

# Palliser



## **Palliser's Perspectives on Capricorn Energy**

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- I. Executive Summary**
- II. Capricorn's Intrinsic Value**
- III. Another One-Sided Deal at the Expense of Capricorn Shareholders**
- IV. Over a Decade of Failure and Wasted Resources**
- V. Palliser's Value Optimisation Plan**
- VI. Conclusion**

# Executive Summary



# A New Deal that Continues to Fall Well Short of Expectations

- Palliser firmly believes that **the terms of the NewMed transaction fall well short of Capricorn's intrinsic value**
  - To further diligence our views, we commissioned an independent fair market valuation of Capricorn by ERCE<sup>(1)</sup>
  - ERCE's report concludes that Capricorn's fair market value is US\$1,131 million
  - **This translates to 315 pence per share** – representing a 29% upside to Capricorn's share price and a 27% upside to the implied value of the NewMed transaction as of 25<sup>th</sup> October 2022
- We have identified **significant corporate governance-related shortcomings** with the NewMed transaction which appears to be self-serving for members of the Capricorn Board and management at the expense of shareholders
  - Once it became clear that the Tullow deal was dead in the water, the Board had an opportunity to reset and conduct a comprehensive strategic review supported by a formal sales process but inexplicably chose not to do so
  - Instead, the Company found another deal where senior roles have been secured for the CEO and CFO with the directors taking 40% of board seats despite Capricorn representing only 10% of the combined group
  - The potential **US\$30 million payout to management leaks value away from shareholders and is alarming** given Capricorn's chronic underperformance, pervasive misallocation of capital and culture of wasteful spending
  - Conditioning the US\$620 million return of excess cash on approval of the NewMed transaction is unnecessary and coercive
- There is **no need for Capricorn to be a forced seller** – if a superior transaction at fair value is not available within the immediate term, then **we urge the Board to pursue our Value Optimisation Plan**, which is designed to unlock:
  - (a) Capricorn's intrinsic value of 315 pence per share in the near term; and
  - (b) a further 85 pence per share over the medium term resulting in **total value of up to 400 pence per share** – a 63% upside to Capricorn's current share price and a 61% upside to the implied value of the NewMed transaction

(1) ERCE is an industry leading oil & gas consultancy specialising in reservoir evaluation, commercial analysis and economic assessment with decades of collective global experience providing independent services to the energy sector; ERCE's report was prepared at Palliser's expense, on the basis of publicly available information and in accordance with the VALMIN Code

- **The terms of the NewMed transaction materially undervalue Capricorn's high-quality, opportunity-rich Egyptian assets and low-risk contingent receivables**
  - The proposed exchange ratio currently values Capricorn at a 42% discount to its fair market value on an ex-dividend basis representing a value give-away of over US\$200 million
  - Such a deep discount ignores the high degree of cash flow visibility from Capricorn's asset base and demonstrates the lack of control premium being paid by NewMed
  - The terms attribute little value to Capricorn's Western Desert assets in Egypt which were acquired only last year for US\$323 million in cash at a time of materially lower energy prices
- **Shareholders are faced with an exchange of their discounted Capricorn shares for fully valued NewMed shares**
  - NewMed possesses a world-class asset in Leviathan but the stock trades at zero discount to its net asset value
  - Growth from the potential Leviathan Phase 1B and Aphrodite developments is being fully priced in to NewMed shares despite the uncertain and long-dated nature of both projects
  - Near-term growth of the combined group would be driven primarily by Capricorn's Egyptian assets
- **NewMed is acquiring Capricorn's premium LSE listing for free but the benefits for Capricorn shareholders are vague**
  - The proposed transaction gives NewMed a long-sought-after premium LSE listing for free, providing access to a deeper pool of capital with which to fund Leviathan's future growth. We think this has value
  - While there is industrial logic for the deal from NewMed's perspective, no synergies have been quantified and it is unclear what value the proposed combination brings to Capricorn
- **There are additional untapped value enhancement opportunities readily available to any acquiror or to Capricorn itself**
  - Right-sizing G&A spend to a level consistent with Capricorn's operations and enhanced focus on realising the full potential of the Egyptian assets could unlock over US\$300 million of additional value for Capricorn shareholders

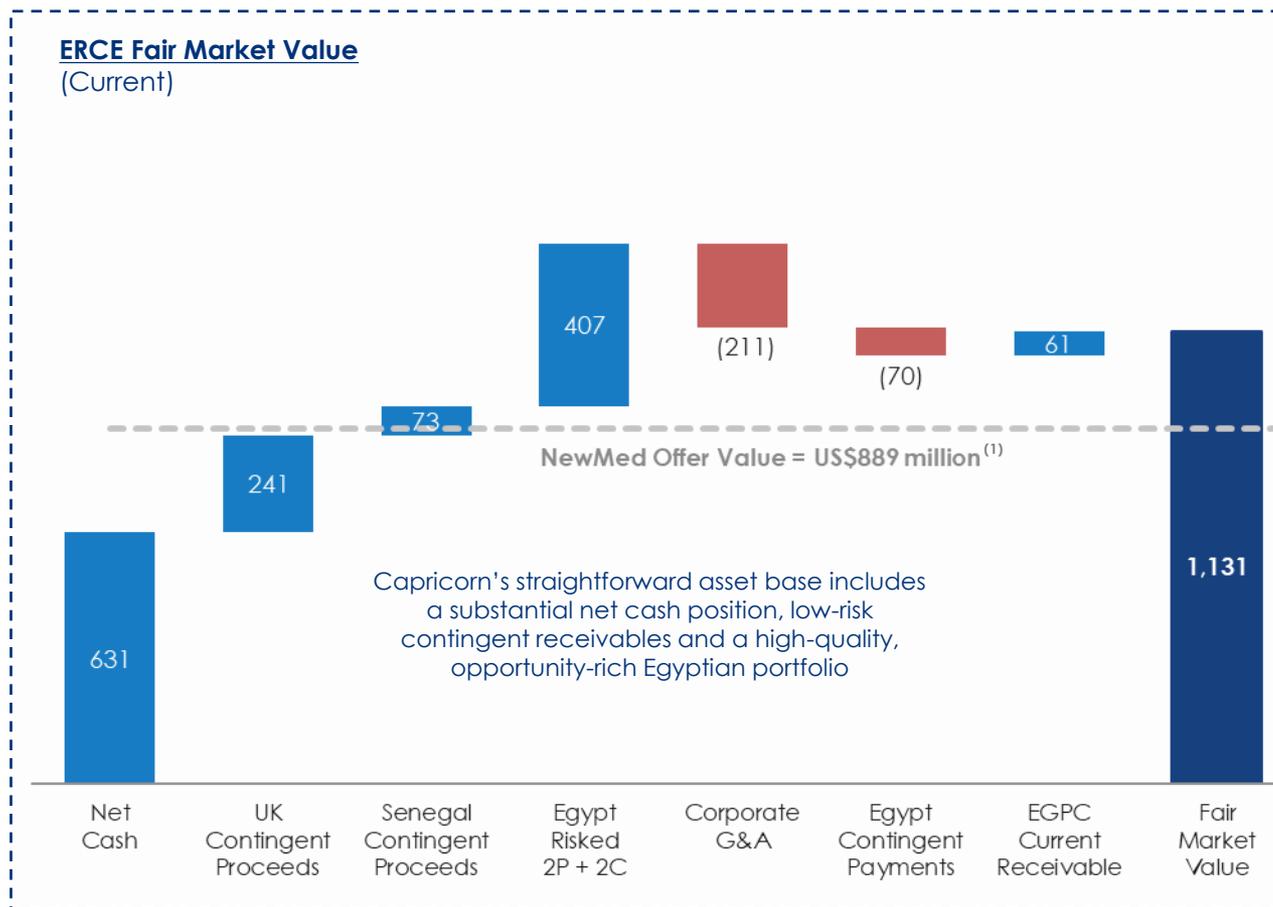
# Capricorn's Intrinsic Value



# Capricorn's Independently Assessed Fair Market Value

NewMed's recommended offer represents a **US\$242 million discount** to ERCE's independent assessment of Capricorn's current cash-weighted fair market value

## Capricorn Standalone Net Asset Value (US\$ million)



Source: ERCE Fair Market Valuation Report, Bloomberg as of 25 October 2022

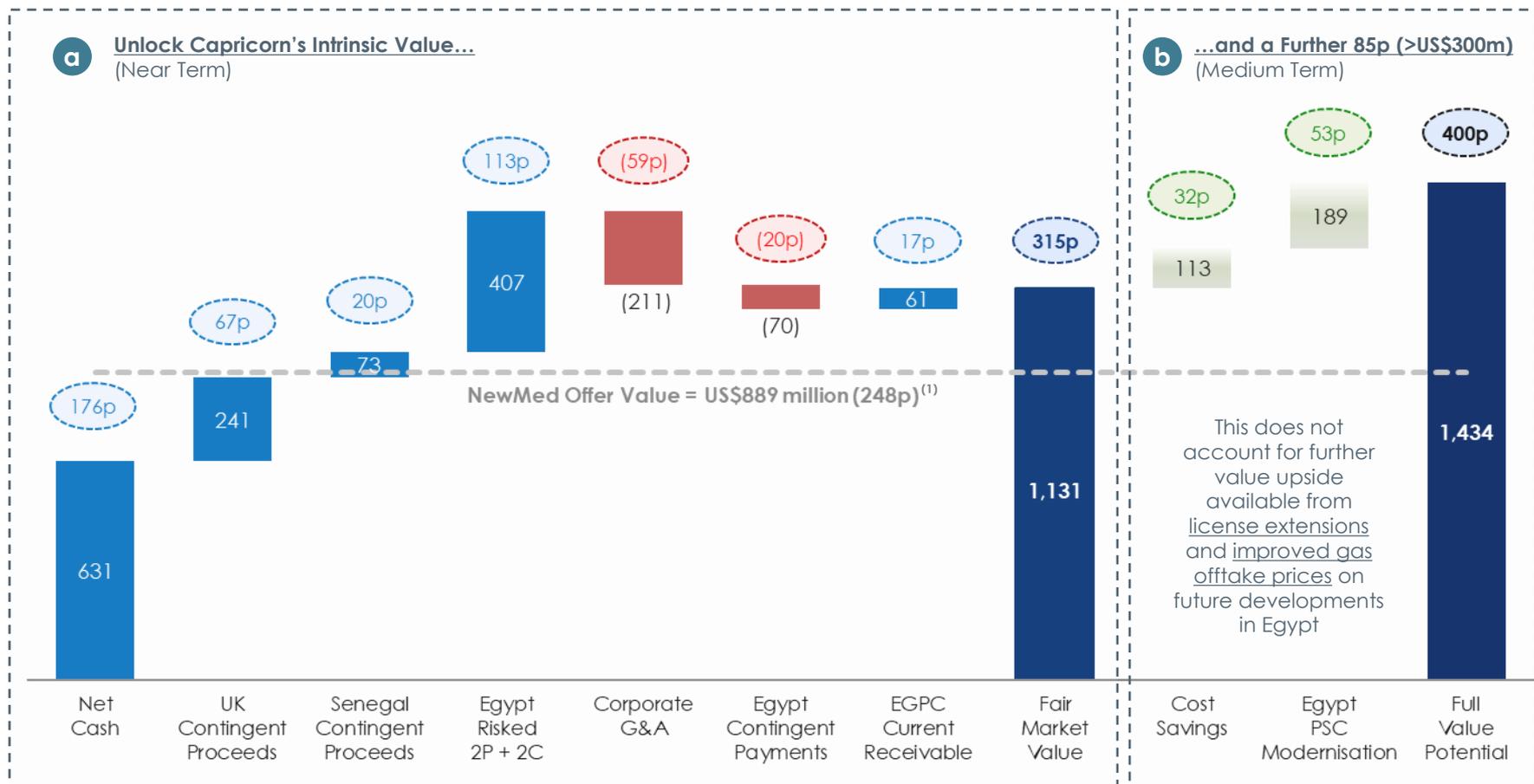
Note: Valuation as of 1 July 2022; 12% discount rate applied; ERCE nominal oil price deck of \$96/bbl, \$94/bbl, \$86/bbl, \$80/bbl, \$82/bbl, \$83/bbl, \$85/bbl, \$87/bbl, \$88/bbl, \$90/bbl (2022-2031)

(1) Implied NewMed offer consideration for existing Capricorn shareholders as of 25 October 2022; after potential US\$30 million payout to Capricorn management

# Capricorn's Full Value Potential

Our Value Optimisation Plan is designed to unlock Capricorn's intrinsic value of 315 pence per share in the near term and a further 85 pence per share over the medium term

## Palliser's Value Optimisation Plan for Capricorn (US\$ million)



Source: ERCE Fair Market Valuation Report, Bloomberg as of 25 October 2022

Note: Valuation as of 1 July 2022; 12% discount rate applied; GBP/USD FX rate: 1.14; Capricorn share count of c.315 million shares as per latest RNS disclosure; ERCE nominal oil price deck of \$96/bbl, \$94/bbl, \$86/bbl, \$80/bbl, \$82/bbl, \$83/bbl, \$85/bbl, \$87/bbl, \$88/bbl, \$90/bbl (2022-2031)

(1) Implied NewMed offer consideration for existing Capricorn shareholders as of 25 October 2022; after potential US\$30 million payout to Capricorn management

# What is Capricorn Today?

## Capricorn's value is mostly comprised of cash and near-term contingent receivables

	% FMV
<b>Net Cash &amp; Corporate Adjustments</b> <ul style="list-style-type: none"> <li>Significant balance sheet net cash position (H1 2022: US\$631 million)</li> <li>Corporate adjustments: central G&amp;A costs, committed exploration spend, Egypt receivables due from EGPC<sup>(1)</sup> and contingent payables to Shell<sup>(2)(3)</sup></li> </ul>	36%
<b>UK Contingent Proceeds</b> <ul style="list-style-type: none"> <li>Uncapped earn-out proceeds from completed sale of UK North Sea assets (Catcher and Kraken) to Waldorf Production in Nov-2021</li> <li>Capricorn receives a declining share of revenue assuming production exceeds pre-agreed minimum volume thresholds. Share of revenue is weighted towards the near term years: 50% (2022), 40% (2023), 30% (2024) and 20% (2025)</li> <li>Contingent on average annual Brent price remaining &gt;US\$52/bbl from 2022 to 2025</li> </ul>	21%
<b>Senegal Contingent Proceeds</b> <ul style="list-style-type: none"> <li>Earn-out proceeds from completed sale of Sangomar asset to Woodside in Dec-2020</li> <li>Quantum capped at US\$100 million. Value dependent on timing of first oil (Woodside guidance for start-up in 2023) and contingent on average Brent price in excess of US\$55-60/bbl during first six months of production</li> </ul>	6%
<b>Egyptian Assets</b> <ul style="list-style-type: none"> <li>50% non-operated interest in portfolio of onshore producing assets in Western Desert region of Egypt</li> <li>Low cost, majority gas-weighted portfolio with fixed price gas sales to EGPC and oil exported at small discount to Brent. Assets formerly operated by Shell with long production history and strong track record of reserves replacement</li> <li>Acquired from Shell for US\$646 million (US\$323 million net to Capricorn) in 2021</li> </ul>	36%
<b>Exploration Assets</b> <ul style="list-style-type: none"> <li>Portfolio of exploration licenses in the UK, Israel, Mexico, Suriname and Mauritania</li> </ul>	0%

Source: Company disclosures, ERCE Fair Market Valuation Report

(1) Egyptian General Petroleum Corporation

(2) Up to US\$75 million additional contingent consideration payable to Shell by Capricorn for Egypt acquisition if average annual Brent price exceeds US\$55-75/bbl from 2022 to 2024

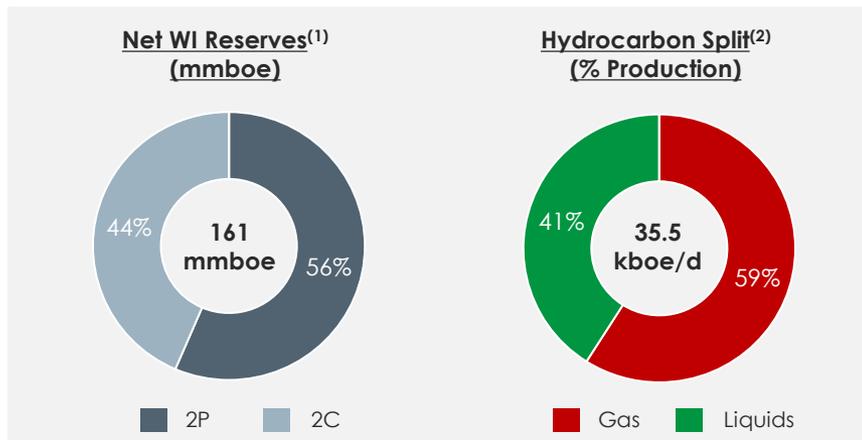
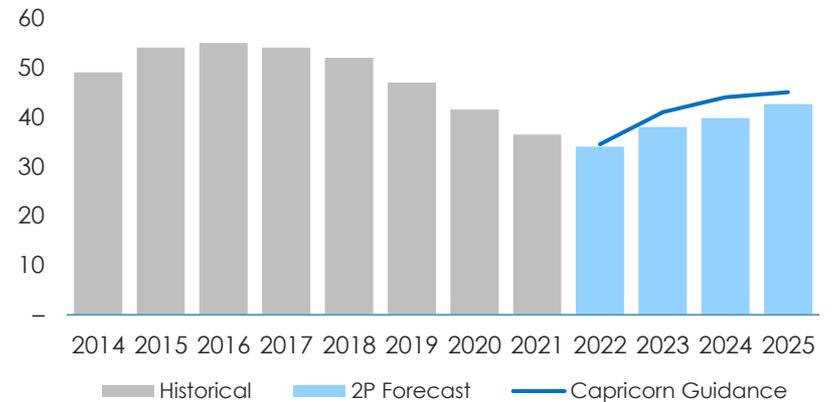
(3) Up to US\$40 million additional consideration payable to Shell by Capricorn for Egypt acquisition based on amount of commercially recoverable liquid hydrocarbons discovered in first nine exploration wells drilled

Capricorn's Western Desert assets in Egypt deliver low-cost and sustainable production with significant upside potential

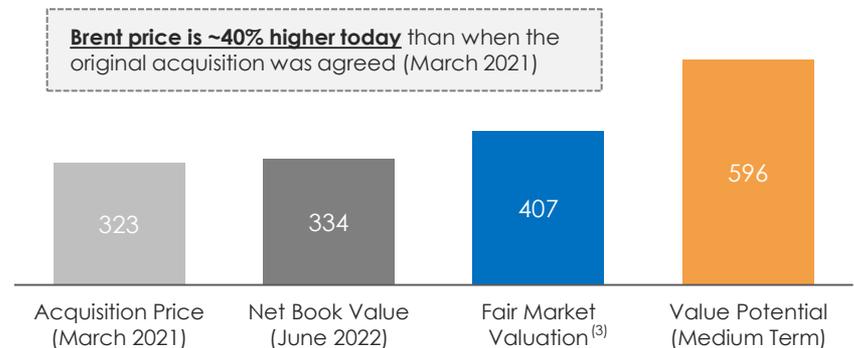
## Capricorn Egypt: Portfolio Overview

- Mature portfolio of onshore producing assets in Western Desert region of Egypt (formerly operated by Shell)
- Partnered with Cheiron: experienced Egyptian upstream operator
- Attractive commercial terms: gas sold at fixed price (~US\$2.9/mcf) to EGPC and liquids sold at ~US\$1.5/bbl discount to Brent
- Low breakeven: opex ~US\$6/boe and capex ~US\$3-7/boe
- Five drilling rigs currently in operation (H2 2022) compared to two upon completion of acquisition (September 2021)
- Stable and competitive fiscal regime with potential to optimise terms via PSC modernization

## Capricorn Egypt: Net WI Production (kboe/d)



## Capricorn Egypt: Valuation Reference Points (US\$ million)



Source: Company disclosures, ERCE Fair Market Valuation Report, Gaffney Cline (Project Madero Competent Person's Report, 10 June 2021)

(1) As of 31 December 2021

(2) Based on H1 2022 reported production

(3) Reflects ERCE's total fair market value for Egypt (Risky 2P + 2C)



**Another One-Sided Deal at the  
Expense of Capricorn Shareholders**

# A Deeply Unfair Exchange of Value

Shareholders are faced with giving up their Capricorn shares at a 42% discount in exchange for fully valued NewMed shares

## Capricorn Energy: Standalone Ex-Dividend Value (US\$ million)

Figures in US\$m unless otherwise stated	NPV	per share (GBP)
<b>Capricorn Ex-Dividend Valuation</b>		
Fair Market Value	1,131	315p
(-) Headline Special Dividend	(620)	(173p)
<b>Implied Ex-Dividend Value</b>	<b>511</b>	<b>143p</b>
<b>NewMed Offer at 2.337344 Exchange Ratio</b>		
<b>NewMed Exchange Offer (as at 28-Sep-22)</b>	<b>338</b>	<b>99p</b>
Implied Premium / (Discount) vs. NAV	<b>(34%)</b>	
<b>NewMed Exchange Offer (as at 25-Oct-22)</b>	<b>298</b>	<b>83p</b>
Implied Premium / (Discount) vs. NAV	<b>(42%)</b>	

- The proposed exchange ratio currently values Capricorn at a 42% discount to its fair market value on an ex-dividend basis and represents a value give-away of over US\$200 million
- This deep discount ignores the high degree of cash flow visibility from Capricorn's near term earn-outs in the UK and Senegal
- It also falls short of the absolute minimum value marker for Capricorn's Egyptian assets which was set by Capricorn only last year through its US\$323 million cash acquisition of these assets at a time of materially lower energy prices
- NewMed is getting Capricorn's premium LSE listing for free
- There is no control premium being paid by NewMed for Capricorn

## NewMed Energy: Standalone Net Asset Value (US\$ million)

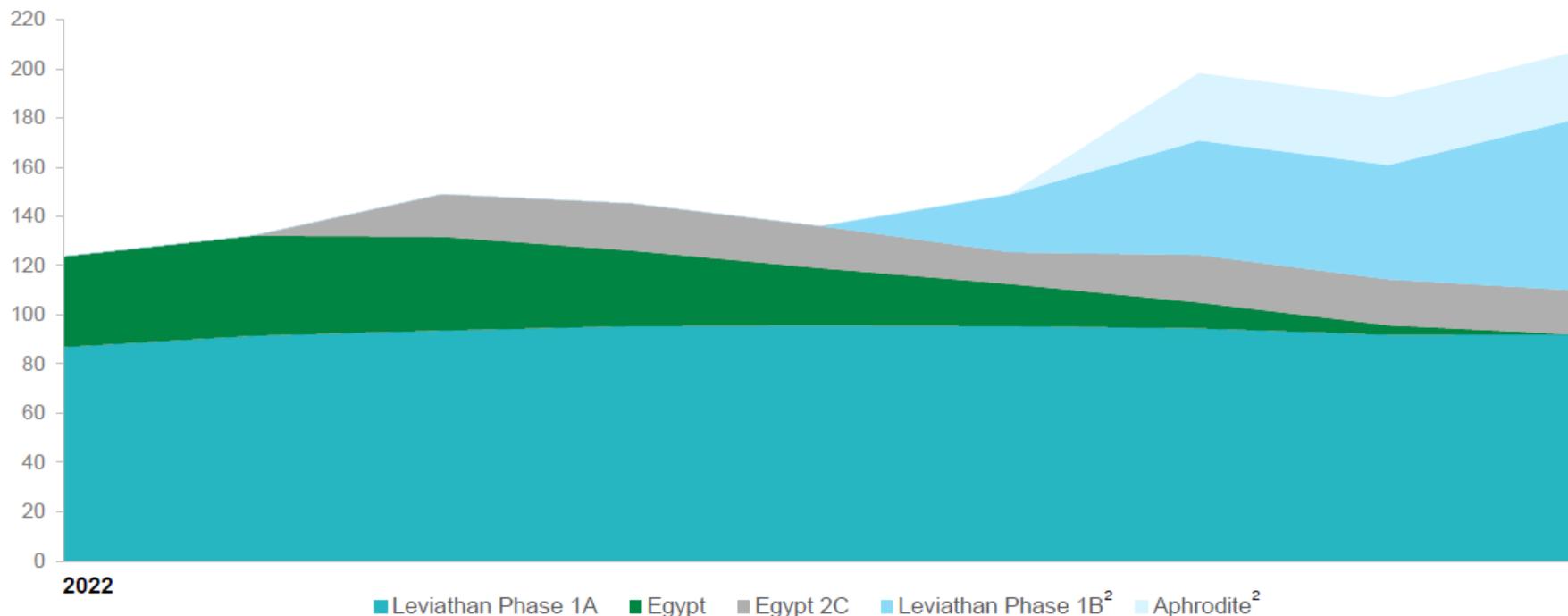
Figures in US\$m unless otherwise stated	NPV	per share (ILs)
<b>Producing Assets</b>		
Leviathan (2P) <sup>(1)</sup>	4,395	1,318
<b>Core Asset Value</b>	<b>4,395</b>	<b>1,318</b>
Net Cash / (Debt)	(1,943)	(583)
EMED Pipeline (25% Stake) <sup>(2)</sup>	61	18
NPV of Karish Overriding Royalties Received <sup>(3)</sup>	292	87
NPV of Leviathan Overriding Royalties Paid <sup>(4)</sup>	(381)	(114)
G&A <sup>(5)</sup>	(84)	(25)
<b>EV Adjustments</b>	<b>(2,056)</b>	<b>(617)</b>
<b>Core NAV</b>	<b>2,339</b>	<b>702</b>
<b>Pre-Development Assets</b>		
<b>Development Upside</b>	<b>275</b>	<b>82</b>
- Leviathan (Phase 1B) <sup>(6)</sup>	218	65
- Aphrodite <sup>(7)</sup>	56	17
<b>Total NAV</b>	<b>2,614</b>	<b>784</b>
<b>Total NAV per share (ILs)</b>	<b>784</b>	
NewMed Share Price (ILs)	785	
Implied Premium / (Discount) vs. NAV	<b>0%</b>	

- NewMed is trading at zero discount to its net asset value
- This includes value for long-dated and uncertain growth from the brownfield expansion of Leviathan (Phase 1B) and development of the Aphrodite field offshore Cyprus

**NewMed brings increased scale to the combined group but production growth is long-dated and uncertain**

- NewMed possesses a world-class asset in Leviathan but trades at zero discount to its NAV despite production from NewMed's growth projects (Leviathan Phase 1B and Aphrodite) not being forecast to commence until the end of the decade
- Neither development has been sanctioned and both remain subject to various commercial and regulatory contingencies as well as underlying technical execution risks
- Near-term production growth of the combined group is forecast to come primarily from Capricorn's Egyptian assets

**Combined Net Production Profile (kboe/d)<sup>(1)</sup>**



Source: NewMed + Capricorn Investor Presentation (29 September 2022)

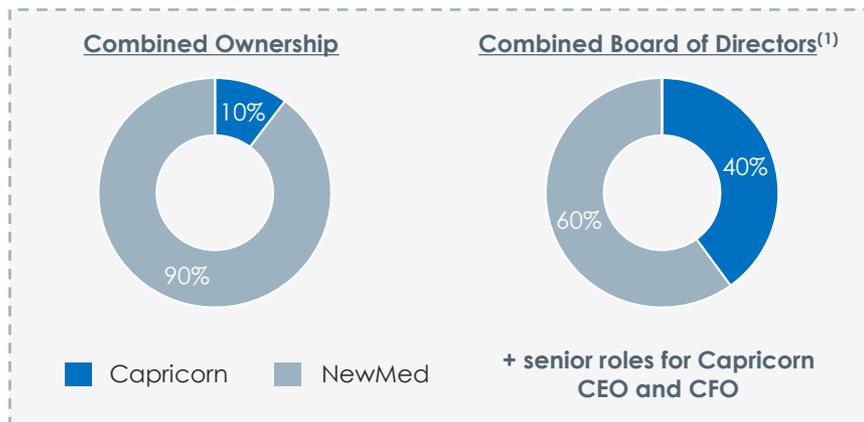
(1) Production on working interest basis

(2) Leviathan Phase 1B and Aphrodite have not been approved yet

# A Deal with Significant Corporate Governance Shortcomings

The NewMed transaction appears to be self-serving for members of the Capricorn Board and management team

## 1 Capricorn Directors Negotiated Outsized Board Representation...



## 3 ...Delek Finally Gets its London Listing for Leviathan for Free...

- NewMed is getting Capricorn's premium LSE listing for free after Delek's prolonged pursuit of a London IPO for its NewMed subsidiary<sup>(2)</sup>

**Israel's Delek Mulls London Listing for Major Gas Holdings**  
- Bloomberg, March 2019

**Israel's Delek Drilling files for London Stock Exchange spin-off**  
- Reuters, November 2020

**Israel's Delek Drilling aims for London listing of restructured company**  
- Reuters, May 2021

## 2 ...And a Potential US\$30m Cash Payout for Management...

### Breakdown of Special Dividend

<b>A</b>	Headline Special Dividend (US\$m)	620
	Headline Special Dividend per share	£1.72
	(x) GBP/USD (as at 28-Sep-22)	1.09
	(x) Shares Outstanding (m)	315
<b>B</b>	Special Dividend to Shareholders (US\$m)	590
<b>A-B</b>	<b>Implied Management Payout (US\$m)</b>	<b>30</b>

Proposed settlement of "dividend equivalent" rights, majority of which appear to relate to unvested share awards from the 2017 LTIP

## 4 ...While Capricorn Shareholders are Effectively Held to Ransom

- The return of US\$620 million via a special dividend has been made contingent on approval of the NewMed transaction
- This represents idle cash on Capricorn's balance sheet which could and should be returned to shareholders immediately
- Conditioning this return of excess cash is unnecessary and coercive in the context of Capricorn's previously announced US\$200 million buyback program (since cancelled in favour of the defunct Tullow merger) and the retention of US\$300 million from the India arbitration proceeds<sup>(3)</sup> to pursue accretive M&A which never materialised

Source: Company disclosures

(1) Combined Board to include 10 directors: including Simon Thomson (Capricorn CEO) as transitional Chair, James Smith (Capricorn CFO) and 2 non-executive directors from the existing Capricorn Board

(2) Delek Group is a Tel-Aviv listed conglomerate and NewMed's controlling unitholder (~54%); NewMed Energy was formerly known as Delek Drilling

(3) Capricorn received US\$1.06 billion in cash proceeds from the Government of India in February 2022 in settlement of a long-running retrospective tax dispute

*The Capricorn Board and management team have run out of ideas and are throwing in the towel. They have negotiated two deals which significantly undervalue the Company all while prioritising C-suite interests at the expense of long-suffering Capricorn shareholders.*

*The potential payment of US\$30 million, largely to senior executives, is truly jarring when assessed against the chronic underperformance, pervasive misallocation of capital, culture of excessive pay and track record of wasteful administrative spend that these same executives have been accountable for over the past decade...*

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**Over a Decade of Failure and  
Wasted Resources**



# Chronic Underperformance Relative to Peers

Management's woeful capital allocation has contributed to Capricorn's significant underperformance over time

- Capricorn has pursued a series of value destructive initiatives under the current management team's tenure:
  - ~US\$3 billion wasted on failed exploration activities and the reckless pursuit of new business ventures
  - A culture of excessive pay and out-of-control administrative spend unsupported by underlying cash flow generation
  - A spurious track record of capital returns despite management's attempt to take credit for their predecessors' success

## Total Shareholder Return and Performance Relative to Key Comparables (%)

	YTD	1-Year	2-Year	3-Year	4-Year	5-Year	10-Year	CEO Tenure
<b>Capricorn Energy</b>	8%	6%	52%	14%	12%	4%	(37%)	(64%)
<b>E&amp;P Peers</b> <sup>(1)(2)</sup>	18%	6%	156%	30%	34%	138%	43%	109%
(Under) / Over Performance	(10%)	0%	(104%)	(16%)	(22%)	(134%)	(80%)	(173%)
<b>FTSE 350 Oil &amp; Gas</b>	16%	10%	127%	(3%)	(2%)	7%	23%	21%
(Under) / Over Performance	(7%)	(5%)	(75%)	17%	14%	(3%)	(59%)	(84%)
<b>Brent</b>	17%	9%	131%	51%	22%	60%	(14%)	(16%)
(Under) / Over Performance	(9%)	(3%)	(79%)	(37%)	(10%)	(56%)	(23%)	(48%)

Source: Bloomberg as of 25 October 2022

Note: Cumulative daily total shareholder return assumes net dividends are reinvested and converted to US\$ at daily foreign exchange rates

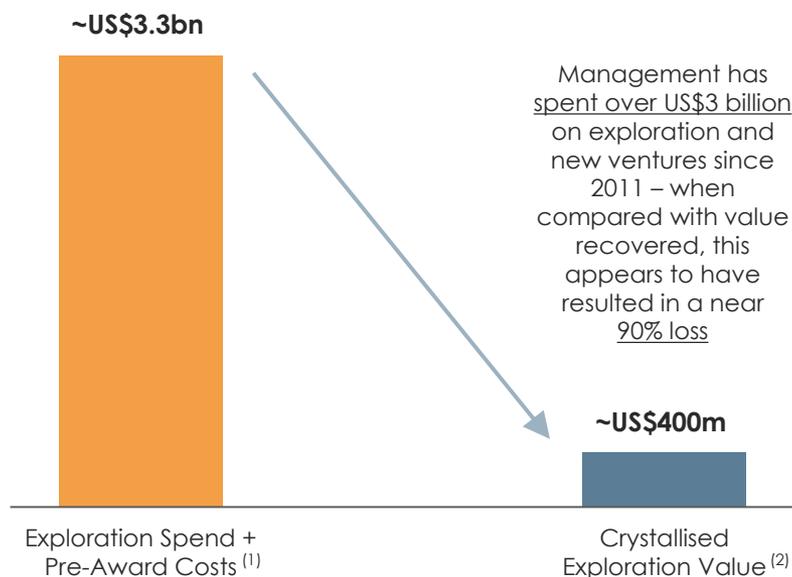
(1) E&P Peers: Africa Oil, Aker BP, DNO, Energean, EnQuest, Genel Energy, Gulf Keystone Petroleum, Harbour Energy, Kosmos Energy, Seplat Energy, Serica Energy and Var Energi

(2) Longer-term benchmarks include incremental peers which have since been acquired and/or de-listed (Dragon Oil, Faroe Petroleum, Lundin Energy, Ophir Energy and Salamander Energy)

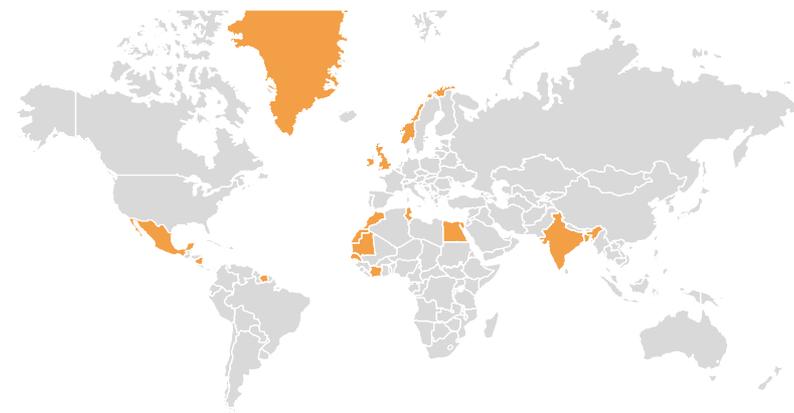
**Management has squandered billions of dollars of shareholder value on failed exploration adventures around the globe**

- Capricorn has spent ~US\$3.3 billion on exploration under the current management's tenure from which little value has been created
- In our view, this so-called "strategy" has lacked focus and has been characterised by a laundry list of exploration pursuits around the globe, almost all of which have resulted in failure
- Nevertheless, management continues to show little regard for preserving shareholder value by continuing to spend cash on exploration in the hope of replicating the prolific Indian discoveries of Capricorn's former executive team which occurred more than 18 years ago
- Management has lost its mandate for exploration-led growth and we call on Capricorn to immediately cut all non-committed exploration spending outside of Egypt

## Exploration Value Destruction Since 2011 (CEO Tenure)



## Global Nature of Exploration Efforts Exhibits Lack of Focus



- |               |           |                |            |         |         |
|---------------|-----------|----------------|------------|---------|---------|
| Greenland     | Egypt     | UK             | India      | Senegal | Tunisia |
| Mauritania    | Nicaragua | Mexico         | Norway     | Israel  | Morocco |
| Côte d'Ivoire | Suriname  | Western Sahara | Bangladesh | Ireland |         |

Source: Company disclosures

(1) Cumulative expenditure on intangible exploration/appraisal assets and pre-award costs (2011 – 1H 2022)

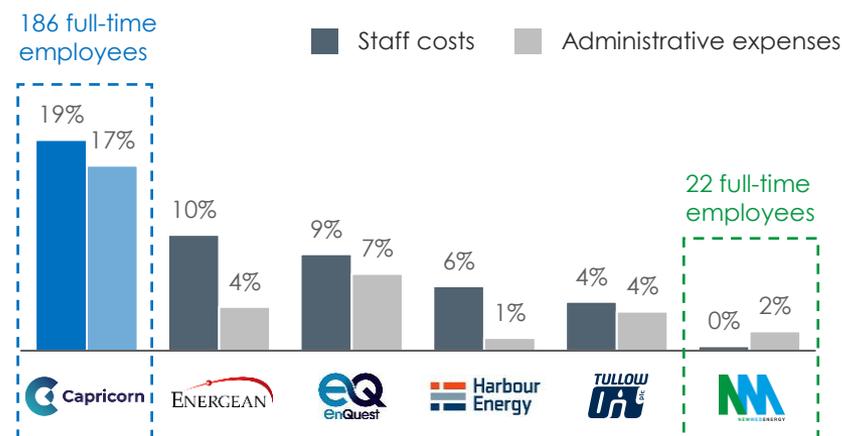
(2) Based on sum of proceeds on disposal of intangible exploration/appraisal assets (2011 – 1H 2022) and up-front acquisition consideration for sale of Sangomar asset to Woodside (US\$300 million)

# A Total Lack of Cost Discipline

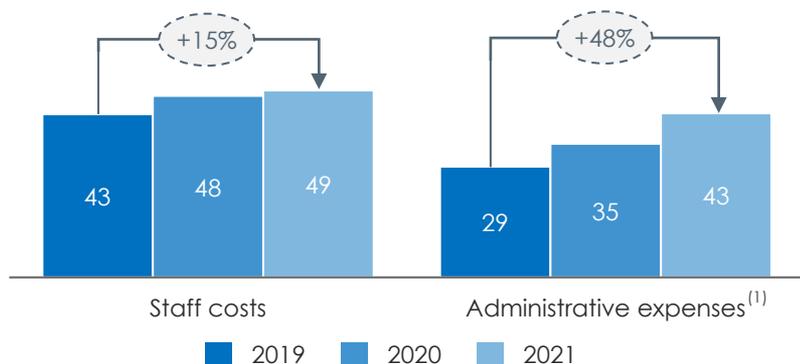
**G&A spend remains astronomically high and represents a severe level of cash burn for shareholders**

- Management's irresponsible level of spending on overheads leads to an ongoing erosion of capital for shareholders
- Staff and administrative expenses have continued to rise materially despite a substantial simplification of the portfolio following the disposal of Capricorn's UK and Senegal assets between 2020-21
- We fail to see why Capricorn needs to maintain such a bloated administrative function to oversee a non-operated interest in a single joint venture in Egypt
- NewMed runs an extremely lean organisation of 22 full-time employees to oversee its non-operated interest in Leviathan
- We suspect NewMed sees value in the cost reduction opportunities which Capricorn management have so far failed to take

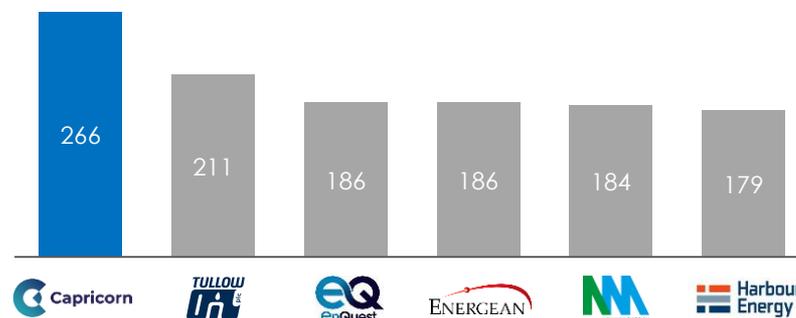
## Staff Costs & Administrative Expenses (% of Revenue)<sup>(2)</sup>



## Capricorn: Staff Costs & Administrative Expenses (US\$ million)



## Average Cost per Employee (US\$<sup>(3)</sup>)



Source: Company disclosures, Bloomberg as of 25 October 2022

(1) Recurring departmental expenses and corporate projects; excludes expenses associated with Indian tax arbitration, costs incurred on business combination or any other one-off items

(2) Calculated as 2021 reported staff costs and administrative expenses divided by 2022E Bloomberg consensus revenue to reflect full year of Egypt operations for Capricorn

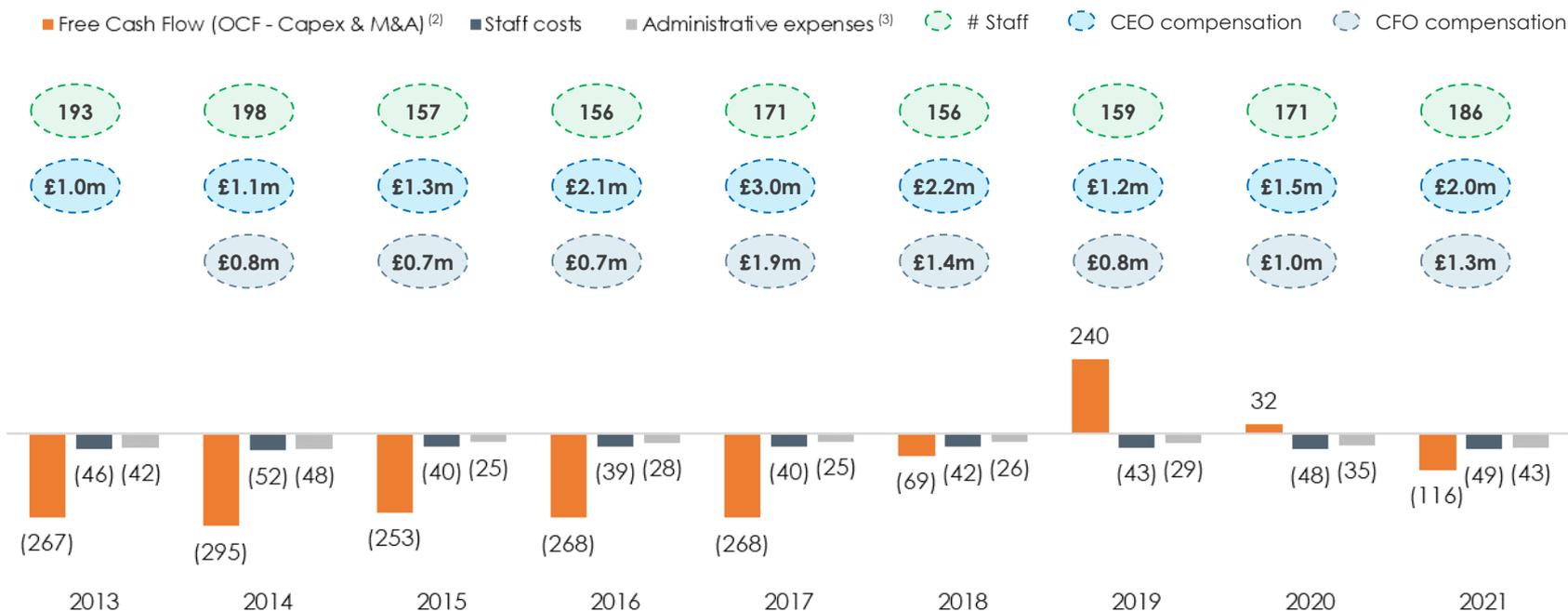
(3) Reflects 2021 reported staff costs divided by reported number of employees

# A Culture of Excessive Pay and Wasteful Administrative Spend

Capricorn appears to be a company run for the benefit of its executives and staff and to the detriment of shareholders

- Capricorn's portfolio today represents a listed investment vehicle with a non-operated financial interest in a single joint venture in Egypt
- The Company has not operated a single producing asset for over a decade yet headcount has remained at broadly the same level since 2013
- Capricorn's poor relative performance cannot possibly justify senior management's substantial pay packages
- The CEO and CFO have been paid a collective £25 million (US\$34 million)<sup>(1)</sup> since they took on their respective roles despite overseeing US\$1.3 billion of cumulative free cash flow losses since the sale of Cairn India

## Free Cash Flow vs. Staff Costs & Administrative Expenses since Cairn India Exit (US\$ million)



Source: Company disclosures

(1) Cumulative reported remuneration converted to US\$ at average annual exchange rate

(2) Calculated as sum of reported annual net cash flows from operating activities less net cash flows from investing activities

(3) Recurring departmental expenses and corporate projects; excludes expenses associated with Indian tax arbitration, costs incurred on business combination or any other one-off items

# A Spurious Track Record of Shareholder Returns

Shareholder returns delivered by the current management team have been nowhere near the often cited US\$5.5 billion amount

## What Capricorn Management Takes Credit For

"We continue to see a **commitment to shareholder returns** as being a **strong differentiator** in our E&P investor offering. Since 2007, we have returned, or have committed to return more than **US\$5.5bn from monetisation of exploration and production successes** through a combination of special dividends, tender offers and share repurchase programmes."

- Capricorn 2021 Annual Report

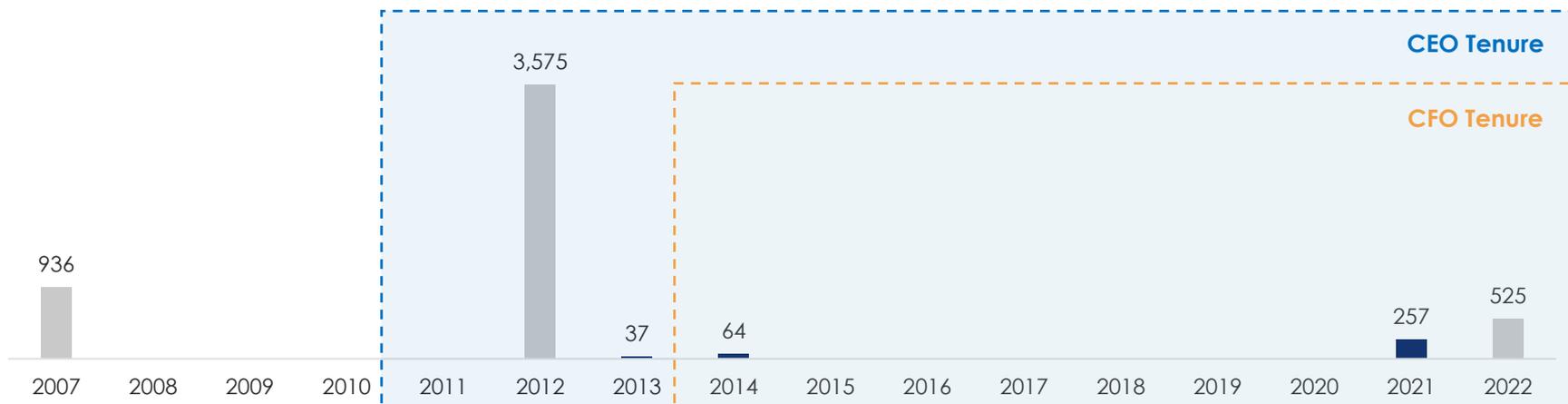
## Palliser's View of Reality

- Management should not be credited for the Cairn India success which was led by an entirely different group of executives
- The vast majority of headline capital returns took place in two tranches which were returned to shareholders over a decade ago
- Excluding returns from the sale of Cairn India, cumulative value returned from investments executed by Capricorn's existing management team is just US\$358 million over an 11 year period
- This represents less than 7% of the claimed US\$5.5bn amount

## Annual Cash Return to Capricorn Shareholders (US\$ million)

■ Proceeds from sale of Cairn India (2007-2011) under leadership of founder Sir Bill Gammell

■ Value returned from investments executed by current Capricorn management team



Source: Company disclosures

Note: Total annual cash returns to shareholders include dividends, tender offers and completed on-market share buybacks

*Despite this regrettable history of mismanagement, Capricorn today possesses a highly transparent asset base which comprises a substantial net cash position, low-risk contingent receivables and a strategic portfolio of producing assets in Egypt with significant upside potential.*

*There is no need for Capricorn to be a forced seller – if a superior transaction at fair value is not available within a short and defined time-frame, then we urge the Board to pursue our Value Optimisation Plan.*

*This is designed to return excess and idle cash to Capricorn shareholders in the near term and unlock US\$300 million in additional value over the medium term.*

*Doing nothing and waiting around for what we believe is the unlikely approval of the NewMed transaction risks further value destruction from continued wasteful spend and delayed capital returns.*

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# **Palliser's Value Optimisation Plan**

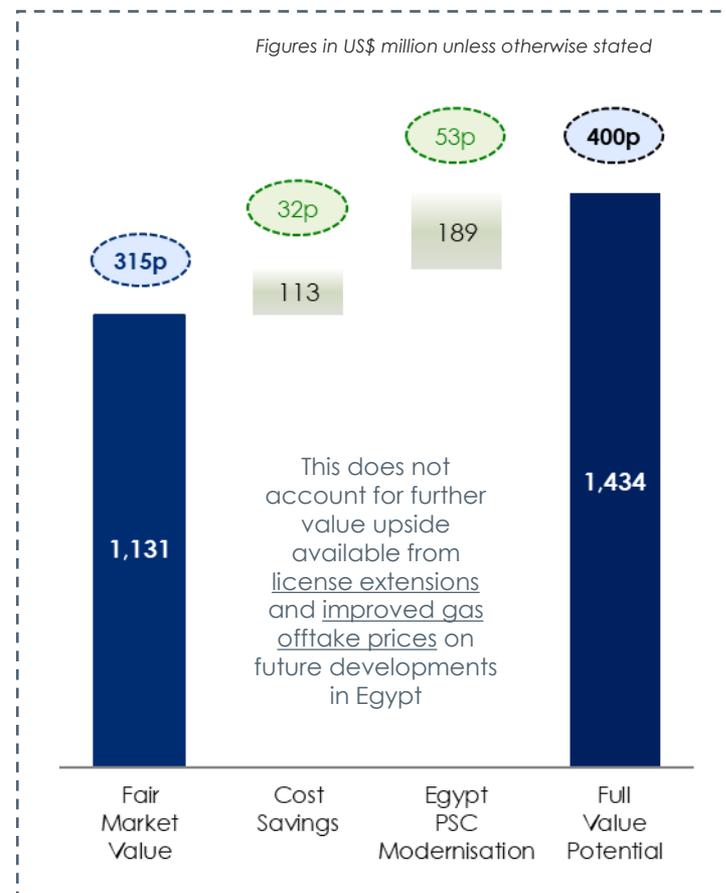
This is designed to unlock Capricorn's intrinsic value in the near term and over US\$300 million in the medium term

## Near Term

- i. **Immediately distribute excess cash to shareholders:** the terms of the NewMed transaction confirm there is at least US\$620 million of excess cash on the balance sheet which should be returned to shareholders immediately as a special dividend
- ii. **Realise value of the contingent rights:** by either a) selling the contingent rights at fair value and returning the resulting >US\$300 million cash proceeds to shareholders; or b) distributing contingent value rights (CVRs) in-specie to Capricorn shareholders

## Medium Term

- iii. **Instil urgent cost discipline:** by right-sizing corporate G&A to a level consistent with the size and relative simplicity of Capricorn's non-operated asset base and ceasing all non-committed exploration activity outside of Egypt
- iv. **Total focus on maximising value in Egypt:** by engaging with EGPC and accelerating work required for PSC optimisation to support increased investment and deliver a win-win outcome for all stakeholders under the guidance of a suitable leadership team



Source: ERCE Fair Market Valuation Report, Bloomberg as of 25 October 2022

Note: Valuation as of 1 July 2022; 12% discount rate applied; GBP/USD FX rate: 1.14; Capricorn share count of c.315 million shares as per latest RNS disclosure; ERCE nominal oil price deck of \$96/bbl, \$94/bbl, \$86/bbl, \$80/bbl, \$82/bbl, \$83/bbl, \$85/bbl, \$87/bbl, \$88/bbl, \$90/bbl (2022-2031)

Modernized PSC terms could unlock material value through accelerated investment and expanded resource potential

## What is PSC Modernization?

- The Egyptian government is pursuing a strategy to deliver increased domestic oil & gas production by incentivising greater investment via a modernization of its fiscal regime
- The new modernized production sharing contract (PSC) framework eliminates the inefficiency of operating multiple concessions by optimising the cost recovery of past and future investments as part of a consolidated and simplified agreement
- Capricorn's peers have also successfully negotiated improved oil and gas offtake prices on future developments as well as extensions to the expiry date of their licenses in exchange for a firm commitment to invest in Egypt
- The result is a win-win situation whereby project returns are enhanced for contractors and the Government incentivises more consistent investment in Egypt through the commodity price cycle
- Management signalled that a dedicated Capital Markets Day on Capricorn's Egyptian assets would take place in May but this never occurred for reasons unknown to shareholders
- Peers operating in Egypt have been unequivocal in communicating the value-accretive nature of PSC modernization
- Capricorn's Egyptian assets are still governed by the old fiscal structure and it seems management has made no attempt to engage with the Egyptian authorities in this regard

## Peers in Egypt Have Successfully Executed this Initiative

"Since confirming the scale of the modernization impact on free cash flow from Egypt, the guidance provided... for the period 2022-24 is the first time **management has laid out the implications of what it has described as 'the most attractive incremental investment opportunity in its portfolio'... this is the primary driver of a 50% increase in free cash flow capacity of the portfolio.**"



- BofA Securities (22 February 2022)

"[Apache's PSC modernization] is a **win-win for both parties** and will help to drive increases in investment and production to the benefit of Egyptians."

- H.E. Tarek El Molla, Minister of Petroleum & Mineral Resources, Arab Republic of Egypt (May 2021)

"**The most important and material event in the Company's 15-year history in Egypt**"

"**Field netbacks will improve by >100%** over price range of Brent \$40-\$60"



- Corporate Presentation (April 2021)

Successful negotiation of modernized fiscal terms in Egypt could generate ~50% upside to today's fair market value of Capricorn's Western Desert assets

## Capricorn Egypt Value Opportunity – Scenario Analysis (US\$ million)<sup>(1)</sup>

*"We think potentially material upside [for Capricorn] could also be unlocked in the case of securing 'modernised' fiscal terms in Egypt. Such ad-hoc agreements improved APA's and Eni's onshore NPV10s by >50%."*

- BofA Securities (14 June 2022)



Source: ERCE Fair Market Valuation Report, Company disclosures

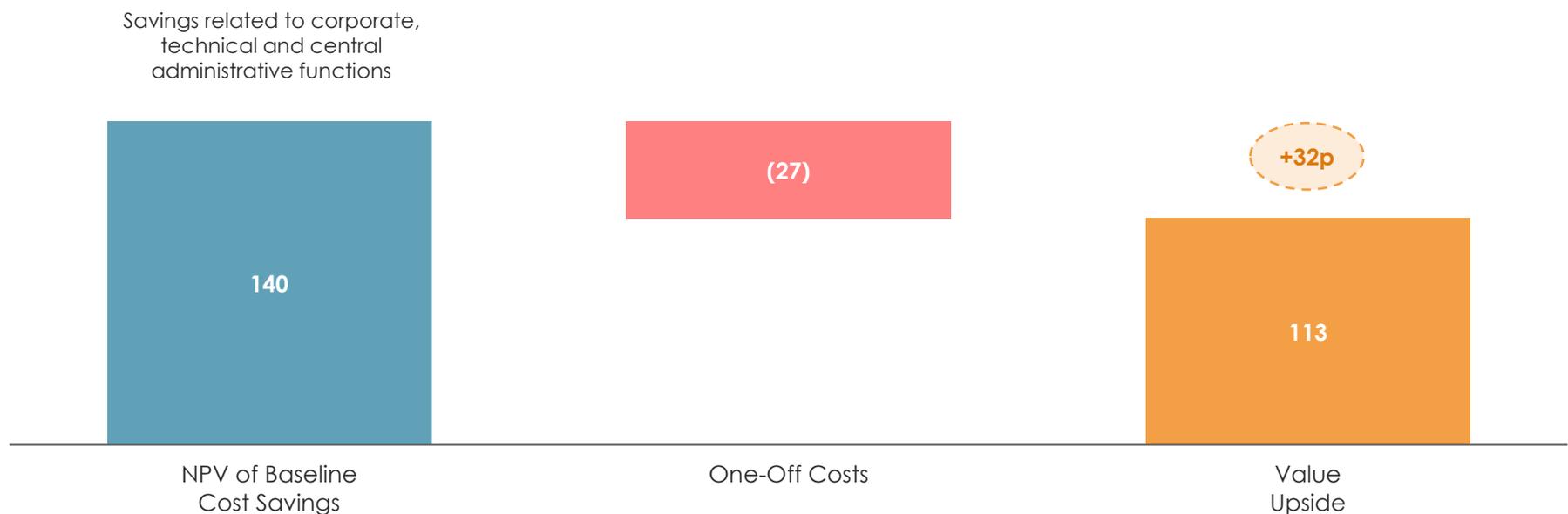
Note : Valuation as of 1 July 2022; 12% discount rate assumption; GBP/USD FX rate: 1.14; Capricorn share count of c.315 million shares as per latest RNS disclosure; ERCE nominal oil price deck of \$96/bbl, \$94/bbl, \$86/bbl, \$80/bbl, \$82/bbl, \$83/bbl, \$85/bbl, \$87/bbl, \$88/bbl, \$90/bbl (2022-2031)

(1) Based on hypothetical PSC modernization scenario analysis; assumes same renegotiated fiscal terms as disclosed by Apache in Egypt and illustrative US\$30 million net signature bonus payable to EGPC

Capricorn's administrative function can be streamlined to a level consistent with its size and relative simplicity

- Based on our analysis, Capricorn could deliver at least US\$29 million of annual run-rate pre-tax cost savings by the end of 2023
- This would bring overheads in line with sector peers from a scale perspective and reflect the relative simplicity of Capricorn's non-operated asset base in Egypt
- By pursuing this step immediately, Capricorn could unlock additional value of 32 pence per share for Capricorn shareholders

## Near-Term Upside Available from Cost Savings (US\$ million)<sup>(1)</sup>



Source: Company disclosures

(1) Based on US\$29 million of annual run-rate pre-tax cost savings by the end of 2023; assumed US\$14 million run-rate G&A required on a point forward basis and adjusted for one-off costs to realise savings

# Conclusion



- With the benefit of independent third-party input, **our analysis lays bare the extent of shareholder value that the Capricorn Board has once again agreed to surrender** as part of the NewMed transaction
- Rather than undertake a comprehensive strategic review supported by a formal sales process as Palliser had previously suggested to the Company, **the Board has recommended another self-serving deal where C-suite interests are being prioritised** at the expense of long-suffering Capricorn shareholders
- The potential **US\$30 million cash payout, largely to senior executives, is alarming** when assessed against the chronic underperformance, pervasive misallocation of capital, culture of excessive pay and track record of wasteful administrative spend that these same executives have been accountable for over the past decade
- In our view, **US\$620 million in idle cash continues to sit on the balance sheet** as a means to coerce Capricorn shareholders into approving the NewMed transaction
- On its current terms, the NewMed transaction is not in Capricorn shareholders' interests
- If a superior transaction at fair value is not available within a short and defined time-frame, then **we urge the Board to pursue our Value Optimisation Plan**, which is designed to unlock:
  - (a) Capricorn's intrinsic value of 315 pence per share in the near term; and
  - (b) a further 85 pence per share over the medium term resulting in **total value of up to 400 pence per share** for Capricorn shareholders