

**CAIRN LANKA (PRIVATE) LIMITED**  
**FINANCIAL STATEMENTS AND REPORT OF DIRECTORS**

**31 March 2016**

References to “the Company” or “Cairn” are reference to CAIRN LANKA (PRIVATE) LIMITED.

Amounts in the Financial Statements have been denominated in United States Dollars (“\$”) unless specifically stated otherwise.

**CAIRN LANKA (PRIVATE) LIMITED**

**CORPORATE INFORMATION**

**Directors:**

Mr. Sunil Bohra  
Ms Neerja Sharma

**Auditors:**

Ernst & Young  
201, De Saram Place,  
Colombo 10, Sri Lanka

**Lawyers:**

Sudath Perera Associates  
#5, 9th Lane, Nawala Road,  
Sri Lanka

**Secretaries:**

Jacey & Company  
No. 9/5, Thambiah Avenue  
Off Independence Avenue  
Colombo 07  
Sri Lanka

**Registered Office:**

Level 27  
West Tower, World Trade Centre  
Echelon Square  
Colombo 1  
Sri Lanka

**Registered No:**

PV 64688

**Bankers:**

CITI BANK NA  
SBI SRI LANKA

## CAIRN LANKA (PVT) LTD – P V 64688

### ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY FOR THE YEAR ENDED 31 MARCH 2016.

The Directors have pleasure in submitting their Report together with the Audited Statement of Accounts for the year ended 31 March 2016.

#### 1. PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS

The Company has a 100% interest in the exploration area of block SL-2007-01-001 in Sri Lanka. The Company's principal activity was the exploration for commercial quantities of oil and/or gas.

During the year the Company made a loss of \$ 1,620,072 (2015:\$149,001,863). No dividend has been paid or declared in respect of the year ended 31 March 2016.

The first exploration phase for this block was for a period of 3 years commencing from 16th October 2008.

The phase-I exploration programme in the block SL 2007-01-001 (Sri Lanka) consisting of 1750 km<sup>2</sup> of 3D seismic and drilling of three exploration wells were completed in December, 2011, resulting in two sub commercial gas and condensate discoveries i.e. CLPLDorado-91H/1z and, the CLPL-Barracuda-1G/1. The well CLPL-Dorado-North-82K/1 was abandoned as a dry hole.

Following this success, the Company entered second phase of exploration extending for two years from 15 October 2011. As part of Sri Lanka Phase II exploration program, 600 sq.km of 3D seismic) was acquired and another exploration well was drilled in 2013. The well CLPL-Wallago-50H/1 was abandoned as a dry hole.

Two consequent 6 months' extension was granted by the Government of Sri Lanka (GoSL) deferring the expiry of second phase from 15 October 2013 to 15 October 2014. After that, the company sought an additional year extension, which was granted by Government of Sri Lanka (GoSL) deferring the second phase expiry.

In previous financial year, considering the prevailing macroeconomic climate, the low materiality and high development cost, together with low volume, high-risk exploration potential of the license fail to justify further appraisal capital expenditure or exploration activity. Further, given the prevailing level of gas prices and fiscal terms, the development of hydrocarbons in the said block was not commercially viable. Hence, the management had impaired the carrying value of the related assets.

On 15 October 2015, at the expiry second phase extension Company has relinquished the block and is in the process of the closing down the Sri Lankan operations.

Consequently, the Directors have determined that the going concern basis of preparation of financial is no longer appropriate. Thus the accounts are prepared on non-going concern basis.

#### 2. FINANCIAL RESULTS

The financial statements of the Company are given on page 8 to 23. During the previous year, the Company had impaired the exploration assets to bring down the carrying value as nil as the recoverable value is nil.

3. **AUDITOR'S REPORT**

The Auditor's Report on the Financial Statements is given on Page No.6 to 7.

4. **ACCOUNTING POLICIES**

The accounting policies and notes are given on page 12 to 23 in the Financial Statement and there were no material changes in the Accounting Policies adopted.

5. **INTEREST REGISTER**

The Company has passed a unanimous shareholder resolution to dispense with the requirement of Interest Register pursuant to Sec. 30 of the Companies Act No.07 of 2007.

6. **DIRECTORS**

The Board of Directors of the Company as at date are Mr. Sunil Bohra and Ms Neerja Sharma whose names are indicated on the page titled "Corporate Information" on Page 2.

No remuneration has been paid to the Directors during the period under review.

7. **DIRECTORS INTERESTS IN CONTRACT**

Ms Neerja Sharma and Mr Sunil Bohra were not directly or indirectly involved in the contracts with the Company during the year.

8. **EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE**

No subsequent event has taken place since 31 March 2016, the balance sheet date.

10. **CONTINGENT LIABILITIES**

The Company had no significant contingent liabilities accruing as at 31 March, 2016.

11. **CHARITABLE DONATIONS**

The Company did not make any charitable contributions in Sri Lanka during the period.

12. **CREDITORS PAYMENT POLICY**

It is the Company's payment policy to ensure settlement of suppliers' services in accordance with the terms of the applicable contracts. In most circumstances, settlement terms are agreed prior to business taking place.

13. **DISCLOSURE OF INFORMATION TO AUDITORS**

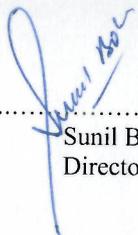
The directors of the Company who held office at 31 March 2016 confirm, as far as they are aware that there is no relevant audit information of which the Company's auditors are unaware. In making this confirmation, the directors have taken appropriate steps to make themselves aware of the relevant audit information and that the Company's auditors are aware of this information.

14. **AUDITORS**

The retiring Auditors Messrs Ernst & Young, Chartered Accountants, have signified their willingness to be re-appointed at a fee to be determined by the Board. The Audit fee payable for the year ended 31<sup>st</sup> March, 2016 amounted to LKR 627,500 (\$4,486) [2015: LKR 627,500 (\$4,724)].

The Auditor did not have any other relationship with the Company other than that of the Auditor, during the year under review.

**BY ORDER OF THE BOARD**

  
.....  
Sunil Bohra  
Director

  
.....  
Neerja Sharma  
Director

  
.....  
Secretary  
Jacey and Company  
Secretaries to Cairn Lanka (Pvt) Ltd

Date: 20 April, 2016



Ernst & Young  
Chartered Accountants  
201 De Saram Place  
P.O. Box 101  
Colombo 10  
Sri Lanka

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Fax Gen : +94 11 2697369  
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ey.com

GSM/DTD

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CAIRN LANKA (PRIVATE) LIMITED

### Report on the Financial Statements

We have audited the accompanying financial statements of Cairn Lanka (Private) Limited, ("the Company"), which comprise the balance sheet as at 31 March 2016 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Board's Responsibility for the Financial Statements*

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2016 and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

(Contd...2/)



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### ***Emphasis of Matter***

We draw attention to Note 2.1.2 to these financial statements which indicate the preparation and presentation of these financial statements on a basis other than as a going concern. Our opinion is not qualified in respect of this matter.

### **Report on Other Legal and Regulatory Requirements**

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

- a) The basis of opinion and scope and limitations of the audit are as stated above.
- b) In our opinion:
  - we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company, and
  - the financial statements of the Company, comply with the requirements of section 151 of the Companies Act No. 07 of 2007.

20 April 2016  
Colombo

**CAIRN LANKA (PRIVATE) LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME**

Year ended 31 March 2016

		<b>Year Ended</b>	<b>Period Ended</b>
	<b>Note</b>	<b>1 April 2015-</b>	<b>1 January 2014-</b>
		<b>31 March 2016</b>	<b>31 March 2015</b>
		<b>\$</b>	<b>\$</b>
<b>Cost of Sales</b>			
Impairment of Assets		-	(146,966,958)
Exploration Costs written off	6	<u>(1,476,972)</u>	<u>(1,026,063)</u>
<b>Gross Loss</b>		<b>(1,476,972)</b>	<b>(147,993,021)</b>
Administrative Expenses	3	<u>(12,190)</u>	<u>(52,536)</u>
<b>Operating Loss</b>		<b>(1,489,162)</b>	<b>(148,045,557)</b>
Finance Cost	4	(131,423)	(1,174,611)
Other Gains	5	<u>513</u>	<u>218,305</u>
<b>Loss for the year/period</b>		<b>(1,620,072)</b>	<b>(149,001,863)</b>
<b>Other Comprehensive Income</b>		<u>-</u>	<u>-</u>
<b>Total Comprehensive Income</b>		<u><b>(1,620,072)</b></u>	<u><b>(149,001,863)</b></u>

The accounting policies and notes on pages 12 through 23 form an integral part of the Financial Statements.



**CAIRN LANKA (PRIVATE) LIMITED**

**BALANCE SHEET**

As at 31 March 2016

	Note	31 March 2016 \$	31 March 2015 \$
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Intangible exploration/appraisal assets	6	-	-
<b>Current Assets</b>			
Inventory		1,081,658	1,081,658
Cash and cash equivalents	7	90,856	255,550
Time deposits	8	150,000	150,000
Other receivables	9	57	25
		<u>1,322,571</u>	<u>1,487,233</u>
<b>Total Assets</b>		<u>1,322,571</u>	<u>1,487,233</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity Attributable to Equity Holders of the Parent</b>			
Stated capital	10	170,390,000	170,390,000
Retained losses	11	(235,060,799)	(233,440,727)
<b>Total Equity</b>		<u>(64,670,799)</u>	<u>(63,050,727)</u>
<b>Current Liabilities</b>			
Trade and other payables	12	65,993,370	64,537,960
		<u>65,993,370</u>	<u>64,537,960</u>
<b>Total Equity and Liabilities</b>		<u>1,322,571</u>	<u>1,487,233</u>

These Financial Statements are in compliance with the requirements of the Companies Act No.07 of 2007.

*Shamir Kalheri*  
Finance Officer

The board of directors is responsible for the preparation and presentation of these Financial Statements.

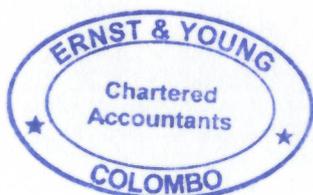
Signed for and on behalf of the board by:

*[Signature]*  
Director

*[Signature]*  
Director

The accounting policies and notes on pages 12 through 23 form an integral part of the Financial Statements.

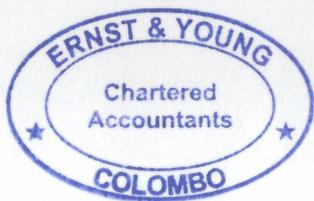
20 April, 2016



**CAIRN LANKA (PRIVATE) LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
Year ended 31 March 2016

	Note	Stated Capital \$	Retained Losses \$	Total \$
<b>As at 1 January 2014</b> 1,910,543,842 shares of LKR 10	10	170,390,000	(84,438,864)	85,951,136
Loss for the period	11	-	(149,001,863)	(149,001,863)
<b>As at 1 April 2015</b> 1,910,543,842 shares of LKR 10		170,390,000	(233,440,727)	(63,050,727)
Loss for the year	11	-	(1,620,072)	(1,620,072)
<b>As at 31 March 2016</b>		<b>170,390,000</b>	<b>(235,060,799)</b>	<b>(64,670,799)</b>

The accounting policies and notes on pages 12 through 23 form an integral part of the Financial Statements.



**CAIRN LANKA (PRIVATE) LIMITED****CASH FLOW STATEMENT**

Year ended 31 March 2016

	Note	Year Ended 1 April 2015- 31 March 2016 \$	Period Ended 1 January 2014- 31 March 2015 \$
<b>Cash flows generated from/(used in) operating activities</b>			
Loss before tax		(1,620,072)	(149,001,863)
Adjustments for:			
Impairment of Assets		-	146,966,958
Exploration costs written off	6	1,476,972	1,026,063
Finance costs	4	67,411	1,174,611
Finance income	5	(513)	(6,342)
Unrealized foreign exchange difference		64,027	(61,495)
<b>Operating loss before working capital changes</b>		<b>(12,175)</b>	<b>97,932</b>
Increase/(decrease) in trade and other payables		3,172	(4,063)
<b>Net cash flows (used in)/from operating activities</b>		<b>(9,003)</b>	<b>93,889</b>
<b>Cash flows generated from/(used in) investing activities</b>			
Expenditure on exploration/appraisal assets		(893,466)	(3,047,123)
Deposits made having original maturity of more than 3 months		-	(150,000)
Interest received		481	6,649
<b>Net cash flows used in investing activities</b>		<b>(892,985)</b>	<b>(3,190,474)</b>
<b>Cash flows generated from/(used in) financing activities</b>			
Interest paid		(67,411)	(1,174,611)
Net proceeds from related parties		805,000	3,116,224
<b>Net cash flows generated from financing activities</b>		<b>737,589</b>	<b>1,941,613</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(164,399)</b>	<b>(1,154,972)</b>
Cash and cash equivalents at the beginning of the year		255,550	1,410,746
Effect of exchange rate changes in cash		(295)	(224)
<b>Cash and cash equivalents at the end of the year/period</b>	7	<b>90,856</b>	<b>255,550</b>

The accounting policies and notes on pages 12 through 23 form an integral part of the Financial Statements.



**CAIRN LANKA (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 March 2016

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**1. CORPORATE INFORMATION**

**1.1 General**

CAIRN LANKA (PRIVATE) LIMITED (“Company”) is a private limited company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at level 27, West Tower, World Trade Centre, Echelon Square, Colombo 1.

During the previous period, the Company had decided to change the financial year end from 31 December to 31 March to align its reporting date that of its parent entity. Therefore, the previous financial year consists of fifteen month period from 1 January 2014 to 31 March 2015. Subsequent financial years would be for twelve months period ending 31 March every year. Accordingly, as a result of this change in the accounting period the current year financial statements are not comparable with previous financial period.

**1.2 Principal Activities and Nature of Operations**

The Company’s principal activity is the exploration for commercial quantities of oil and/or gas. Refer note 2.1.2.

**1.3 Parent Entity and Ultimate Parent Entity**

The Company’s parent entity is CIG Mauritius Private Limited. Cairn India Limited is the intermediary parent entity in India. The ultimate controlling party of the Company is Volcan Investments Limited (“Volcan”). Vedanta Resources PLC is the intermediate holding Company of the Company.

**1.4 Date of Authorization for Issue**

The Financial Statements of the Company for the year ended 31 March 2016 were authorized for issue in accordance with a resolution of the board of directors on 20 April, 2016.

**2.1 BASIS OF PREPARATION**

The Financial Statements have been prepared in accordance with the Sri Lanka Accounting Standards as issued by the Institute of Chartered Accountants of Sri Lanka.

**2.1.1 Statement of Compliance**

The Financial Statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards (commonly referred by the term “SLFRS”) as issued by the Institute of Chartered Accountants of Sri Lanka.

The preparation and presentation of these Financial Statements are in compliance with the Companies Act. No. 07 of 2007.



**CAIRN LANKA (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 March 2016

**2.1 BASIS OF PREPARATION (continued)**

**2.1.2 Going Concern**

In previous financial period, considering the prevailing macroeconomic climate, the low materiality and high development cost, together with low volume, high-risk exploration potential of the license failed to justify further appraisal capital expenditure or exploration activity. Further, given the level of gas prices and fiscal terms, the development of hydrocarbons in the said block was not commercially viable. Hence, the management had impaired the carrying value of the related assets.

Consequently, the Directors have determined that the going concern basis of preparation of financial statement is no longer appropriate. Thus the accounts are prepared on non-going concern basis and all the assets and liabilities have been recorded at fair value/net realizable value.

Further in the current financial year, on 15 October 2015, at the expiry of the second phase extension, Company has relinquished the block and is in the process of the closing down the Sri Lankan operations.

**2.1.3 Change in Accounting Policies**

Accounting policies as described in note 2.1.2, adopted by the Company in the preparation of current year financial statements are consistent with previous year.

**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.2.1 Foreign Currency Translation**

The Financial Statements are presented in United State Dollars "\$", which is the Company's functional and presentation currency. Transactions in other than "\$" currency are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in other than "\$" currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Exchange differences arising are taken to the Statement of Comprehensive Income except for those incurred on borrowings specifically allocable to development projects, which are capitalised as part of the cost of the asset.

Rates of exchange to \$1 were as follows:

	31 March 2016	Average 1 April 2015- 31 March 2016	31 March 2015	Average 1 January 2014- 31 March 2015
Sri Lanka Rupee (LKR)	149.1998	139.8882	132.8328	130.6626
Indian Rupee (INR)	66.3329	65.6947	62.5908	61.0967



**CAIRN LANKA (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 March 2016

**2.2.2 Joint Venture**

The Company participates in an unincorporated Joint Venture which involves the joint control of assets used in the Company's oil and gas exploration and producing activities. The Company accounts for its share of assets, liabilities, income and expenditure of the Joint Venture in which the Company holds an interest, classified in the appropriate balance sheet and Statement of Comprehensive Income headings. The Company's principal licence interests are jointly controlled assets.

The Company has an interest in the following unincorporated Joint Venture:

	Working interest
Block SL-2007-01-001	100%

**2.2.3 Taxation**

(a) Current Taxes

Pursuant to the government gazette extraordinary no. 1695/6 dated 01 March 2011, the company is exempted from Inland Revenue Act.No.10 of 2006 in respect of corporate income taxes. This exemption is valid for a period of eight (08) years from 16 October 2008 to 15 October 2016 and on expiration of such period the prevailing general tax regime will be applicable. Further, under the said gazette, the Company is exempted from Value Added Tax Act (VAT) No.14 of 2002, Finance Act No.11 of 2002;(Imposition of Ports and Airport Development Levy), Finance Act No. 05 of 2005; (Construction Industry Guarantee Fund Levy), Exercise (Special Provisions) Act, No. 13 of 1989, Economic Service Charge Act No. 13 of 2006 and subject to certain stipulated conditions from Customs Ordinance (Chapter 235).

(b) Deferred Tax

As the Inland Revenue Act does not apply as stated above, temporary differences do not exist during the tax exemption period. Therefore deferred tax does not apply.

**2.2.4 Borrowing Costs**

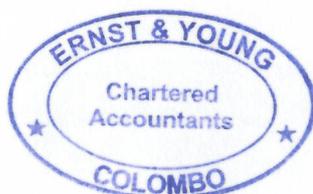
Borrowing costs are recognised as an expense in the period in which they are incurred, except to the extent where borrowing costs that are directly attributable to the acquisition, construction, or production of an asset that takes a substantial period of time to get ready for its intended use or sale, are capitalized as part of that asset.

**2.2.5 Oil and gas intangible exploration/appraisal assets and property, plant & equipment - development/ producing assets**

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 Statement of Comprehensive Income.

Expenditure incurred on the acquisition of a licence interest is initially capitalised on a licence by licence basis. Costs are held, undepleted, within exploration/appraisal assets until such a time as the exploration phase on the licence area is complete or commercial reserves have been discovered.



**CAIRN LANKA (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 March 2016

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**2.2.5 Oil and gas intangible exploration/appraisal assets and property, plant & equipment - development/ producing assets (continued)**

Exploration expenditure incurred in the process of determining exploration targets is capitalised initially within exploration/appraisal assets and subsequently allocated to drilling activities. Exploration/appraisal drilling costs are initially 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.

Following appraisal of successful exploration wells, if commercial reserves are established and technical feasibility for extraction demonstrated, then the related capitalised exploration/appraisal costs are transferred into a single field cost centre within development/producing assets after testing for impairment (see below). 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 Statement of Comprehensive Income.

All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons has been demonstrated 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.

Net proceeds from any disposal of an exploration asset are initially credited against the previously capitalised costs. Any surplus proceeds are credited to the Statement of Comprehensive Income. Net proceeds from any disposal of development/producing assets are credited against the previously capitalised cost. A gain or loss on disposal of a development/producing asset is recognised in the Statement of Comprehensive Income to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalised costs of the asset.

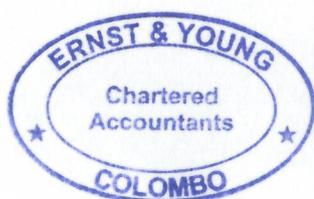
**Depletion**

The Company depletes separately, where applicable, any significant components within development/producing assets, such as fields, processing facilities and pipelines which are significant in relation to the total cost of a development/producing asset.

The Company depletes expenditure on property, plant and equipment – development/producing assets on a unit of production basis, based on proved and probable reserves on a field by field basis. In certain circumstances, fields within a single development area may be combined for depletion purposes.

**Impairment**

Exploration/appraisal assets are reviewed regularly for indicators of impairment and costs are written off where circumstances indicate that the carrying value might not be recoverable. In such circumstances the exploration asset is allocated to development/producing assets within the same geographic segment and tested for impairment. Any such impairment arising is recognised in the Statement of Comprehensive Income for the period. Where there are no development/producing assets within a geographic segment, the exploration/appraisal costs are charged immediately to the Statement of Comprehensive Income.



**CAIRN LANKA (PRIVATE) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

Year ended 31 March 2016

**2.2.6 Decommissioning**

At the end of the producing life of a field, costs are incurred in removing and decommissioning production facilities. The Company recognises the full discounted cost of dismantling and decommissioning as an asset and liability when the obligation arises. The decommissioning asset is included within property, plant & equipment – development/producing assets with the cost of the related installation. The liability is included within provisions. Revisions to the estimated costs of decommissioning which alter the level of the provisions required are also reflected in adjustments to the decommissioning asset. The amortisation of the asset, calculated on a unit of production basis based on proved and probable reserves, is included in the “Depletion and decommissioning charge” in the Statement of Comprehensive Income, and the unwinding of the discount on the provision is included within “Finance costs”.

**2.2.7 Cash and Cash Equivalents**

Cash and cash equivalents are cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

**2.2.8 Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.



**CAIRN LANKA (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 March 2016

**3. ADMINISTRATIVE EXPENSES**

	Year Ended 1 April 2015- 31 March 2016 \$	Period Ended 1 January 2014- 31 March 2015 \$
Professional fees	9,147	52,536
Premises Insurance	3,043	-
	<u>12,190</u>	<u>52,536</u>

**4. FINANCE COST**

	Year Ended 1 April 2015- 31 March 2016 \$	Period Ended 1 January 2014- 31 March 2015 \$
Bank charges	-	313
Bank guarantee fees	-	1,441
Interest on loan	67,407	1,172,840
Other finance cost	4	18
Exchange loss	64,012	-
	<u>131,423</u>	<u>1,174,611</u>

**5. OTHER GAINS**

	Year Ended 1 April 2015- 31 March 2016 \$	Period Ended 1 January 2014- 31 March 2015 \$
Interest on deposits	513	6,342
Exchange gain	-	61,484
Others	-	150,479
	<u>513</u>	<u>218,305</u>



**CAIRN LANKA (PRIVATE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 March 2016

**6. INTANGIBLE EXPLORATION/APPRaisal ASSETS**

	31 March 2016 \$	31 March 2015 \$
As at 1 April/January	-	145,925,699
Additions during the year/period	1,476,972	3,148,980
Exploration costs written off	(1,476,972)	(1,026,063)
Realisable value of stores and spares transferred to inventory	-	(1,081,658)
Impairment of Assets	-	(146,966,958)
As at 31 March	<u>-</u>	<u>-</u>

**7. CASH AND CASH EQUIVALENTS**

	31 March 2016 \$	31 March 2015 \$
Cash and bank balances	10,845	20,550
Short-term bank deposits	80,011	235,000
	<u>90,856</u>	<u>255,550</u>

**8. TIME DEPOSITS**

	31 March 2016 \$	31 March 2015 \$
Time deposits	150,000	150,000
	<u>150,000</u>	<u>150,000</u>

**9. OTHER RECEIVABLES**

	31 March 2016 \$	31 March 2015 \$
Sundry debtors	57	25
	<u>57</u>	<u>25</u>



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**10. STATED CAPITAL**

	\$
As at 1 <sup>st</sup> January 2014 (1,910,543,842 fully paid ordinary shares)	170,390,000
As at 1 <sup>st</sup> April 2015 (1,910,543,842 fully paid ordinary shares)	<u>170,390,000</u>
Issued during the year	-
As at 31 March 2016 (1,910,543,842 fully paid ordinary shares)	<u><u>170,390,000</u></u>

**11. RETAINED LOSSES**

	31 March 2016 \$	31 March 2015 \$
As at 1 April/January	(233,440,727)	(84,438,864)
(Loss) during the year/period	<u>(1,620,072)</u>	<u>(149,001,863)</u>
As at 31 March	<u><u>(235,060,799)</u></u>	<u><u>(233,440,727)</u></u>

**12. TRADE AND OTHER PAYABLES**

	31 March 2016 \$	31 March 2015 \$
Amount payable to:		
- Controlling entities – CIG Mauritius Private Limited* (Immediate Parent Company)	63,130,000	21,430,000
- Related entities – Cairn India Holdings Limited (Group Company)**	603,651	41,495,000
Joint venture creditors	2,251,544	1,607,771
Sundry creditors including accrued expenses	<u>8,175</u>	<u>5,189</u>
	<u><u>65,993,370</u></u>	<u><u>64,537,960</u></u>

\*Non-interest bearing

\*\*Interest bearing



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**13. RELATED PARTY DISCLOSURES**

	Year Ended 1 April 2015- 31 March 2016	Period Ended 1 January 2014- 31 March 2015
	\$	\$
<b>13.1 Transactions with controlling parties and related entities</b>		
Controlling entities		
- Amount borrowed from CIG Mauritius Private Limited (Immediate Parent Company)	41,700,000	-
Related entities		
- Amount repaid to Cairn India Holdings Limited (Group Company)	41,495,000	-
- Amount borrowed from Cairn India Holdings Limited (Group Company)	600,000	3,150,000
- Interest on loan from Cairn India Holdings Limited (Group Company)	67,407	1,172,840
<b>13.2 Amount payable to controlling parties and related entities</b>		
Controlling entities		
- Payable to CIG Mauritius Private Limited (Immediate Parent Company)	63,130,000	21,430,000
Related entities		
- Payable to Cairn India Holdings Limited (Group Company)	603,651	41,495,000

Refer note 12 to these Notes to the Financial Statements for amounts due to related entities as at 31 March 2016.

**14. COMMITMENT AND CONTINGENCIES**

	31 March 2016	31 March 2015
	\$	\$
<b>14.1 CAPITAL EXPENDITURE COMMITMENT</b>		
Exploration capital commitment	-	1,922,567
	-	1,922,567



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**14. COMMITMENT AND CONTINGENCIES (continued)**

**14.2 CONTINGENCIES**

There are no contingencies as at 31 March 2016 (31 March 2015:nil)

**15. FINANCIAL RISK MANAGEMENT: OBJECTIVES AND POLICIES**

The Company's primary financial instruments comprise cash, short and medium-term deposits, money market liquidity funds, and financial liabilities. Other alternatives, such as equity finance and project finance are reviewed by the Group's Board, when appropriate, to fund substantial acquisitions of oil and gas development projects.

The Group's treasury function is responsible for managing investment and funding requirements including banking and cash flow monitoring. It must also recognise and manage interest and foreign exchange exposure whilst ensuring that the Company has adequate liquidity at all times in order to meet its immediate cash requirements.

The main risks arising from the Company's financial instruments are liquidity risk, interest rate risk, foreign currency risk and credit risk. The Group's Board reviews and agrees policies for managing each of these risks and these are summarised below:

**Liquidity risk**

Liquidity risk is the risk that an entity will encounter financial difficulty in meeting obligations associated with financial liabilities. As the operations of the Company has reduced significantly and there are no cash generating assets in the Company, adequate financial support extended in the form of equity finance and funds received from the sole shareholder, CIG Mauritius Private Limited and Group Company, Cairn India Holdings Limited will be used to pay out its future financial obligations. The Company is therefore not exposed to liquidity risk.

**Interest rate risk**

Surplus funds are placed on short/medium-term deposits at floating rates. It is Cairn India Group's policy to deposit funds with banks or other financial institutions that offer the most competitive interest rate at time of issue. The requirement to achieve an acceptable yield is balanced against the need to minimise liquidity and counterparty risk.

The following table demonstrates the sensitivity of the Company's profit before tax to a change in interest rates (through the impact on floating rate borrowings and deposits).

	Increase/decrease in basis points	Effect on loss before tax
1 April 2015- 31 March 2016	50/-50	\$ 12,932/(\$ 12,932)
1 January 2014- 31 March 2015	50/-50	\$ 246,174/(\$ 246,174)

The amounts calculated are based on actual drawings and deposits in the periods for 50 basis point movement in the total rate of interest on each loan or deposit.



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**15. FINANCIAL RISK MANAGEMENT: OBJECTIVES AND POLICIES (continued)**

**Foreign currency risk**

The Company manages exposures that arise from non-functional currency receipts and payments by matching receipts and payments in the same currency and actively managing the residual net position. Generally the exposure has been limited given that receipts and payments have mostly been in US dollars and the functional currency of the Company is US dollars.

In order to minimise Company's exposure to foreign currency fluctuations, the company may enter into foreign exchange contracts in the applicable currency if deemed appropriate. The Company may also hold working capital balances in the same currency as functional currency, thereby matching the reporting currency and functional currency of most companies in the Company. This minimises the impact of foreign exchange movements on the Company's Balance Sheet.

The following table demonstrates the sensitivity to movements in the \$: LKR, \$: INR, \$: AUD and \$: GBP exchange rates, with all other variables held constant, on the Company's monetary assets and liabilities. The Company's exposure to foreign currency changes for all other currencies is not material.

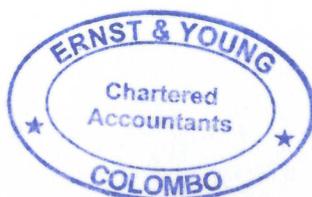
	Effect on loss before tax \$
1 April 2015- 31 March 2016	
10% increase/decrease in Sri Lanka Rupee to \$	(12,539)/ 15,325
10% increase/decrease in Indian Rupee to \$	(9,597)/ 11,729
10% increase/decrease in AUD to \$	(4,303)/ 5,260
10% increase/decrease in GBP to \$	(183)/ 224
1 January 2014- 31 March 2015	
10% increase/decrease in Sri Lanka Rupee to \$	(492,027)/ 601,367
10% increase/decrease in Indian Rupee to \$	(10,178)/ 12,439
10% increase/decrease in AUD to \$	(4,291)/ 5,244
10% increase/decrease in GBP to \$	(198) 242

**Credit risk**

Credit risk from investments with banks and other financial institutions is managed by the Group's Treasury functions in accordance with the Board approved policies. Investments of surplus funds are only made with approved counterparties who meet the appropriate rating and/or other criteria, and are only made within approved limits. The respective Boards continually re-assess the Group's policy and update as required. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through counterparty failure.

At the year end the Company does not have any significant concentrations of bad debt risk (if any) other than that disclosed in note 9.

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



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**15. FINANCIAL RISK MANAGEMENT: OBJECTIVES AND POLICIES (continued)**

**Capital management**

The objective of the Company's capital management structure is to ensure that there remains sufficient liquidity within the Company to 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 its capital structure and makes adjustments to it, in light of changes to economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital, issue new shares for cash, repay debt, put in place new debt facilities or undertake other such restructuring activities as appropriate.

No changes were made in the objectives, policies or processes during the year ended 31 March 2016.

**16. FAIR VALUE OF 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. Since the financial statements have been prepared on a non-going concern basis, assets and liabilities including all financial assets and liabilities are valued at fair value. Hence, there is no difference between the carrying value and fair value with regards to the following financial assets and liabilities namely, time deposits, cash and cash equivalents, sundry debtors, joint venture creditors, amounts payable to group companies and sundry creditors.

**17. EVENTS AFTER THE BALANCE SHEET DATE**

No subsequent event has taken place since 31 March 2016, the balance sheet date.

