Registered No: SC444808

CAPRICORN SENEGAL LIMITED

REPORT & FINANCIAL STATEMENTS

FOR THE YEAR TO 31 DECEMBER 2021

CAPRICORN SENEGAL LIMITED

Directors:

Simon Thomson
James Smith
Paul Mayland
Miles Warner

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:

SC444808

CAPRICORN SENEGAL LIMITED

Directors' Report

The directors of Capricorn Senegal Limited ("the Directors" and "the Company") present their Annual Report for the year ended 31 December 2021 together with the audited financial statements of the Company for the year (the "Financial Statements").

Business Review and Principal Activities

During the year, the Company made a loss of US$163,000 (2020: loss of US$234,186,000) following the sale of its oil and gas assets in Senegal in December 2020. Deferred consideration of up to US$100,000,000 is receivable dependent upon the first oil date and the oil price at that time. In accordance with IFRS15, no amount is recognised at the balance sheet date as there is no reasonable certainty that it would not reverse in future periods. At 31 December 2021, the risk-weighted fair value of the deferred consideration was US$51,416,000.

No dividends were paid or declared in 2021 (2020: US$277,756,000 was declared and paid).

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006 and therefore, as provided in section 414B Companies Act 2006, a Strategic Report is not presented.

The Company's principal activity is oil and gas exploration.

Future Developments

The Company currently holds a contingent asset with respect to deferred consideration due to the sale of 40% working interest in its Senegal exploration and development assets. Deferred consideration of up to US$100.0m is receivable dependent upon the first oil date and the oil price and is due to be paid in 2023. Once the settlement is received, the Directors will consider future options for the Company.

Going Concern

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 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.

On 1 June 2022, the Capricorn Energy PLC group (the "Group") announced its intention to merge with Tullow Oil PLC to create a new combined group and ultimate parent undertaking (together the "New Group"). The transaction remains subject to shareholder approval. There is a reasonable expectation that the New Group will have adequate resources to continue in operational existence for the foreseeable future and provide ongoing support to the Company. The Directors believe it is therefore appropriate to continue to adopt the going concern basis of accounting in preparing these financial statements. The Directors will not have full control over the New Group and therefore do not have full knowledge of the new ultimate parent undertaking's future intentions and funding plans in relation to the New Group and ongoing support to the Company. The Group is also exploring potential alternative transactions. These conditions indicate the existence of a material uncertainty over the Company's ability to continue as a going concern. The Financial Statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

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 46 to 55 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'. Although the Senegal assets had been sold, there is a deferred consideration of up to US$100.0m receivable dependent upon the first oil date and the oil price at that time.

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 and its group companies (together the "Group").

Accounting Policies

Capricorn Senegal Limited applies accounting policies in line with those of the Group. Significant accounting policies of the Group are included within the Annual Report and Accounts of Capricorn Energy PLC.

Financial Instruments

For detail of the Company's financial risk management policy see note 11.

CAPRICORN SENEGAL LIMITED

Directors' Report (continued)

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
Miles Warner

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

Statement of Directors' Responsibilities
The Directors are responsible for preparing the Directors' Report and the Financial Statements in accordance with applicable law and regulation.

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 UK-adopted international accounting standards.

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;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also 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.

Directors' confirmations
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 independent auditors, PricewaterhouseCoopers LLP, indicated their willingness to continue in office, and a resolution that they be re-appointed was passed at the annual general meeting of Capricorn Energy PLC.

BY ORDER OF THE BOARD

Anne McSherry
Secretary

50 Lothian Road
Edinburgh EH3 9BY

8 September 2022

Report on the audit of the financial statements

Opinion

In our opinion, Capricorn Senegal 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 year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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, Statement of Comprehensive Income, Statement of Cash Flows and 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.

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.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the company's ability to continue as a going concern. As outlined in note 1 to the Financial Statements, Capricorn Senegal Limited is reliant on financial support from its ultimate parent company, Capricorn Energy Plc, in order to meet its liabilities as they fall due. However, on 1 June 2022, Capricorn Energy Plc announced its intention to merge with Tullow Oil PLC to create a new combined Group and ultimate parent undertaking. The Tullow transaction remains subject to shareholder approval. Assuming such approval is received the transaction is likely to complete within 12 months of the approval of these Financial Statements. The current Directors will not have full control over the new combined Group and therefore they do not currently have full knowledge of the new ultimate parent undertaking's future intentions, funding plans in relation to the Group and whether the new ultimate parent undertaking would provide financial support to the company. The Group is also exploring potential alternative transactions. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

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.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Capricorn Senegal Limited
Independent auditors' report to the members of Capricorn Senegal 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 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.

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year 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 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 oil and gas specific regulations in the jurisdictions that the company operates in, 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 the posting of inappropriate journal entries in order to improve reported performance. Audit procedures performed by the engagement team included:

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

- 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; and
- 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.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

Jane Ferguson

Jane Ferguson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
8 September 2022

CAPRICORN SENEGAL LIMITED

Income Statement

For the year ended 31 December 2021

	Note	2021 US$'000	2020 US$'000
Administrative expenses		-	(167)
Operating loss	2	-	(167)
Loss on disposal of oil and gas assets	4	**(132)**	(234,015)
Finance costs		**(31)**	(4)
Loss before taxation		**(163)**	(234,186)
Taxation	5	-	-
Loss for the year		**(163)**	(234,186)

Statement of Comprehensive Income

For the year ended 31 December 2021

	2021 US$'000	2020 US$'000
Loss for the year	**(163)**	(234,186)
Other comprehensive income for the year	-	-
Total comprehensive expense for the year	**(163)**	(234,186)

CAPRICORN SENEGAL LIMITED
Balance Sheet
As at 31 December 2021

	Note	**2021 US$'000**	2020 US$'000
Current assets			
Cash and cash equivalents	8	**342**	650
Total assets		**342**	650
Current liabilities			
Trade and other payables	9	**4**	149
Total liabilities		**4**	149
Net assets		**338**	501
Equity			
Called-up share capital	10	**-**	-
Retained earnings		**338**	501
Total equity		**338**	501

The Financial Statements on pages 7 to 21 were approved by the Board of Directors on 8 September 2022 and signed on its behalf by:

James Smith
Director
Company Registered No: SC444808

CAPRICORN SENEGAL LIMITED
Statement of Cash Flows
For the year ended 31 December 2021

	Note	2021 US$'000	2020 US$'000
Cash flows from operating activities			
Loss before taxation		**(163)**	(234,186)
Loss on disposal of oil and gas assets	3	**132**	234,015
Finance costs		**31**	4
Trade and other payables movement		**(48)**	-
Net cash used in operating activities		**(48)**	(167)
Cash flows used in investing activities			
(Costs)/Proceeds on disposal of oil and gas assets		**(132)**	524,837
Expenditure on intangible exploration/appraisal assets		**-**	(5,017)
Expenditure on property, plant & equipment – development/producing assets		**-**	(235,902)
Net cash (used in)/from investing activities		**(132)**	283,918
Cash flows from financing activities			
Bank charges		**(31)**	(4)
Funding from parent	9	**-**	241,058
Repayment of funding to parent	9	**(97)**	(246,480)
Dividend to parent		**-**	(277,756)
Net cash flows used in financing activities		**(128)**	(283,182)
Net (decrease)/increase in cash and cash equivalents		**(308)**	569
Opening cash and cash equivalents at beginning of year		**650**	81
Closing cash and cash equivalents	8	**342**	650

CAPRICORN SENEGAL LIMITED
Statement of Changes in Equity
For the year ended 31 December 2021

	Called-up Share Capital US$'000	Retained Earnings US$'000	**Total Equity US$'000**
At 1 January 2020	511,981	462	512,443
Loss for the year	-	(234,186)	(234,186)
Total comprehensive expense for the year	-	(234,186)	(234,186)
Reduction of capital	(511,981)	511,981	-
Dividend	-	(277,756)	(277,756)
As at 31 December 2020	-	501	501
Loss for the year	-	(163)	**(163)**
Total comprehensive expense for the year	-	(163)	**(163)**
At 31 December 2021	**-**	**338**	**338**

1 Significant Accounting Policies

a) Basis of preparation

The Financial Statements of Capricorn Senegal Limited for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Directors on 8 September 2022. The Company is a private company limited by shares incorporated and domiciled in the United Kingdom. The registered office is located at 50 Lothian Road, Edinburgh, EH3 9BY, Scotland.

The Company prepares its Financial Statements on a historical cost basis applied consistently throughout the year, 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 UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. The accounting policies adopted during the year are consistent with those adopted by the ultimate parent company, Capricorn Energy PLC.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on page 2. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are presented in the Financial Statements and supporting notes. In addition, note 11 to the Financial Statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposures to credit 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's 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 include downside scenario assumptions including a return to sustained low oil prices, reductions to forecast production, cost overruns on planned drilling activities.

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.

On 1 June 2022, the Capricorn Energy PLC group (the "Group") announced its intention to merge with Tullow Oil PLC to create a new combined group and ultimate parent undertaking (together the "New Group"). The transaction remains subject to shareholder approval. There is a reasonable expectation that the New Group will have adequate resources to continue in operational existence for the foreseeable future and provide ongoing support to the Company. The Directors believe it is therefore appropriate to continue to adopt the going concern basis of accounting in preparing these financial statements. The Directors will not have full control over the New Group and therefore do not have full knowledge of the new ultimate parent undertaking's future intentions and funding plans in relation to the New Group and ongoing support to the Company. The Group is also exploring potential alternative transactions. These conditions indicate the existence of a material uncertainty over the Company's ability to continue as a going concern. The Financial Statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

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.

Effective 1 January 2021, the Company has adopted the following standards and amendments to standards:

– Definition of Material – Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies' and
– 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.

1 Significant Accounting Policies (continued)

d) Intangible exploration/appraisal assets

Costs

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.

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 Cash Generating Unit "CGU" and tested for impairment. Any impairment arising is recognised in the Income Statement for the year. Where there are no development assets within the CGU, the excess of the carrying amount of the exploration/appraisal asset over its recoverable amount is charged immediately to the Income Statement.

1 Significant Accounting Policies (continued)

e) Property, Plant & Equipment – Development/Producing Assets

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.

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.

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 at amortised cost.

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

Other receivables

Other receivables that have fixed or determinable payments that are not quoted on an active market are initially measured at fair value and then subsequently at amortised cost using the effective interest method less any impairment.

An impairment 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.

f) Financial instruments (continued)

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.

Trade payables and other non-derivative financial liabilities
Trade and other payables are non-interest bearing and are measured at fair value initially then amortised cost subsequently.

g) 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.

h) 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.

j) Foreign currencies
The functional and presentational currency of the Company is US$. 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.

k) Joint operations
The Company was a partner (joint operator) in oil and gas exploration and development/production licences which were unincorporated joint arrangements. All of the Company's interests in these arrangements were determined to be joint operations. All interests in joint operations were disposed of in 2020.

Costs incurred relating to an interest in a joint operation are capitalised in accordance with the Company's accounting policies for oil and gas assets as appropriate (see notes 1(d) and (e)). All of the Company's intangible exploration/appraisal assets and development/producing assets related to interests in joint operations.

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

l) Licence interests
The Company disposed of all of its licence interests in December 2020.

1 Significant Accounting Policies (continued)

m) Employee benefits

Share-based payments

The cost of awards to employees under Capricorn Energy PLC's LTIP and employee share schemes are recognised over the three-year period to which the performance relates. The amount recognised is based on the fair value of the shares as measured at the date of the award. The shares are valued using a Monte Carlo model with the exception of the SIP awards which have been valued using a Black-Scholes model. Awards in prior years were valued using the same basis.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a year represents the movement in cumulative expense as recognised at the beginning and end of that year.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Termination benefits

The Company recognises a liability for termination benefits at the point where the Company is committed to making the payments in return for employee redundancy.

n) Significant accounting judgements, key estimations and assumptions

The Company has used accounting judgments, 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. The area believed to be key areas of estimation is noted below, with further details of the assumptions contained in the relevant note.

Deferred consideration subsequent to the disposal of the Company's oil and gas assets (note 4)

Deferred consideration for the sale of the Company's oil and gas assets of up to US$100,000,000 is receivable dependent upon the first oil date and the oil price prevailing at that time. In accordance with IFRS15, no amount is recognised at the balance sheet date as there is no reasonable certainty that it would not reverse in future periods. At 31 December 2021, the risk-weighted fair value of the deferred consideration was US$51,416,000.

2 Operating Loss

Auditors' remuneration

The Company's auditors' remuneration of US$8,119 (2020: US$21,826) has been borne by the ultimate parent company Capricorn Energy PLC. Auditors' remuneration for other services is disclosed in the Financial Statements of Capricorn Energy PLC.

The Company has a policy in place for the award of non-audit work to the auditors which, in all circumstances, requires approval by the Audit Committee of Capricorn Energy PLC.

No costs were incurred on behalf of the Company during the year for audit related assurance services (2020: US$6,419).

Remuneration of key management personnel and directors

The directors of the Company are also directors of other companies in the Capricorn Energy PLC group. There are no other key management personnel beyond the directors of the Company. The Directors received remuneration for the year of US$3,700,000 (2020: US$3,756,000), share-based payments of US$2,000,000 (2020: US$664,000) and pension contributions of US$275,000 (2020: US$256,000) all of which was paid by other companies in the Group. 1,112,407 LTIP share awards to Directors vested during 2021 (2020: 432,058). Share-based payments shown above represent the market value at the vesting date of these awards. Remuneration of the highest paid director was US$1,490,000 (2020: US$1,505,000).

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.

3 Staff Costs

	Year ended 31 December 2021 US$'000	Year ended 31 December 2020 US$'000
Wages and salaries	-	219
Social security costs	-	10
	-	229

Staff costs ceased in 2020 following completion of the sale of the Company's interests in Senegal.

2020 staff costs are shown gross before amounts recharged to joint operations and include the costs of share-based payments. The share-based payments charge represents amounts in respect of equity-settled options.

The Company participates in a Group defined contribution pension plan under which the Company pays fixed contributions to a separate entity.

The average number of full-time equivalent employees was nil (2020: two). The associated employee costs, recharged amounts, have been included in the intangible exploration and appraisal assets.

4 Loss on Disposal of Oil and Gas assets

In December 2020 the Company disposed of its entire interest in its Senegal exploration and development assets resulting in a loss on disposal of US$234.2m as set out below.

In 2021, the Company incurred further costs in relation to the disposal of the assets and subsequent closure of the Dakar office of US$132,000.

	US$'000
Cash proceeds	**524,837**
Net book value of assets and liabilities disposed of:	
Intangible exploration/appraisal assets	(147,294)
Property, plant and equipment – development/producing assets	(604,811)
Joint operation receivables	(24,099)
Joint operation payables	17,352
	(758,852)
Loss on disposal of Senegal oil and gas assets	**(234,015)**

Deferred consideration
Deferred consideration of up to US$100,000,000 is receivable dependent upon the first oil date and the oil price prevailing at that time. In accordance with IFRS15, no amount is recognised at the balance sheet date as there is no reasonable certainty that it would not reverse in future periods. At 31 December 2021, the risk-weighted fair value of the deferred consideration was US$51,416,000.

The costs of disposal were borne by the Company's parent company.

5 Taxation

Factors affecting tax charge for the year
A reconciliation of income tax charge applicable to the loss before income tax at the UK statutory rate of income tax is as follows:

	Year ended 31 December 2021 US$'000	Year ended 31 December 2020 US$'000
Loss before taxation	**(163)**	(234,186)
Loss before tax multiplied by the UK statutory rate of corporation tax of 19% (2020: 19%)	**(31)**	(44,495)
Effects of:		
Non-deductible expenses	**31**	44,495
Total tax charge	**-**	-

The reconciliation shown above has been based on the average UK statutory rate of corporation tax for 2021 of 19% (2020: 19%).

The UK main rate of corporation tax is currently 19% (2020: 19%). The Finance Act 2021 was enacted on 10 June 2021 and increased the UK main rate of corporation tax from 19% to 25% with effect from 1 April 2023.

The Company made an election in a prior period for profits and losses of its Senegalese branch to be exempt from UK taxation. This election applied as of 1 January 2016 and resulted in all UK deferred tax assets and liabilities of the branch being extinguished as at that date. Following sale of all Senegalese assets in 2020 no further tax allowances relating to the assets sold are expected to be available in Senegal in future periods. On this basis there is no recognised or unrecognised deferred tax asset or liability in respect of Senegalese tax or UK tax at the balance sheet date.

6 Intangible Exploration/Appraisal Assets

Cost and Net book value	**US$'000**
At 1 January 2020	144,740
Additions	**2,554**
Disposals	**(147,294)**
At 31 December 2020 and 31 December 2021	**-**

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

The Company disposed of its entire 40% working interest in its Senegal exploration assets in December 2020, see note 4 for further details.

7 Property, Plant & Equipment – Development Asset

Cost and Net book value	**US$'000**
At 1 January 2020	382,989
Additions	**221,822**
Disposals	**(604,811)**
At 31 December 2020 and 31 December 2021	**-**

Additions in 2020 of US$221.8m relate to development activity funded through cash and working capital. The additions principally related to the FPSO facility and subsea construction for the Sangomar field development.

The Company disposed of its interests in the licence in December 2020 as detailed in note 4.

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8 Cash and Cash Equivalents

	At 31 December 2021 US$'000	At 31 December 2020 US$'000
Petty cash	-	18
Cash at bank	342	632
Cash and cash equivalents	**342**	650

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.

The Company participates in a cross-entity multicurrency notional cash pooling arrangement with Citibank. The pooling arrangement aggregates cash balances and overdrafts across the Capricorn Energy group entities, ensuring the pool is positive at all times.

9 Trade and Other Payables

	At 31 December 2021 US$'000	At 31 December 2020 US$'000
Amounts payable to Group companies	2	99
Other taxes and social security	2	9
Accruals	-	41
	4	149

Reconciliation of opening and closing borrowings to cash flow movements:

	Year ended 31 December 2021 US$'000	Year ended 31 December 2020 US$'000
Opening payable to group companies	**(99)**	(5,521)
Cash flow movements		
Funding from parent company	-	(241,058)
Funding repaid to parent company	97	246,480
	97	5,422
Closing payable to Group companies	**2**	(99)

In 2020, funding repaid to the parent company includes US$40.4m repaid directly to a third-party to settle bank loans on behalf of the parent company.

10 Called-up Share Capital

	Number Ordinary '000	£1 Ordinary US$'000
Allotted, issued and fully paid ordinary shares		
At 1 January 2020	385,881	511,981
Reduction of issued share capital	(385,881)	(511,981)
31 December 2020 and 31 December 2021	-	-

On 17 December 2020 the Company carried out a reduction of its share capital, leaving one ordinary share of £1 in issue. The share capital cancelled of US$512,000 was credited to retained earnings.

11 Financial Risk Management: Objectives and Policies

The main risk arising from the Company's financial instruments is credit risk. The Board of Capricorn Energy PLC, through the Treasury Sub-Committee, 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 this risk, in accordance with the policies set by the Board. Management of this risk is carried out by monitoring of cash flows, investment and funding requirements using a variety of techniques. The potential exposures are managed whilst 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 comprise cash. The Company strategy is to finance its operations through a mixture of retained profits and group borrowings. Other alternatives such as equity issues and other forms of non-investment-grade debt finance are reviewed by the Capricorn Energy PLC Board, when appropriate.

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 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 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 Company to meet its short and medium-term expenditure requirements.

Credit risk
Credit risk exists in respect of the Company's deferred consideration (note 4). However, as no asset is recorded on the Balance Sheet, there is no exposure at 31 December 2021.

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 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 2021.

11 Financial Risk Management: Objectives and Policies (continued)

Capital Management (continued)

The Company's capital and net funds were made up as follows:

	At 31 December 2021 US$'000	At 31 December 2020 US$'000
Amounts payable to Group companies	**2**	99
Less cash and cash equivalents	**(342)**	(650)
Net funds	**(340)**	(551)
Equity	**338**	501
Capital and net funds less payables	**(2)**	(50)
Gearing ratio	**-**	-

12 Financial Instruments

The Company calculates the fair value of assets and liabilities by reference to amounts considered to be receivable or payable on the balance sheet date. The Company's financial assets and liabilities, together with their fair values are as follows:

Financial assets	**Carrying amount**		**Fair value**	
	At 31 December 2021 US$'000	At 31 December 2020 US$'000	**At 31 December 2021 US$'000**	At 31 December 2020 US$'000
Financial asset at amortised cost				
Cash and cash equivalents	**342**	650	**342**	650
	342	650	**342**	650

All of the above financial assets are current and unimpaired.

Financial liabilities	**Carrying amount**		**Fair value**	
	At 31 December 2021 US$'000	At 31 December 2020 US$'000	**At 31 December 2021 US$'000**	At 31 December 2020 US$'000
Financial liabilities at amortised cost				
Amounts payable to Group companies	**2**	99	**2**	99
Accruals and other payables	**-**	41	**-**	41
	2	140	**2**	140

The fair value of financial assets and liabilities has been calculated by discounting the expected future cash flows at prevailing interest rates.

Maturity analysis

As at 31 December 2021 and 2020, the Company's financial liabilities have a maturity of less than one year.

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13 Related Party Transactions

The following table provides the balance which is outstanding with group companies at the balance sheet date:

	At 31 December 2021 US$'000	At 31 December 2020 US$'000
Amounts payable to Group companies	**2**	99

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

The Company did not issue or receive any invoices during the year from Group companies (2020: the parent company issued invoices totalling US$3,278,000).

Note 2 provides details of the remuneration of key management personnel and directors.

Dividends
No dividends were paid or declared in 2021 (2020: US$277,756,000 were declared and distributed by the Company. The dividend was settled in cash to the Company's parent, Capricorn Senegal (Holding) Limited).

14 Capital Commitments

As detailed in note 4, the Company has sold its oil and gas assets in 2020, and consequently has no capital commitments at the balance sheet date (2020: US$nil).

15 Ultimate Parent Company

The Company is a wholly-owned subsidiary of Capricorn Senegal (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.

16 Event after the Balance Sheet Date

On 1 June 2022, the Capricorn Energy PLC group announced its intention to merge with Tullow Oil PLC to create a new combined group and ultimate parent undertaking. The implications of going concern are disclosed in note 1(b).