



CAPRICORN EGYPT LIMITED
REPORT & FINANCIAL STATEMENTS
FOR THE PERIOD FROM 3 JULY 2020 (DATE OF INCORPORATION)
TO 31 DECEMBER 2021



Capricorn Egypt Limited

Directors:

Eleanor Rowley
James Smith
Simon Thomson

Secretary:

Anne McSherry

Independent Auditors:

PricewaterhouseCoopers LLP
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

Solicitors:

Shepherd and Wedderburn LLP
1 Exchange Crescent
Conference Square
Edinburgh
EH3 8UL

Registered Office:

4th Floor
Wellington House
125 The Strand
London
WC2R 0AP

Registered No:

12716481

Capricorn Egypt Limited

Directors' Report

The Directors of Capricorn Egypt Limited ("Capricorn Egypt" or "the Company") present their Report and Financial Statements for the period from 3 July 2020 to 31 December 2021.

Business Review

The Company was incorporated on 3 July 2020. In September 2021, the Company, together with consortium partner Cheiron Petroleum Corporation ("Cheiron"), acquired a portfolio of upstream oil and gas production, development and exploration interests from Shell in the Western Desert, onshore The Arab Republic of Egypt.

In assessing whether the going concern assumption is appropriate, the Directors considered the Company cash flow forecasts under various scenarios, identifying risks and mitigants and ensuring the Company has sufficient funding to meet its current commitments as and when they fall due for a period of at least 12 months from the date of approval of the Financial Statements.

The Directors have a reasonable expectation that the Company will continue in operational existence for a period of at least 12 months from the date of approval of the Financial Statements and have therefore used the going concern basis in preparing the Financial Statements.

The Company is a wholly-owned subsidiary of Capricorn Egypt (Holding) Limited. The results of the Company are consolidated into those of the ultimate parent company, Capricorn Energy PLC, registered in Scotland, whose principal place of business is at 50 Lothian Road, Edinburgh, EH3 9BY. Copies of Capricorn Energy PLC's financial statements are available to the public and may be obtained from the above mentioned address.

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 and Audit Committee considered the Capricorn Energy PLC and the Company cash flow forecasts under various scenarios, identifying risks and mitigants and ensuring the Group and Company has sufficient funding to meet its current commitments as and when they fall due for a period of at least 12 months from the date of approval of the Financial Statements.

At the balance sheet date and the date of this report, the Capricorn Energy PLC Group has surplus cash balances which exceed the debt drawn, through the Company's Senior Secured Borrowing and Junior debt facilities utilised to fund the Egypt acquisition. Under both Capricorn's and the lenders base-case assumptions, the Group has sufficient resources to maintain compliance with the financial covenant associated with the facilities in terms of a twelve-month forward-looking liquidity test. Capricorn have run downside scenario assumptions including a return to sustained low oil prices, reductions to forecast production, cost overruns on planned drilling activities, and a reduction in amounts available to be drawn from borrowing facilities.

The Company has received a letter of support from Capricorn Energy PLC, the ultimate parent company to meet liabilities as they become due for the 12 month period from the date of approval of the 2021 financial statements.

The Directors have a reasonable expectation that the Company will continue in operational existence for a period of at least 12 months from the date of approval of the Financial Statements and have therefore used the going concern basis in preparing the Financial Statements.

Results and Dividend

During the period Capricorn Egypt made a loss of US\$4.5m.

No dividends were declared or distributed in respect of the period from 3 July 2020 to 31 December 2021.

Strategic Report

Included in the Strategic Report are the Company's Business Review and principal risks and uncertainties.

Stakeholder engagement

The Company's Section 172 Statement is included in the Strategic Report. The Company is an exploration and production company, whose stakeholders are governments, business partners, peers and contractors. The engagement with the Company's stakeholders is the same as that of the Group. These are discussed on pages 26 to 29 of the Group's annual report which does not form part of this report.

Streamlined Energy and Carbon Reporting ("SECR") Framework

The Company is exempt from the requirement to report in respect of SECR, as Capricorn Energy PLC fulfils this requirement on behalf of the Capricorn Energy PLC Group.

Capricorn Egypt Limited

Directors' Report (continued)

Directors

The directors of the Company who were in office during the period from 3 July 2020 to 31 December 2021 and up to the date of signing the Financial Statements were:

Eleanor Rowley (appointed 6 September 2021)

James Smith (appointed 3 July 2020)

Simon Thomson (appointed 3 July 2020)

The Company maintains qualifying third-party indemnity insurance on behalf of its directors which was in place throughout the period.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Financial Statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. 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 Company and of the profit or loss of the Company for that year. 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 Company, international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed; 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 Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of Information to Independent Auditors

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's independent auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's independent auditors are aware of that information.

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be presented at the annual general meeting.

BY ORDER OF THE BOARD



Anne McSherry
Secretary

50 Lothian Road
Edinburgh EH3 9BY

1 April 2022

Capricorn Egypt Limited

Strategic Report

Results and Dividend

During the period Capricorn Egypt made a loss of US\$4.5m.

Business Review

The Company's principal activity is that of oil and gas exploration, development and production in The Arab Republic of Egypt.

The Company's core competence is within the subsurface, hydrocarbon development and commercial arena of the exploration and production ('E & P') business.

On 24 September 2021, the Company, together with its consortium partner, 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 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.

The Company generated a gross profit of US\$14.0m from production of oil and gas from the date of acquisition to the year end.

The Company intends to continue to produce oil and gas from the fields while looking to increase reserve volumes through near-field exploration prospects.

The Company's strategy and business model are linked to those of the Capricorn Energy PLC Group ("the Group") during the period and the information that fulfils the requirements of the Strategic Report can be found in the Strategic Report section of the Group's annual report on pages 2 to 75, which does not form part of this report.

Stakeholders and s172 Statement

The directors of the Company consider that they have adhered to the requirements of section 172 of the Companies Act 2006 (the 'Act') and have, in good faith, acted in a way that they consider would be most likely to promote the success of the Company for the benefit of its shareholders and have had regard to and recognised the importance of considering all stakeholders and other matters (as set out in s.172(1) (a-f) of the Act) in its decision making.

Taking into account the relative size of the Company, and its part in the Capricorn Energy PLC Group, it is considered reasonable that the decision making is taken by the Group Board of Directors and the Directors of the Company as appropriate. The Group Board of Directors promote full and effective interaction across all levels of the Group to support the delivery of strategic and business objectives within a framework of best corporate governance practice.

The Company is an exploration, development and production company, with business partners and employees. The engagement with the Company's stakeholders is the same as that of the Group. These are discussed on pages 26 to 29 of the Group's annual report which does not form part of this report.

Principal Risks and Uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Group which include those of the Company, are discussed in pages 49 to 55 of the Group's annual report which does not form part of this report. Financial risk management objectives and policies are included in section 3 of the notes to the financial statements.

Capricorn Egypt Limited

Strategic Report (continued)

Key Performance Indicators

The key performance indicators of the Company are the same as that of the Group. These are discussed on pages 34 to 37 of the Group's annual report and does not form part of this report.

BY ORDER OF THE BOARD



Anne McSherry
Secretary

50 Lothian Road
Edinburgh EH3 9BY

1 April 2022

Independent auditors' report to the members of Capricorn Egypt Limited

Report on the audit of the financial statements

Opinion

In our opinion, Capricorn Egypt Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss and cash flows for the period from 3 July 2020 to 31 December 2021;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements 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 Report & Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2021; the Income Statement, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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 company 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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 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 company's ability to continue as a going concern.

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. 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 period ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, 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 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 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 company and industry, we identified that the principal risks of non-compliance with laws and regulations related to corporate tax law and compliance with licence conditions and production sharing contracts in Egypt, and we considered the extent to which non-compliance might have a material effect on the financial statements, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to areas of estimate in the financial statements and posting of inappropriate journal entries in order to improve reported performance. Audit procedures performed by the engagement team included:

- Discussion with management, internal audit, legal counsel and individuals outside the finance function, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud.
- Understanding management's controls designed to prevent and detect irregularities.
- Review of Board minutes and Internal Audit reports.
- Challenging assumptions and judgements made by management in its significant accounting estimates.
- Identifying and testing journal entries, in particular, any journal entries posted by unexpected users, journals posted at unexpected times, journals reflecting unusual account combinations or journals with descriptions containing key unexpected words.

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.

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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Bruce Collins (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Aberdeen
1 April 2022

Capricorn Egypt Limited

Income Statement

For the period 3 July 2020 to 31 December 2021

	Notes	2021 US\$m
Continuing operations		
Revenue	2.2	56.2
Other income	2.2	7.3
Cost of sales	2.2	(19.5)
Depletion and amortisation	2.4	(30.0)
Gross profit		14.0
Pre-award costs		(0.8)
Unsuccessful exploration costs	2.3	(2.7)
Administrative expenses		(0.2)
Operating profit		10.3
Finance costs	4.2	(3.1)
Loss on fair value movement on financial liability	2.1	(7.1)
Profit before taxation		0.1
Taxation		
Tax charge	5.1	(4.6)
Loss for the period		(4.5)

Statement of Comprehensive Expense

For the period 3 July 2020 to 31 December 2021

	Notes	2021 US\$m
Loss for the period		(4.5)
Total Comprehensive Expense for the period from continuing operations		(4.5)

Capricorn Egypt Limited

Balance Sheet

As at 31 December 2021

	Notes	2021 US\$m
Non-current assets		
Goodwill	2.1	25.4
Intangible exploration/appraisal assets	2.3	3.6
Property, plant & equipment – development/producing assets	2.4	374.9
		403.9
Current assets		
Inventory	3.3	10.8
Cash and cash equivalents	3.1	8.9
Trade and other receivables	3.4	102.8
		122.5
Total assets		526.4
Current liabilities		
Deferred consideration on business combinations	2.1	20.9
Loans and borrowings	3.2	10.9
Trade and other payables	3.5	240.7
		272.5
Non-current liabilities		
Loans and borrowings	3.2	166.1
Deferred tax liability	5.2	43.2
Deferred consideration	2.1	49.1
		258.4
Total liabilities		530.9
Net assets		(4.5)
Equity attributable to owners of the parent		
Called-up share capital	6.1	-
Accumulated losses		(4.5)
Total equity		(4.5)

The Financial Statements on pages 9 to 33 were approved by the Board of Directors on 31 March 2022 and signed on its behalf by:



James Smith
Director

Company Registered No: 12716481

Capricorn Egypt Limited

Statement of Cash Flows

For the period from 3 July 2020 to 31 December 2021

	Notes	2021 US\$m
Cash flows from operating activities:		
Profit before tax		0.1
Adjustments for non-cash income and expense and non-operating cash flows:		
Other income – tax entitlement volumes	2.3	(7.3)
Unsuccessful exploration costs	2.4	2.7
Depreciation, depletion and amortisation	2.3	30.0
Fair value loss – deferred consideration on business combinations	2.1	7.1
Finance costs		3.1
Interest paid		(2.8)
Adjustments for cash flow movements in assets and liabilities:		
Inventory movement		(1.1)
Trade and other receivables movement	3.4	(39.8)
Trade and other payables movement	3.5	3.7
Net cash flows from operating activities		(4.3)
Cash flows from investing activities:		
Expenditure on intangible exploration/appraisal assets		(1.4)
Expenditure on property, plant & equipment - development/producing assets	2.4	(14.3)
Consideration paid for assets acquired through business combinations	2.1	(310.1)
Net cash flows used in investing activities		(325.8)
Cash flows from financing activities:		
Group funding	3.5	162.2
Debt arrangement fees		(4.6)
Proceeds from borrowings	3.2	181.4
Net cash flows from financing activities		339.0
Net increase in cash and cash equivalents		8.9
Opening cash and cash equivalents at beginning of period		-
Closing cash and cash equivalents	3.1	8.9

Statement of Changes in Equity

For the period 3 July 2020 to 31 December 2021

	Equity share capital US\$m	Accumulated losses US\$m	Total equity US\$m
At 3 July 2020	-	-	-
Loss for the period	-	(4.5)	(4.5)
Total comprehensive expense	-	(4.5)	(4.5)
At 31 December 2021	-	(4.5)	(4.5)

Capricorn Egypt Limited

Section 1 – Basis of Preparation

1.1 Significant Accounting Policies

a) Basis of Preparation

The Financial Statements of Capricorn Egypt Limited ("Capricorn Egypt" or "the Company") for the period from 3 July 2020 to 31 December 2021 were authorised for issue in accordance with a resolution of the Directors on 1 April 2022. The Company is a private limited company, limited by shares, incorporated in England and domiciled in the United Kingdom. The registered office is located at 4th Floor, Wellington House, 125 The Strand, London WC2R 0AP. The registered company number is 12716481.

The Company prepares its Financial Statements on a historical cost basis applied consistently throughout the period, 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 have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 4 to 5. The financial position of the company, its liquidity position and borrowing facilities are presented in the Financial Statements and supporting notes. In addition, notes 3.9 and 6.2 to the Financial Statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives and details of its financial instruments; and its exposures to credit risk and liquidity risk.

b) 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 and Audit Committee considered the Capricorn Energy PLC and the Company cash flow forecasts under various scenarios, identifying risks and mitigants and ensuring the Group and Company has sufficient funding to meet its current commitments as and when they fall due for a period of at least 12 months from the date of approval of the Financial Statements.

At the balance sheet date and the date of this report, the Capricorn Energy PLC Group has surplus cash balances which exceed the debt drawn, through the Company's Senior Secured Borrowing and Junior debt facilities utilised to fund the Egypt acquisition. Under both Capricorn's and the lenders base-case assumptions, the Group has sufficient resources to maintain compliance with the financial covenant associated with the facilities in terms of a twelve-month forward-looking liquidity test. Capricorn have run downside scenario assumptions including a return to sustained low oil prices, reductions to forecast production, cost overruns on planned drilling activities, and a reduction in amounts available to be drawn from borrowing facilities.

The Company has received a letter of support from Capricorn Energy PLC, the ultimate parent company to meet liabilities as they become due for the 12 month period from the date of approval of the 2021 financial statements.

The Directors have a reasonable expectation that the Company will continue in operational existence for a period of at least 12 months from the date of approval of the Financial Statements and have therefore used the going concern basis in preparing the Financial Statements.

c) Accounting Standards

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Financial Statements of the Company 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.

There are no new standards or amendments, issued by the IASB and endorsed by the EU, that have yet to be adopted by the Company that will materially impact the Company's Financial Statements.

Capricorn Egypt Limited

Section 1 – Basis of Preparation (continued)

1.1 Significant Accounting Policies (continued)

d) Joint Arrangements

Capricorn Egypt, together with consortium partner Cheiron acquired 50% of the portfolio of interests sold by Shell, comprising of 13 concessions (including five exploration concessions), with 21 development leases. The 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"). All arrangement are determined to be joint operations.

Bapetco, a joint venture company owned 50:50 by the Egyptian General Petroleum Corporation ("EGPC") and Capricorn Egypt, is the operator of all of the producing concessions within the portfolio. The details of the interest of the Company can be found in note 2.1.

Costs incurred relating to an interest in a joint operation other than costs relating to production are capitalised in accordance with the Company's accounting policies for oil and gas assets as appropriate (notes 2.2 and 2.3). All the Company's intangible exploration/appraisal assets and property, plant & equipment – development/producing assets relate to interests in joint operations.

The Company's working capital balances relating to joint operations are included in trade and other receivables (note 3.4) and trade and other payables (note 3.5). Any share of finance income or costs generated or incurred by the joint operation is included within the appropriate income statement account.

e) Foreign Currencies

These Financial Statements are presented in US dollars (US\$), the functional currency of the Company.

The Company 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 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.

f) Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets are categorised as financial assets held at fair value through profit or loss, financial assets at fair value through other comprehensive income or financial assets subsequently measured at amortised cost. The Company holds financial assets which are classified as financial assets held at fair value through profit or loss and financial assets at amortised cost.

Financial liabilities generally substantiate claims for repayment in cash or another financial asset. Financial liabilities are categorised as held at amortised cost or at fair value through profit or loss.

Financial instruments are generally recognised as soon as the Company becomes party to the contractual regulations of the financial instrument.

g) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and short-term deposits with an original maturity of three months or less.

For the purposes of the statements of cash flows, cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

h) Other payables

Other payables are non-interest bearing and are measured at fair value initially then amortised cost subsequently.

Capricorn Egypt Limited

Section 2 – Oil and Gas Assets and Operations

Significant accounting judgements in this section:

Review for Indicators of Impairment on Intangible Exploration/Appraisal Assets and Property, Plant & Equipment – Development/Producing Assets

No indicator of impairment was identified on the Group's newly acquired assets in Egypt at the year end.

Key estimates and assumptions in this section:

Climate Change Assumptions

Capricorn's cost of carbon assumptions are included in the fair value models used to attribute value to the assets acquired through the business combination in Egypt, detailed below. Those models will also determine the useful life-of-field assumptions for each producing asset and increasing costs of carbon could result in reduced commercial reserve volumes. Sensitivities performed on alternate carbon cost assumptions did not have a significant impact on the acquisition fair values of the assets in Egypt.

Capricorn's models have no residual value attributed to producing assets as at the end of the economic field life title passes to the Egyptian Government. There are therefore no decommissioning assets or liabilities to record. There are currently no assets that have been identified as at risk of becoming stranded.

Estimation of Hydrocarbon Reserves and Long-Term Oil Price Assumption

Oil and gas reserves volumes and related production profiles are estimated based on Capricorn's internal process manual which follows industry best practice. This represents Capricorn's best estimate of reserves as at the reporting date. Capricorn's Reserves and Resources Reporting Committee, which provides oversight, advice and guidance while providing senior level review, reports to the Group's Audit Committee before ultimately requesting approval of annual reserve volumes by the Board. Third-party audits of Capricorn's reserves and resources are conducted annually.

A change in reserve volumes could impact depletion charges and related deferred tax liabilities and indicate a possible impairment of assets.

Capricorn's long-term oil price assumption is US\$55/bbl unescalated. The Group's short-term assumption is linked to the forward curve over a two-year period.

Fair Value of Assets Acquired Through Business Combination

Assets acquired in Egypt through the business combination have been recognised at their fair value based on the net present value of discounted future cash flows over the life of the field.

The key assumptions used in the Group's discounted cash flow models reflect past experience and take account of external factors. These assumptions include:

- Short/medium term oil price based on a six-month average forward curve for two years from the balance sheet date;
- Long-term oil price of US\$55/bbl unescalated;
- Egypt price differentials to base oil prices;
- Cost of carbon offsets in line with Capricorn's commitment to offsetting emissions and reaching net zero by 2040;
- Reserve estimates of 2P discovered resource based on P50 reserve estimates;
- Production profiles based on Capricorn's internal estimates including assumptions on performance of assets;
- Cost profiles for future development spend and operating costs escalated at 4.0% per annum; and
- Post tax discount rates of 10%

Capricorn Egypt Limited

Section 2 – Oil and Gas Assets and Operations

2.1 Business Combination

Accounting Policy

The Company 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.

The Company 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, the Company, together with its consortium partner Cheiron, 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 acquired 50% of the portfolio of interests being sold by Shell, comprising of 13 concessions, including five exploration concessions. Producing fields are split over four distinct areas, each with different characteristics and geographies: the Obaiyed Area; Badr El Din ("BED"); North East Abu Gharadig ("NEAG"); and Alam El Shawish West ("AESW"). In addition, Capricorn acquired a 25% interest in Bapetco, a joint venture company which runs operations on all of the producing concessions on behalf of the operator Cheiron. Joint Venture partners in Bapetco are EGPC (50%) and Cheiron (25%). Bapetco does not hold any assets or liabilities and all costs it incurs are allocated across the concessions, with each joint operation partner paying its share of the expense incurred.

A summary of the assets acquired is as follows:

Area	Concession & Exploration Blocks	Capricorn Egypt WI in Concessions	Partners in Concession	Operating Company	Capricorn Egypt WI 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%
North East Abu Gharadig ("NEAG")	NEAG Tiba and NEAG Extension	26%	Cheiron (26%); Apache Egypt (48%)	Tiba Petroleum Company	13%
	AESW	20%	Cheiron (20%); North Petroleum International Company SA (35%); Neptune (25%)	AESW Petroleum Company	10%
Alam El Shawish West ("AESW")					
Abu Sennan	South Abu Sennan	50%	Cheiron (50%)	Capricorn Egypt	100%
Horus	South East Horus	50%	Cheiron (50%)	Capricorn Egypt	100%
El Fayum	West El Fayum	50%	Cheiron (50%)	Capricorn Egypt	100%

Capricorn Egypt Limited

Section 2 – Oil and Gas Assets and Operations (continued)

2.1 Business Combinations (continued)

Measurement Period Adjustments

Under IFRS 3, the measurement period is the period after the acquisition date during which an entity may adjust the provisional amounts recognised for a business combination. The measurement period provides a reasonable time to obtain the information necessary to identify and measure the identifiable assets acquired, liabilities assumed following the acquisition date and the resulting goodwill. The measurement period shall not exceed one year from the acquisition date. At the balance sheet signing date, the Company continues to work with the operator on a revised medium-term development plan which will include updated cost forecasts. A material change to those cost forecasts could impact the calculation of goodwill that arises on the acquisition.

Goodwill

The Company measures goodwill as the excess of the consideration paid over the net of the assets and liabilities acquired.

	At 31 December 2021 US\$m
At 3 July 2020	–
Goodwill arising on acquisition	25.4
At 31 December 2021	25.4

Goodwill was tested for impairment at the period end by comparing the fair value less costs of disposal of the assets to the carrying value of assets and liabilities, with no impairment arising.

Goodwill arising on acquisition

Goodwill of US\$25.4m arises on the acquisition of the Egyptian producing Assets and is recorded on the Balance Sheet in the period. The recognition of goodwill is driven by the recording of deferred tax liabilities on the fair value of assets and liabilities recorded on acquisition.

Goodwill is calculated as follows:	US\$m
Property, plant & equipment – development/producing assets	390.2
Inventory	9.6
Trade and other receivables	58.1
Joint operation payables	(59.5)
Deferred tax liabilities	(45.8)
Total identifiable assets acquired at fair value	352.6
Cash payable	315.1
Deferred consideration	62.9
Total consideration	378.0
Goodwill	25.4

There are no decommissioning liabilities under the concession agreements. Trade and other receivables are shown after expected credit loss adjustment of US\$1.0m. The fair value of receivables does not materially differ from the gross contractual amounts receivable.

The cash consideration payable consists of US\$310.1m settled on completion (including US\$181.4m drawn under new loan facilities, see section 3.2) and a further US\$5.0m forecast due on final settlement amounts, to be agreed with the seller. Deferred consideration of US\$62.9m includes US\$61.1m which is the fair value, at the date of completion, of deferred consideration of up to US\$100.0m which is payable based on future oil prices. The value of this deferred consideration has been obtained using Level 2 valuations. At the period end, the fair value of this deferred consideration had increased to US\$68.2m, with the fair value loss of US\$7.1m charged within the loss for the period.

Capricorn Egypt Limited

Section 2 – Oil and Gas Assets and Operations (continued)

2.1 Business Combinations (continued)

The remaining US\$1.8m of further deferred consideration relates to the fair value contingent payments of up to US\$40.0m due on future exploration success on short-term exploration wells. Given the risk profile of exploration drilling the fair value at acquisition of this contingent consideration is low. This fair value is determined using Level 3 valuations.

At 31 December 2021, the total liability for deferred consideration was US\$70.0m with US\$20.9m due within one year and US\$49.1m due after one year.

Acquisition costs of US\$4.9m are included within administration and other expenses charged to the Income Statement.

Sensitivity analysis

The fair value of assets recognised on acquisition is based on the net present value of discounted future cash flows using corporate assumptions noted earlier in this section. Capricorn have performed sensitivity analysis to changes to the Group's long-term oil price, discount rate and inflation assumptions which would impact the value of the fair value of the assets recorded. Increasing the Group's long-term oil price assumption from US\$55/bbl unescalated to US\$60/bbl unescalated, US\$65/bbl unescalated and US\$70/bbl unescalated would increase the fair value of assets recognised on acquisition to US\$411.5m, US\$431.0m and US\$449.5m respectively. Increasing the Group discount rate assumption from 10% to 11% and 12% would reduce the value of assets recognised to US\$381.7m and US\$373.6m respectively. Increasing the Group inflation rate assumption from 4% to 5% and 6% would reduce the fair value of assets recognised to US\$379.4m and US\$368.3m respectively. Reducing the inflation rate assumption to 3% would increase the fair value of assets recognised to US\$400.7m.

2.2 Gross Profit: Revenue and Cost of Sales

Accounting policies

Revenue

Revenue from oil sales represents the Company's share of sales from its producing interests acquired in Egypt, at the point in time when ownership of the oil has passed to the buyer. On domestic sales, the point of sale is determined to be the point when oil is delivered to the communal storage tanks in the onshore facilities. Sales relating to the export of oil are recognised once the cargo is fully loaded onto a crude tanker and the necessary export documentation received. Revenue is measured using the monthly average Brent oil price, plus or minus the applicable price differential premium or discount to reach the Official Selling Price, and is recorded at fair value including expected adjustments to entitlement.

Revenue from the sale of gas in Egypt is recorded based on the volume of gas accepted each day by customers at the delivery point.

Other Income – Tax Entitlement Volumes

Under the concessions agreements in Egypt, income tax due on taxable profit is paid on the Company's behalf by EGPC. To achieve this through the agreements, the Company notionally receives a greater share of hydrocarbon production in excess of the Company's entitlement interest share of production equal to the amount required to cover the tax payable. The oil is produced and sold on the Company'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 the Company'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 period.

Oil inventory is measured at market value in accordance with established industry practice.

Capricorn Egypt Limited

Section 2 – Oil and Gas Assets and Operations (continued)

2.2 Gross Profit: Revenue and Cost of Sales (continued)

	Period from 3 July 2020 to 31 December 2021 US\$m
Oil sales	41.3
Gas sales	14.9
Total revenue	56.2
Other Income – Tax entitlement volumes	7.3
Other Income	7.3
Production costs and inventory movements	(19.5)
Cost of sales	(19.5)
Depletion (see note 2.3)	(30.0)
Gross profit	14.0

Revenue

The Company receives oil and gas revenue from eight producing concessions in Egypt, based on an entitlement interest. Payment terms are within 30 days from the date of the invoice for oil sales and 45 days from the date of the invoice for gas sales.

Oil and gas revenue in Egypt from acquisition on 24 September to 31 December was US\$56.2m, from net entitlement production of 1.4 mmboe of which ~38% was liquids. Oil sales averaged US\$77.8/boe and gas sales averaged US\$2.9/mcf. Other income represents tax paid on the Company's behalf by EGPC.

Production costs over the period were US\$19.5m, or US\$6.0/boe (on a WI basis).

2.3 Intangible Exploration/Appraisal Assets

Accounting policy

The Company 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 the Company has entered into a 'farm-in' agreement to either acquire or part-dispose of an exploration interest.

Capricorn Egypt Limited

Section 2 – Oil and Gas Assets and Operations (continued)

2.3 Intangible Exploration/Appraisal Assets (continued)

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 the Company 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 the Company's behalf is not recognised in the Financial Statements. The future economic benefit which the Company 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 Company's assets may be impaired is most likely to be one of the following:

- There are no further plans to conduct exploration activities in the area;
- Exploration drilling in the area has failed to discover commercial reserve volumes;
- Changes in the oil price or other market conditions indicate that discoveries may no longer be commercial; or
- Development proposals for appraisal assets in the pre-development stage indicate that it is unlikely that the carrying value of the exploration/appraisal asset will be recovered in full.

In such circumstances the intangible exploration/appraisal asset is allocated to any property, plant & equipment – development/producing assets within the same CGU and tested for impairment. Any impairment arising is recognised in the Income Statement for the period. 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.

Cost and net book value	US\$m
At 3 July 2020	-
Additions	6.3
Unsuccessful exploration costs	(2.7)
At 31 December 2021	3.6

All additions to exploration/appraisal assets have been funded through cash and working capital.

Capricorn Egypt Limited

Section 2 – Oil and Gas Assets and Operations (continued)

2.3 Intangible Exploration/Appraisal Assets (continued)

Additions in Egypt of US\$6.6m mainly relate to North Um Baraka and the three Capricorn operated concessions, South Abu Sennan, West El Fayium and South East Horus. No fair value was attributed to exploration assets on completion of the acquisition. Unsuccessful exploration costs of US\$2.7m relate to the North Um Baraka concession, where an unsuccessful well completed in January 2022. Direct costs incurred prior to the period end have therefore been written off.

Impairment review

At the period end, the Company reviewed its remaining intangible exploration/appraisal assets for indicators of impairment. No indicators of impairment were identified.

2.4 Property, Plant & Equipment – Development/Producing Assets

Accounting policy

Costs

All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons has been demonstrated and a development plan approved, are capitalised within development/producing assets on a field-by-field basis. Subsequent expenditure is capitalised only where it either enhances the economic benefits of the development/producing asset or replaces part of the existing development/producing asset. Any remaining costs associated with the part replaced are expensed.

Costs of borrowings relating to the ongoing construction of development/producing assets and facilities are capitalised during the development phase of the project. Capitalisation ceases once the asset is ready to commence production.

Net proceeds from any disposal, part-disposal or farm-down of development/producing assets are credited against the appropriate portion of previously capitalised cost. A gain or loss on disposal of a development/producing asset is recognised in the Income Statement to the extent that the net proceeds, measured at fair value, exceed or are less than the appropriate portion of the net capitalised costs.

Depletion and amortisation

Depletion is charged on a unit-of-production basis, based on proved and probable reserves on a field-by-field basis. Fields within a single development area may be combined for depletion purposes. Where production commences prior to completion of the development, costs to be depleted include the costs-to-complete of the facility required to extract the volume of reserves recorded. Amortisation charged on right-of-use leased assets is also charged on a unit-of-production basis, based on proved and probable reserves.

Impairment

Development/producing assets are reviewed for indicators of impairment at the balance sheet date. Indicators of impairment for the Company'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.

Capricorn Egypt Limited

Section 2 – Oil and Gas Assets and Operations (continued)

2.4 Property, Plant & Equipment – Development/Producing Assets (continued)

	US\$m
Cost	
At 3 July 2020	-
Acquisitions through business combinations	390.2
Additions	14.7
At 31 December 2021	404.9
Depletion and amortisation	
At 3 July 2020	-
Depletion and amortisation charges	30.0
At 31 December 2021	30.0
Net book value	
At 31 December 2021	374.9

Development/producing asset costs held at the period end on Egypt represent the assets acquired through the business combination in the period, see note 2.1, and subsequent expenditure on development activities across the concessions.

The acquisition was funded through a combination of cash and borrowings, with further deferred consideration due on future oil prices. Subsequent additions on development activity were funded through cash and working capital.

In Egypt, depletion of US\$30.0m was charged to the Income Statement based on entitlement interest production from 24 September 2021 to the end of the period. The costs for depletion include future capital costs-to-complete consistent with the life-of-field reserve estimates used in the calculation.

Impairment review

A review for indicators of impairment conducted on the Company's Egyptian assets at the period end did not identify such indicators and therefore no impairment test was performed.

2.5 Capital Commitments

	At 31 December 2021 US\$m
Oil and gas expenditure:	
Intangible exploration/appraisal assets	23.5
Property, plant & equipment – development/producing assets	93.7
Contracted for	117.2

Capital commitments represent the Company's share of obligations in relation to its interests in joint operations. These commitments include the Company's share of the capital commitments of the joint operations themselves.

Capricorn Egypt Limited

Section 3 – Working Capital, Financial Instruments and Long-term Liabilities

3.1 Cash and Cash Equivalents

	At 31 December 2021 US\$m
Cash and cash equivalents	8.9

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 Company.

3.2 Loans and Borrowings

Reconciliation of opening and closing liability to cash flow movements:	Period from 3 July 2020 to 31 December 2021 US\$m
Opening liability	-
Loan advances disclosed in the Cash Flow Statement:	
Senior Debt Facility	141.4
Junior Debt Facility	40.0
Other movements in the Cash Flow Statement:	
Debt arrangement fees	(4.6)
Non-cash movements	
Amortisation of debt arrangement fees	0.2
Closing liability	177.0
Amounts due less than one year	10.9
Amounts due greater than one year	166.1
Closing liability	177.0

In September 2021 the Company entered into a US\$325.0m Senior Debt Facility and an US\$80.0m Junior Debt Facility jointly with the joint operation partner in Egypt, Cheiron, to finance the acquisition of the Egyptian Western Desert Portfolio. The facility commitments are split 50/50 with Cheiron. An accordion feature on the Senior Facility permits additional future commitments of up to US\$200.0m subject to the amortisation of investor commitments. The maximum available drawdown available to the Company at 31 December 2021 was US\$141.4m for the Senior Debt Facility and US\$40.0m for the Junior Debt Facility.

Interest on debt drawn is charged at the appropriate LIBOR for the currency drawn plus an applicable margin. The facility remains subject to biannual redeterminations, has a market standard suite of covenants and is cross-guaranteed by all Group companies party to the facility, including Cheiron. Any debt drawn is repayable in line with the amortisation of bank commitments over the period from September 2022 to the extended final maturity date of September 2026. All drawings in the period were denominated in US\$.

Capricorn Egypt Limited

Section 3 – Working Capital, Financial Instruments and Long-term Liabilities (continued)

3.3 Inventory

Accounting Policy

Inventories of oil and condensate held at the balance sheet date are valued at net realisable value based on the estimated selling price in accordance with established industry practice.

Inventories of spare parts which are either not allocated to a specific oil and gas licences or held solely for production-related activities are held at the lower of cost and net realisable value.

	At 31 December 2021 US\$m
Spare parts – Egypt concessions	10.8
	10.8

Spare parts inventories in Egypt are maintained by Bapetco on behalf of the operator Cheiron. Inventory is held at net realisable value, based on cost less provisions for obsolescence, based on the age of the items held.

3.4 Trade and Other Receivables

Accounting Policy

Trade receivables represent amounts due from the sale of oil and gas from the Company's assets in Egypt, acquired during 2021. Other receivables primarily represent recharges to joint operations. Joint operation receivables relate to the Company's interest in its oil and gas joint arrangements, including the Company'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 the Company, and the discounted actual cash flows that are expected to be received. Where there has been no significant increase in credit risk since initial recognition, the loss allowance is equal to 12-month expected credit losses. Where the increase in credit risk is considered significant, lifetime credit losses are provided. For trade receivables a lifetime credit loss is recognised on initial recognition where material.

Prepayments, which are not financial assets, are measured at historic cost.

	At 31 December 2021 US\$m
Trade receivables	63.3
Other receivables	2.9
Joint operation receivables	36.6
	102.8

Trade receivables are initially recorded at fair value and subsequently measured at amortised cost. Revenue is recognised at the point in time where title passes to the customer and payment becomes unconditional. The fair value measurement of revenue for oil and gas sales in Egypt includes adjustments to invoiced quantities for expected entitlement share adjustments.

**Section 3 – Working Capital, Financial Instruments and Long-term Liabilities
(continued)**

3.4 Trade and Other Receivables (continued)

Reconciliation of opening and closing receivables to operating cash flow movements:	Period from 3 July 2020 to 31 December 2021 US\$m
Opening trade and other receivables	-
Closing trade and other receivables	102.8
Increase in trade and other receivables	102.8
Increase in trade receivables relating to investing activities	(58.2)
Increase in other receivables relating to investing activities	(2.3)
Increase in joint operation receivables relating to investing activities	(2.5)
Trade and other receivables movement recorded in operating cash flows	39.8

The movements in joint operation receivables relating to investing activities, relate to the Company's share of the receivables of joint operations in respect of exploration, appraisal and development activities.

3.5 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 the Company's interest in its oil and gas joint arrangements, including the Company's participating interest share of the trade and other payables of the joint arrangements themselves. Where the Company is operator of the joint operation, joint operation payables also include amounts that the Company will settle to third parties on behalf of joint operation partners. The amount to be recovered from partners for their share of such liabilities are included within joint operation receivables.

	At 31 December 2021 US\$m
Trade payables	0.2
Accruals and other payables	8.2
Intercompany payables	162.2
Joint operation payables	70.1
	240.7

Reconciliation of opening and closing payables to operating cash flow movements:	Period from 3 July 2020 to 31 December 2021 US\$m
Opening trade and other payables	-
Closing trade and other payables	240.7
Increase in trade and other payables	240.7
Increase in accruals and other payables relating to financing activities – Group funding	(162.2)
Increase in joint operation payables relating to investing activities	(74.8)
Trade and other payables movement recorded in operating cash flows	3.7

Section 3 – Working Capital, Financial Instruments and Long-term Liabilities (continued)

3.5 Trade and Other Payables (continued)

Movements above for investing activities relate to exploration, appraisal and development activities through the Company's joint operations. Movements relating to production activities are included in amounts through operating cash flows.

3.6 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.

Financial assets	At 31 December 2021 US\$m
Carrying amount and fair value	
<i>Financial assets at amortised cost</i>	
Cash and cash equivalents	8.9
Trade receivables	63.3
Other receivables	2.9
Joint operation receivables	36.6
	111.7

Due to the short-term nature of financial assets held at amortised cost, their carrying amount is considered to be the same as their fair value.

There are no material impairments of financial assets held on the balance sheet at 31 December 2021.

All the Company's financial assets are expected to mature within 12 months.

Financial liabilities	At 31 December 2021 US\$m
Carrying amount and fair value	
<i>Financial liabilities at amortised cost</i>	
Trade payables	0.2
Joint operation payables	70.1
Accruals and other payables	8.2
Intercompany payables	162.2
Loans and borrowings	177.0
<i>Financial liabilities at fair value through profit or loss</i>	
Deferred consideration on business combinations	70.0
	487.8

The fair value of financial assets and liabilities, other than the deferred consideration, 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)

3.6 Financial Instruments (continued)

Maturity analysis

The expected financial maturity of the Company's financial liabilities at 31 December 2021 is as follows:

	< 1 year US\$m	1-2 years US\$m	2-5 years US\$m	>5 years US\$m
<i>Financial liabilities at amortised cost</i>				
Trade payables	0.2	-	-	-
Joint operation payables	70.1	-	-	-
Intercompany payables	162.2	-	-	-
Accruals and other payables	8.2	-	-	-
Loans and borrowings	10.9	47.2	118.9	-
<i>Financial liabilities at fair value through profit or loss</i>				
Deferred consideration on business combination	20.9	49.1	-	-
	272.5	96.3	118.9	-

Fair value

	At 31 December 2021 US\$m
Liabilities measured at fair value – Level 2	
<i>Financial liabilities at fair value</i>	
Deferred consideration on business combinations	(68.2)
Liabilities measured at fair value – Level 3	
<i>Financial liabilities at fair value</i>	
Deferred consideration on business combinations	(1.8)
	(70.0)

3.7 Financial Risk Management: Objectives and Policies

The main risks arising from the Company'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.

Capricorn Energy PLC'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 has adequate liquidity at all times in order to meet its immediate cash requirements. There are no significant concentrations of risks unless otherwise stated. The Company 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 strategy has been to finance 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 Company's Egyptian production, which could adversely affect revenue and debt availability due to changes in commodity prices.

The Company 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 Company may choose to hedge.

No hedging of production in Egypt was in place at the period end, though this remains under review with the Company and the operator looking at hedging opportunities.

Section 3 – Working Capital, Financial Instruments and Long-term Liabilities (continued)

3.7 Financial Risk Management: Objectives and Policies (continued)

Transacted derivatives are designated, where possible, in cash flow hedge relationships to minimise accounting income statement volatility. The Company 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 Company 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 Company runs various sensitivities on its liquidity throughout the period. This includes scenarios forecasting a prolonged economic downturn as a result of COVID-19 and further volatility in oil prices.

Details of the Company's debt facilities can be found in note 3.2. The Company as part of the Capricorn Energy PLC Group is subject to semi-annual forecast liquidity tests as part of the facility agreements.

The Company 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 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 period end, the Company'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 the Company's policy to invest with banks or other financial institutions that, firstly, offer the greatest degree of security in the view of the Company 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 Company's policy and updates as required.

At the period end the Company does not have any significant concentrations of bad debt risk. The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the balance sheet date.

Foreign currency risk

The Company 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.

Where residual net exposures do exist and they are considered significant, the Company may from time to time opt to use derivative financial instruments to minimise exposure to fluctuations in foreign exchange and interest rates.

Section 4 – Income Statement Analysis

4.1 Operating Profit

The Company's auditors' remuneration for 2021 was US\$52,289 and will be paid on its behalf by the ultimate parent undertaking. Auditors' remuneration for other services for the Capricorn Energy PLC Group is disclosed in the financial statements of the ultimate parent undertaking.

The Company has a policy in place for the award of non-audit work to the auditors which requires Audit Committee approval. No such costs were incurred by the Company during the period.

Remuneration of key management personnel

The directors of the Company are also directors of other companies in the Capricorn Energy PLC Group. The directors received remuneration for the period as shown in note 6.4 which was paid by other companies in the Group. The directors do not believe that it is practicable to apportion this amount between their services as directors of the Company and their services as directors of Capricorn Energy PLC and fellow subsidiary companies. There are no agreements between the Company and the Board of Directors.

Employees

The Company has no employees.

4.2 Finance Costs

	Period from 3 July 2020 to 31 December 2021 US\$m
Loan interest and facility fee amortisation	(3.1)
	(3.1)

Section Section 5 – Taxation

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 period is paid on the contractor's behalf by EGPC. However, the tax liability remains with the contractor to the point of settlement. Therefore, deferred tax liabilities were recognised on the temporary taxable difference between the carrying value of non-current assets and their tax written down values. Capricorn Egypt also records a tax charge in the period for tax that is payable on its share of profits from production in Egypt and records other income to reflect the settlement of this liability on the company's behalf. The other income is recorded in gross profit.

Deferred Taxation – Potential Deferred Tax Assets on Egypt Concessions

When considering the recognition of potential deferred tax assets, Capricorn Egypt concluded that, with assets recognised at fair value on acquisition in accordance with IFRS 3, any deferred tax asset recorded on a concession would increase the carrying value of the cash-generating unit relating to that concession over and above its fair value, immediately leading to impairment. Therefore, no deferred tax assets have been recorded on initial recognition of the assets and liabilities acquired. At the period end the company again reviewed whether deferred tax assets should be recognised and have assessed this both on the availability of future taxable profits over which the assets could be utilised and the carrying value of assets on the balance sheet at the period end. It was concluded that no deferred tax asset should be recognised.

Accounting policy

The total tax charge or credit represents the sum of current tax and deferred tax.

The current tax charge 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, the Company 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 the Company's intangible exploration/appraisal asset and property, plant & equipment – development/producing asset additions, and the Company 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.

Capricorn Egypt Limited

Section 5 – Taxation (continued)

5.1 Tax Charge on Profit for the Period

Analysis of tax charge on profit for the period:

	Period from 3 July 2020 to 31 December 2021 US\$m
Current tax charge	
Corporate tax charge	7.2
Total current tax charge on profit for the period	7.2
Deferred tax credit	
Deferred tax credit on non-current assets	(2.6)
Total deferred tax credit on profit for the period	(2.6)
Total tax charge on profit for the period	4.6

The current tax charge for the period ending 31 December 2021 of US\$7.2m arises on taxable profit in Egypt from the period from acquisition and is settled by EGPC on Capricorn Egypt's behalf.

Factors affecting tax charge for the period

A reconciliation of the income tax charge applicable to the profit before income tax to the UK statutory rate of income tax is as follows:

	Period from 3 July 2020 to 31 December 2021 US\$m
Profit before taxation	0.1
Profit before tax multiplied by the UK statutory rate of corporation tax of 19%	-
Effect of:	
Permanent items non-deductible	2.2
Temporary differences not recognised	(0.8)
Impact of Egypt oil and gas tax rate	3.2
Total tax charge	4.6

The reconciliation shown above has been based on the UK statutory rate of corporation tax for 2021 of 19%.

The applicable statutory tax rate applying to oil and gas activities in Egypt for 2021 is 40.55%.

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 effect of permanent items non-deductible for tax purposes of US\$2.2m relates to fair value movement of US\$7.1m in respect of loss on non-current deferred consideration liability as well as other non-deductible set-up costs of US\$4.6m.

The effect of Egypt oil and gas tax rate of US\$3.2m is in respect the difference between the average UK statutory tax rate of 19% and the statutory tax rate applying to oil and gas activities in Egypt of 40.55%.

Capricorn Egypt Limited

Section 5 – Taxation (continued)

5.2 Deferred Tax Liabilities

Reconciliation of movement in deferred tax assets/(liabilities):

	Temporary difference in respect of non- current assets US\$m	Losses US\$m	Total US\$m
Deferred tax liabilities			
At 3 July 2020	-	-	-
Deferred tax (liabilities)/assets recognised on business combinations	(52.5)	6.7	(45.8)
Deferred tax credit/(charge) through the Income Statement	2.7	(0.1)	2.6
At 31 December 2021	(49.8)	6.6	(43.2)

Recognised deferred tax assets/(liabilities)

A deferred tax liability of US\$(52.5)m was recognised in respect of the temporary taxable difference of US\$(129)m between the carrying value of non-current assets and their tax written down values at acquisition. The deferred tax asset of US\$6.7m relates to a temporary deductible difference in respect of RF tax losses of US\$16m attributable to the above non-current 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 2021 US\$m
Temporary differences on ring fence trade non-current assets	51.5
Temporary differences on ring fence trade losses	24.4
Temporary differences on non-trade losses (loan relationships)	3.1

Capricorn Egypt Limited

Section 6 – Capital Structure and Other Disclosures

6.1 Issued Capital and Reserves

Called-up share capital

Allotted, issued and fully paid ordinary shares

	Number	US\$
Shares issued on incorporation on 3 July 2020	1	1
At 31 December 2021	1	1

6.2 Capital Management

The objective of the Company's capital management structure is to ensure that there remains sufficient liquidity within the Company to carry out committed work programme requirements. The Company 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 Company, as part of the Capricorn Energy PLC Group, is subject to semi-annual forecast liquidity tests as part of the Senior and Junior Debt Facilities. The Company has complied with the capital requirements of these tests at all times during the period.

The Company manages the capital structure and makes adjustments to it in light of changes to economic conditions. No significant changes were made in the objectives, policies or processes during the period ended 31 December 2021.

Capital and net debt, including lease liabilities, was as follows:

	At 31 December 2021 US\$m
Loans and borrowings	177.0
Less cash and cash equivalents	(8.9)
Net debt	168.1
Equity	(4.5)
Capital and net debt less payables	163.6
Gearing ratio	97.3%

Capricorn Egypt Limited

Section 6 – Capital Structure and Other Disclosures

6.3 Guarantees

Details of the Company's Junior and Senior facility can be found in note 3.2. On entering into the facility the Company granted cross-guarantees to each of the lenders.

6.4 Related Party Transactions

The following table provides the Company's balances which are outstanding with group companies at the balance sheet date:

	At 31 December 2021 US\$m
Amounts payable to Parent undertaking	(162.2)
The amounts outstanding are unsecured, interest-free and repayable on demand and will be settled in cash. No guarantees have been given.	
Directors' remuneration	
The remuneration of the Directors of the Company is set out below.	
	Period from 3 July 2020 to 31 December 2021 US\$m
Emoluments	4.0
Share-based payments	2.0
	6.0

Pension contributions were made on behalf of Directors from 3 July 2020 to 31 December 2021 were US\$0.3m. Remuneration of the highest paid director was US\$2.3m.

748,413 LTIP share awards to Directors vested during the period of 3 July 2020 to 31 December 2021. Share-based payments shown above represent the market value at the vesting date of these awards.

Other transactions

During the period the Company did not make any purchases in the ordinary course of business from an entity under common control.

6.5 Ultimate Parent Company

The Company is a wholly-owned subsidiary of Capricorn Egypt (Holding) Limited and of its ultimate parent, Capricorn Energy PLC. The results of the Company are consolidated into Capricorn Energy PLC, registered in Scotland, whose principal place of business is at 50 Lothian Road, Edinburgh, EH3 9BY.

Copies of Capricorn Energy PLC's financial statements are available to the public and may be obtained from the above mentioned address.