

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 A proposed recommended takeover by Tullow Oil plc was announced in June 2022 with the recommendation subsequently withdrawn by the Board in response to shareholders' objections.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

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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 82.6mboe 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 unwavering 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

