

CAPRICORN OIL LIMITED
REPORT & FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020



COMPANIES HOUSE

22 APR 2021

EDINBURGH MAILBOX

Capricorn Oil Limited

Directors:

James Smith
Simon Thomson
Paul Mayland

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:

50 Lothian Road
Edinburgh
EH3 9BY

Registered No:

SC301223

Capricorn Oil Limited

Directors' Report

The Directors of Capricorn Oil Limited ("the Company") present their Annual Report for the year ended 31 December 2020 together with the audited financial statements of the Company for the year.

The operations of Capricorn Oil and its direct and indirect subsidiaries have been impacted by COVID-19, however this has been safely managed across the business. The Company and the wider Cairn Energy PLC Group have performed additional sensitivity analysis. This includes scenarios forecasting a prolonged economic downturn as a result of COVID-19 and the demand-side impact forecast on oil prices together with supply-side risk as a result of increased production in the global oil market. These confirm that the Company can continue to operate as a going concern.

Subsequent to the Balance Sheet date, the Company, through its indirect subsidiary Capricorn Egypt Limited, entered into an agreement to buy development and production interests from Shell in the Western Desert. In addition, the Company's indirect subsidiary, Nautical Petroleum Limited, entered into an agreement to sell its interests in its producing assets, Catcher and Kraken; note 14 provides further details.

Consolidated financial statements are not produced for the Company and its wholly owned subsidiaries (detailed in note 5 to the financial statements) given the exemption in section 400(1) of the Companies Act 2006.

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

Results and Dividend

During the year Capricorn Oil Limited made a loss of US\$275.6m (2019: loss US\$610.3m). This was mainly due to an impairment of the investment in the subsidiary, Capricorn Energy Limited of US\$516.7m, offset by a dividend receivable of US\$328.9m. These transactions resulted from the transfer of Capricorn Senegal Limited to Capricorn Senegal (Holding) Limited, a related group company in 2019 and subsequent sale of the assets of the Company in 2020. There was also a waiver of an intercompany loan due from Capricorn Senegal (Holding) Limited of US\$853.8m (including the impairment recognised in 2019 of US\$701.2m). A dividend of US\$484.6m has been paid during the year ended 31 December 2020 (2019: US\$nil).

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.

Accounting Policies

Capricorn Oil Limited applies accounting policies in line with those of the Cairn Energy PLC Group ("the Group"). Significant accounting policies of the Group are included within the Annual Report and Accounts of Cairn Energy PLC.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

James Smith
Paul Mayland
Simon Thomson

The Company maintains qualifying third-party indemnity insurance on behalf of its directors.

Capricorn Oil Limited

Directors' Report (continued)

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 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 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 auditors are aware of that information.

The 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

16 April 2021

Capricorn Oil Limited

Strategic Report

Results and Dividend

During the year Capricorn Oil Limited made a loss of US\$275.6m (2019: loss US\$610.3m). This was mainly due to an impairment of the investment in the subsidiary, Capricorn Energy Limited of US\$516.7m, offset by a dividend receivable of US\$328.9m. These transactions resulted from the transfer of Capricorn Senegal Limited to Capricorn Senegal (Holding) Limited, a related group company, in 2019 and subsequent sale of the assets of the Company in 2020. There was also a waiver of an intercompany loan due from Capricorn Senegal (Holding) Limited of US\$853.8m (including the impairment recognised in 2019 of US\$701.2m). A dividend of US\$484.6m has been paid during the year ended 31 December 2020 (2019: US\$nil).

Business Review and Principal Activities

The Company's principal activity is that of a holding Company.

Subsequent to the balance sheet date, the Company, through its indirect subsidiary Capricorn Egypt Limited, entered into an agreement to buy development and production interests from Shell in the Western Desert. In addition, the Company's indirect subsidiary, Nautical Petroleum Limited, entered into an agreement to sell its interests in its producing assets, Catcher and Kraken; note 14 provides further details.

The Company's strategy and business model are linked to those of the Cairn Energy PLC Group during the year 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 69, 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 of Cairn Energy PLC Group, it is considered reasonable that the decision making is taken by the Group Board of Directors. 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 intermediate holding company with business partners but no employees. The engagement with the Company's stakeholders is the same as that of the Group. These are discussed on pages 16 to 19 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 45 to 51 of the Group's annual report which does not form part of this report. The principal risks identified in the annual report include 'Volatile oil and gas prices'.

Key Performance Indicators

The key performance indicators of the Company are the same as that of the Group. These are discussed on pages 30 to 33 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

16 April 2021

Capricorn Oil Limited

Independent auditors' report to the members of Capricorn Oil Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss and cash flows for the year then ended;
- 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 2020; the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the financial statements, the company, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

In our opinion, the company financial statements have been properly prepared in accordance with IFRSs as issued by the IASB.

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.

Capricorn Oil Limited

Independent auditors' report to the members of Capricorn Oil Limited (continued)

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 year ended 31 December 2020 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.

Capricorn Oil Limited

Independent auditors' report to the members of Capricorn Oil Limited (continued)

Auditors' responsibilities for the audit of the financial statements (continued)

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles including tax legislation, and those of the wide variety of jurisdictions in which the investments of the company operate, 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 included:

- Discussion with management, internal audit, internal and external 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, particularly carrying value of investments.
- 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.



Lindsay Gardiner (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
16 April 2021

Capricorn Oil Limited

Income Statement

For the year ended 31 December 2020

	Notes	2020 US\$m	2019 US\$m
Operating result	2	-	-
Impairment of investment in subsidiary	5	(516.7)	(1,091.8)
Waiver/Impairment of intercompany loan	6	(152.6)	(701.2)
Gain/(Loss) on financial assets at fair value through profit or loss		0.4	(0.4)
Finance income	3	77.2	33.7
Dividends receivable	12	328.9	1,154.2
Finance costs		(12.8)	(4.8)
Loss before taxation		(275.6)	(610.3)
Taxation	4	-	-
Loss for the year		(275.6)	(610.3)

Statement of Comprehensive Income

For the year ended 31 December 2020

	2020 US\$m	2019 US\$m
Loss for the year	(275.6)	(610.3)
Total comprehensive expense for the year	(275.6)	(610.3)

Capricorn Oil Limited

Balance Sheet

As at 31 December 2020

	Notes	2020 US\$m	2019 US\$m
Non-current assets			
Investment in subsidiary	5	519.5	1,036.2
		519.5	1,036.2
Current assets			
Financial assets at fair value through profit or loss		1.3	0.9
Other receivables	6	2.4	575.0
Cash and cash equivalents	7	234.5	139.2
		238.2	715.1
Total assets		757.7	1,751.3
Current liabilities			
Bank overdraft	7	7.2	139.5
Other payables	8	2.8	103.9
Total liabilities		10.0	243.4
Net assets		747.7	1,507.9
Equity attributable to owners of the parent			
Called-up share capital	9	-	2,196.8
Share premium	9	-	56.2
Capital reserve		1,264.3	1,748.9
Accumulated losses		(516.6)	(2,494.0)
Total equity		747.7	1,507.9

The financial statements on pages 8 to 23 were approved by the Board of Directors on 16 April 2021 and signed on its behalf by:



James Smith
Director

Company Registered No: SC301223

Capricorn Oil Limited
Statement of Cash Flows
For the year ended 31 December 2020

	Note	2020 US\$m	2019 US\$m
Cash flows from operating activities			
Loss before taxation		(275.6)	(610.3)
Impairment of investment in subsidiary		516.7	1,091.8
Waiver/Impairment of intercompany loan		152.6	701.2
(Gain)/Loss on financial assets at fair value through profit or loss		(0.4)	0.4
Finance income and dividends receivable		(406.1)	(1,187.9)
Finance costs		12.8	4.8
Net cash flows from operating activities		-	-
Cash flows from investing activities			
Group funding		410.1	105.8
Interest received		0.9	1.6
Net cash flows from investing activities		411.0	107.4
Cash flows used in financing activities			
Bank charges		(0.1)	(0.1)
Dividend paid		(183.3)	-
Net cash flows used in financing activities		(183.4)	(0.1)
Net increase/(decrease) in cash and cash equivalents		227.6	(107.3)
Opening cash and cash equivalents at beginning of year		(0.3)	(107.6)
Closing cash and cash equivalents	7	227.3	(0.3)

Capricorn Oil Limited
Statement of Changes in Equity
For the year ended 31 December 2020

	Called-up share capital US\$m	Share premium US\$m	Capital reserve US\$m	Accumulated losses US\$m	Total Equity US\$m
At 1 January 2019	2,196.8	56.2	1,748.9	(1,883.7)	2,118.2
Loss for the year	-	-	-	(610.3)	(610.3)
Total comprehensive expense for the year	-	-	-	(610.3)	(610.3)
At 31 December 2019	2,196.8	56.2	1,748.9	(2,494.0)	1,507.9
Loss for the year	-	-	-	(275.6)	(275.6)
Total comprehensive expense for the year				(275.6)	(275.6)
Reduction of capital	(2,196.8)	(56.2)	-	2,253.0	-
Dividend	-	-	(484.6)	-	(484.6)
	(2,196.8)	(56.2)	(484.6)	2,253.0	(484.6)
At 31 December 2020	-	-	1,264.3	(516.6)	747.7

Capricorn Oil Limited

Notes to the Financial Statements (continued)

1 Significant Accounting Policies

a) Basis of preparation

The financial statements of Capricorn Oil Limited ("the Company") for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the directors on 16 April 2021. The Company is a private company limited by shares incorporated in Scotland and domiciled in the United Kingdom. The registered office is located at 50 Lothian Road, Edinburgh, Scotland.

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 page 4. The financial position of the company, its liquidity position and borrowing facilities are presented in the financial statements and supporting notes. In addition, note 10 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 Cairn Energy PLC and 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. These forecasts assume completion of the Shell Western Desert acquisition within the conditions of the associated financing facilities for which the Group has obtained commitment letters from external lenders. Additionally, these forecasts also include scenarios that take account of a prolonged economic downturn as a result of COVID-19 which has led to volatility in oil prices across 2020.

The Company has received a letter of support from Cairn 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 2020 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

The company prepares its Financial Statements in accordance with applicable IFRS, issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") in conformity with the requirements of the Companies Act 2006 and pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union, and further requirements under the Companies Act 2006 applicable to companies reporting under IFRS. The Group's Financial Statements are also consistent with IFRS as issued by the IASB as they apply to accounting periods ended 31 December 2020.

Effective 1 January 2020, the Company has adopted the following amendments to standards:

- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies"
- Amendments to IFRS 3 "Business Combinations"
- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"
- Revised Conceptual Framework for financial reporting

The adoption of the amendments above has had no material impact on the Company results or financial statement disclosures.

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

d) Investments

The Company's investments in subsidiaries are carried at cost less provisions resulting from impairment. In testing for impairment the carrying value of the investment is compared to its recoverable amount, being its fair value less costs of disposal. The fair value includes the discounted future net cash flows of oil and gas assets held by the subsidiary, using estimated cash flow projections over the licence period. For exploration assets, estimated discounted cash flows are risk-weighted for future exploration success.

Capricorn Oil Limited

Notes to the Financial Statements (continued)

1 Significant Accounting Policies (continued)

d) Investments (continued)

Discounted future net cash flows are calculated using an estimated short-term oil price based on the forward curve and long-term oil price of US\$55/bbl unescalated (2019: long-term oil price of US\$65/bbl escalated at 2.0%), escalation for costs of 0.5% (2019: 2.0%) and a discount rate of 10% (2019: 10%).

e) 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. All of the Company's financial liabilities are held at amortised cost.

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

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 consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Other payables and other non-derivative financial liabilities

Other payables are non-interest bearing, with the exception of certain inter-group loans, and are measured at fair value initially then amortised cost subsequently.

f) Equity

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs, allocated between share capital and share premium.

g) Taxation

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

The current tax credit is based on the taxable 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 assess 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.

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 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.

Current and deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Capricorn Oil Limited

Notes to the Financial Statements (continued)

1 Significant Accounting Policies (continued)

h) Significant accounting judgements, estimates and assumptions

Key estimations and assumptions

The Company has used estimates and assumptions in arriving at certain figures within the financial statements. The resulting accounting estimates may not equate with the actual results which will only be known in time. Those areas believed to be key areas of estimation are noted below, with further details of the assumptions contained in the relevant note.

Impairment testing of investments in subsidiaries

The Company's investments in subsidiaries have been tested for impairment by comparison against the underlying value of the subsidiaries' exploration/appraisal or development/producing assets based on fair value, less costs of disposal, calculated using discounted cash flow models.

The key assumptions used in the Company'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 (2019: three-month average forward curve for three years from the balance sheet date);
- Long-term oil price of US\$55/bbl unescalated (2019: US\$65/bbl escalated at 2.0%);
- Reserve estimates of discovered resource (2P and 2C) based on P50 reserve estimates;
- Production profiles based on Cairn's internal estimates including assumptions on performance of assets;
- Cost profiles for the development and operating costs supplied by the operators and escalated at 0.5% (2019: 2.0%) per annum; and
- Post-tax discount rates of 10% (2019: 10%).

2 Operating Result

Auditors' Remuneration

The Company's auditors' remuneration for 2020 was US\$15,407 (2019: US\$11,494). This has been borne by the ultimate parent company Cairn Energy PLC. The Company had no further services provided by the auditors. Auditors' remuneration for other services for the Cairn Energy 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 year (2019: US\$nil).

Remuneration of key management personnel

The directors of the Company are also directors of other companies in the Cairn Energy PLC group. The directors received emoluments for the year of US\$3.3m (2019: US\$3.1m), share-based payments of US\$0.6m and pension contributions of US\$0.2m (2019: US\$0.2m) all of which was paid by other companies in the group. 389,169 LTIP share awards to Directors vested during 2020 (2019: none). Share-based payments shown above represent the market value at the vesting date of these awards.

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 Cairn Energy PLC and fellow subsidiary companies. There are no agreements between the Company and the Board of Directors.

Employees

The Company has no employees (2019: none).

3 Finance Income

	Year ended 2020 US\$m	Year ended 2019 US\$m
Interest receivable	77.2	33.7
	77.2	33.7

Capricorn Oil Limited

Notes to the Financial Statements (continued)

4 Taxation

Factors affecting tax credit for the year

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

	Year ended 2020 US\$m	Year ended 2019 US\$m
Loss before taxation	(275.6)	(610.3)
Tax at the standard rate of UK corporation tax of 19% (2019: 19%)	(52.4)	(115.9)
Effects of:		
Non-deductible expenses	64.6	121.4
Tax losses claimed from other group companies	(12.2)	(5.5)
Total tax charge	-	-

The reconciliation shown above has been based on the average UK statutory rate of corporation tax for 2020 of 19% (2019: 19%).

The UK main rate of corporation tax is currently 19% (2019: 19%). In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

There are no unprovided deferred tax assets or liabilities for the company.

5 Investment in subsidiary

	Subsidiary undertaking US\$m	Total US\$m
Cost		
At 1 January and 31 December 2019 and 2020	3,351.5	3,351.5
Impairment		
At 1 January 2019	1,223.5	1,223.5
Impairment charge during the year	1,091.8	1,091.8
At 31 December 2019	2,315.3	2,315.3
Impairment charge during the year	516.7	516.7
At 31 December 2020	2,832.0	2,832.0
Net book value at 31 December 2020	519.5	519.5
Net book value at 31 December 2019	1,036.2	1,036.2
Net book value at 31 December 2018	2,128.0	2,128.0

The investment in subsidiary relates to the Company's investment in Capricorn Energy Limited and its subsidiaries ("Capricorn Energy Group"). There were no additions during 2020 or 2019.

At the year end, the investment in Capricorn Energy Limited was reviewed for indicators of impairment and an impairment test conducted as indicators were identified. Following this review, the Company's investment in Capricorn Energy Limited was impaired to reflect the fair value of the underlying assets of the Capricorn Energy Group. A charge of US\$516.7m was made to the Income Statement in 2020 (2019: US\$1,091.8m). The fair value of the underlying assets includes an assumption of the recoverable value of exploration assets held by Capricorn Energy Group, including post balance sheet date adjustments to reflect the expiration of licences in Côte d'Ivoire in April 2021.

The fall in the value of the underlying assets of the Capricorn Energy Group reflects the fall in value in North Sea assets and dividend paid by Capricorn Energy Limited.

Capricorn Oil Limited

Notes to the Financial Statements (continued)

5 Investment in subsidiary (continued)

The Company's direct and indirect subsidiaries as at the balance sheet date are set out below. The Company holds 100% of the voting rights and ordinary shares of all the companies listed below.

Direct holdings

Company	Business	Country of	Country of	Registered office
	Holding	incorporation	operation	address
Capricorn Energy Limited	company	Scotland	Scotland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Egypt (Holding) Limited	Holding company	England	UK	Wellington House 4th Floor, 125 The Strand, London, WC2R 0AP

Indirect holdings - Capricorn Energy Limited

Company	Business	Country of	Country of	Registered
		incorporation	operation	office address
Capricorn Exploration Limited+	Non-trading	Scotland	Non-trading	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Exploration and Development Company Limited	Exploration	Scotland	Morocco	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Greenland Exploration 1 Limited*	Holding company	Scotland	Scotland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Mauritania Limited	Exploration	Scotland	Mauritania	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Ireland Limited	Exploration	Scotland	Republic of Ireland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Malta Limited*	Exploration	Scotland	Malta	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Oil and Gas Tunisia GmbH*	Non-trading	Switzerland	Non-trading	Gubelstrasse 5, Postfach 1524, CH-6301 Zug, Switzerland
Capricorn Petroleum Limited	Holding company	Scotland	Scotland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Resources Management Limited	Royalty interest	Scotland	Mongolia	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Offshore Exploration Limited	Exploration	Scotland	Israel	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Spain Limited	Exploration	Scotland	Spain	50 Lothian Road, Edinburgh, EH3 9BY
Nautical Holdings Limited	Holding company	England	UK	Wellington House 4th Floor, 125 The Strand, London, WC2R 0AP
Nautical Petroleum AG*	Production	Switzerland	UK	Baarerstrasse 8, 6300 Zug, Switzerland
Nautical Petroleum Limited	Exploration and Development	England	UK	Wellington House 4th Floor, 125 The Strand, London, WC2R 0AP

Capricorn Oil Limited

Notes to the Financial Statements (continued)

5 Investment in subsidiaries (continued)

Indirect holdings - Capricorn Energy Limited

Company	Business	Country of incorporation	Country of operation	Registered office address
UAH Limited	Holding company	England	UK	Wellington House 4th Floor, 125 The Strand, London, WC2R 0AP
Agora Oil and Gas (UK) Limited	Exploration	Scotland	UK	50 Lothian Road, Edinburgh, EH3 9BY
Alba Resources Limited*	Exploration	Scotland	UK	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Americas Limited	Holding company	Scotland	Scotland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Americas Mexico S. de R.L. de C.V.	Exploration	Mexico	Mexico	Torre Mayor, Av. Paseo de la Reforma 505, Cuauhtémoc, CP 06500, CDMX, México
Capricorn Brasil Petróleo e Gás Ltda	Exploration	Brazil	Brazil	Praia de Botafogo 228, 16th floor, suite 1601 Zip Code 22250-040 Rio de Janeiro, Brazil
Capricorn Energy Mexico S. de R.L. de C.V.	Exploration	Mexico	Mexico	Av. Paseo de la Reforma 295, Cuauhtémoc, CP 06500, CDMX, México
Capricorn Nicaragua BV	Exploration	The Netherlands	Non-trading	50 Lothian Road, Edinburgh, EH3 9BY
Cairn Côte d'Ivoire Limited	Exploration	Scotland	Côte d'Ivoire	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Energy Search Limited	Exploration	Scotland	Scotland	50 Lothian Road, Edinburgh, EH3 9BY
Capricorn Suriname BV	Exploration	The Netherlands	Suriname	50 Lothian Road, Edinburgh, EH3 9BY

Indirect holdings - Capricorn Egypt (Holding) Limited

Company	Business	Country of incorporation	Country of operation	Registered office address
Capricorn Egypt Limited	Exploration	England	UK	Wellington House 4th Floor, 125 The Strand, London, WC2R 0AP

+Exempt from audit under Section 480 of the Companies Act

*Company is in the process of liquidation at the balance sheet date

Capricorn Oil Limited

Notes to the Financial Statements (continued)

6 Other Receivables

	At 31 December 2020 US\$m	At 31 December 2019 US\$m
Amounts receivable from group companies	2.4	574.8
Other receivables	-	0.2
	2.4	575.0

During the year, the Company received US\$410.6m from Capricorn Senegal (Holding) Limited and waived the balance of US\$152.6m (the loan impairment of US\$701.2m was recognised in 2019) due from the company.

7 Cash and Cash Equivalents

	At 31 December 2020 US\$m	At 31 December 2019 US\$m
Money market funds	234.5	139.2
Cash and cash equivalents	234.5	139.2
Bank overdraft	(7.2)	(139.5)
Net cash/(overdraft) balance for cash flow purposes	227.3	(0.3)

Cash and cash equivalents earn interest at floating rates. Short-term investments are made for varying periods ranging from instant access to unlimited, but generally not more than three months depending on the cash requirements of the Company. At 31 December 2020 and 2019 the Company has invested surplus funds into money market funds.

Capricorn Oil participates in a cross-entity multicurrency notional cash pooling arrangement with Citibank. The pooling arrangement aggregates cash balances and overdrafts across the Cairn Energy group entities, ensuring the pool is positive at all times. The overdraft position as at 31 December 2020 and 2019 reflects the concentration of cash elsewhere in the Group.

The Company limits the placing of funds and other investments to banks or financial institutions that have ratings of A- or above from at least two of Moody's, Standard & Poor's or Fitch, unless a sovereign guarantee is available from a AAA-rated government. The counterparty limits vary between US\$50.0m and US\$200.0m depending on the ratings of the counterparty. No investments are placed with any counterparty with a five-year credit default swap exceeding 250 bps. Investments in money market liquidity funds are only made with AAA rated liquidity funds and the maximum holding in any single fund is 20% of total investments. The Cairn Energy PLC group's Treasury function manages the credit risk associated with such investments.

8 Other payables

	At 31 December 2020 US\$m	At 31 December 2019 US\$m
Amounts payable to group companies	2.8	103.9
	2.8	103.9

The amounts outstanding are unsecured, repayable on demand and will be settled in cash. Interest is charged at market rates. No guarantees have been given.

Capricorn Oil Limited

Notes to the Financial Statements (continued)

8 Other payables (continued)

Reconciliation of opening and closing amounts payable to group companies to cash flow movements:

	At 31 December 2020 US\$m	At 31 December 2019 US\$m
Opening payable to group companies	103.9	16.6
<i>Cash flow movement – investing activities</i>		
Funding to subsidiary company	(113.7)	82.6
<i>Non-cash movements</i>		
Interest on intercompany loan balance	12.6	4.7
	2.8	103.9

9 Called-up share capital and share premium

	Number £1 Ordinary '000	£1 Ordinary US\$m
Allotted, issued and fully paid Ordinary shares of £1		
At 1 January 2019 and 31 December 2019	1,367,681	2,196.8
Reduction of share capital	(1,367,681)	(2,196.8)
At 31 December 2020	-	-
Share premium		US\$m
At 1 January 2019 and 31 December 2019		56.2
Reduction of share premium		(56.2)
At 31 December 2020		-

During the year, the Company cancelled all but one of the issued shares with nominal value of £1 and cancelled its entire share premium of US\$56.2m. The share capital and share premium cancelled of US\$2,253.0m was transferred to retained earnings.

10 Financial Risk Management: Objectives and Policies

The main risks arising from the Company's financial instruments are liquidity risk and credit risk. The Board of Cairn Energy PLC, through the Treasury Sub-Committee, reviews and agrees policies for managing each of these risks and these are summarised below.

Cairn 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 whilst ensuring that the Company has adequate liquidity at all times in order to meet 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, money market liquidity funds, intra-group loans and other receivables and financial liabilities held at amortised cost. The Company's strategy has been to finance its operations through a mixture of group funding and bank borrowings. Other alternatives such as equity issues and other forms of non-investment-grade debt finance are reviewed by the Board, when appropriate.

10 Financial Risk Management: Objectives and Policies (continued)

Liquidity risk

Cairn Energy PLC's Group's treasury function 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 has received a letter of support from Cairn 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 2020 financial statements.

The Group invests cash in a combination of money market liquidity funds and term deposits with a number of international and UK financial institutions, ensuring sufficient liquidity to enable the Group to meet its short and medium-term expenditure requirements.

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 and the Group may from time to time opt to use derivative financial instruments to minimise the exposure to fluctuations in foreign exchange and interest rates.

Credit risk

Credit risk arises from cash and cash equivalents, investments with banks and financial institutions.

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 Cairn 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 year end the Company does not have any significant concentrations of bad debt risk. As at 31 December 2020 the Company had investments with 12 counterparties (2019: 9) to ensure no concentration of counterparty investment risk. The increase in the number of counterparties holding investments reflects the Company's increased cash balance. At 31 December 2020 and at 31 December 2019 all of these investments were instant access.

The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the balance sheet date.

Capricorn Oil Limited

Notes to the Financial Statements (continued)

10 Financial Risk Management: Objectives and Policies (continued)

Capital Management

The objective of the Company's capital management structure is to ensure that there remains sufficient liquidity within the Company to support its own funding 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 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 year ended 31 December 2020.

Company capital and net debt were made up as follows:

		At 31 December 2020 US\$m	At 31 December 2019 US\$m
	Note		
Amounts payable to group companies		2.8	103.9
Bank overdraft		7.2	139.5
Less cash and cash equivalents	7	(234.5)	(139.2)
Net (funds)/debt		(224.5)	104.2
Equity		747.7	1,507.9
Capital and net (funds)/debt		523.2	1,612.1
Gearing Ratio		-	6.5%

11 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	Carrying amount		Fair value	
	At 31 December 2020 US\$m	At 31 December 2019 US\$m	At 31 December 2020 US\$m	At 31 December 2019 US\$m
<i>Financial assets at amortised cost</i>				
Cash and cash equivalents	234.5	139.2	234.5	139.2
Amounts receivable from group companies	2.4	574.8	2.4	574.8
Other receivables	-	0.2	-	0.2
<i>Financial assets at fair value through profit or loss</i>				
Equity shares	1.3	0.9	1.3	0.9
	238.2	715.1	238.2	715.1

For all financial assets held at amortised cost, their carrying amount is considered to be the same as their fair value.

The Company's financial assets are expected to mature within one year.

Capricorn Oil Limited

Notes to the Financial Statements (continued)

11 Financial Instruments (continued)

Financial liabilities	Carrying amount		Fair value	
	At 31 December 2020 US\$m	At 31 December 2019 US\$m	At 31 December 2020 US\$m	At 31 December 2019 US\$m
<i>Amortised cost</i>				
Bank overdraft	7.2	139.5	7.2	139.5
Amount payable to group companies	2.8	103.9	2.8	103.9
	10.0	243.4	10.0	243.4

The fair value of financial assets and liabilities has been calculated by discounting the expected future cash flows at prevailing interest rates. All of the Company's financial liabilities are expected to mature within one year.

12 Related Party Transactions

The Company's principal subsidiaries are listed in note 5. The following table provides the Company's balances which are outstanding with subsidiary companies at the balance sheet date:

	At 31 December 2020 US\$m	At 31 December 2019 US\$m
Amounts receivable from group companies	2.4	574.8
Amounts payable to group companies	(2.8)	(103.9)
	(0.4)	470.9

The amounts outstanding are unsecured, repayable on demand and will be settled in cash. No guarantees have been given.

During 2019, the Company was assigned a debt previously due to Capricorn Energy Limited. This amount was due from Capricorn Senegal (Holding) Limited, a related party. In 2020 the Company repaid US\$410.6m and recorded a loan waiver of the remaining balance of US\$853.8m (including the impairment recognised of US\$701.2m in 2019).

Capricorn Energy Limited, a subsidiary, declared dividends of US\$328.9m (2019:US\$1,154.2) by assigning a debt due to Capricorn Energy Limited, from a related party Capricorn Senegal (Holding) Limited, to the Company.

The Company declared a dividend of US\$484.6m to its ultimate parent Cairn Energy PLC. The Company paid a cash dividend of US\$183.3m and cleared the Cairn Energy PLC intercompany loan receivable of US\$301.3m.

13 Ultimate Parent Company

The Company is a wholly-owned subsidiary of Cairn Energy PLC. The results of the Company are consolidated into those of the ultimate parent company, Cairn Energy PLC, registered in Scotland, whose principal place of business is at 50 Lothian Road, Edinburgh, EH3 9BY.

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

Capricorn Oil Limited

Notes to the Financial Statements (continued)

14 Events after the Balance Sheet Date

On 8 March 2021, the Company, through its indirect subsidiary Capricorn Egypt Limited, together with Cheiron Energy (its consortium partner) entered into a sales and purchase agreement for the proposed acquisition of a portfolio of upstream oil and gas exploration, development and production interests from Shell in the Western Desert, onshore The Arab Republic of Egypt for a purchase price of approximately US\$323m net to Capricorn Egypt Limited, with additional contingent consideration of up to US\$140m net to Capricorn Egypt Limited if certain requirements are met. Capricorn Egypt Limited will acquire 50% of the portfolio of interests being sold by Shell, comprising of 13 concessions (including 5 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; North East Abu Gharadig; and Alam El Shawish West.

On 8 March 2021, the Company's indirect subsidiary, Nautical Petroleum Limited, entered into an agreement that will result in the sale of its interests in the UK Catcher and Kraken producing assets to Waldorf Production Limited for a cash consideration of US\$460m plus additional contingent consideration dependent principally on oil prices from 2021 to the end of 2025. The consideration is subject to adjustments for working capital and other customary interim period adjustments from the economic effective date of 1 January 2020. As at 31 December 2020, the interim period and working capital adjustments were approximately US\$144m. On completion of the deal, derecognition of deferred tax assets, currently offsetting deferred tax liabilities, is expected to result in a loss after tax, which at the year-end was forecast to be approximately US\$140m.