group's remaining exploration/appraisal assets.

Subsequent to the year end, the Directors have confirmed that Capricorn will seek to farm-down its interests in Mauritania and Suriname before committing to further exploration activity. Failure to find a partner and subsequent withdrawal from either or both licences would result in all costs currently capitalised in relation to these licences being charged to the Income Statement.

In 2021, in Mexico, the Saasken-2 appraisal well did not encounter hydrocarbons and as a result a possible Saasken extension into neighbouring Block 9 was reclassified from contingent resources to prospective resources, indicating possible impairment. Following impairment testing, the remaining costs capitalised of US$19.6m were impaired in full. In 2022, Capricorn submitted notice to the Mexican authorities of the Group's intention to withdraw from Block 9 and remaining costs charged as unsuccessful exploration costs.

Section 2 – Oil and Gas Assets, Operations and Other Non-Current Assets continued

2.3 Property, Plant & Equipment – Development/Producing Assets

Accounting policy

Costs

All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons has been demonstrated and a development plan approved are capitalised within development/producing assets on a field-by-field basis. Subsequent expenditure is capitalised only where it either enhances the economic benefits of the development/producing asset or replaces part of the existing development/producing asset. Any remaining costs associated with the part replaced are expensed.

Costs of borrowings relating to the ongoing construction of development/producing assets and facilities are capitalised during the development phase of the project. Capitalisation ceases once the asset is ready to commence production.

Net proceeds from any disposal, part disposal or farm-down of development/producing assets are credited against the appropriate portion of previously capitalised cost. A gain or loss on disposal of a development/producing asset is recognised in the Income Statement to the extent that the net proceeds, measured at fair value, exceed or are less than the appropriate portion of the net capitalised costs.

Depletion and amortisation

Depletion is charged on a unit-of-production basis, based on proved and probable reserves on a field-by-field basis. Fields within a single development area may be combined for depletion purposes. Where production commences prior to completion of the development, costs to be depleted include the costs-to-complete of the facility required to extract the volume of reserves recorded. Amortisation charged on right-of-use leased assets is also charged on a unit-of-production basis, based on proved and probable reserves.

Impairment

Development/producing assets are reviewed for indicators of impairment at the balance sheet date. Indicators of impairment for the Group's development assets include:

- downward revisions of reserve estimates;
- increases in cost estimates for development projects; or
- a decrease in the oil price or other negative changes in market conditions.

Impairment tests are carried out on each development/producing asset at the balance sheet date where an indicator of impairment is identified. The test compares the carrying value of an asset to its recoverable amount based on the higher of its fair value less costs of disposal or value in use. Where the fair value less costs of disposal supports the carrying value of the asset, no value-in-use calculation is performed.

If it is not possible to calculate the fair value less costs of disposal of an individual asset, the fair value less costs of disposal is calculated for the CGU containing the asset and tested against the carrying value of the assets and liabilities in the CGU for impairment. Where an asset can be tested independently for impairment, this test is performed prior to the inclusion of the asset into a CGU for further impairment tests.

If the carrying amount of the asset or CGU exceeds its recoverable amount, an impairment charge is made.

Where there has been a charge for impairment in an earlier period that charge will be reversed in a later period where there has been a change in circumstances to the extent that the recoverable amount is higher than the net book value at the time. In reversing impairment losses, the carrying amount of the asset will be increased to the lower of its original carrying value or the carrying value that would have been determined (net of depletion) had no impairment loss been recognised in prior years.

Decommissioning

At the end of the producing life of a field, costs are incurred in plugging and abandoning wells, removing subsea installations and decommissioning production facilities. Capricorn recognises the full discounted cost of decommissioning as an asset and liability when the obligation to rectify environmental damage arises. The decommissioning asset is included within property, plant & equipment – development/producing assets with the cost of the related installation. The liability is included within provisions.

Revisions to the estimated costs of decommissioning which alter the level of the provisions required are also reflected in adjustments to the decommissioning asset. The amortisation of the asset is calculated on a unit-of-production basis based on proved and probable reserves. The amortisation of the asset is included in the depletion charge in the Income Statement and the unwinding of discount of the provision is included within finance costs.

Section 2 – Oil and Gas Assets, Operations and Other Non-Current Assets continued

2.3 Property, Plant & Equipment – Development/Producing Assets continued

	Egypt US$m	UK producing assets US$m	UK producing right-of-use leased assets US$m	Total US$m
Cost				
At 1 January 2021	–	1,177.7	316.3	1,494.0
Acquisitions through business combinations	390.2	–	–	390.2
Additions	14.9	–	–	14.9
Disposals	–	(1,177.7)	(316.3)	(1,494.0)
At 31 December 2021	405.1	–	–	405.1
Additions	71.5	–	–	**71.5**
Other cost adjustments	(29.2)	–	–	**(29.2)**
At 31 December 2022	**447.4**	**–**	**–**	**447.4**
Depletion, amortisation and impairment				
At 1 January 2021	–	517.0	127.2	644.2
Depletion charge – continuing operations	31.2	–	–	31.2
Depletion and amortisation charges – discontinued operations	–	27.1	8.2	35.3
Disposals	–	(544.1)	(135.4)	(679.5)
At 31 December 2021	31.2	–	–	31.2
Depletion charge	124.1	–	–	**124.1**
Impairment	42.6	–	–	**42.6**
At 31 December 2022	**197.9**	**–**	**–**	**197.9**
Net book value				
At 31 December 2020	–	660.7	189.1	849.8
At 31 December 2021	373.9	–	–	373.9
At 31 December 2022	**249.5**	**–**	**–**	**249.5**

Egypt

Capricorn acquired its development/producing assets in Egypt through a business combination in 2021 (see note 6.3). Subsequent expenditure on development activities across the concessions totalled US$14.9m in 2021 and US$75.1m in 2022. The 2022 other cost adjustments of US$29.2m relate to the reversal of accruals which were included in the acquisition costs of assets in 2021. The seller has not provided sufficient information to allow the new operator to reconcile the reversal of those accruals back to subsequent costs. Capricorn have therefore reversed those accruals at the year end.

The 2021 acquisition was funded through a combination of cash and borrowings, with further deferred consideration due on future oil prices. Subsequent additions have been funded through cash and working capital.

Depletion of US$124.1m (2021: US$31.2m) was charged to the Income Statement based on entitlement interest production during the year (2021: from 24 September 2021 to the end of the year). The costs for depletion include future capital costs-to-complete consistent with the life-of-field reserve estimates used in the calculation.

Impairment review

The Group's development/producing assets in Egypt were reviewed for indicators of impairment. Indicators were identified where performance from producing wells had fallen below expectation resulting in downgrades to reserve volumes. Subsequent impairment tests identified an impairment of US$42.6m across two of the Egypt concession areas, AESW and Obaiyed. Impairment sensitivity analysis is provided in note 2.7.

UK Producing asset disposals

On 8 March 2021, Capricorn entered into an agreement to sell its entire interests in the UK Catcher and Kraken producing assets. The sale completed on 2 November 2021 (see note 6.1). At the date of the agreement, assets were re-classified as held-for-sale before the disposal completed. US$35.3m of amortisation and depletion charges were recorded on the assets prior to re-classification.

Section 2 – Oil and Gas Assets, Operations and Other Non-Current Assets continued

2.4 Goodwill

	Egypt US$m
At 1 January 2021	–
Goodwill arising on acquisition	25.4
At 31 December 2021 and 31 December 2022	**25.4**

Goodwill arose on the acquisition of the Western Desert assets in Egypt in 2021 (see note 6.3). There were no subsequent measurement period adjustments to the original acquisition accounting. Goodwill has been tested for impairment at 31 December 2022 but no impairment was identified. Impairment sensitivity analysis is provided in note 2.7.

2.5 Other Property, Plant & Equipment and Intangible assets

	Carbon credits US$m	Intangible assets US$m	Property, plant & equipment US$m	Right-of-use assets US$m	Total US$m
Cost					
At 1 January 2021	–	36.5	10.4	9.3	56.2
Additions	–	0.9	0.4	–	1.3
At 31 December 2021	–	37.4	10.8	9.3	57.5
Additions	6.8	3.9	–	3.5	**14.2**
At 31 December 2022	**6.8**	**41.3**	**10.8**	**12.8**	**71.7**
Depreciation and amortisation					
At 1 January 2021	–	30.4	10.0	4.3	44.7
Charge for the year	–	4.8	0.3	2.0	7.1
At 31 December 2021	–	35.2	10.3	6.3	51.8
Charge for the year	–	3.5	0.3	2.0	**5.8**
At 31 December 2022	**–**	**38.7**	**10.6**	**8.3**	**57.6**
Net book value					
At 31 December 2020	–	6.1	0.4	5.0	11.5
At 31 December 2021	–	2.2	0.5	3.0	5.7
At 31 December 2022	**6.8**	**2.6**	**0.2**	**4.5**	**14.1**

During the year, the Group invested US$6.8m in high-quality, verified carbon credits, which will be used to offset the Group's future emissions from its operations in Egypt, in order to achieve its net zero targets. For more details see TCFD Reporting, on pages 180 to 184. None of the carbon credits purchased have subsequently been retired. Amortisation of the carbon credits will commence on first retirement.

2.6 Capital Commitments

	At 31 December 2022 US$m	At 31 December 2021 US$m
Oil and gas expenditure:		
Intangible exploration/appraisal assets	**36.0**	71.8
Property, plant & equipment – development/producing assets	**114.0**	93.7
Contracted for	**150.0**	165.5

Capital commitments represent Capricorn's share of obligations in relation to its interests in joint operations. These commitments include Capricorn's share of the capital commitments of the joint operations themselves.

The capital commitments for intangible exploration/appraisal assets include US$17.2m (2021: US$23.5m) in Egypt, US$0.5m (2021: US$34.4m) for operations in the UK and US$18.3m (2021: US$11.1m) for remaining commitments in Mexico.

As at 31 December 2022, the capital commitments for property, plant & equipment – development/producing assets were solely related to Egypt operations.

There were no short-term lease commitments at the 2022 balance sheet date (2021: US$nil).

Section 2 – Oil and Gas Assets, Operations and Other Non-Current Assets continued

2.7 Impairment Sensitivity Analysis

Capricorn recorded an impairment of US$42.6m on the Obaiyed and AESW concession areas. Impairment sensitivity analysis has been performed of the Group's long-term oil price and discount rate assumptions with results presented below. Changes arising on the change of assumptions relate to the AESW and Obaiyed concessions only. No impairment arises on any of the other Egypt concession areas or on goodwill under any of the sensitivities performed.

Changes to other assumptions used to calculate the recoverable value of the Group's Egypt assets have no significant impact on the impairment charge.

Property, plant & equipment – Development/producing assets	Impairment charge (increase)/ decrease US$m	Deferred tax credit/(charge) on change US$m	Net Income Statement impact US$m
Long-term oil price:			
US$55/bbl	**(14.2)**	**5.8**	**(8.4)**
US$65/bbl	**10.0**	**(4.1)**	**5.9**
US$70/bbl	**22.3**	**(9.0)**	**13.3**
Discount rate:			
12%	**(7.8)**	**3.2**	**(4.6)**
14%	**(12.9)**	**5.2**	**(7.7)**

Section 3 – Working Capital, Financial Instruments and Long-Term Liabilities

This section includes detail on the Group's loan facilities, movements in lease liabilities and financial assets and liabilities at the year-end. The Group's financial risk management objectives and policies are also contained in this section.

Significant accounting judgements and key estimates and assumptions in this section:

India tax refund receivable

The Group recorded the tax refund due from India as a receivable at the prior year end (see note 4.8).

Financial assets at fair value through profit or loss – Earnout consideration

Under the sales agreement for the disposal of the Group's UK producing assets, Capricorn is entitled to earnout consideration from the purchaser calculated on a share of future production through to 2025 on revenue in excess of US$52/bbl. The earnout consideration is dependent on minimum annual future production levels being achieved. Capricorn have obtained market values for the oil price option subsequently adjusting for expected credit loss provisions.

3.1 Cash and Cash Equivalents

	At 31 December 2022 US$m	At 31 December 2021 US$m
Cash at bank	**63.4**	84.8
Bank deposit less than three months	**298.0**	–
Money market funds	**395.4**	229.3
	756.8	314.1

At 31 December 2022, US$52.5m (2021: US$8.9m) of cash and cash equivalents are restricted and not available for immediate ordinary business use. This includes US$43.5m (2021: US$8.9m) of cash and cash equivalents in Egypt.

Cash and cash equivalents earn interest at floating rates. Short-term investments are made for varying periods, which can be as short as instant access but generally not more than three months, depending on the cash requirements of the Group. At 31 December 2022 Capricorn had invested surplus funds into money market funds and short-term bank deposits. These meet the criteria of cash and cash equivalents.

Capricorn limits the placing of funds and other investments to banks or financial institutions that have ratings of A- or above from at least two of Moody's, Standard & Poor's or Fitch, unless a sovereign guarantee is available from a AAA--rated government. The counterparty limits vary between US$50.0m and US$200.0m depending on the ratings of the counterparty. No investments are placed with any counterparty with a five-year credit default swap exceeding 250 bps. Investments in money market liquidity funds are only made with AAA-rated liquidity funds and the maximum holding in any single fund is 20% of total investments.

Section 3 – Working Capital, Financial Instruments and Long-Term Liabilities continued

3.2 Loans and Borrowings

Reconciliation of opening and closing liabilities to cash flow movements:	Year ended 31 December 2022 US$m	Year ended 31 December 2021 US$m
Opening liabilities	**177.0**	–
Loan advances in the year disclosed in the Cash Flow Statement:		
Senior Debt Facility	–	141.4
Junior Debt Facility	–	40.0
	–	181.4
Loan repayments in the year disclosed in the Cash Flow Statement:		
Senior Debt Facility	**(21.5)**	–
Other movements in Cash Flow Statement:		
Debt arrangement fees	–	(4.6)
Non-cash movements:		
Accrued debt facility interest	**2.2**	–
Amortisation of debt arrangement fees	**0.9**	0.2
Closing liabilities	**158.6**	177.0
Amounts due less than one year	**25.4**	10.9
Amounts due greater than one year	**133.2**	166.1
Closing liabilities	**158.6**	177.0

Capricorn Egypt Debt Facilities

In September 2021 Capricorn Egypt Limited entered into a US$325.0m Senior Debt Facility and an US$80.0m Junior Debt Facility jointly with Cheiron, the joint operation partner in Egypt, to finance the acquisition of the Egyptian Western Desert Portfolio. The facility commitments are split 50:50 with Cheiron. An accordion feature on the Senior Facility permits additional future commitments of up to US$200.0m subject to the amortisation of investor commitments. Facility commitments began amortising in September 2022 and the maximum drawdown available to Capricorn at 31 December 2022 was US$119.9m for the Senior Debt Facility and US$40.0m for the Junior Debt Facility.

Interest on debt drawn is charged at the appropriate LIBOR for the currency drawn plus an applicable margin. The Senior Debt Facility remains subject to biannual redeterminations, has a market standard suite of covenants and is cross-guaranteed by all Group companies party to the facility, including Cheiron. Any debt drawn is repayable in line with the amortisation of bank commitments over the period from September 2022 to the extended final maturity date of September 2026. All drawings in the year were denominated in US$.

With effect from 1 July 2023, it is intended that the Secured Overnight Financing Rate (SOFR) will replace LIBOR as the benchmark for calculating interest on the two facilities. The rate of interest on borrowings will be the aggregate of the reference rate, margin and a credit adjustment spread, whereby the reference rate will be the applicable Term SOFR for a period equal in length to the interest period of the loan.

3.3 Inventory

	31 December 2022 US$m	31 December 2021 US$m
Spare parts – Egypt concessions	**8.1**	10.8

Spare parts inventories in Egypt are maintained by Bapetco on behalf of the operator Cheiron. Inventory is held at net realisable value, measured at cost less provisions for obsolescence, based on the age of the items held.

Section 3 – Working Capital, Financial Instruments and Long-Term Liabilities continued

3.4 Trade and Other Receivables

Accounting policy

Trade receivables represent amounts due from the sale of oil and gas from the Group's assets in Egypt, acquired during 2021, royalty payments receivable from producing fields in Mongolia and previously from oil and gas sales from UK producing assets disposed of during 2021. Other receivables primarily represent recharges to joint operations. Joint operation receivables relate to Capricorn's interest in its oil and gas joint arrangements, including Capricorn's participating interest share of the receivables of the joint arrangements themselves.

Trade receivables, other receivables and joint operation receivables, which are financial assets, are measured initially at fair value and subsequently recorded at amortised cost.

A loss allowance is recognised, where material, for expected credit losses on all financial assets held at the balance sheet date. Expected credit losses are the difference between the contractual cash flows due to Capricorn and the discounted actual cash flows that are expected to be received. Where there has been no significant increase in credit risk since initial recognition, the loss allowance is equal to 12-month expected credit losses. Where the increase in credit risk is considered significant, lifetime credit losses are provided. For trade receivables a lifetime credit loss is recognised on initial recognition where material.

Prepayments, which are not financial assets, are measured at historic cost.

	At 31 December 2022 US$m	At 31 December 2021 US$m
India tax refund receivable	–	1,070.7
Trade receivables	96.9	63.3
Other receivables	19.6	14.0
Prepayments	5.3	7.8
Joint operation receivables	20.7	55.4
	142.5	1,211.2

The India tax refund receivable of US$1,070.7m was settled in February 2022, see note 4.8.

Trade receivables relate to the Group's producing assets in Egypt. Capricorn remain in discussions with EGPC and the operator to manage the receivables position.

Trade receivables are initially recorded at fair value, adjusting for expected credit losses, and subsequently measured at amortised cost. Revenue is recognised at the point in time where title passes to the customer and payment becomes unconditional. The fair value measurement of revenue for oil and gas sales in Egypt includes adjustments to invoiced quantities for expected entitlement share adjustments.

Other receivables balance of US$19.6m (2021: US$14.0m) includes interventure receivables of US$9.1m (2021: US$7.7m), VAT recoverable in the UK and Mexico of US$4.4m (2021: US$3.5m) and money market interest receivable of US$3.3m (2021: US$1.5m).

Reconciliation of opening and closing receivables to operating cash flow movements:	Year ended 31 December 2022 US$m	Year ended 31 December 2021 US$m
Opening trade and other receivables	1,211.2	74.6
Closing trade and other receivables	(142.5)	(1,211.2)
Decrease/(Increase) in trade and other receivables	1,068.7	(1,136.6)
Foreign exchange	(17.3)	0.2
India tax refund (received)/receivable	(1,056.0)	1,070.7
Decrease in joint operation receivables relating to investing activities	(27.7)	(1.3)
(Decrease)/Increase in other receivables relating to investing activities	(8.7)	0.2
Increase in prepayments relating to investing activities	0.6	2.7
Increase/(Decrease) in prepayments and other receivables relating to financing activities	1.7	(7.4)
Trade and joint operation receivables derecognised on disposal of the UK assets	–	(57.4)
Trade and other receivables recognised on purchase of Egypt assets (note 6.3)	–	58.1
Trade and other receivables cash flow movement	(38.7)	(70.8)

The movements in joint operation receivables relating to investing activities relate to the Group's share of the receivables of joint operations in respect of exploration, appraisal and development activities.

Section 3 – Working Capital, Financial Instruments and Long-Term Liabilities continued

3.5 Financial Assets and Financial Liabilities at Fair Value Through Profit or Loss

Financial assets	At 31 December 2022 US$m	At 31 December 2021 US$m
Non-current assets		
Financial assets at fair value through profit or loss – earnout consideration	**89.7**	113.5
Financial assets at fair value through profit or loss – non-listed investment fund	**6.5**	6.9
	96.2	120.4
Current assets		
Financial assets at fair value through profit or loss – earnout consideration	**134.4**	75.8
Financial assets at fair value through profit or loss – listed equity investments	**–**	10.8
	134.4	86.6

Financial assets at fair value through profit or loss – Earnout consideration

The fair value of earnout consideration receivable, due in annual instalments from 2023 through to 2026, increased by US$110.4m during 2022 to a closing fair value receivable of US$224.1m in the Balance Sheet as at 31 December 2022. The 2021 current receivable of US$75.8m relating to 2021 production was settled during the year. See note 6.1 for further detail.

On 31 March 2023, Capricorn received US$136.7m in full settlement of the 2022 earnout consideration due with interest from 1 January 2023 of US$2.3m.

Financial assets at fair value through profit or loss – Listed equity investments

In 2021, Capricorn invested US$6.9m into a non-listed trust in India and with a minimum investment period of five years, this is recorded as a non-current financial asset and measured at fair value.

In March 2022, the Group sold its remaining shareholding in Vedanta, listed in India, for INR968m (US$12.7m).

Financial liabilities	At 31 December 2022 US$m	At 31 December 2021 US$m
Non-current liabilities		
Financial liabilities at fair value through profit or loss – deferred consideration on business combination	**(36.8)**	(49.1)
	(36.8)	(49.1)
Current liabilities		
Financial liabilities at fair value through profit or loss – deferred consideration on business combination	**(25.0)**	(20.9)
	(25.0)	(20.9)

Financial liabilities at fair value through profit or loss – deferred consideration on business combination

Deferred consideration is due to Shell following the Egypt business combination in 2021. Amounts due are determined by the average annual dated Brent oil price for each year up to 2024, with a maximum US$25.0m due for each year if the average price exceeds US$75/bbl. The full US$25.0m was payable in respect of 2022 and was settled in January 2023.

The fair value of the liability in respect of remaining years is based on third-party mark-to-market valuations. During the year, the Group made a loss of US$12.7m (2121: US$7.2m) on fair value movements increasing the liability.

Section 3 – Working Capital, Financial Instruments and Long-Term Liabilities continued

3.6 Trade and Other Payables

Accounting policy

Trade and other payables are non-interest bearing and are measured at fair value initially then amortised cost subsequently.

Joint operation payables are payables that relate to Capricorn's interest in its oil and gas joint arrangements, including Capricorn's participating interest share of the trade and other payables of the joint arrangements themselves. Where Capricorn is operator of the joint operation, joint operation payables also include amounts that Capricorn will settle to third parties on behalf of joint operation partners. The amount to be recovered from partners for their share of such liabilities are included within joint operation receivables.

	At 31 December 2022 US$m	At 31 December 2021 US$m
Trade payables	1.5	1.6
Other taxation and social security	1.9	0.2
Accruals and other payables	21.6	59.5
Joint operation payables	30.7	90.9
	55.7	152.2

The reduction in accruals and other payables are mainly due to a balance of US$20.2m paid for the share re-purchase, see note 7.1.

Joint operation payables include US$18.3m (2021: US$30.0m) and US$12.1m (2021: US$0.5m) relating to exploration/appraisal asset and development/producing asset costs respectively.

The decrease in joint operation payables for development/production assets at the balance sheet date compared to the prior year was due to payables of US$60.3m at 31 December 2021 relating to the newly acquired production/development assets in Egypt.

Reconciliation of opening and closing payables to operating cash flow movements:	Year ended 31 December 2022 US$m	Year ended 31 December 2021 US$m
Opening trade and other payables	(152.2)	(91.6)
Closing trade and other payables	55.7	152.2
(Decrease)/Increase in trade and other payables	(96.5)	60.6
Foreign exchange	3.4	–
Decrease in trade payables relating to investing activities	0.5	–
Decrease/(Increase) in joint operation payables relating to investing activities	61.6	(16.4)
Decrease/(Increase) in accruals and other payables relating to other non-operating activities	18.7	(19.0)
Decrease in accruals and other payables relating to investing activities	3.0	1.2
Increase in accruals and other payables relating to financing activities	(0.5)	(0.6)
Trade and other payables derecognised on disposal of the UK assets	–	22.2
Joint operation payables recognised on purchase of Egypt assets (note 6.3)	–	(59.5)
Trade and other payables movement recorded in operating cash flows	**(9.8)**	**(11.5)**

Movements above for investing activities relate to exploration, appraisal and development activities through the Group's joint operations. Movements relating to production activities are included in amounts through operating cash flows. The movement in accruals and other payables relating to other non-operating activities is in relation to the share re-purchase.

Section 3 – Working Capital, Financial Instruments and Long-Term Liabilities continued

3.7 Financial Instruments

Below is the comparison by category of carrying amounts and fair values of all the Group's financial instruments that are carried in the Financial Statements.

Financial assets

Carrying amount and fair value	At 31 December 2022 US$m	At 31 December 2021 US$m
Financial assets at amortised cost		
Cash and cash equivalents	**756.8**	314.1
Trade receivables	**96.9**	63.3
Other receivables	**19.6**	14.0
Joint operation receivables	**14.1**	38.4
Financial assets at fair value through profit or loss		
Earnout consideration	**224.1**	189.3
Listed equity shares	**–**	10.8
Non-listed investment fund	**6.5**	6.9
	1,118.0	636.8

Due to the short-term nature of financial assets held at amortised cost, their carrying amount is considered to be the same as their fair value.

There are no material impairments of financial assets held on the Balance Sheet at either 31 December 2022 or 2021.

Maturity analysis of financial assets

All financial assets at amortised costs are expected to mature within 12 months. The expected financial maturity of the Group's financial assets at fair value through profit or loss at 31 December 2022 is as follows:

	<1 year US$m	1–2 years US$m	2–5 years US$m	>5 years US$m
Financial assets at fair value through profit or loss				
Earnout consideration	**134.4**	**52.9**	**36.8**	**–**
Non-listed investment fund	**–**	**–**	**6.5**	**–**
	134.4	**52.9**	**43.3**	**–**

The expected financial maturity of the Group's financial assets at fair value through profit or loss at 31 December 2021 was as follows:

	<1 year US$m	1–2 years US$m	2–5 years US$m	>5 years US$m
Financial assets at fair value through profit or loss				
Earnout consideration	75.8	53.7	59.8	–
Listed equity shares	10.8	–	–	–
Non-listed investment fund	–	–	6.9	–
	86.6	53.7	66.7	–

Financial liabilities

Carrying amount and fair value	At 31 December 2022 US$m	At 31 December 2021 US$m
Financial liabilities at amortised cost		
Trade payables	**1.5**	1.6
Accruals and other payables	**21.6**	59.5
Joint operation payables	**30.7**	90.9
Lease liabilities	**4.3**	3.7
Loans and borrowings	**158.6**	177.0
Financial liabilities at fair value		
Deferred consideration on business combinations	**61.8**	70.0
	278.5	402.7

The fair value of financial liabilities has been calculated by discounting the expected future cash flows at prevailing interest rates.

Section 3 – Working Capital, Financial Instruments and Long-Term Liabilities continued

3.7 Financial Instruments continued

Financial liabilities continued

Maturity analysis of financial liabilities

The expected financial maturity of the Group's financial liabilities at 31 December 2022 is as follows:

	<1 year US$m	1–2 years US$m	2–5 years US$m	>5 years US$m
Financial liabilities at amortised cost				
Trade payables	1.5	–	–	–
Accruals and other payables	21.6	–	–	–
Joint operation payables	30.7	–	–	–
Lease liabilities	1.9	0.8	1.6	–
Loans and borrowings	25.4	42.1	91.1	–
Financial liabilities at fair value				
Deferred consideration on business combinations	25.0	36.8	–	–
	106.1	79.7	92.7	–

The expected financial maturity of the Group's financial liabilities at 31 December 2021 was as follows:

	<1 year US$m	1–2 years US$m	2–5 years US$m	>5 years US$m
Financial liabilities at amortised cost				
Trade payables	1.6	–	–	–
Accruals and other payables	59.5	–	–	–
Joint operation payables	90.9	–	–	–
Lease liabilities	2.4	1.3	–	–
Loans and borrowings	10.9	47.2	118.9	–
Financial liabilities at fair value				
Deferred consideration on business combinations	20.9	49.1	–	–
	186.2	97.6	118.9	–

Fair value

Capricorn holds a non-listed investment fund as a non-current financial asset at fair value through profit or loss. The Group determines and discloses the fair value by reference to the net asset valuation provided by ICICI bank – the custodian/fund accounting service provider for Vasuki India Fund.

	At 31 December 2022 US$m	At 31 December 2021 US$m
Assets measured at fair value – Level 1		
Financial assets at fair value through profit or loss		
Listed equity shares	–	10.8
Assets measured at fair value – Level 2		
Financial assets at fair value through profit or loss		
Earnout consideration	224.1	189.3
Non-listed investment fund	6.5	6.9
Liabilities measured at fair value – Level 2		
Financial liabilities at fair value		
Deferred consideration on business combinations	(58.9)	(68.2)
Liabilities measured at fair value – Level 3		
Financial liabilities at fair value		
Deferred consideration on business combinations	(2.9)	(1.8)
	168.8	137.0

Section 3 – Working Capital, Financial Instruments and Long-Term Liabilities continued

3.8 Financial Risk Management: Objectives and Policies

The main risks arising from the Group's financial instruments are commodity price risk, liquidity risk, credit risk and foreign currency risk. The Board of Capricorn Energy PLC, through the Treasury Subcommittee, reviews and agrees policies for managing each of these risks and these are summarised below.

The Group's Treasury function and Executive Team as appropriate are responsible for managing these risks, in accordance with the policies set by the Board. Management of these risks is carried out by monitoring of cash flows, investment and funding requirements using a variety of techniques. These potential exposures are managed while ensuring that the Company and the Group have adequate liquidity at all times in order to meet their immediate cash requirements. There are no significant concentrations of risks unless otherwise stated. The Group does not enter into or trade financial instruments, including derivatives, for speculative purposes.

The primary financial assets and liabilities comprise cash, short- and medium-term deposits, money market liquidity funds, listed equity shares, intra-group loans and other receivables and financial liabilities held at amortised cost. The Group's strategy has been to finance its operations through a mixture of retained profits, bank borrowings and other production-related streaming agreements. Other alternatives such as equity issues and other forms of non-investment-grade debt finance are reviewed by the Board, when appropriate.

Commodity price risk

Commodity price risk arises principally from the Group's Egyptian production, which could adversely affect revenue and debt availability due to changes in commodity prices.

The Group measures commodity price risk through an analysis of the potential impact of changing commodity prices. Based on this analysis and considering materiality and the potential business impact, the Group may choose to hedge.

Linked to production in the UK North Sea, the Group continued to hedge during 2021 in order to protect debt capacity and support committed capital programmes. No hedging of production in Egypt was in place at the year end, though this remains under review with Capricorn and the operator looking at hedging opportunities.

Transacted derivatives are designated, where possible, in cash flow hedge relationships to minimise accounting income statement volatility. The Group is required to assess the likely effectiveness of any proposed cash flow hedging relationship and demonstrate that the hedging relationship is expected to be highly effective prior to entering into a hedging instrument and at subsequent reporting dates.

Liquidity risk

The Group closely monitors and manages its liquidity risk using both short- and long-term cash flow projections, supplemented by debt and equity financing plans and active portfolio management. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in asset production profiles and cost schedules.

The Group runs various sensitivities on its liquidity position throughout the year. This includes scenarios forecasting a period of sustained low oil prices. Further details are noted in the Viability Statement provided on page 32.

Details of the Group's debt facilities can be found in note 3.2. The Group is subject to semi-annual forecast liquidity tests as part of the facility agreements.

The Group invests cash in a combination of money market liquidity funds and term deposits with a number of international and UK financial institutions, ensuring sufficient liquidity to enable the Group to meet its short- and medium-term expenditure requirements.

Credit risk

Credit risk arises from cash and cash equivalents, investments with banks and financial institutions, trade and other receivables and joint operation receivables.

Customers and joint operation partners are subject to a risk assessment using publicly available information and credit reference agencies, with follow-up due diligence and monitoring if required. At the year end, the Group's trade receivables primarily relates to amounts due from EGPC for oil and gas sales in Egypt. Amounts are recognised after providing for expected credit losses.

Investment credit risk for investments with banks and other financial institutions is managed by the Group Treasury function in accordance with the Board-approved policies of Capricorn Energy PLC. These policies limit counterparty exposure, maturity, collateral and take account of published ratings, market measures and other market information. The limits are set to minimise the concentration of risks and therefore mitigate the risk of financial loss through counterparty failure.

It is Capricorn's policy to invest with banks or other financial institutions that, firstly, offer the greatest degree of security in the view of the Group and, secondly, the most competitive interest rates. Repayment of principal is the overriding priority and this is achieved by diversification and shorter maturities to provide flexibility. The Board continually re-assesses the Group's policy and updates as required.

At the year end the Group does not have any significant concentrations of bad debt risk. As at 31 December 2022 the Group had investments with 21 counterparties (2021: 18) to ensure no concentration of counterparty investment risk. At 31 December 2022 the Group's investments were a combination of instant access and term deposits. At 31 December 2021 all of these investments were instant access.

The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the balance sheet date.

Section 3 – Working Capital, Financial Instruments and Long-Term Liabilities continued

3.8 Financial Risk Management: Objectives and Policies continued

Foreign currency risk

Capricorn manages exposures that arise from non-functional currency receipts and payments by matching receipts and payments in the same currency and actively managing the residual net position.

The Group also aims where possible to hold surplus cash, debt and working capital balances in the functional currency of the subsidiary, thereby matching the reporting currency and functional currency of most companies in the Group. This minimises the impact of foreign exchange movements on the Group's Balance Sheet.

Where residual net exposures do exist and they are considered significant, the Company and Group may from time-to-time opt to use derivative financial instruments to minimise exposure to fluctuations in foreign exchange and interest rates.

The following table demonstrates the sensitivity to movements in the US$:GBP exchange rate, with all other variables held constant, on the Group's monetary assets and liabilities. These are considered to be reasonably possible changes for the purposes of sensitivity analysis. The Group's exposure to foreign currency changes for all other currencies is not material.

	At 31 December 2022		At 31 December 2021	
	Effect on profit before tax US$m	Effect on equity US$m	Effect on profit before tax US$m	Effect on equity US$m
10% increase in GBP to US$	(17.9)	(5.3)	(18.5)	(2.2)
10% decrease in GBP to US$	17.9	5.3	18.5	2.2

Section 4 – Income Statement Analysis

This section contains further Income Statement analysis, including segmental analysis, details of employee benefits payable in the year, finance income and finance costs.

Significant accounting judgements in this section:
Segmental disclosures and discontinued operations
IFRS 8 'Operating Segments' does not provide guidance as to whether segment disclosures apply to discontinued operations. For the comparative period, Capricorn has presented segmental disclosures inclusive of the results of the discontinued operations relating to the UK producing assets, Catcher and Kraken. The current year movements, largely relating to fair value movements on the earnout consideration due, are included within the 'Other Capricorn Energy Group' segment.

Key estimates and assumptions in this section:
There are several key estimates and assumptions used in the calculation of the Group's share-based payment charges. These are detailed in note 4.4 (b).

4.1 Segmental Analysis

Operating segments
Capricorn had three reporting segments during 2022; Egypt, Eastern and Western assets.

The Egypt segment was added following the acquisition in 2021. The Eastern operating segment includes costs associated with interests in Mauritania. The Western segment holds continuing UK North Sea exploration interests, Mexico and Suriname. The Board monitored the results of each segment separately for the purposes of making decisions about resource allocation and performance assessment.

The Other Capricorn Energy Group segment exists to accumulate the activities and results of the Parent and other holding companies together with other unallocated expenditure and net assets/liabilities including amounts of a corporate nature not specifically attributable to any of the business units.

Non-current assets as analysed on a segmental basis consist of: intangible exploration/appraisal assets; property, plant & equipment – development/producing assets; goodwill; and other property, plant & equipment and intangible assets.

Geographical information: non-current assets	At 31 December 2022 US$m	At 31 December 2021 US$m
Egypt	**303.3**	403.0
Eastern	**39.3**	28.9
Mexico	**0.6**	38.8
UK	**12.1**	12.4
Suriname	**17.1**	15.6
Western	**29.8**	66.8
Other Capricorn Energy Group	**11.9**	4.6
Total non-current assets	**384.3**	503.3

Section 4 – Income Statement Analysis continued

4.1 Segmental Analysis continued

Operating segments continued

The segment results for the year ended 31 December 2022 are as follows:

	Egypt US$m	Eastern US$m	Western US$m	Other Capricorn Energy Group US$m	Total US$m
Revenue	228.9	–	–	0.7	**229.6**
Other income	54.8	–	–	–	**54.8**
Cost of sales	(71.2)	–	–	–	**(71.2)**
Depletion and amortisation charges	(124.1)	–	–	–	**(124.1)**
Gross profit	**88.4**	**–**	**–**	**0.7**	**89.1**
Pre-award costs	(2.8)	–	(0.8)	(5.6)	**(9.2)**
Unsuccessful exploration costs	0.6	(0.1)	(94.0)	–	**(93.5)**
Impairment of property, plant & equipment – development/producing assets	(42.6)	–	–	–	**(42.6)**
Other operating income and expenses	4.0	–	–	1.8	**5.8**
Depreciation – purchased assets	–	–	–	(0.3)	**(0.3)**
Amortisation – right-of-use assets	(0.1)	–	(0.1)	(1.8)	**(2.0)**
Amortisation of other intangible assets	–	–	(0.3)	(3.2)	**(3.5)**
Other administrative expenses	(0.8)	–	(1.5)	(56.9)	**(59.2)**
Operating profit/(loss)	**46.7**	**(0.1)**	**(96.7)**	**(65.3)**	**(115.4)**
Fair value loss – deferred consideration	(12.7)	–	–	–	**(12.7)**
Gain on financial assets at fair value through profit or loss	–	–	–	2.3	**2.3**
Finance income	0.3	–	2.3	13.1	**15.7**
Finance costs	(21.7)	–	2.9	0.6	**(18.2)**
Profit/(Loss) before tax from continuing operations	**12.6**	**(0.1)**	**(91.5)**	**(49.3)**	**(128.3)**
Tax charge	(31.8)	–	–	(0.2)	**(32.0)**
Loss for the year from continuing operations	**(19.2)**	**(0.1)**	**(91.5)**	**(49.5)**	**(160.3)**
Profit from discontinued operations	–	–	–	109.3	**109.3**
(Loss)/Profit attributable to equity holders of the Parent	**(19.2)**	**(0.1)**	**(91.5)**	**59.8**	**(51.0)**
Balances as at 31 December 2022:					
Capital expenditure	**64.8**	**10.5**	**57.4**	**10.7**	**143.4**
Total assets	**478.7**	**40.0**	**278.0**	**732.6**	**1,529.3**
Total liabilities	**272.7**	**1.2**	**16.5**	**24.3**	**314.7**
Non-current assets	**303.3**	**39.3**	**29.8**	**11.9**	**384.3**

Revenue in the Egypt segment contains revenue generated from eight concessions in the Western Desert, onshore The Arab Republic of Egypt. 90% of revenue related to sales to a single customer.

All transactions between segments are carried out on an arm's length basis.

Section 4 – Income Statement Analysis continued

4.1 Segmental Analysis continued

Operating segments continued

The segment results for the year ended 31 December 2021 were as follows:

	Egypt US$m	Eastern US$m	Western US$m	UK producing assets US$m	Other Capricorn Energy Group US$m	Group adj for segments US$m	Total US$m
Revenue	56.2	–	–	411.8	0.9	(411.8)	57.1
Other income	7.3	–	–	–	–	–	7.3
Cost of sales	(20.5)	–	–	(103.8)	–	103.8	(20.5)
Depletion and amortisation charges	(31.2)	–	–	(35.3)	–	35.3	(31.2)
Gross profit	11.8	–	–	272.7	0.9	(272.7)	12.7
Pre-award costs	(0.9)	–	(1.7)	–	(13.2)	–	(15.8)
Unsuccessful exploration costs	(2.9)	(18.2)	(29.5)	–	–	–	(50.6)
Impairment of intangible exploration/appraisal assets	–	–	(19.6)	–	–	–	(19.6)
Impairment of disposal group property plant & equipment – development/producing assets	–	–	–	(56.0)	–	56.0	–
Other operating income	–	–	–	–	0.6	–	0.6
Depreciation – purchased assets	–	–	(0.1)	–	(0.2)	–	(0.3)
Amortisation – right-of-use assets	–	–	(0.1)	–	(1.9)	–	(2.0)
Amortisation of other intangible assets	(0.1)	–	(0.2)	–	(4.5)	–	(4.8)
Other administrative expenses	(0.1)	–	(0.5)	–	(50.5)	–	(51.1)
Operating profit/(loss)	7.8	(18.2)	(51.7)	216.7	(68.8)	(216.7)	(130.9)
Exceptional income – India tax refund	–	–	–	–	1,070.7	–	1,070.7
Fair value loss – deferred consideration	(7.2)	–	–	–	–	–	(7.2)
(Loss)/Gain on financial assets at fair value through profit or loss	–	–	–	(8.1)	5.5	8.1	5.5
Finance income	–	–	(0.7)	–	5.2	–	4.5
Finance costs	(3.1)	–	(54.7)	(9.8)	(11.1)	9.8	(68.9)
(Loss)/Profit before tax from continuing operations	(2.5)	(18.2)	(107.1)	198.8	1,001.5	(198.8)	873.7
Tax charge	(4.2)	–	–	–	–	–	(4.2)
(Loss)/Profit for the year from continuing operations	(6.7)	(18.2)	(107.1)	198.8	1,001.5	(198.8)	869.5
Loss on disposal of discontinued operations	–	–	–	(173.8)	–	173.8	–
Profit from discontinued operations	–	–	–	–	–	25.0	25.0
(Loss)/Profit attributable to equity holders of the Parent	(6.7)	(18.2)	(107.1)	25.0	1,001.5	–	894.5
Balances as at 31 December 2021:							
Capital expenditure	437.2	12.2	60.9	5.8	1.1	(5.8)	511.4
Total assets	525.3	29.4	289.6	–	1,402.1	–	2,246.4
Total liabilities	367.7	1.9	33.3	–	44.9	–	447.8
Non-current assets	403.0	28.9	66.8	–	4.6	–	503.3

All revenue from UK producing assets is attributable to the sale of oil and gas produced in the UK, from assets that were disposed of on 2 November 2021.

Revenue in the Egypt segment contains revenue generated from eight concessions in the Western Desert, onshore The Arab Republic of Egypt, for the period from 24 September 2021 to 31 December 2021. 91% of revenue related to sales to a single customer.

As at 31 December 2021, the capital expenditure balance in the Egypt segment includes property, plant & equipment – development/producing assets recognised at the acquisition date of US$390.2m.

All transactions between the segments are carried out on an arm's length basis.

Section 4 – Income Statement Analysis continued

4.2 Pre-Award Costs

	Year ended 31 December 2022 US$m	Year ended 31 December 2021 US$m
Egypt	**2.8**	0.9
Western	**0.8**	1.7
Other	**5.6**	13.2
	9.2	15.8

Pre-award costs represent time costs, legal fees and other direct charges incurred in pursuit of new opportunities in regions which complement the Group's current licence interests and risk appetite. Other pre-award costs relate to new opportunities outside the current regions of the business.

4.3 Administrative and Other Expenses

	Year ended 31 December 2022 US$m	Year ended 31 December 2021 US$m
Administrative expenses – recurring departmental expenses and corporate projects	**51.9**	43.4
Administrative expenses – Indian tax arbitration costs	**13.1**	9.9
Other expenses – costs incurred on business combination	**–**	4.9
	65.0	58.2

Included within current-year corporate projects are costs of US$8.1m relating to corporate transactions subsequently terminated.

4.4 Employee Benefits: Staff Costs, Share-Based Payments and Directors' Emoluments

a) Staff costs

	Year ended 31 December 2022 US$m	Year ended 31 December 2021 US$m
Wages and salaries	**31.1**	33.3
Social security costs	**7.8**	3.1
Redundancy costs	**0.6**	0.1
Other pension costs	**2.6**	2.7
Share-based payments	**10.5**	10.2
	52.6	49.4

Staff costs are shown gross before amounts recharged to joint operations. The share-based payments charge represents amounts in respect of equity-settled options.

The monthly average number of full-time equivalent employees, including Executive Directors and individuals employed by the Group working on joint operations was:

	Number of employees	
	Monthly average 2022	Monthly average 2021
Continuing operations:		
UK	**186**	178
Egypt	**17**	1
Mexico	**7**	7
	210	186

Section 4 – Income Statement Analysis continued

4.4 Employee Benefits: Staff Costs, Share-Based Payments and Directors' Emoluments continued

b) Share-based payments

Income statement charge

	Year ended 31 December 2022 US$m	Year ended 31 December 2021 US$m
Included within gross staff costs (continuing operations):		
SIP	**1.5**	1.4
LTIP	**7.4**	7.3
Employee Share Scheme	**1.6**	1.5
	10.5	10.2

Details of those awards with a significant impact on the results for the current and prior year are given below, together with a summary of the remaining awards.

Share-based payment schemes and awards details

The Group operates a number of share award schemes for the benefit of its employees.

The number of share awards made by the Company during the year is given in the table below, together with their weighted average fair value (WAFV) and weighted average grant or exercise price (WAGP/WAEP):

	Year ended 31 December 2022			Year ended 31 December 2021		
	WAFV £	WAGP/ WAEP £	Number of shares	WAFV £	WAGP/ WAEP £	Number of shares
SIP – free shares	**1.97**	**1.97**	**355,020**	1.70	1.70	344,908
SIP – matching shares	**2.14**	**2.14**	**247,763**	1.77	1.77	258,432
LTIP	**1.08**	**1.96**	**7,475,459**	0.78	1.81	8,102,636
Employee Share Scheme	**1.33**	**1.96**	**1,290,742**	0.93	1.81	1,378,373
			9,368,984			10,084,349

The awards existing under the LTIP with the weighted average grant price (WAGP) are as follows:

	2022		2021	
	Number of shares	WAGP £	Number of shares	WAGP £
At 1 January	**29,580,589**	**1.71**	25,817,970	1.72
Granted during the year	**7,475,459**	**1.96**	8,102,636	1.81
Exercised during the year	**(4,382,718)**	**2.06**	(1,080,135)	2.07
Lapsed during the year	**(5,287,088)**	**1.71**	(3,259,882)	1.92
At 31 December	**27,386,242**	**1.72**	29,580,589	1.71

The weighted average remaining contractual life of outstanding awards under the LTIP at 31 December 2022 was 1.0 year (2021: 1.0 year). Included in the above are 1,083,247 of exercisable LTIP awards (2021: 1,708,123). No exercise price is payable in respect of LTIP awards.

The awards existing under all share schemes other than the LTIP with the weighted average of the grant price, exercise price and notional exercise prices (WAGP/WAEP) are as follows:

	2022		2021	
	Number of shares	WAGP/WAEP £	Number of shares	WAGP/WAEP £
At 1 January	**10,701,372**	**1.79**	10,605,095	1.80
Consolidation of shares	**–**	**–**	(476,152)	1.78
Granted during the year	**1,893,525**	**1.98**	1,981,713	1.79
Exercised during the year	**(4,622,837)**	**1.88**	(1,238,991)	1.91
Lapsed during the year	**(548,812)**	**1.75**	(170,293)	1.70
At 31 December	**7,423,248**	**1.79**	10,701,372	1.79

The weighted average remaining contractual life of outstanding awards under all other schemes at 31 December 2022 was 7.0 years (2021: 6.1 years). Included in the above are 874,146 of exercisable ESAS (2021: 1,753,329) and exercisable share options of 574,964 (2021: 2,428,892). No exercise price is payable in respect of ESAS; the share options had a range of exercise prices from £1.54 to £1.87.

Section 4 – Income Statement Analysis continued

4.4 Employee Benefits: Staff Costs, Share-Based Payments and Directors' Emoluments continued

b) Share-Based Payments continued

Assumptions and inputs

The fair value of the Capricorn Energy PLC LTIP scheme awards and the ESAS share awards were calculated using a Monte Carlo model. Awards in prior years were valued similarly.

Vesting percentage is by reference to the market performance of the Company's TSR compared with a group of peer companies. Vesting percentages for LTIPs can be above 100%. For details on the vesting conditions attached to the LTIPs refer to the Directors' Remuneration Report on page 101. For the ESAS, 100% vesting occurs if the Company's TSR is in excess of the median of the comparator group, otherwise the ESAS will lapse in full.

Capricorn Energy PLC share awards normally have a ten year life from the date of grant. Awards were exercised on a regular basis throughout the year, subject to the normal employee dealing bans imposed by the Company at certain times. The weighted average share price during the year was £2.22 (2021: £1.77).

The main inputs to the models include the number of options, share price, leaver rate, trigger points, discount rate and volatility of share prices of the Company and the comparator group.

- Leaver rate assumptions are based on past history of employees leaving the Company prior to options vesting and are revised to equal the number of options that ultimately vest.
- Trigger points are based on the length of time after the vesting periods for awards in 2022; further details are below.
- The risk-free rate is based on the yield on a zero-coupon government bond with a term equal to the expected term on the option being valued.
- Volatility was determined as the annualised standard deviation of the continuously compounded rates of return on the shares of the Company and of a peer group of similar companies selected from the FTSE, as disclosed in the Directors' Remuneration Report on page 103, over a three-year period to the date of award.
- No expected dividends were factored into the model as the Company customarily operates a share consolidation scheme which leaves the number of share awards unchanged before and after any dividend.

The following assumptions and inputs apply:

Scheme name	Volatility	Risk-free rate per annum	Lapse due to withdrawals per annum
SIP	0%	0%	5%
LTIP	35% – 44%	0.39% – 1.31%	0%
Employee Share Scheme	35% – 44%	0.39% – 1.31%	5%

Employee exercise trigger point assumptions

For 2022 awards, the assumption used for the Employee Share Scheme and the LTIP awards is that Executive Directors and employees will exercise 50% at the end of the two-year holding period, being the five-year anniversary date, and the remaining 50% on the six-year anniversary date.

c) Directors' Emoluments and Remuneration of Key Management Personnel

Details of each Director's remuneration, pension entitlements, share options and awards pursuant to the LTIP are set out in the Directors' Remuneration Report on pages 76 to 109. Directors' remuneration, their pension entitlements and any share awards vested during the year are provided in aggregate in note 8.9.

Remuneration of key management personnel

The remuneration of the Directors of the Company and of the members of the management and corporate teams who are the key management personnel of the Group is set out below in aggregate.

	Year ended 31 December 2022 US$m	Year ended 31 December 2021 US$m
Short-term employee benefits	**3.9**	4.9
Post-employment benefits	**0.3**	0.3
Share-based payments	**2.3**	2.4
	6.5	7.6

In addition, employer's National Insurance Contributions for key management personnel in respect of short-term employee benefits were US$0.6m (2021: US$0.7m).

Share-based payments shown above represent the cost to the Group of key management personnel's participation in the Company's share schemes, measured under IFRS 2.

During 2022, 1,392,309 shares awarded to key management personnel vested under the LTIP (2021: 1,244,941).

Section 4 – Income Statement Analysis continued

4.5 Finance Income

	Year ended 31 December 2022 US$m	Year ended 31 December 2021 US$m
Bank and other interest receivable	15.0	0.2
Dividend income	0.3	–
Other finance income	0.4	–
Exchange gain	–	4.3
	15.7	4.5

4.6 Finance Costs

	Year ended 31 December 2022 US$m	Year ended 31 December 2021 US$m
Loan interest	13.2	2.8
Facility fees amortisation	0.9	7.8
Other finance charges	1.2	3.3
Unwinding of discount – provisions	0.1	–
Lease interest	0.2	0.3
Exchange loss	2.6	–
Exchange loss recycled from Other Comprehensive Income	–	54.7
	18.2	68.9

Loan interest of US$13.2m (2021: US$2.8m) was charged on the Egypt Junior and Senior Debt Facilities. The current year facility fees amortisation also relates to the Egypt facilities while the comparative includes US$7.5m of costs released from prepayments in respect to the Group's previous Reserve-Based Lending facility which was cancelled on completion of the sale of the two UK producing assets.

The foreign exchange loss recycled from Other Comprehensive Income of US$54.7m in 2021, relating to historic translation losses, arose on the liquidation of two subsidiaries. Both subsidiaries were GBP functional and previously held interests in UK exploration assets. The first subsidiary incurred an exchange loss of US$39.4m, relating to an interest in the UK Kraken asset during the exploration phase. The second subsidiary had an exchange loss of US$15.3m, having previously held an interest in a UK exploration asset sold several years ago.

4.7 Earnings per Ordinary Share

Basic and diluted earnings per share are calculated using the following measures of (loss)/profit:

	Year ended 31 December 2022 US$m	Year ended 31 December 2021 US$m
(Loss)/Profit and diluted (loss)/profit after taxation from continuing operations	(160.3)	869.5
(Loss)/Profit and diluted (loss)/profit attributable to equity holders of the Parent	(51.0)	894.5

The following reflects the share data used in the basic and diluted earnings per share computations:

	Number of shares 2022 '000	Number of shares 2021 '000
Weighted average number of shares	364,470	501,874
Less weighted average shares held by ESOP and SIP Trusts	(7,313)	(6,709)
Basic weighted average number of shares	357,157	495,165
Potential dilutive effect of shares issuable under employee share plans:		
LTIP awards	–	10,666
Approved and unapproved plans	–	17
Employee share awards	–	2,874
Diluted weighted average number of shares	357,157	508,722
Potentially issuable shares not included above:		
LTIP awards	29,976	18,575
Approved and unapproved plans	1,124	2,298
Employee share awards	4,928	2,277
Number of potentially issuable shares	36,028	23,150

The 2022 share re-purchase programme reduced the weighted average number of shares (see note 7.1). 2022 potentially issuable shares were all anti-dilutive due to the loss on continuing operations for the year.

Section 4 – Income Statement Analysis continued

4.8 Exceptional Income – India Tax Refund

In November 2021, the Group entered into statutory undertakings with the Government of India in respect of new legislation enabling the refund of retrospective taxes collected from Capricorn in India by way of asset seizures since 2014. Under the new legislation Capricorn was required to withdraw its rights under the international arbitration award and cease enforcement action. Capricorn undertook all necessary steps under the legislation and the refund of taxes of INR79bn (approximately US$1.06bn) was received in February 2022. The Group recorded the tax refund due as exceptional income in the results for the year ending 31 December 2021 at the exchange rate prevailing at the year end, recognising an asset of US$1,070.7m.

On receipt of the tax refund in February 2022, the Group immediately converted the Indian Rupee receipt into US$. After conversion, the US$ sums received were US$1,056.0m with an exchange loss of US$14.7m recorded which is included in the results for the year ended 31 December 2022.

The presentation of the tax refund of US$1,070.7m in 2021 as exceptional income within profit or loss before taxation reflects that the asset seizures in 2014, enforced by the India Income Tax Department (IITD), resulted in an exceptional loss on disposal of those assets which was also recorded in profit or loss before taxation. Though the proceeds seized were allocated against retrospective tax assessments raised by the IITD, and that the tax collected has now been refunded, no tax charge was ever recorded in the Group Financial Statements, therefore the accounting treatment of the tax refund as a non-tax item is consistent with past disclosures.

Section 5 – Taxation

This section highlights the Group's taxation policies, including both the accounting policy and wider strategy and governance policies. Details can also be found on deferred tax liabilities and deferred tax assets existing at the year end and the current tax charge recorded on Egypt's taxable profits.

Significant accounting judgements in this section:

Recognition of deferred tax liabilities and tax charge on profits from Egypt concessions

Under the Egypt concession agreements, each contractor's share of income tax due on taxable profit for the year is paid on the contractor's behalf by EGPC. However, the tax liability remains with the contractor to the point of settlement. Therefore, Capricorn has recognised deferred tax liabilities on the temporary taxable difference between the carrying value of non-current assets and their tax written down values. Capricorn also records a tax charge in the period for tax that is payable on the Group's share of profits from production in Egypt and records other income to reflect the settlement of this liability on the Group's behalf. The other income is recorded in gross profit, see note 2.1.

Deferred taxation – Potential deferred tax assets on Egypt concessions

At the year end Capricorn have reviewed whether deferred tax assets should be recognised and have assessed this both on the availability of future taxable profits over which the assets could be utilised and the carrying value of assets on the Balance Sheet at the year end. It was concluded that a deferred tax asset should be recognised in relation to two of the Egyptian concessions.

Key estimates and assumptions in this section:

In determining whether future taxable profits are available to recognise deferred tax assets, Capricorn uses the same economic models that are used for measuring the fair value of oil and gas assets. The key assumptions are therefore consistent with those detailed in section 2.

Accounting policy

The total tax charge or credit represents the sum of current tax and deferred tax.

The current tax charge or credit is based on the taxable profit or loss for the year. Taxable profit or loss differs from net profit or loss as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Where there are uncertain tax positions, Capricorn assesses whether it is probable that the position adopted in tax filings will be accepted by the relevant tax authority, with the results of this assessment determining the accounting that follows. If it is not considered probable that the income tax filing position will be accepted by the tax authority, the uncertainty is reflected within the carrying amount of the applicable tax asset or liability by using either the most likely amount or an expected value of the tax treatment, depending on which method is considered to better predict the resolution of the uncertainty, based on the underlying facts and circumstances.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences that exist only where it is probable that taxable profits will be generated against which the carrying value of the deferred tax asset can be recovered.

Deferred tax liabilities are recognised for all taxable temporary differences except in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint operations where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset or liability is not recognised if a temporary difference arises on initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. However, where the recognition of an asset is associated with an interest in a joint operation, which applies to all of Capricorn's intangible exploration/appraisal assets and property, plant & equipment – development/producing asset additions, and Capricorn is not able to control the timing of the reversal of the temporary difference or the temporary difference is expected to reverse in the foreseeable future, a deferred tax asset or liability shall be recognised.

Current and deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Section 5 – Taxation continued

5.1 Tax Strategy and Governance

The Group's tax strategy is fully aligned with its overarching business objectives and principles and applies to all taxes paid or borne by the Group. Capricorn aims to be a good corporate citizen, managing its tax affairs in a transparent and responsible manner in all the jurisdictions in which it operates, and seeks to build and maintain open and constructive relationships with all tax authorities. The Group is committed to transparency of tax contributions and other payments to governments and supports the Extractive Industries Transparency Initiative. Capricorn reports payments to governments in its Annual Report and Accounts as well as additional voluntary disclosures of taxes paid by the Group.

Capricorn undertakes tax planning that supports the business and reflects commercial and economic activity. The Group's policy is to not enter into any artificial tax avoidance schemes but to build and maintain strong collaborative working relationships with all relevant tax authorities based on transparency and integrity. Capricorn aims for certainty in relation to the tax treatment of all items; however, it is acknowledged that this will not always be possible, for example where transactions are complex or there is a lack of maturity in the tax regime in the relevant jurisdiction in which the Group is operating. In such circumstances Capricorn will seek external advice where appropriate and ensure that the approach adopted in any relevant tax return includes full disclosure of the position taken. Capricorn may also seek to work directly with tax authorities to resolve uncertainties where the tax laws are unclear or complex.

5.2 Tax Charge on (Loss)/Profit for the Year

Analysis of tax charge on (Loss)/Profit for the year

	Year ended 31 December 2022 US$m	Year ended 31 December 2021 US$m
Current tax charge:		
Overseas corporation taxes	**55.0**	7.3
Total current tax charge on (loss)/profit from continuing operations	**55.0**	7.3
Deferred tax (credit)/charge:		
Reversal of deferred tax charge on recognition of financial assets	**(0.1)**	0.1
Deferred tax movement on non-current assets – Egypt	**(32.7)**	(3.2)
Deferred tax charge on non-current assets – Egypt – prior year adjustment	**9.8**	–
Deferred tax charge/(credit) from continuing operations	**(23.0)**	(3.1)
Total tax charge on (loss)/profit from continuing operations	**32.0**	4.2
UK deferred tax charge	**4.1**	–
Total deferred tax charge on profit from discontinued operations	**4.1**	–

The current tax charge of US$55.0m includes tax of US$54.8m (period from 24 September 2021 to 31 December 2021: US$7.3m) which relates to taxable profits arising in Egypt. This tax is settled by EGPC on the Group's behalf.

Factors affecting the tax charge for the year

A reconciliation of the income tax charge applicable to the (loss)/profit before income tax to the UK statutory rate of income tax is as follows:

	Year ended 31 December 2022 US$m	Year ended 31 December 2021 US$m
(Loss)/Profit before tax from continuing operations	**(128.3)**	873.7
(Loss)/Profit before tax multiplied by the UK statutory rate of corporation tax of 19% (2021: 19%)	**(24.4)**	166.0
Effect of:		
Special tax rates and reliefs applying to oil and gas activities in the UK	**(25.5)**	(10.7)
Special tax rates and reliefs applying to oil and gas activities in Egypt	**18.6**	3.0
Impact on deferred tax of adjustments in respect of prior years	**9.8**	–
Temporary differences not recognised	**41.1**	26.0
Disposal of financial assets at fair value through profit or loss	**0.2**	–
Permanent items (non-taxable)/non-deductible	**6.9**	23.4
India tax refund not subject to tax	**–**	(203.5)
Group relief surrendered against profits/gains arising in discontinued operations	**5.3**	–
Total tax charge on (loss)/profit from continuing operations	**32.0**	4.2

The reconciliation shown above has been based on the average UK statutory rate of corporation tax for 2022 of 19% (2021: 19%). The Finance Act 2021 was enacted on 10 June 2021 and increased the UK main rate of corporation tax from 19% to 25% with effect from 1 April 2023.

The applicable UK statutory corporation tax rate applying to North Sea oil and gas activities is currently 40% (2021: 40%). A temporary Energy (Oil and Gas) Profits Levy of 25% was legislated in July 2022, effective from 26 May 2022. A further increase to 35% from 1 January 2023 was substantively enacted in November 2022.

Section 5 – Taxation continued

5.2 Tax Charge on (Loss)/Profit for the Year continued

Factors affecting tax charge for the year continued

The applicable statutory tax rate applying to oil and gas activities in Egypt is currently 40.55% (2021: 40.55%).

The applicable rates have been reflected in these financial statements as appropriate.

The effect of temporary differences not recognised of US$41.1m (2021: US$26.0m) includes:
- a US$33.8m (2021: US$15.4m) movement in the year in respect of the unrecognised deferred tax asset on UK ring fence corporation tax losses, energy (oil and gas) profits levy losses, supplementary charge tax and oil and gas investment allowances;
- a US$(10.0)m (2021: US$(0.9)m) movement in the year in respect of unrecognised deferred tax assets on Egypt oil and gas assets and tax losses;
- a US$4.7m (2021: US$9.5m) movement in the year in respect of UK tax losses and other temporary differences arising in the year on which no deferred tax asset was recognised; and
- a US$12.6m (2021: US$2.0m) movement in the year in respect of overseas tax losses and other temporary differences arising in the year on which no deferred tax was recognised.

The effect of permanent items non-deductible of US$6.9m (2021: US$23.4m) includes:
- US$2.2m (2021: US$3.2m) in respect of share-based payment charges;
- US$(5.1)m (2021: US$10.4m) predominantly in respect on non-taxable adjustments related to foreign exchange and tax relief on exercised share options;
- US$9.3m (2021: US$2.2m) in respect of costs in Egypt considered non-deductible for tax purposes;
- US$(3.4)m (2021: US$6.8m) in respect of overseas costs considered non-deductible/taxable; and
- US$3.9m (2021: US$0.8m) in respect of other permanent items considered non-deductible.

5.3 Deferred Tax Assets and Liabilities

Reconciliation of movement in deferred tax assets/(liabilities):

	Temporary difference in respect of non-current assets US$m	Losses US$m	Other temporary differences US$m	**Total US$m**
Deferred tax assets				
At 1 January 2021	(250.3)	191.5	58.8	–
Deferred tax credit/(charge) through the Income Statement	250.3	(191.5)	(58.8)	–
At 31 December 2021	–	–	–	–
Deferred tax credit through the Income Statement	7.1	–	–	**7.1**
At 31 December 2022	**7.1**	**–**	**–**	**7.1**
Deferred tax liabilities				
At 1 January 2021	–	–	–	–
Deferred tax (charge)/credit recognised on business combinations	(52.5)	6.7	–	(45.8)
Deferred tax (charge)/credit through the Income Statement	(11.7)	14.9	(0.1)	3.1
At 31 December 2021	(64.2)	21.6	(0.1)	(42.7)
Deferred tax credit/(charge) through discontinued operations	–	9.1	(13.2)	**(4.1)**
Deferred tax credit/(charge) through the Income Statement	32.5	(16.7)	0.1	**15.9**
At 31 December 2022	**(31.7)**	**14.0**	**(13.2)**	**(30.9)**

Deferred tax assets analysed by country:

	As at 31 December 2022 US$m	As at 31 December 2021 US$m
Egypt	**7.1**	–
	7.1	–

Deferred tax liabilities analysed by country:

	As at 31 December 2022 US$m	As at 31 December 2021 US$m
Egypt	**(26.8)**	(42.6)
UK	**(4.1)**	(0.1)
	(30.9)	(42.7)

Section 5 – Taxation continued

5.3 Deferred Tax Assets and Liabilities continued

Recognised deferred tax assets

Egypt

Deferred tax assets of US$7.1m (2021: US$nil) have been recognised in respect of Egypt oil and gas non-current assets temporary differences of US$17.6m (2021: US$nil) on two concessions as future profits are expected to be available on those concessions to recover the value of the assets. In 2021, a deferred tax asset on Egypt tax losses of US$16.4m partially offset a deferred tax liability on temporary differences in respect of Egypt oil and gas assets on a single concession. Those tax losses were used in full during 2022.

At the balance sheet date the Group has US$24.7m (2021: US$51.4m) temporary differences in respect of Egypt non-current assets and US$27.4m (2021: US$25.8m) Egypt tax losses which can be offset against future oil and gas profits in Egypt. No deferred tax asset has been recognised in respect of these temporary differences as it is not considered probable that these amounts will be utilised in future periods.

UK

As at the balance sheet date, a deferred tax asset has been recognised in respect of UK Ring Fence Corporation Tax (RFCT) losses and UK supplementary charge tax (SCT) losses of US$12.1m (2021: US$17.8m) only to the extent that it offsets in full a deferred tax liability on ring fence temporary differences in respect of non-current assets.

No deferred tax asset has been recognised on other UK ring fence temporary differences of US$278.0m (2021: US$141.5m) relating to RFCT losses, US$274.1m (2021: US$69.8m) relating to SCT losses and US$609.5m (2021: US$642.0m) relating to oil and gas investment allowances and Energy Profits Levy (EPL) losses, as it is not considered probable that these amounts will be utilised in future periods.

Deferred tax liabilities

Egypt

Deferred tax liabilities of US$26.8m (2021: US$42.6m) have been recognised across six concessions in respect of taxable temporary differences of US$66.0m (2021: US$121.5m) related to Egypt oil and gas non-current assets. No tax losses are available to offset these taxable temporary differences (2021: US$16.4m of Egypt tax losses offset taxable temporary differences, as noted above).

UK

A deferred tax liability of US$4.1m (2021: US$nil) has been recognised in respect of earnout consideration due in relation to the disposal of UK oil and gas producing assets.

Unrecognised deferred tax assets

No deferred tax asset has been recognised on the following as it is not considered probable that it will be utilised in future periods:

	At 31 December 2022 US$m	At 31 December 2021 US$m
UK fixed asset temporary differences	**35.0**	30.2
UK RFCT trading losses	**278.0**	141.5
UK SCT loss	**274.1**	69.8
UK other ring fence temporary differences	**609.5**	642.0
UK excess management expenses	**354.9**	386.3
UK non-trade deficits	**80.6**	72.6
UK temporary differences on share-based payments	**39.5**	30.3
UK disallowed tax interest expenses	**19.9**	19.9
UK temporary difference on financial asset held at fair value	**0.5**	–
Egypt fixed asset temporary differences	**24.7**	51.4
Egypt ring fence corporation tax trading losses	**27.4**	25.8
Mexico tax losses and other temporary differences	**196.5**	136.1
Brazil tax losses	**–**	0.6
Israel temporary differences in respect of non-current assets	**–**	2.7
Mauritania fixed assets temporary differences	**0.7**	–
Suriname fixed assets temporary differences	**0.6**	–

Section 6 – Discontinued Operations and Business Combination

This section contains details of the profit from discontinued operations in the year, primarily arising on earnout consideration due on the prior years disposal of the Group's UK producing assets, and details on the prior year acquisition of the business in Egypt.

6.1 Profit from Discontinued Operations

Sale of Capricorn's interest in the Catcher and Kraken Producing Assets ("UK producing Assets")

On 8 March 2021, Capricorn agreed to sell its interests in the UK Catcher and Kraken producing assets to Waldorf Production Limited, and following approval from joint operation partners and relevant authorities the sale completed on 2 November 2021.

Consideration under the agreement was:

- an initial cash consideration of US$425.0m, subject to adjustments for working capital and other customary interim period adjustments from the economic effective date of 1 January 2020;
- further purchaser bonds of US$30.0m, sold shortly after completion, and
- additional contingent consideration ('earnout consideration') dependent on oil prices from 2021 to the end of 2025 and minimum production levels being achieved, which at 2 November 2021 had a fair value of US$197.4m including an adjustment for expected credit losses.

At the date of disposal, the interim period and working capital adjustments reduced the consideration due on completion by US$361.1m. The interim period adjustments reflect the cash inflows generated from oil and gas sales during the period, offset by outflows on the costs of production, including fixed and variable lease payments, and working capital movements. The total consideration including all adjustments was US$289.6m.

The fair value of the earnout consideration fell by US$8.1m from 2 November 2021 to US$189.3m at 31 December 2021. The first annual payment of earnout consideration of US$75.8m due on 2021 production was received in 2022. With strong oil prices and production levels above forecast across the assets, the fair value of the remaining earnout consideration receivable increased by US$110.4m during 2022 to a closing fair value receivable of US$224.1m in the Balance Sheet as at 31 December 2022 (see note 3.5).

The earnout consideration was recognised in the 2021 loss on sale calculation and remains as a receivable recognised on the Balance Sheet as this future income represents consideration receivable from the disposal of a business rather than revenue generated from the sale of an asset, which would fall under IFRS 15.

A breakdown of the total profit from discontinued operations is as follows:

	Year ended 31 December 2022 US$m	Year ended 31 December 2021 US$m
Revenue	–	411.8
Cost of sales	1.5	(103.8)
Depletion and amortisation	–	(35.3)
Gross profit	1.5	272.7
Impairment of disposal group – property, plant & equipment – development/producing assets	–	(56.0)
Operating profit	1.5	216.7
Gain/(Loss) on financial asset at fair value through profit or loss – earnout consideration	110.4	(8.1)
Finance income	1.5	–
Finance costs	–	(9.8)
Profit before tax from discontinued operations	113.4	198.8
Taxation	(4.1)	–
Profit after tax from discontinued operations	109.3	198.8
Loss on disposal of discontinued operations	–	(173.8)
Profit from discontinued operations	109.3	25.0

Earnings per share for profit from discontinued operations	2022 cents	2021 cents
Profit per ordinary share – basic (cents)	30.60	5.05
Profit per ordinary share – diluted (cents)	30.60	4.91

An audit of the Catcher joint operation for the period from January 2019 to December 2020 resulted in a refund of production costs from the operator of US$1.5m which has been credited to discontinued operations in 2022.

Section 6 – Discontinued Operations and Business Combination continued

6.1 Profit from Discontinued Operations continued

Sale of Capricorn's interest in the Catcher and Kraken Producing Assets ("UK producing Assets") continued

The loss on disposal of the UK producing assets on 2 November 2021 is calculated as follows:

	US$m
Base consideration	425.0
Interim period adjustment	(361.1)
Cost of disposal	(1.7)
Net proceeds	62.2
Purchaser bonds	30.0
Earnout consideration	197.4
Total net consideration	289.6
Derecognition of assets and liabilities:	
Assets held-for-sale, net of impairment	(837.0)
Liabilities held-for-sale	373.6
Loss on disposal of UK North Sea producing assets	(173.8)

6.2 Cash Flow Information for Discontinued Operations

	UK producing assets US$m	Year ended 31 December 2022 US$m
Net cash flows used in operating activities	**(9.6)**	**(9.6)**
Net cash flows from investing activities	**77.2**	**77.2**
Net increase in cash and cash equivalents	**67.6**	**67.6**

	UK producing assets US$m	Period ended 2 November 2021 US$m
Net cash flows from operating activities	240.4	240.4
Net cash flows used in investing activities	(9.4)	(9.4)
Net cash flows used in financing activities	(42.5)	(42.5)
Net increase in cash and cash equivalents	188.5	188.5

2021 earnout and interest payment received in June 2022.

There was no cash and cash equivalents disposed of on the sale of the UK producing assets in 2021.

Section 6 – Discontinued Operations and Business Combination continued

6.3 Prior Year Business Combination

Accounting policy

Capricorn accounts for the acquisitions of subsidiaries, or an asset or collection of assets which are determined to meet the definition of a business, using the acquisition method. The assets and liabilities acquired are measured at their fair values at the date of acquisition.

Acquisition-related costs are recognised in the Income Statement as incurred.

Where the acquisition includes any assets or liability resulting from a contingent consideration arrangement, this is to be measured at fair value at the date of acquisition.

Capricorn measures goodwill as the excess of the consideration paid over the net of the assets and liabilities acquired. Where the value of the assets acquired exceeds the consideration paid, negative goodwill arises and is recorded in the Income Statement.

Acquisition of Egyptian Business

On 24 September 2021, Capricorn Energy PLC, together with its consortium partner Cheiron Petroleum Corporation, completed the acquisition of a portfolio of upstream oil and gas production, development and exploration interests from Shell Egypt NV and Shell Austria GmbH in the Western Desert, onshore The Arab Republic of Egypt.

Capricorn Egypt, a wholly owned subsidiary of Capricorn, acquired 50% of the portfolio of interests being sold by Shell, comprising of 13 concessions, including five exploration concessions. Producing fields are split over four distinct areas, each with different characteristics and geographies: the Obaiyed Area; Badr El Din ("BED"); North East Abu Gharadig ("NEAG"); and Alam El Shawish West ("AESW"). In addition, Capricorn acquired a 25% interest in Bapetco, a joint venture company which runs operations on all of the producing concessions on behalf of the operator Cheiron. Joint Venture partners in Bapetco are EGPC (50%) and Cheiron (25%). Bapetco does not hold any assets or liabilities and all costs it incurs are allocated across the concessions, with each joint operation partner paying its share of the expense incurred.

A summary of the assets acquired is as follows:

Area	Concession and exploration blocks	Capricorn working interest in concession	Partners in concession	Operating company	Capricorn working interest in operating company
Obaiyed Area	Obaiyed	50%	Cheiron (50%)	Obaiyed Petroleum Company	25%
	North Matruh	50%	Cheiron (50%)	Obaiyed Petroleum Company	25%
	North Um Baraka	50%	Cheiron (50%)	North Um Baraka Petroleum Company	25%
Badr El Din (BED)	Sitra	50%	Cheiron (50%)	Sitra Petroleum Company	25%
	BED	50%	Cheiron (50%)	Bapetco	25%
	BED 2 & 17	50%	Cheiron (50%)	Bapetco	25%
	BED 3	50%	Cheiron (50%)	Bapetco	25%
	North Alam El Shawish ("NAES")	50%	Cheiron (50%)	NAES Petroleum Company	25%
NEAG	NEAG Tiba and NEAG Extension	26%	Cheiron (26%); Apache Egypt (48%)	Tiba Petroleum Company	13%
AESW	AESW	20%	Cheiron (20%); North Petroleum International Company SA (35%); Neptune (25%)	AESW Petroleum Company	10%
Abu Sennan	South Abu Sennan	50%	Cheiron (50%)	Capricorn Egypt Limited	100%
Horus	South-East Horus	50%	Cheiron (50%)	Capricorn Egypt Limited	100%
El Fayium	West El Fayium	50%	Cheiron (50%)	Capricorn Egypt Limited	100%

Section 6 – Discontinued Operations and Business Combination continued

6.3 Prior Year Business Combination continued

Goodwill arising on acquisition

Goodwill of US$25.4m arose on the acquisition and is recorded on the Balance Sheet (see note 2.4). The recognition of goodwill was driven by the recording of deferred tax liabilities on the fair value of assets and liabilities recorded on acquisition.

Goodwill was calculated as follows:

	US$m
Property, plant & equipment – development/producing assets	390.2
Inventory	9.6
Trade and other receivables	58.1
Joint operation payables	(59.5)
Deferred tax liabilities	(45.8)
Total identifiable assets acquired at fair value	352.6
Cash payable	315.1
Deferred consideration	62.9
Total consideration	378.0
Goodwill	25.4

There are no decommissioning liabilities under the concession agreements in Egypt. Trade and other receivables are shown after expected credit loss. The fair value of receivables does not materially differ from the gross contractual amounts receivable.

Consideration and costs of acquisition

The cash consideration payable consisted of US$310.1m settled on completion (including US$181.4m drawn under two loan facilities, (see note 3.2) and a further US$5.0m due on final settlement amounts. Deferred consideration of US$62.9m included US$61.1m, which is the fair value, at the date of completion, of deferred consideration of up to US$100.0m payable based on future oil prices. The value of this deferred consideration has been obtained using Level 2 valuations.

The remaining US$1.8m of further deferred consideration related to the fair value contingent payments of up to US$40.0m due on future exploration success on short-term exploration wells. Given the risk profile of exploration drilling the fair value at acquisition of this contingent consideration is low. This fair value was determined using Level 3 valuations.

At 31 December 2021, the total liability for deferred consideration was US$70.0m, with US$20.9m due within one year and US$49.1m due after one year. See note 3.5 for the liability as at 31 December 2022.

Acquisition costs of US$4.9m were included within administration and other expenses charged to the Income Statement.

Impact on profit for the year

The Group's profit reduced by US$6.7m as a result of the loss on the Egypt business from acquisition to 31 December 2021 (see note 4.1).

Had the full year's results of the Egypt business been included in the Group's results to 31 December 2021, the Capricorn Group profit for that year would have increased by US$22.5m.

Sensitivity analysis

The fair value of assets recognised on acquisition is based on the net present value of discounted future cash flows over the economic field-life of the concessions using the Group's corporate assumptions detailed in section 2. Capricorn performed sensitivity analysis to changes to the Group's long-term oil price, discount rate and inflation assumptions which would have impacted the value of the fair value of the assets recorded.

Increasing the Group's long-term oil price assumption at the date of acquisition from US$55/bbl unescalated to US$60/bbl unescalated, US$65/bbl unescalated and US$70/bbl unescalated would have increased the fair value of assets recognised on acquisition to US$411.5m, US$431.0m and US$449.5m respectively. Increasing the Group discount rate assumption from 10% to 11% and 12% would have reduced the value of assets recognised to US$381.7m and US$373.6m respectively. Increasing the Group inflation rate assumption from 4% to 5% and 6% would have reduced the fair value of assets recognised to US$379.4m and US$368.3m respectively. Reducing the inflation rate assumption to 3% would have increased the fair value of assets recognised to US$400.7m.

6.4 Discontinued Operations – Senegal Contingent Asset

In December 2020, Capricorn disposed of its entire 40% working interest in its Senegal exploration and development assets.

Further deferred consideration of up to US$100.0m is due, dependant on the timing of first oil production from the assets and on the average Brent oil price during the first six months of production. Assuming average Brent oil prices remain above US$60/bbl during the first six months of production, Capricorn will receive US$100.0m if first oil production is achieved in 2023, falling to US$50.0m if first oil production is achieved by 30 June 2024. No payment is due if first oil production occurs after this time.

In accordance with IFRS 15, no amount is recognised at the balance sheet date as there is no reasonable certainty that any revenue recorded would not reverse in future periods.

Section 7 – Capital Structure and Other Disclosures

This section includes details of Capricorn's issued share capital and equity reserves.

Other disclosures include details on the independent auditors' remuneration. Details on the Group's policy on the award of non-audit work to the independent auditors can be found in the Report of the Audit Committee.

Significant accounting judgements and key estimates and assumptions in this section:
There are no significant accounting judgements or key estimates and assumptions in this section.

7.1 Issued Capital and Reserves

Called-up share capital

	Number 231/169p ordinary '000	Number 21/13p ordinary '000	231/169p ordinary US$m	21/13p ordinary US$m
Allotted, issued and fully paid ordinary shares				
At 1 January 2021	589,718	–	12.6	–
Issued and allotted for employee share options pre-consolidation	99	–	–	–
Consolidation of shares	(589,817)	499,076	(12.6)	12.6
Issued and allotted for employee share options post-consolidation	–	253	–	–
Share re-purchase	–	(2,482)	–	–
At 31 December 2021	–	496,847	–	12.6
Issued and allotted for employee share options post-consolidation	**–**	**677**	**–**	**–**
Share re-purchase	**–**	**(182,452)**	**–**	**(4.6)**
At 31 December 2022	**–**	**315,072**	**–**	**8.0**

Share premium

	2022 US$m	2021 US$m
At 1 January	**490.9**	490.1
Arising on shares issued for employee share options	**4.5**	0.8
At 31 December	**495.4**	490.9

The Company does not have a limited amount of authorised share capital. Capricorn completed a tender offer on 6 April 2022. Under the terms of the tender offer, 171,073,128 ordinary shares were purchased at the strike price of 223 pence per share. The total value of the ordinary shares purchased was, therefore, £381.5m (US$498.6m). On 15 November 2021, Capricorn commenced a re-purchase programme of £20.0m. This ran until the end of February 2022. A further re-purchase programme commenced on 7 April 2022 of up to US$25.0m, which completed in July 2022. Both re-purchase programmes were not fully utilised. The share re-purchase in retained earnings also includes stamp duty and costs associated with the tender offer and share re-purchases.

A shareholder vote took place on 15 December 2022 approving the cancellation of the Company's share premium account (the "Cancellation"). The Cancellation received the required confirmation from the Court of Session on Friday 27 January and was registered with the Registrar of Companies (and therefore took effect) on 31 January 2023. The full amount of the Company's share premium at 31 December 2022 transferred to retained earnings on the effective date.

a) Shares held by ESOP Trust
The cost of shares held by the ESOP Trust at 31 December 2022 was US$6.9m (2021: US$8.1m). The number of shares held by the Trust at 31 December 2022 was 2,632,826 (2021: 3,590,198) and the market value of these shares was £6.9m/US$8.3m (2021: £6.8m/US$9.1m). During 2022, the Group purchased 7,158,195 (2021: 3,450,260) shares at a cost of US$19.8m (2021: US$8.7m). During 2022, 7,595,567 (2021: 1,628,784) shares vested and 520,000 (2021: 600,000) shares were transferred from the ESOP Trust to the SIP Trust. During 2021, 419,549 shares were created on share consolidation.

b) Shares held by SIP Trust
The cost of shares held by the SIP Trust at 31 December 2022 was US$8.4m (2021: US$9.4m). The number of shares held by the Trust at 31 December 2022 was 2,758,656 (2021: 2,960,087) and the market value of these shares was £7.2m/US$8.7m (2021: £5.6m/US$7.5m).

c) Foreign currency translation
Unrealised foreign exchange gains and losses arising on consolidation of non-US$ functional currency subsidiary undertakings are taken directly to reserves. Foreign exchange differences arising on intra-group loans are not eliminated on consolidation; this reflects the exposure to currency fluctuations where the subsidiaries involved have differing functional currencies. These intra-group loans are not considered to be an investment in a foreign operation.

d) Merger and capital reserves
Capital reserves of US$45.5m include amounts arising on various Group acquisitions and transactions and the capital redemption reserve arising from the 2013-2014 share re-purchase programme. Capital reserves of US$4.6m arose on the share re-purchase programme which ran from April to July 2022. US$5.4m of capital reserves relates directly to Capricorn Energy PLC, the Company.

Section 7 – Capital Structure and Other Disclosures continued

7.2 Return of Cash to Shareholders

On 8 January 2021, Capricorn received shareholder approval for the return of cash to shareholders of 32 pence per eligible ordinary share totalling £188.0m. US$250.0m of the proceeds from the sale of Senegal assets were converted to GBP in December 2020 and the return was paid to shareholders on 25 January 2021. The total return to shareholders, after exchange differences from the date of the conversion from US$ to GBP and associated costs, was US$257.2m.

7.3 Capital Management

The objective of the Group's capital management structure is to ensure that there remains sufficient liquidity within the Group to carry out committed work programme requirements. The Group monitors the long-term cash flow requirements of the business in order to assess the requirement for changes to the capital structure to meet that objective and to maintain flexibility. The Group is subject to semi-annual forecast liquidity tests as part of the Senior and Junior Debt Facilities. The Group has complied with the capital requirements of these tests at all times during the year.

Capricorn manages the capital structure and makes adjustments to it in light of changes to economic conditions. To maintain or adjust the capital structure, Capricorn may re-purchase shares, make a special dividend payment to shareholders, return capital, issue new shares for cash, repay debt, put in place new debt facilities or undertake other such restructuring activities as appropriate. No significant changes were made in the objectives, policies or processes during the year ended 31 December 2022.

Capital and net funds, including lease liabilities, was as follows:

	At 31 December 2022 US$m	At 31 December 2021 US$m
Loans and borrowings	158.6	177.0
Lease liabilities	4.3	3.7
Less cash and cash equivalents	(756.8)	(314.1)
Net funds	(593.9)	(133.4)
Equity	1,214.6	1,798.6
Capital and net funds	620.7	1,665.2
Gearing ratio	–	–

7.4 Guarantees

It is normal practice for the Group to issue guarantees in respect of obligations during the ordinary course of business. Guarantees are issued from a number of bilateral unsecured lines.

The Group has provided the following guarantees at 31 December 2022:
- various guarantees for the Group's operational commitments for the current year of US$69.1m (2021: US$52.5m); and
- Parent company guarantees for the Group's obligations under joint operating agreements and other contracts.

Under the terms of the facilities entered into in connection with the Group's Egypt assets, Capricorn Egypt Limited and Cheiron Oil & Gas Limited, as borrowers, jointly and severally guarantee performance of their obligations to each lender. This includes an undertaking to pay each lender whenever another obligor does not pay any amount, as if it was the principal obligor. As a result, Capricorn Egypt Limited and Capricorn Egypt (Holding) Limited have provided guarantees in respect of the obligations owed to the lenders by Capricorn Egypt and the joint venture counterparty, Cheiron.

Section 7 – Capital Structure and Other Disclosures continued

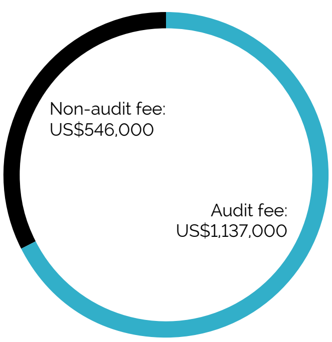
7.5 Auditors' Remuneration

	Year ended 31 December 2022 US$'000	Year ended 31 December 2021 US$'000
Fees payable to the Group's external auditors (including associate firms) for:		
Audit fees:		
Auditing of the Financial Statements of the Group and the Company	**463**	487
Auditing of the Financial Statements of subsidiaries	**674**	457
	1,137	944
Non-audit fees:		
Audit-related assurance services	**248**	234
Other assurance services relating to corporate finance transactions	**173**	83
Other non-audit services not included above	**125**	83
	546	317
Total fees	**1,683**	1,261

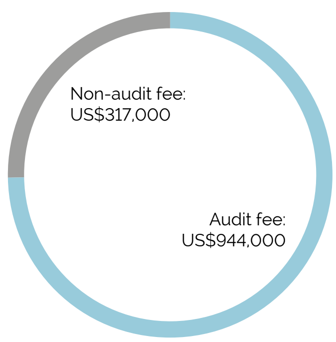
The Group has a policy in place for the award of non-audit work to the auditors which requires Audit Committee approval (see the Audit Committee Report on page 71).

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

2022 Fees to the Auditors



2021 Fees to the Auditors



Company Balance Sheet
As at 31 December 2022

	Note	2022 US$m	2021 US$m
Non-current assets			
Investments in subsidiaries	8.2	**597.8**	1,155.1
Long-term intercompany receivables	8.3	**6.0**	8.1
		603.8	1,163.2
Current assets			
Cash and cash equivalents	8.4	**630.1**	32.1
Other receivables	8.5	**18.8**	7.0
		648.9	39.1
Total assets		**1,252.7**	1,202.3
Current liabilities			
Lease liability		**1.1**	1.8
Trade and other payables	8.6	**4.4**	97.1
		5.5	98.9
Non-current liabilities			
Lease liability		**–**	1.3
		–	1.3
Total liabilities		**5.5**	100.2
Net assets		**1,247.2**	1,102.1
Equity			
Called-up share capital	7.1	**8.0**	12.6
Share premium	7.1	**495.4**	490.9
Shares held by ESOP/SIP Trusts	7.1a,b	**(15.3)**	(17.5)
Capital reserves	7.1d	**5.4**	0.8
Retained earnings:			
At 1 January		**615.3**	898.2
Profit/(Loss) for the year		**661.4**	(4.5)
Other movements in retained earnings		**(523.0)**	(278.4)
		753.7	615.3
Total equity		**1,247.2**	1,102.1

The Financial Statements on pages 168 to 176 were approved by the Board of Directors on 27 April 2023 and signed on its behalf by:

Chris Cox
Interim Chief Executive

Company Statement of Cash Flows
For the year ended 31 December 2022

	Note	2022 US$m	2021 US$m
Cash flows from operating activities:			
Profit/(Loss) before taxation		**661.4**	(4.5)
Share-based payments charge		**1.5**	1.5
Impairment of investment in subsidiary		**566.2**	–
Finance income		**(1,254.3)**	(6.5)
Finance costs		**6.0**	1.0
Other receivables movement		**(4.0)**	(9.7)
Trade and other payables movement		**1.2**	67.5
Net cash (used in)/from operating activities		**(22.0)**	49.3
Cash flows from investing activities:			
Dividend received	8.9	**1,056.4**	–
Group funding		**102.3**	–
Interest received and other finance income		**7.6**	–
Net cash flows from investing activities		**1,166.3**	–
Cash flows from financing activities:			
Return of cash to shareholders		**–**	(257.2)
Share re-purchase		**(528.6)**	(7.8)
Other interest and charges		**(0.2)**	(0.9)
Cost of shares purchased	7.1a	**(19.8)**	(8.7)
Proceeds from issue of shares		**4.5**	0.9
Lease payments		**(1.7)**	(1.8)
Net cash flows used in financing activities		**(545.8)**	(275.5)
Net increase/(decrease) in cash and cash equivalents		**598.5**	(226.2)
Foreign exchange differences		**(0.5)**	6.4
Opening cash and cash equivalents at beginning of year		**32.1**	251.9
Closing cash and cash equivalents		**630.1**	32.1

Company Statement of Changes in Equity
For the year ended 31 December 2022

	Equity share capital and share premium US$m	Shares held by ESOP/ SIP Trusts US$m	Merger and capital reserves US$m	Retained earnings US$m	**Total equity US$m**
At 1 January 2021	502.7	(13.4)	0.7	898.2	1,388.2
Loss for the year	–	–	–	(4.5)	(4.5)
Total comprehensive expense	–	–	–	(4.5)	(4.5)
Return of cash to shareholders	–	–	–	(257.2)	(257.2)
Share-based payments	–	–	–	10.2	10.2
Exercise of employee share options	0.9	–	–	–	0.9
Share re-purchase	(0.1)	–	0.1	(26.8)	(26.8)
Cost of shares purchased	–	(8.7)	–	–	(8.7)
Cost of shares vesting	–	4.6	–	(4.6)	–
At 31 December 2021	503.5	(17.5)	0.8	615.3	1,102.1
Profit for the year	–	–	–	661.4	**661.4**
Total comprehensive income	**–**	**–**	**–**	**661.4**	**661.4**
Share-based payments	–	–	–	10.5	**10.5**
Exercise of employee share options	4.5	–	–	–	**4.5**
Share re-purchase	(4.6)	–	4.6	(511.5)	**(511.5)**
Cost of shares purchased	–	(19.8)	–	–	**(19.8)**
Cost of shares vesting	–	22.0	–	(22.0)	**–**
At 31 December 2022	**503.4**	**(15.3)**	**5.4**	**753.7**	**1,247.2**

Section 8 – Notes to the Company Financial Statements

This section contains the notes to the Company Financial Statements.

The issued capital and reserves of the Company are largely consistent with the Capricorn Energy PLC Group Financial Statements, as per note 7.1

Key estimates and assumptions in this section:

Impairment testing of investments in subsidiaries

The Company's investment in Capricorn Oil Limited has been tested for impairment by comparison against the fair value of intangible exploration/appraisal assets, property, plant & equipment – development/producing assets and working capital, including cash and cash equivalents and intercompany receivables, held within the Capricorn Oil Limited sub-group. The fair value of oil and gas assets is calculated using the same assumptions as noted in section 2.

8.1 Basis of Preparation

The Financial Statements of Capricorn Energy PLC have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The Company applies accounting policies consistent with those applied by the Group. To the extent that an accounting policy is relevant to both Group and Company Financial Statements, refer to the Group Financial Statements for disclosure of the accounting policy. Material policies that apply to the Company only are included as appropriate.

Capricorn has used the exemption granted under s408 of the Companies Act 2006 that allows for the non-disclosure of the Income Statement of the Parent company.

8.2 Investments in Subsidiaries

Accounting policy

The Company's investments in subsidiaries are carried at cost less provisions resulting from impairment. In testing for impairment the carrying value of the investment is compared to its recoverable amount, being its fair value less costs of disposal. The fair value includes the discounted future net cash flows of oil and gas assets held by the subsidiary, using estimated cash flow projections over the licence period. For exploration assets, estimated discounted cash flows are risk-weighted for future exploration success.

Discounted future net cash flows are calculated using an estimated short-term oil price based on the forward curve and long-term oil price of US$60/bbl unescalated (2021: US$55/bbl unescalated), escalation for costs of 4.0% (2021: 4.0%) and a discount rate of 10% (2021: 10%). Full details on the assumptions used for valuing oil and gas assets can be found in section 2.

Section 8 – Notes to the Company Financial Statements continued

8.2 Investments in Subsidiaries continued

	Subsidiary undertakings US$m	Total US$m
Cost		
At 1 January 2021	3,701.0	3,701.0
Additions	8.7	8.7
At 31 December 2021	3,709.7	3,709.7
Additions	8.9	**8.9**
At 31 December 2022	**3,718.6**	**3,718.6**
Impairment		
At 1 January 2021 and 31 December 2021	2,554.6	2,554.6
Impairment charge	566.2	**566.2**
At 31 December 2022	**3,120.8**	**3,120.8**
Net book value		
At 31 December 2020	1,146.4	1,146.4
At 31 December 2021	1,155.1	1,155.1
At 31 December 2022	**597.8**	**597.8**

Additions during the year of US$8.9m (2021: US$8.7m) relate to the Company's investment in Capricorn Oil Limited. These represent share awards made by the Company to the employees of Capricorn Energy Holdings Limited (a principal subsidiary of Capricorn Oil Limited).

At the year end, investments in subsidiaries were reviewed for indicators of impairment and impairment tests conducted where indicators were identified. Following this review, the Company's investment in Cairn UK Holdings Limited was fully impaired resulting in a charge to the income statement of US$387.7m. This subsidiary now holds no value following the distribution of the India tax refund to Capricorn Energy PLC on receipt of the payment. In addition, the Company's investment in Capricorn Oil Limited was impaired to reflect the fair value of the underlying assets of the Capricorn Oil Group. A charge of US$178.5m was made to the Income Statement in 2022 (2021: US$nil). The fall in the value of the investments in the Capricorn Oil Group principally reflects reduction due to distributions by the subsidiary and a reduction in the value of the Group's producing assets. The carrying value of investments in subsidiaries at 31 December 2022 represents the Company's investment in Capricorn Oil Limited. Investments in Capricorn Senegal (Holding) Limited and Capricorn Energy Investments Limited are carried at nominal values.

The recoverable value of the assets of Capricorn Oil Limited used in the impairment test is based on the fair value of the producing assets adjusted by deferred consideration payment and trade payables and receivables, earnout receivable for discontinued operations, market value of tangible assets held by its subsidiaries, cash and cash equivalent held and an assumption that the recoverable value of exploration assets is broadly aligned to the carrying value. Removing the value attributed to future exploration success would increase the impairment recognised by US$94.5m.

Section 8 – Notes to the Company Financial Statements continued

8.2 Investments in Subsidiaries continued

The Company's subsidiaries as at the balance sheet date are set out below. The Company holds 100% of the voting rights and beneficial interests in the ordinary shares of the following companies:

Direct holdings

	Business	Country of incorporation	Country of operation	Registered office address
Cairn UK Holdings Limited	Holding company	Scotland	Scotland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Energy Investments Limited	Investment	Scotland	Scotland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Oil Limited	Holding company	Scotland	Scotland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Senegal (Holding) Limited	Holding company	England	Scotland	Wellington House 4th Floor, 125 The Strand, London, WC2R 0AP

Indirect holdings

	Business	Country of incorporation	Country of operation	Registered office address
Agora Oil and Gas (UK) Limited	Exploration	Scotland	UK	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Americas Limited	Holding company	Scotland	Scotland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Côte d'Ivoire Limited	Exploration	Scotland	Côte d'Ivoire	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Egypt (Holding) Limited	Holding company	England	UK	Wellington House 4th Floor, 125 The Strand, London, WC2R 0AP
Capricorn Egypt Limited	Exploration	England	Egypt	Wellington House 4th Floor, 125 The Strand, London, WC2R 0AP
Capricorn Energy Holdings Limited	Holding company	Scotland	Scotland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Energy Mexico S. de R.L. de C.V.	Exploration	Mexico	Mexico	Avenida Paseo de la Reforma 505, Piso 36, Colonia Cuauhtémoc, Mexico
Capricorn Energy Search Limited[1]	Exploration	Scotland	Scotland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Energy UK Limited	Exploration	England	UK	Wellington House 4th Floor, 125 The Strand, London, WC2R 0AP
Capricorn Exploration and Development Company Limited[1]	Exploration	Scotland	Morocco	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Ireland Limited[1]	Exploration	Scotland	Republic of Ireland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn ISR Production Limited Partnership	Limited Partnership company	Israel	Israel	Vitania Tel-Aviv Tower, 20 Haharash St. TLV Israel, 6761310
Capricorn Low Carbon Solutions Limited	Carbon trading	England	UK	Wellington House 4th Floor, 125 The Strand, London, WC2R 0AP
Capricorn Mauritania Limited	Exploration	Scotland	Mauritania	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Nicaragua BV	Exploration	The Netherlands	Non-trading	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Offshore Exploration Limited	Exploration	Scotland	Israel	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Oil and Gas Tunisia GmbH[1]	Non-trading	Switzerland	Non-trading	Gubelstrasse 5, Postfach 1524, CH-6301 Zug, Switzerland
Capricorn Petroleum Limited	Holding company	Scotland	Scotland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Production (Holdings) Limited	Holding company	Scotland	Scotland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Production I Limited[2]	Dormant	Scotland	Scotland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Production II Limited[2]	Dormant	Scotland	Scotland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Resources Management Limited	Royalty interest	Scotland	Mongolia	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Senegal Limited	Exploration	Scotland	Senegal	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Spain Limited[1]	Exploration	Scotland	Spain	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Suriname BV	Exploration	The Netherlands	Suriname	50 Lothian Road, Edinburgh, EH3 9BY
Nautical Holdings Limited[1]	Holding company	England	UK	Wellington House 4th Floor, 125 The Strand, London, WC2R 0AP
UAH Limited[1]	Holding company	England	UK	Wellington House 4th Floor, 125 The Strand, London, WC2R 0AP

(1) Company is in the process of liquidation
(2) Exempt from audit under Section 480 of the Companies Act

Section 8 – Notes to the Company Financial Statements continued

8.3 Long-Term Intercompany Receivables

	At 31 December 2022 US$m	At 31 December 2021 US$m
Long-term intercompany receivables	6.0	8.1
	6.0	8.1

Long-term intercompany receivables include amounts due from Capricorn Energy Investments Limited of US$6.0m (2021: US$6.8m).

8.4 Cash and Cash Equivalents

	At 31 December 2022 US$m	At 31 December 2021 US$m
Cash at bank	8.6	32.1
Bank deposits less than three months	298.0	–
Money market funds	323.5	–
	630.1	32.1

At 31 December 2022, US$7.9m (2021: US$nil) of cash and cash equivalents are restricted and not available for immediate ordinary business use. See note 3.1 for details on the placing of surplus funds on deposit and money market funds.

8.5 Other Receivables

	At 31 December 2022 US$m	At 31 December 2021 US$m
Other receivables	4.4	3.1
Amounts receivable from subsidiary undertakings	14.3	2.3
Prepayments	0.1	1.6
	18.8	7.0

8.6 Trade and Other Payables

	At 31 December 2022 US$m	At 31 December 2021 US$m
Trade and other payables	0.2	–
Amounts payable to subsidiary undertakings	0.4	76.0
Accruals	3.8	21.1
	4.4	97.1

2021 accruals include US$20.2m payable for the share re-purchase. Amounts payable to subsidiary undertakings reduced following a dividend by Capricorn Oil Limited.

8.7 Financial Instruments

Set out below is the comparison by category of carrying amounts and fair values of all the Company's financial instruments that are carried in the Financial Statements. The fair value of financial assets and liabilities has been calculated by discounting the expected future cash flows at prevailing interest rates.

Financial assets

Carrying amount and fair value	At 31 December 2022 US$m	At 31 December 2021 US$m
Financial assets at amortised cost		
Cash and cash equivalents	630.1	32.1
Other receivables – amounts receivable from subsidiary undertakings	14.3	2.3
Other receivables	4.4	3.1
Long-term intercompany receivables	6.0	8.1
	654.8	45.6

For all financial assets held at amortised cost, their carrying amount is considered to be the same as their fair value.

Section 8 – Notes to the Company Financial Statements continued

8.7 Financial Instruments continued

Maturity analysis of financial assets

The expected financial maturity of the Company's financial assets at 31 December 2022 is as follows:

	<1 year US$m	1–2 years US$m	2–5 years US$m	>5 years US$m
Financial assets at amortised cost				
Cash and cash equivalents	**630.1**	–	–	–
Other receivables – amounts receivable from subsidiary undertakings	**14.3**	–	–	–
Other receivables – other	**4.4**	–	–	–
Long-term intercompany receivables	–	–	**6.0**	–
	648.8	–	**6.0**	–

The expected financial maturity of the Company's financial assets at 31 December 2021 was as follows:

	<1 year US$m	1–2 years US$m	2–5 years US$m	>5 years US$m
Financial assets at amortised cost				
Cash and cash equivalents	32.1	–	–	–
Other receivables – amounts receivable from subsidiary undertakings	2.3	–	–	–
Other receivables – other	3.1	–	–	–
Long-term intercompany receivables	–	1.3	6.8	–
	37.5	1.3	6.8	–

Financial liabilities

Carrying amount and fair value	At 31 December 2022 US$m	At 31 December 2021 US$m
Financial liabilities at amortised cost		
Trade and other payables	**0.2**	–
Amounts payables to subsidiary undertakings	**0.4**	76.0
Accruals	**3.8**	21.1
Lease liability	**1.1**	3.1
	5.5	100.2

Maturity analysis of financial liabilities

The expected financial maturity of the Company's financial liabilities at 31 December 2022 is as follows:

	<1 year US$m	1–2 years US$m	2–5 years US$m	>5 years US$m
Financial liabilities at amortised cost				
Trade and other payables	**0.2**	–	–	–
Amounts payable to subsidiary undertakings	**0.4**	–	–	–
Accruals	**3.8**	–	–	–
Lease liability	**1.1**	–	–	–
	5.5	–	–	–

The expected financial maturity of the Company's financial liabilities at 31 December 2021 was as follows:

	<1 year US$m	1–2 years US$m	2–5 years US$m	>5 years US$m
Financial liabilities at amortised cost				
Amounts payable to subsidiary undertakings	76.0	–	–	–
Accruals	21.1	–	–	–
Lease liability	1.8	1.3	–	–
	98.9	1.3	–	–

Financial risk management: risk and objectives

The Company's financial risk management policies and objectives are consistent with those of the Group detailed in note 3.8.

The Company is not exposed to material foreign currency exchange rate risk.

Section 8 – Notes to the Company Financial Statements continued

8.8 Capital Management

Capital and net (funds)/debt were made up as follows:

	At 31 December 2022 US$m	At 31 December 2021 US$m
Continuing operations		
Amounts payable to subsidiary undertakings	**0.4**	76.0
Lease liability	**1.1**	3.1
Less cash and cash equivalents	**(630.1)**	(32.1)
Net (funds)/debt	**(628.6)**	47.0
Equity	**1,247.2**	1,102.1
Capital and net (funds)/debt	**618.6**	1,149.1
Gearing ratio	**–**	4%

8.9 Related Party Transactions

The Company's subsidiaries are listed in note 8.2. The following table provides the Company's balances which are outstanding with subsidiary undertakings at the balance sheet date:

	At 31 December 2022 US$m	At 31 December 2021 US$m
Amounts payable to subsidiary undertakings	**(0.4)**	(76.0)
Amounts receivable from subsidiary undertakings	**20.3**	10.4
	19.9	(65.6)

The amounts outstanding are unsecured, repayable on demand and will be settled in cash.

The following table provides the Company's transactions with subsidiary undertakings recorded in the profit/(loss) for the year:

	Year ended 31 December 2022 US$m	Year ended 31 December 2021 US$m
Amounts invoiced to subsidiaries	**21.8**	11.1
Amounts invoiced by subsidiaries	**5.1**	20.4

Directors' remuneration

The remuneration of the Directors of the Company is set out below. Further information about individual Directors' remuneration is provided in the audited section of the Directors' Remuneration Report on pages 76 to 109.

	Year ended 31 December 2022 US$m	Year ended 31 December 2021 US$m
Emoluments	**2.5**	3.3
Share-based payments	**2.1**	1.8
	4.6	5.1

Pension contributions of US$0.2m (2021: US$0.2m) were made on behalf of Directors in 2022.

837,004 LTIP share awards to Directors vested during 2022 (2021: 748,413). Share-based payments disclosed above represent the market value at the vesting date of these awards in that year.

Other transactions

During the year the Company did not make any purchases in the ordinary course of business from an entity under common control (2021: US$nil).

In February 2022 the Company received a dividend payment of US$1,056.4m from Cairn UK Holdings Limited following the receipt of the India tax refund into that subsidiary.

In November 2022 the Company received a dividend from its subsidiary, Capricorn Oil Limited, of US$187.4m, all of which was offset against previous borrowings (2021: US$nil).

Licence List
As at 31 December 2022

Country	Asset name	Licence	Block(s)	Operator	Capricorn Energy interest (%)
Egypt	Alam El Shawish West	Alam El Shawish	Al Assil, Al Barq, Al Karam, Al Magd, Bahga	Cheiron (20%)	20
Egypt	Badr El Din	Badr El Din	BED-19, BED-20	Cheiron (50%)	50
Egypt	BED 2-17	BED 2-17	BED-2, BED-17	Cheiron (50%)	50
Egypt	BED-3	BED-3	BED-3	Cheiron (50%)	50
Egypt	North Alam El Shawish	North Alam El Shawish	NAES-1	Cheiron (50%)	50
Egypt	North East Abu Gharadig	NEAG Extension	NEAG-1, NEAG-2, NEAG-3, NEAG-4, NEAG-5	Cheiron (26%)	26
Egypt	North East Abu Gharadig	NEAG Tiba	JG, JD, Sheiba	Cheiron (26%)	26
Egypt	North Matruh	North Matruh	North Matruh-1 Teen	Cheiron (50%)	50
Egypt	North Um Baraka	North Um Baraka	North Um Baraka, Numb-1	Cheiron (50%)	50
Egypt	Obaiyed	Obaiyed	Obaiyed	Cheiron (50%)	50
Egypt	Sitra	Sitra	Sitra	Cheiron (50%)	50
Egypt	South Abu Sennan	South Abu Sennan	South Abu Sennan	Capricorn Egypt Limited	50
Egypt	South-East Horus	South-East Horus	South-East Horus	Capricorn Egypt Limited	50
Egypt	West El Fayium	West El Fayium	West El Fayium	Capricorn Egypt Limited	50
UK	Plymouth	P2428	43/7, 43/8	Capricorn Energy UK Limited	60
UK	Breagh South	P2560	42/13b, 42/17, 42/18	Capricorn Energy UK Limited	70
UK	Portsmouth	P2561	42/19, 42/20b	Capricorn Energy UK Limited	70
UK	Prometheus	P2562	42/22, 42/23	Capricorn Energy UK Limited	70
UK	Cadence	P2567	43/11, 43/12b	Capricorn Energy UK Limited	60
Mauritania	Block C7	C7 PSC	C7	Capricorn Mauritania Limited	90
Mexico	Block 7	CNH-R02-L01-A7.CS-2017	7	Eni (45%)	30
Mexico	Block 9*	CNH-R02-L01-A9.CS-2017	9	Capricorn Energy Mexico	50
Mexico	Block 10*	CNH-R02-L01-A10.CS-2017	10	Eni (65%)	15
Mexico	Block 15**	CNH-R03-L01-G-TMV-01-2018	15	Capricorn Energy Mexico	50
Suriname	Block 61	Block 61	61	Capricorn Suriname B.V.	100

* Notice of withdrawal submitted and in the process of exiting
** Relinquished, awaiting final certificate from CNH

Group Reserves and Resources
As at 31 December 2022

Reserves
The Group 2P reserves decreased by 10.2 mmboe during the year from 37.4 mmboe at year-end 2021 to 27.2 mmboe at year-end 2022 on an entitlement interest basis. This was principally due to Egyptian production of 4.7 mmboe and some downward revisions in gas reserves within the AESW and Obaiyed concessions. The AESW revisions are related to disappointing reservoir properties in the Karam-11 well and a limited connected reservoir volume in the Assil-105 well. Obaiyed reserves have been downgraded due to a steeper production decline, which is partly attributed to lower activity as the consortium focuses on higher-value oil production.

Capricorn's 2P reserves have decreased by 10% relative to the year-end 2020 estimate provided in the shareholder circular for the Egypt acquisition, once adjusted for interim production and the reclassification of Teen full-field development (3.9 mmboe) from reserves to contingent resources, as detailed in the 2021 Annual Report.

Group proven plus probable oil and gas reserves (2P)

	Working Interest (WI)			Entitlement Interest (EI)		
	Oil mmbbls	Gas bcf	boe mmboe	Oil mmbbls	Gas bcf	boe mmboe
31 December 2021	31.1	335.3	91.0	13.0	136.6	37.4
Disposals	0.0	0.0	0.0	0.0	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Additions and Discoveries	0.6	1.6	0.9	0.3	0.7	0.4
Technical Revisions	1.7	(91.5)	(14.7)	0.2	(35.0)	(6.0)
Commodity Price Revisions	0.2	0.6	0.3	0.1	0.2	0.1
Production	(5.3)	(40.2)	(12.5)	(1.8)	(16.3)	(4.7)
31 December 2022	**28.3**	**205.8**	**65.0**	**11.8**	**86.2**	**27.2**

All current 2P Reserves are located within the Western Desert Assets in Egypt

Sensitivity analysis with different hydrocarbon and carbon emission prices

Total Group 2P Reserves	WI mmboe	EI mmboe
WEO-2022 Stated Policies Scenario (STEPS)	66.5	26.4
WEO-2022 Announced Pledges Scenario (APS)	65.8	26.6
WEO-2022 Net Zero Emissions by 2050 Scenario (NZE)	61.6	25.4

Greenhouse gas emissions associated with 2P reserves

	WI Mt	EI Mt	EI kg CO_2 equiv/boe
Estimated Scope 1 emissions	3.3	1.0	33
Estimated Scope 3 emissions*	26.9	11.1	380

* Since Capricorn Energy does not control how its products are utilised, Scope 3 emissions are estimated for Categories 9, 10 & 11 of the GHG Protocol (downstream distribution, refining and use of products assuming all hydrocarbons are combusted).

Subdivision of 2P Reserves

	%
By country	
Egypt	100
Within 20 lowest ranking countries from Transparency International's Corruption Perception Index	0
Within protected conservation areas or habitats	0

Group contingent oil and gas reserves (2C Development Pending)

	WI mmboe	EI mmboe
31 December 2021	9.8	2.9
Disposals	0.0	0.0
Acquisitions	0.0	0.0
Discoveries	0.0	0.0
Revisions*	(0.1)	1.0
31 December 2022	**9.7**	**3.9**

* Change in EI due to a change in the calculation methodology

WEO World Energy Outlook 2022, International Energy Agency

Glossary

The following are the main terms and abbreviations used in this report:

2C	Denotes best estimate scenario of contingent resources
2D	Two dimensional
3D	Three dimensional
2P	Proved plus probable reserves, denotes best estimate scenario
ABC	anti bribery and corruption
AESW	Alam Shawish West
AGM	Annual General Meeting
ALARP	As low as reasonably practicable
AMEXHI	Association of Mexican Hydrocarbon Businesses
API	American Petroleum Institute
AQI	Audit Quality Inspection
ASA	Administrative Services Agreement
BA	Bachelor of Arts
Bapetco	BADR Petroleum Company
bbl	Barrel
BCF	Billion cubic feet
BCM	Billion cubic metres
BED	Badr El Din
bn	Billion
boe	Barrels of oil equivalent
boepd	Barrels of oil equivalent per day
bopd	Barrels of oil per day
bps	Basis point
BRINDEX	The Association of British Independent Oil Exploration Companies
BST	British Standard Time
CCO	Corporate Criminal Offence
CCS	Carbon Capture and Storage
CCUS	Carbon capture, utilisation and storage
CDP	Carbon Disclosure Project
CDT	The Centre for Doctoral Training
CECP	Corporate Environmental & Climate Change Policy
CEO	Chief Executive Officer
CERT	Crisis and Emergency Response Team
CFO	Chief Financial Officer
CGU	Cash-generating unit
CMAPP	Corporate Major Accident Prevention Policy
CNH	National Hydrocarbons Commission
CO2	Carbon dioxide
CPP	Central Processing Platform
CSRD	Corporate Sustainability Reporting Directive
D&I	Diversity and Inclusion
E&P	Exploration and Production
EBS	Environmental Baseline Surveys
EIA	Social Impact Assessment
ELT	Exploration Leadership Team
ESEF	The European Single Electronic Format
ESEF RT	The European Single Electronic Format Regulatory Technical Standard
ESP	Electric Submersible Pump
EVP	Executive Vice President
FTSE	The Financial Times Stock Exchange
GBP	British pound sterling
HRIA	Hyman Rights Impact Assessments
IAASB	International Auditing and Assurance Standards Board
IEA STEPS	International Energy Agency's Stated Policies Senario
IITD	India Income Tax Department
IPPC	Intergovernmental Panel on Climate Change
IRA	Inflation Reduction Act
ISA	International Standards on Auditing
ISEA	International Standards on Assurance Engagements
ISO	International Organisation for Standardization
IT	Information Technology
JPMS	J.P. Morgan Securities
LLC	Limited liability company
LLP	Limited liability partnerships
m	Million
MBA	Master of Business Administration
mcf	1,000 cubic feet
mmscf/d	Million standard cubic feet per day
MNSH	Mid North Sea High
MSc	Master of Science
n/a	Not applicable
NEA	National Energy Action
NEAG	North East Abu Gharadig
NewMed	NewMed Energy Limited Partnership
NFE	Near Field Exploration
NO_x	Nitric oxide
OGP	Open Government Partnership
opex	Operating expenses
OPRED	Offshore Petroleum Regulator for Environment & Decommissioning
PEAR	People, Environment, Assets and Reputation
PhD	Doctor of Philosophy
PLC	Public limited company
RCP	Representative Concentration Pathway
RNS	Regulatory News Services
RWDC	Restricted Work Day Case
SBTN	Science Based Targets Network
SECR	Streamline Energy and Carbon Reporting
SMPs	Social Management Plans
SNA	System of National Accounts
tCO_2e	Tonnes of carbon dioxide equivalent
UNEP WCMC	United Nations Environment Programme's World Conservation Monitoring Centre
UNESCO	The United Nations Educational, Scientific and Cultural Organization
VaR	Value at Risk
VP	Vice President
WAEP	Weighted Average Exercise Price
WAGP	Weight Average Grant Price
WTW	Willis Towers Watson
YoY	Year-on-year

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

Capricorn Energy's climate-related financial disclosures made in the 2022 Annual Report are aligned with the TCFD's recommendations and recommended disclosures, consistent 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. We have also assessed the potential impact of the physical risks of climate change on our assets.

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 Remuneration (see pages 79 to 102). 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:
- progress on approved decarbonisation initiatives, including the reduction of diesel power generation, gas flaring and fugitive methane emissions in Egypt;
- progress on approved investment for electrification of Egypt operations and subsurface screening for 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 investments target 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 near-term net zero carbon emissions target of 15% by 2025 and increasing the 2030 target from 25% to 30%
- setting a near-term target addressed our stakeholders' concerns and enabled the Company to more effectively measure progress on reducing GHG emissions.
- review and approval of the climate change category in the Group Risk Appetite Statement. Completing a risk workshop which assessed the current and future risks to Capricorn in relation to climate change and the transition.

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.

In March 2022, the Board established the Sustainability Committee, highlighting the importance of ESG matters 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 has allowed 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 Interim 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 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.

Capricorn's Energy Transition Director is responsible 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.

TCFD Reporting continued

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. Capricorn's Strategy and Energy Transition Advisor, working as part of the Strategy and Business Development team is responsible for the development of 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.

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.

Risk Management Committee meets quarterly to discuss and challenge the Group's principal climate related risks and opportunities.

Management team meet quarterly to perform a deep-dive review of the Group's principal climate related risks and opportunities. The conclusion from the discussion are captured in the updated risk reports presented at the Risk Management Committee.

Board
Meets every two months. A risk management Board paper is presented at each Board meeting which details the Group's principal climate related risks and opportunities.

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

Sustainability Committee: meets every four months.

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, hazard identification (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. All risk information is captured using the Group's risk management software tool.

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

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

Physical risks – are 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 (pages 31 and 15 respectively).

b) Describe the organisation's processes for managing climate-related risks
The Group applies one of the 4Ts to each identified climate-related 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 levels of 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 page 37.

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 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.

TCFD Reporting continued

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 two to 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), Announced Pledges Scenario (APS) and Net Zero Emissions (NZE) Scenario – to account for a wide range of uncertainties in the post-2030 period.

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

The current strategy review is expected to address and provide further detail on the climate and energy transition strategy across different time horizons.

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\$31/tCO_2e in 2023, rising to US\$50/tCO_2e in 2030 with a 5% escalation thereafter to 2050. – 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. – The above measures are currently in place.
	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. – The above measures are currently in place.
	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 in the medium term. – 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. Currently in place.
Physical Risks	**Chronic (long term)**	
	– Rising mean temperatures and risk of drought. – Rising sea levels. – Increased extreme weather events. – Rising water stress including conflicting uses and availability.	– We assessed the materiality and plausible impact and likelihood ranges with focus on Drought, Heat Stress and Windstorm on our business using an independent provider (WTW). – Drought Stress (prolonged periods of rain and water shortage), in particular for the RCP8.5 hothouse world had been identified as the most material risk for Capricorn Energy by 2040-2050 timeframe. – The impact of this chronic hazard for this scenario was estimated as likely being in the medium Value at Risk (VAR) impact range (US\$1-10m on Cashflow and US\$25-100m Market Cap Loss) with a 'probable' likelihood forecasted by the climate models utilised. – For RCP4.5 and 2040-2050 timeframe, this hazard was estimated to have low Value at Risk (VAR) impact (US\$0.1-1m on Cashflow and US\$5-25m Market Cap Loss), whereas for the low carbon emission world RCP2.6, the Value at Risk (VAR) impact for the same timeframe was estimated to be likely to be very low (similar to estimates for current climate conditions). – Water resource and resilience studies in Egypt, including a planned in-house water challenge. – 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 (see our Sustainability Report).

TCFD Reporting continued

Capricorn has recognised and is currently working on scoping and implementing a number of climate-related opportunities as we try to address our stakeholders' key concerns illustrated in the Materiality Matrix (page 15, with further information in our Sustainability Report).

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 are replacing diesel generators with cleaner-burning gas generators, and electrifying well sites and downhole pumps using centralised power generation. We also plan to integrate solar power to further 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.

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$60/bbl flat Brent oil price and US$6/mcf global gas price (adjusted for certain regional markets). We also consider a range of other scenarios as part of our opportunity screening process. We apply carbon prices across all our scenarios. For countries that already have an established carbon pricing mechanism – such as the EU and the UK – we use carbon prices of US$100/t$CO_2$e and US$110/tCO_2e by 2030, respectively. For other regions, where regulatory carbon pricing mechanisms are not currently applicable, we use our internal carbon pricing assumptions starting at US$31/t$CO_2$e in 2023, rising to US$50/tCO_2e in 2030, with a 5% escalation thereafter until 2050.

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

The TCFD recommends the use of scenario analysis in disclosure of climate-related risks and opportunities. Scenario analyses aligned with the TCFD framework help companies explore different futures and the implications of climate-related circumstances on business strategy.

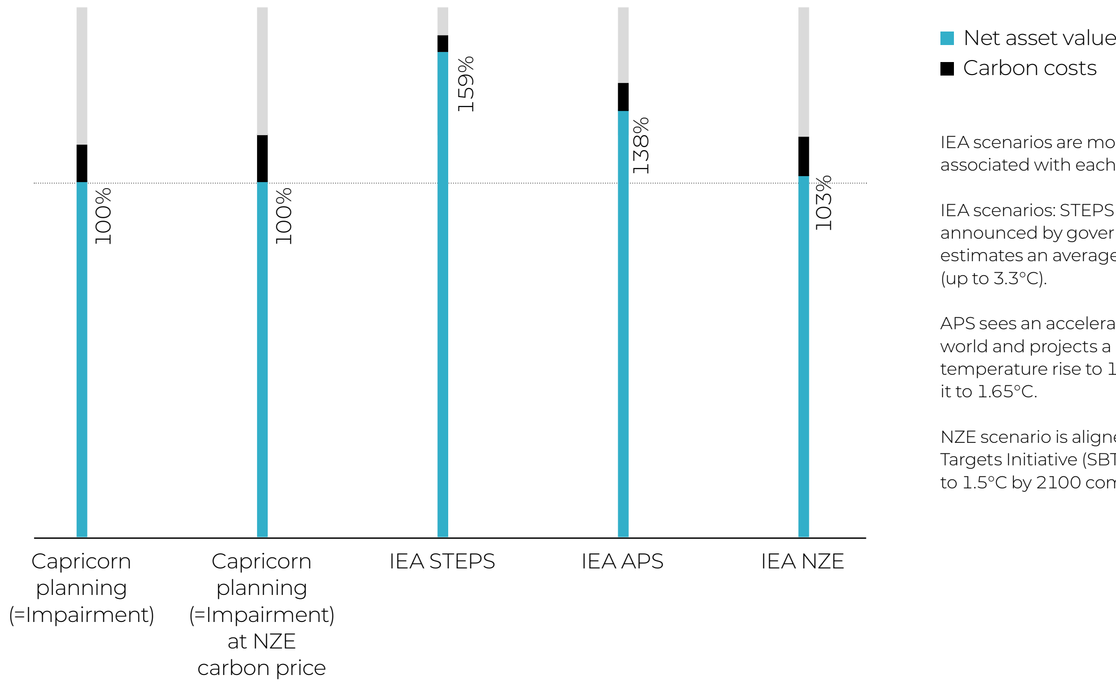
The findings of the recently conducted scenario analysis exercise, which tested the resilience of Capricorn's Egypt portfolio against IEA's STEPS, APS and NZE scenarios, showed that our assets will generate value in the most ambitious climate scenario, aligned with a 1.5 degree warming. This gives us 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 includes a variable oil price of US$88 for 2023 decreasing down to US$70 for 2025 and US$60 flat for 2030 to 2050 US$6/mcf gas price (long term, inflated at 2% from 2025) and carbon prices of US$31/t$CO_2$e in 2023, increasing to US$50/t$CO_2$e in 2030. Carbon prices were applied to Scope 1 and 2 emissions from Capricorn's Egypt operations.

The scenario analysis shows that our Egypt portfolio, when modelled using IEA's NZE assumptions delivers 103% of the value we derive for our financial planning purposes. Our portfolio outperforms our planning scenario by 38% in the APS scenario.

TCFD Reporting continued

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



IEA scenarios are modelled using IEA's assumptions associated with each of the scenarios.

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).

APS 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

TCFD recommended disclosures	Risks and opportunities identified	Metrics and targets
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 2025, 2030 and 2040 targets set for Scope 1 and 2 emissions on an equity basis, pages 11, 12 and 16 and 22 to 24. We will measure progress against our 2022 baseline. – Remuneration policy with embedded climate related targets, pages 92 and 93. – Pro-active engagement with our employees to increase awareness and help deliver net zero, pages 180 and 181. – Key assumptions: commodity prices for opportunity screening and financial planning, page 183. – Carbon price, page 182.
	Rising water stress including conflicting uses and availability.	– Capricorn's environmental impact, pages 22 to 24.
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, pages 22 to 24. – Scope 3. We have undertaken further definition and reporting of our Scope 3 emissions to include emissions from categories 1, 3, 4, 5, 6, 7 (operated) and 9, 10 and 11 (equity), pages 22 to 24. – TCFD climate-related risk and management, page 181.
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.	– 2025, 2030 and 2040 targets and planned progress, pages 11, 12 and 22 to 24. – Scope 1 and 2 and planned progress, pages 11, 12, 16 and 22 to 24. – Scope 3 and planned progress, pages 22 to 24. – Flaring and planned progress, pages 11, 12 and 23.

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