

Registered number: SC 235659

CAIRN ENERGY DISCOVERY LIMITED
REPORT & FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014

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Cairn Energy Discovery Limited

Directors:

P Elango

Auditors:

Ernst & Young LLP
G1 Building
5 George Square
Glasgow
G2 1DY

Solicitors:

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

Registered Office:

Blue Square House,
272 Bath Street, Glasgow,
G2 4JR, Scotland

Registered No:

SC 235659

Cairn Energy Discovery Limited

Directors' Report

The directors present their report and financial statements for the year ended 31 March 2014.

Principal Activities and Business Review

The principal activity of the Company is the exploration for and development and production of oil and gas.

The Company did not trade during the year. The Company's 15% working interest in the non-operated CB-ONN-2001/1 exploration block was relinquished in September 2007.

During the year ended 31 March 2014, the Company made a loss of \$ 5,567 (period ended 31 March 2013: loss of \$1,606). No dividend has been paid or declared in respect of the period ended 31 March 2014 (period ended 31 March 2013: \$nil).

Future Developments

The Company did not trade during the year ended 31 March 2014. A similar outlook is expected for 2014-15.

Financial Instruments

For details of the Company's financial risk management: objectives and policies see note 9 of the Notes to the Accounts.

Going Concern

Management believes that it has no assets which have a carrying value in excess of its realisable value and has been assured by its parent for adequate financial support whenever required in order to discharge its liabilities. Thus the directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Directors

The directors who held office during the year and subsequently are as follows:

P Elango

Charitable and Political Donations

The Company did not make any political or charitable contributions in UK during the year ended 31 March 2014 (period ended 31 March 2013: \$nil).

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.

Disclosure of Information to Auditors

The directors of the Company who held office at 31 March 2014 confirm, as far as they are aware, 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 them aware of the relevant audit information and that the Company's auditors are aware of this information.

Cairn Energy Discovery Limited

Directors' Report (continued)

Auditors

In accordance with section 487(2) of the Companies Act 2006, the auditors, Ernst & Young LLP are deemed re-appointed.

By Order of the Board



P Elango

4th Floor, Vipul Plaza, Sun City,
Sector 54, Gurgaon - 122 002
Haryana, India

Date: 22 April 2014

Cairn Energy Discovery Limited

Directors' Responsibility Statement

The directors are responsible for preparing the Directors' Report and the Company's financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom law and those International Financial Reporting Standards as adopted by the European Union. 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 for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable IFRSs issued by the IASB and adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis, unless they consider that to be inappropriate.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAIRN ENERGY DISCOVERY LIMITED (Registration Number: SC 235659)

We have audited the financial statements of Cairn Energy Discovery Limited for the year ended 31 March 2014 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material management or inconsistencies, we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- Give a true and fair view of the state of the Company's affairs as at 31 March 2014 and of its loss for the year then ended;
- Have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

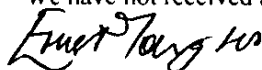
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- The financial statements are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.



James Nisbet (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Glasgow
22 April 2014

Cairn Energy Discovery Limited

Income Statement

For the year ended 31 March 2014

	Notes	April 2013 - March 2014 \$	January 2012- March 2013 \$
Finance costs	3	(5,567)	(1,606)
Loss before taxation		(5,567)	(1,606)
Taxation	8	-	-
Loss for the year/period		(5,567)	(1,606)

Cairn Energy Discovery Limited

Statement of Comprehensive Income

For the year ended 31 March 2014

	April 2013 - March 2014	January 2012 - March 2013
	\$	\$
Loss for the year/period	(5,567)	(1,606)
Total comprehensive expense for the year/period	(5,567)	(1,606)

Cairn Energy Discovery Limited

Balance Sheet

As at 31 March 2014

	Notes	31 March 2014 \$	31 March 2013 \$
Current liabilities			
Bank overdraft	4	(1,410)	(1,366)
Trade and other payables	5	(215,127)	(209,604)
Total liabilities		(216,537)	(210,970)
Net liabilities		(216,537)	(210,970)
Equity			
Called-up share capital	6	42,252	42,252
Other equity		1,631,956	1,631,956
Retained earnings		(1,890,745)	(1,885,178)
Total equity attributable to the equity holders		(216,537)	(210,970)

Signed on behalf of the Board



P Elango
22 April 2014

Cairn Energy Discovery Limited

Statement of Cash Flows

For the year ended 31 March 2014

	Note	April 2013- March 2014 \$	January 2012- March 2013 \$
Cash flows from operating activities			
Loss before taxation		(5,567)	(1,606)
Finance income		-	-
Finance costs	3	5,567	1,606
Net interest paid		(44)	(328)
Net cash used in operating activities		(44)	(328)
Cash flows from financing activities			
Payment to related parties		-	(7)
Net cash from financing activities		-	(7)
Net decrease in cash and cash equivalents		(44)	(335)
Opening cash and cash equivalents at beginning of the year		(1,366)	(1,031)
Closing cash and cash equivalents	4	(1,410)	(1,366)

Cairn Energy Discovery Limited

Statement of Changes in Equity

For the year ended 31 March 2014

	Share Capital \$	Other Equity \$	Retained Earnings \$	Total \$
At 1 January 2012	42,252	474,731	(1,883,572)	(1,366,589)
Loss for the period of 15 months	-	-	(1,606)	(1,606)
Total comprehensive income for the period	-	-	(1,606)	(1,606)
Waiver of inter group balances	-	1,157,225	-	1,157,225
At 1 April 2013	42,252	1,631,956	(1,885,178)	(210,970)
Loss for the year	-	-	(5,567)	(5,567)
Total comprehensive income for the year	-	-	(5,567)	(5,567)
Waiver of inter group balances	-	-	-	-
At 31 March 2014	42,252	1,631,956	(1,890,745)	(216,537)

The accompanying notes form an integral part of these financial statements.

Cairn Energy Discovery Limited

Notes to the Accounts

For the year ended 31 March 2014

1 Accounting Policies

a) Basis of preparation

The financial statements of the Company for the year ended 31 March 2014 were authorised for issue in accordance with a resolution of the directors on 22 April 2014. The Company is a private company incorporated and domiciled in Scotland. The registered office is located at Blue Square House, 272 Bath Street, Glasgow, G2 4JR, Scotland.

Current financial year consists of twelve months from 1 April 2013 to March 2014. During the previous period, the Company changed its financial year end from 31 December to 31 March to ensure that all accounting periods are aligned with Cairn India Group reporting. Therefore, previous period consists of fifteen month period from 1 January 2012 to 31 March 2013. Accordingly, previous period figures in the profit and loss account and cash flow statement are not comparable with current financial year.

The Company prepares its financial statements on a historical cost basis. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the relevant accounting policy.

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, notes 9 and 10 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 hedging activities; and its exposures to credit risk and liquidity risk.

Management believes that it has no assets which have a carrying value in excess of its realisable value and has been assured by its parent for adequate financial support whenever required in order to discharge its liabilities. Thus the directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

b) Accounting standards

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the IASB and in accordance with IFRS as adopted by the European Union and as they apply to the year ended 31 March 2014. IFRS as adopted by the European Union differs in certain respects from IFRS as issued by the IASB. However, the differences have no impact on the financial statements for the years presented.

The Company has adopted all new or amended and revised accounting standards and interpretations ('IFRSs') issued by IASB and as adopted by the European Union effective for the year ended 31 March 2014. Based on an analysis by the Company, the application of the new IFRSs has not had a material impact on the financial statements in reported period and we do not anticipate any significant impact on future periods from the adoption of these new IFRSs.

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended IAS and IFRS effective as of 1 April 2013:

- IAS 1 Presentation of items in Other Comprehensive Income-Amendments to IAS 1
- IAS 27 Separate Financial Statements, effective 1 January 2013
- IFRS 7 Financial instruments (amendments), effective 1 July 2012
- IFRS 10 Consolidated Financial Statements, effective 1 January 2013
- IFRS 11 Joint Agreements, effective 1 January 2013
- IFRS 12 Disclosures of interests in other entities, effective 1 January 2013

New IFRSs that have been issued but not yet come into effect

In addition to the above, IASB has issued a number of new or amended and revised accounting standards and interpretations (IFRSs) that have not yet come into effect. The Company has thoroughly assessed the impact of these IFRSs which are not yet effective and determined that we do not anticipate any significant impact on the financial statements from the adoption of these standards.

- IFRS 9 Financial Instruments effective for annual periods beginning on or after 01 January 2017
- IAS 32 Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities, effective for annual period beginning 1 January 2014

Cairn Energy Discovery Limited

Notes to the Accounts (continued)

For the year ended 31 March 2014

1 Accounting Policies (continued)

c) Presentation currency

The functional and presentation currency of the Company is US Dollars ("US\$"). The Company's policy on foreign currencies is detailed in note 1(g).

d) Joint Arrangements

At 31 March 2014, the Company had nil interest in the block CB-ONN-2001/1 in India. The Company's 15% working interest in the non-operated CB-ONN-2001/1 exploration block was relinquished in September 2007.

The Company accounts for its share of assets, liabilities, income and expenditure of the Joint Operation in which the Company holds an interest, classified in the appropriate Balance Sheet and Income Statement headings. The Company's principal licence interest was a joint operation.

e) Finance Income

Interest income

Interest income is recognised using the effective interest method on an accruals basis and is recognised within "Finance income" in the Income Statement.

f) 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 Income Statement.

Expenditure incurred on the acquisition of a licence interest is initially capitalised on a licence-by-liscence 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.

Exploration expenditure incurred in the process of determining exploration targets is capitalised initially within intangible 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 that are ultimately not considered commercially viable, all related costs are written off to the Income Statement.

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 Income Statement. 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 Income Statement to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalised costs of the asset.

Cairn Energy Discovery Limited

Notes to the Accounts (continued)

For the year ended 31 March 2014

1 Accounting Policies (continued)

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

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 & 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 following the guidance in IFRS 6 'Exploration for and Evaluation of Mineral Resources' and tested for impairment where such indicators exist. In such circumstances the exploration asset is allocated to development/producing assets within the same operating segment and tested for impairment. Any impairment arising is recognised in the Income Statement for the year. Where there are no development/producing assets within an operating segment, the exploration/appraisal costs are charged immediately to the Income Statement.

Impairment reviews on development/producing assets are carried out on each cash-generating unit identified in accordance with IAS 36 'Impairment of Assets'. The Company's cash generating units are those assets which generate largely independent cash flows and are normally, but not always, single development areas.

At each reporting date, where there are indicators of impairment, the net book value of the cash generating unit is compared with the associated expected discounted future net cash flows. If the net book value is higher, then the difference is written off to the Income Statement as impairment. Discounted future net cash flows for IAS 36 purposes are calculated using an estimated \$100/bbl (2013: \$100/bbl), or the appropriate gas price as dictated by the relevant gas sales contract, escalation for prices and costs of 3%, and a discount rate of 10% (2013: 3% and 10%/12% respectively). Forecast production profiles are determined on an asset by asset basis, using appropriate petroleum engineering techniques.

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 discounted future net cash flows are 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 periods.

g) Foreign currencies

The Company translates foreign currency transactions into the functional currency, \$, at the rate of exchange prevailing at the transaction date. 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 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 2014	Average April 2013- March 2014	31 March 2013	Average January 2012- March 2013
Sterling	0.602	0.627	0.661	0.633
Indian Rupee	60.100	60.936	54.389	53.609

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Cairn Energy Discovery Limited

Notes to the Accounts (continued)

For the year ended 31 March 2014

1 Accounting Policies (continued)

h) Key estimations and assumptions

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

Impairment testing

Discounted future net cash flows for IAS 36 purposes are calculated using commodity price, cost and discount rate assumptions on forecast production profiles. See notes 1(f) and 1(i) for further details.

i) 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 held-to-maturity investments, loans and receivables, and available-for-sale financial assets. The Company holds financial assets which are classified as loans and receivables.

Financial liabilities generally substantiate claims for repayment in cash or with another financial asset. Financial liabilities are categorised as either 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.

Loans and other receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted on an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Trade and other receivables are recognised when invoiced. Interest income is recognised by applying the effective interest rate, except for short term receivables where the recognition of interest would be immaterial.

The carrying amounts of loans and other receivables are tested at each reporting date to determine whether there is objective material evidence of impairment, for example, overdue trade debt. Any impairment losses are recognised through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Income Statement or Balance Sheet in accordance with where the original receivable was recognised.

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 Statement 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 payables and other creditors are non-interest bearing and are measured at cost.

Borrowing costs

Borrowing costs are recognised in the Income Statement in the period in which they are incurred except for borrowing costs incurred on borrowings directly attributable to development projects that are capitalised within the development/producing asset.

Cairn Energy Discovery Limited

Notes to the Accounts (continued)

For the year ended 31 March 2014

1 Accounting Policies (continued)

j) Taxation

The tax expense represents the sum of current tax and deferred tax.

The current tax is based on taxable profit for the year. Taxable profit differs from net profit 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. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Balance Sheet date.

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.

Deferred income tax liabilities are recognised for all taxable temporary differences except in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in Joint Ventures 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 income tax 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.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, carry forward of unused tax assets and unused tax losses can be utilised, except where the deferred income tax asset relating to the deductible temporary timing difference arises from the 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. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in Joint Ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets are reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods in which the asset is realised or the liability is settled, based on tax rates and laws enacted or substantively enacted at the Balance Sheet date.

Deferred tax assets and liabilities are only offset where they arise within the same entity and tax jurisdiction and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

k) Exceptional items

Exceptional items are those not considered to be part of the normal operation of the business. Such items are identified as exceptional and a full explanation is given in the Notes to the Accounts.

Cairn Energy Discovery Limited

Notes to the Accounts (continued)

For the year ended 31 March 2014

2 Operating profit

a) Discontinued operations

All profits and losses in the current and preceding year were derived from discontinued operations.

Auditors' remuneration

Fees amounting to \$6,963 (period ended 31 March 2013: \$5,646) are payable to the Company's auditors for the audit of the Company's annual accounts and are payable by another group company.

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

3 Finance Costs

	April 2013 – March 2014 \$	January 2012 – March 2013 \$
Exchange loss	5,523	1,277
Bank charges	44	329
	<u>5,567</u>	<u>1,606</u>

4 Bank Overdraft

	31 March 2014 \$	31 March 2013 \$
Bank overdraft	1,410	1,366
	<u>1,410</u>	<u>1,366</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates. For the purpose of cash flow statement, cash and cash equivalents include bank overdraft.

5 Trade and Other Payables

	31 March 2014 \$	31 March 2013 \$
Joint operation creditors	215,127	209,604
	<u>215,127</u>	<u>209,604</u>

Cairn Energy Discovery Limited

Notes to the Accounts (continued)

For the year ended 31 March 2014

6 Share Capital

	31 March 2014 £1 Ordinary Number	31 March 2013 £1 Ordinary Number
Authorised ordinary shares	5,100,000	5,100,000

	31 March 2014 £1 Ordinary Number	31 March 2014 £1 Ordinary \$	31 March 2013 £1 Ordinary Number	31 March 2013 £1 Ordinary \$
Allotted, issued and fully paid ordinary shares	23,216	42,252	23,216	42,252

7 Related Party Transactions

The following table provides the total amount of transactions which have been entered into with Group companies during the year and the balances outstanding at the Balance sheet date:

	31 March 2014 \$	31 March 2013 \$
Transactions during the year		
Waiver of inter group balances	-	1,157,225
Balances		
Amounts owed to group companies	5	-
	-	-

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.

Cairn Energy Discovery Limited

Notes to the Accounts (continued)

For the year ended 31 March 2014

7 Related Party Transaction (continued)

Remuneration of key management personnel

P Elango, the director of the Company is also director of the holding company and/or fellow subsidiaries. Mr. Elango received total remuneration for the year of \$0.8 million (period ended March 2013: \$2.04 million), all of which was paid by Cairn India Limited. The directors do not believe that it is practicable to apportion the remuneration of P Elango between his services as director of the Company and his services as director of the holding company and fellow subsidiary companies.

The remuneration of directors, who are the key management personnel of the Company, is set out below in aggregate.

	April 2013- March 2014	January 2012- March 2013
	\$	\$
Short-term employee benefits	795,866	2,102,991
Post-employment benefits	43,217	131,678
	839,083	2,234,669

8 Taxation

Factors affecting tax charge for year

A reconciliation of income tax expense applicable to profit before tax at the applicable tax rate to tax expense at the Company's effective tax rate is as follows:

	April 2013- March 2014	January 2012- March 2013
	\$	\$
(Loss) before taxation	(5,567)	(1,606)
Corporation tax at the standard UK rate of 23% (Jan-Mar'12 - 26%, Apr'12-Mar'13- 24%)	(1,280)	(392)
Effects of:		
Other permanent difference	1,280	392
Total tax charge	-	-

The UK Government has announced that the main rate of UK corporation tax will be reduced from the current rate of 23%, which has applied from 1 April 2013, to 20%. The fall is to be phased in over a period of two years, with a 2% reduction to 21% from 1 April 2014, and a subsequent 1% reduction to 20% from 1 April 2015. The reduction in the main rate of corporation tax to 23% was substantively enacted on 3 July 2012. The Finance Act 2013, which was substantively enacted on 2 July 2013, included the legislation to reduce the main rate of corporation tax from 23% to 20%. As the reduction in the main rate of corporation tax to 20% was substantively enacted at the Balance Sheet date, and reduces the rate expected to apply when temporary differences reverse, it has the effect of reducing the UK deferred tax assets and liabilities.

This Company is not yet trading for tax purposes. Costs incurred during the year may qualify for tax relief if the Company commences to trade. No deferred tax asset has been recognised in relation to these costs

Cairn Energy Discovery Limited

Notes to the Accounts (continued)

For the year ended 31 March 2014

9 Financial Risk Management: Objectives and Policies

The Company's primary financial instruments comprise cash, short and medium-term deposits, money market liquidity funds, marketable bonds, loans and other receivables and financial liabilities held at amortised cost. The Company's strategy has been to finance its operations through a mixture of retained profits and inter group borrowings. Other alternatives, such as equity finance and project finance are reviewed by the Board, when appropriate, to fund substantial acquisitions of oil and gas development projects.

The Company 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 Company may from time to time, opt to use derivative financial instruments to minimise its exposure to fluctuations in foreign exchange and interest rates. Derivative financial instruments have not been used throughout the year ended 31 March 2014. It is, and has been throughout the period under review, the Company's policy that no trading in derivative financial instruments shall be undertaken.

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

Liquidity risk

In October 2010, Cairn India raised \$500m through INR Unsecured Non-convertible Debentures, (NCDs) at competitive commercial terms. The total drawdown of \$300m from this issuance was used to refinance an INR term loan facility and other general corporate expenses. The NCDs were fully redeemed in October 2012

During the year 2012 and 2013, Cairn India Group entered into uncommitted secured working capital facility for aggregating \$125m to fund its short term capital requirements. As at 31 March 2014, there were no outstanding amounts under these facilities. In addition, as at 31 March 2014, the Cairn India Group had \$303.7m of trade finance facilities (2013: \$142m) in place to cover the issue of bank guarantees / letter of credit. Fixed rates of bank commission and charges apply to these. A sum of \$243.7m (including \$ 214.3m bank guarantee for buyback) was utilised as at 31 March 2014 (2013: \$42.02m).

The Cairn India Group currently has surplus cash which it has placed in a combination of money market liquidity funds, fixed term deposits, mutual funds and marketable bonds with a number of International and Indian banks, financial institutions and corporates, ensuring sufficient liquidity to enable the Cairn India Group to meet its short/medium-term expenditure requirements.

The Cairn India Group is conscious of the current environment and constantly monitors counterparty risk. Policies are in place to limit counterparty exposure. The Cairn India Group monitors counterparties using published ratings and other measures where appropriate.

Cairn Energy Discovery Limited

Notes to the Accounts (continued)

For the year ended 31 March 2014

9 Financial Risk Management: Objectives and Policies (continued)

Foreign currency risk

The Company manages exposures that arise from foreign currency transactions, by matching receipts and payments in the same currency, and actively managing the residual net position.

In order to minimise the Company's exposure to foreign currency fluctuations, currency assets are matched with currency liabilities by borrowing or entering into foreign exchange contracts in the applicable currency if deemed appropriate. The loan facilities are multi-currency and allow drawings denominated in US dollars.

The Company reports in US dollars which, with most assets US dollar-denominated, minimises the impact of foreign exchange movements on the Company's Balance Sheet.

Credit risk

Credit risk from investments with banks and other financial institutions is managed by the Treasury functions in accordance with the Board approved policies of Cairn India Limited. 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, other than amounts held by other group companies.

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

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 2014

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

	31 March 2014 \$	31 March 2013 \$
Trade and other payables	215,127	209,604
Add: bank overdraft	1,410	1,366
Net debt	216,537	210,970
Equity	(216,537)	(210,970)
Capital and net debt	-	-
Gearing ratio	-	-

Cairn Energy Discovery Limited

Notes to the Accounts (continued)

For the year ended 31 March 2014

10 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 liabilities, together with their fair values are as follows:

Financial liabilities	Carrying amount		Fair value	
	31 March 2014 \$	31 March 2013 \$	31 March 2014 \$	31 March 2013 \$
Bank overdraft	1,410	1,366	1,410	1,366
Joint Operation creditors	215,127	209,604	215,127	209,604
	216,537	210,970	216,537	210,970

Maturity Analysis

The following table sets out the amount, by maturity, of the Company's financial liabilities:

At 31 March 2014

	Total \$	Less than one year \$	One to two years \$	Two to three years \$	Three to four years \$	Four to five years \$	More than five years \$
Bank overdraft	1,410	-	1,410	-	-	-	-
Joint Operation creditors and accruals	215,127	-	215,127	-	-	-	-
	216,537	-	216,537	-	-	-	-

At 31 March 2013

	Total \$	Less than one year \$	One to two years \$	Two to three years \$	Three to four years \$	Four to five years \$	More than five years \$
Bank overdraft	1,366	1,366	-	-	-	-	-
Amounts owed to group companies	-	-	-	-	-	-	-
Joint Venture creditors and accruals	209,604	209,604	-	-	-	-	-
	210,970	210,970	-	-	-	-	-

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

At 31 March 2014 and 31 March 2013, the Company had no financial instruments in level 1, 2 or 3.

Cairn Energy Discovery Limited

Notes to the Accounts (continued)

For the year ended 31 March 2014

11 Ultimate Parent Company

The Company is a wholly-owned subsidiary of Cairn India Holdings Limited which in turn is a subsidiary of Vedanta Resources Plc. Volcan Investments Limited ("Volcan") is the ultimate controlling entity and controls Vedanta Resources Plc.

The results of the Company are consolidated into intermediate parent company, viz. Vedanta Resources Plc. The registered office of Vedanta Resources Plc, is 2nd Floor, Vintners Place, 68 Upper Thames Street, London, EC4V 3BJ.

Copies of Vedanta Resources Plc's financial statements are available on its website