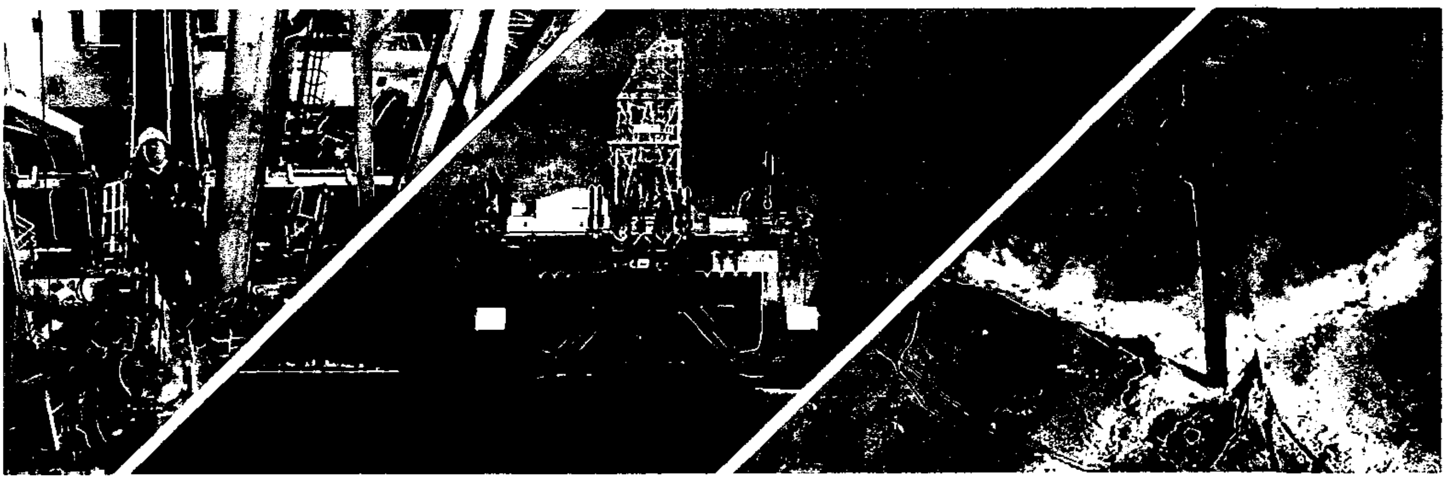
SC 366018

Cairn

Directors Report and Financial Statements

Agora Oil & Gas (UK) Limited

31 December 2013



Discovering Hidden Value Through Entrepreneurial Exploration

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Company information

Directors

Paul Joseph Mayland
Richard Charles Heaton
Douglas Andrew Edward Taylor
Andrew Richard Armour - date of resignation 29 August 2013
Timothy Sullivan - date of resignation 29 August 2013
Svein Ilebekk - date of resignation 29 August 2013

Secretaries

Duncan A. Wood

Auditors

PricewaterhouseCoopers LLP
141 Bothwell Street
Glasgow G2 7EQ

Solicitors

Shepherd and Wedderburn LLP
1 Exchange Crescent
Conference Square
Edinburgh EH3 3UL

Registered Office

50 Lothian Road
Edinburgh EH3 9BY

Registered number

SC366018

Directors' report

The Directors present their report and financial statements for the year ended 31 December 2013. The financial statements have been prepared in pounds sterling and all values are rounded to the nearest thousand pounds (GBP'000) except when otherwise indicated.

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

Principal activities

The activities of Agora Oil & Gas (UK) Limited (Agora) focus on oil and gas exploration, development and production in the UK sector of the North Sea (UKCS).

Agora's core competence is within the subsurface, hydrocarbon development and commercial arena of the E&P business. Agora has built an asset portfolio which will continue to be expanded through 'farming in' to and acquisitions of assets from existing oil and gas companies on the UKCS and with focused license round applications.

The Company is incorporated and domiciled in the UK. The registered head office is in Edinburgh. The company's immediate parent is Capricorn Norge AS, a Company registered in Norway. Capricorn Norge AS is a fully-owned subsidiary of Cairn Energy PLC (Cairn). Cairn is based in Edinburgh and is an oil and gas exploration and production company listed on the London Stock Exchange. Cairn has explored, developed and produced hydrocarbons in a variety of locations around the world. For further information on the company please see: www.cairnenergy.com.

Results and dividends

The Company's loss after tax for the year ended 31 December 2013 was GBP 7,844 (2012: Loss GBP 43,295). No dividends were paid or proposed during this year, or prior period.

Business review and future developments

Agora is well positioned for further growth, with a strong parent company and access to debt. This is set against a backdrop of strong commodity prices. The exploration portfolio has been strengthened with one license acquisition in the farm in market in 2013 (License P1659).

License P1430 – Catcher, Varadero, Burgman
Agora has a 15 per cent interest in P1430, covering Blocks 28/9, 28/10c (Catcher area), in the Central North Sea. The Operator is Premier Oil plc. A development concept for the Catcher, Varadero and Burgman discoveries has been agreed, involving a leased FPSO. A FDP will be submitted to DECC in Q1 2014, with expected first oil in mid 2017.

License P1632 - Tybalt
Agora increased its interest in 2012, by an additional farm in, from a 20 percent to 40 per cent interest in P1632, covering blocks 211/8c and 211/13c (Tybalt) in the Northern North Sea. The Operator is Valiant Exploration Limited. An appraisal well was drilled in April 2012. The well failed to prove additional reservoir quality hydrocarbon bearing sandstones outside of the original discovery. The commerciality of the Tybalt discovery is therefore in doubt. A mandatory 50 per cent relinquishment was made in February 2013. The licence is under technical review and a decision will be made to retain or voluntarily relinquish in mid 2014.

License P1633 - Timon
In January 2011 Agora reached an agreement with MPX North Sea Limited to farm in to UK license P1633, block 211/11B and 16B, in the Northern North Sea. In exchange for a 15 per cent interest in P1633, Agora has transferred to MPX a 25 per cent interest in the Conan license P1482 in the East Irish Sea. In a separate transaction in January 2011, Agora farmed in to a further 20 per cent interest in this license from Sorgenia E&P (UK) Limited. As consideration for this interest, Agora agreed to pay a disproportionate share of the dry hole costs of the first well to

Directors' report (continued)

be drilled on the license. Subsequent to this, Agora farmed out a 10% interest to Valiant Exploration Limited in return for a promote on the first exploration well. The net effect of these transactions was that Agora was partially carried on the Timon exploration well.

In May 2012 a well was spudded on the Timon prospect using the WilHunter rig. After operational difficulties the well was suspended at a depth of 3,219 metres and the rig was released. The well was drilled in February 2013 but was not successful in finding hydrocarbons. The JV are currently considering drilling the Lucius Prospect.

License P1680 - Cladhan South

In March 2011 Agora reached an agreement with Valiant Exploration Limited to farm in to UK license P1680, blocks 210/29c and 210/30b, the Cladhan South prospect in the Northern North Sea. Under the terms of the Agreement, Agora will earn a 20 per cent interest in the license by paying a disproportionate share of the initial exploration well costs, subject to an agreed cap on promoted costs.

As part of a separate transaction conducted by Valiant, Sterling Resources (UK) Limited will become operator of Cladhan South. Sterling operates the Cladhan Discovery, which is currently under appraisal, whilst Wintershall (UK North Sea) Limited, a partner in the Cladhan Discovery, has also conducted a farm in transaction with Valiant to participate in the Cladhan South well. The well was drilled in April 2012 but was not successful in finding hydrocarbons. In Q3 2013 the P1680 licence was divested to TAQA in exchange for an additional 15 per cent equity in licences P2086 and P2040.

License P1482 - Conan

Agora now has a 10 per cent interest in P1482, covering Blocks 113/26b and 113/27c (including the Doyle Prospect) in the East Irish Sea. Serica is the Operator. In January 2011 Agora transferred to MPX a 25 per cent interest in P1482, covering Blocks 113/26b and 113/27c (including the Doyle Prospect), in exchange for a 15 per cent interest in P1633. Doyle is likely to be drilled in 2015.

License P1659 - Bardolph

In January 2012 Agora reached an agreement with Carrizo Oil & Gas Inc and MPX North Sea Limited to farm into UK license P1659 (block 20/7). This North Sea license contains the Bardolph prospect. Under the terms of the Agreement, Agora earned a 19 per cent interest in the license by paying a disproportionate share of the initial exploration well costs, subject to an agreed cap on promoted costs. 50 per cent of the licence was relinquished in February 2013. In September 2013 the Bardolph exploration well was drilled, but was unsuccessful in finding hydrocarbons. Joint venture partners Nexen and Carrizo have elected to leave the licence and as a result, Agora's equity in P1659 increased to 55.88 per cent.

P1763- Aragon

In January 2013 Agora signed a Sales and Purchase Agreement with MPX North Sea Limited, Bridge Energy (CNS) Limited and Sorgenia E&P (UK) Limited for the purchase of 30 per cent interest in P1763 ("Aragon"). Agora will in return pay for 37.5 per cent of the well costs of the first exploration well, up to an agreed cap. The joint venture now comprises MPX North Sea Limited 22.5 per cent (Operator), Agora Oil & Gas (UK) Limited 30 per cent, JX Nippon Exploration & Production (UK) Limited 25 per cent, Bridge Energy (CNS) Limited 13.5 per cent and Sorgenia E&P (UK) Limited 9 per cent. The Aragon Prospect, an Upper Jurassic reservoir with a fault seal trapping element has an estimated Chance of Success of 30 per cent with gross mean prospective resources of 101mmboe. In Q4 2013 Agora agreed with MPX to increase equity to 32.5 per cent and to take the licence operatorship following the drilling of the Aragon well. The exploration well is expected in April 2014.

P1995- Tulla

In the 27th Licensing Round (2013), Agora was awarded a 50 per cent equity in P1995, block 201/25b in the Northern North Sea. Taqa operate the block. A well will be drilled on the Tulla Prospect in Q1 2015.

Directors' report (continued)

P2040- Vulcan
In the 27th Licensing Round (2013), Agora was awarded a 15 per cent equity in P2040, block 29/11 in the Central North Sea. Cross assignment agreements with TAQA and Statoil mean that Agora currently holds a 20 per cent equity.

P2086- Norton
In the 27th Licensing Round (2013), Agora was awarded a 15 per cent equity in P2086, blocks 28/9b & 28/14 in the Central North Sea. Cross assignment agreements with TAQA and Statoil mean that Agora currently holds a 20 per cent equity.

P2077- Sunbeam
In the 27th Licencing Round (2013), Agora was awarded a 23 per cent equity in P2077, block 28/8 in the Central North Sea. An exploration well will be drilled on the Sunbeam Prospect in 2015 or 2016. The operator is Premier.

P2070- Laverda
In the 27th Licencing Round (2013), Agora was awarded a 23 per cent equity in P2077, part block 28/4 in the Central North Sea. An exploration well will be drilled on the Laverda Prospect in 2015. The operator is Premier.

P2124- Doyle
This licence in the East Irish Sea (block 113/22a) is an extension of the P1482 licence and contains and extension of the Doyle Prospect.

Outlook
Currently, only the Aragon well is a firm well for 2014. The company is actively reviewing acreage in the recently announced 28th Licencing Round and expects to make several applications for new acreage at the closing of the round in April 2014.

Management performs regular reviews and analysis of key performance indicators such as operating costs, exploration expenditure levels and exploration and HSE performance. Management considers the 2014 targets as wells within Agora's capabilities.

Principal risks and uncertainties

The Company is subject to all of the risks and uncertainties normally associated with the exploration, development and production of hydrocarbons. There is often uncertainty as to the future cost or timing of drilling, completing and operating wells. Drilling activities may be unsuccessful and may not encounter commercially productive reserves. As such all of the investments in new wells may not be recovered.

Further, drilling activities can be affected by a variety of factors outside our control, including adverse weather conditions, equipment availability or changes / interpretation in government regulations. All of these factors can increase costs or restrict the activities.

The results of operations are significantly dependent on the price that is received for the hydrocarbons which are ultimately produced. The market prices for oil and gas are subject to fluctuation. To the extent that there is no hedging of exposure to price volatility, a dramatic decline in such prices could have a substantial and material effect on the results.

The total exposure related to currency, interest and price fluctuations is monitored and evaluated by the Group as part of the overall evaluation of the Group's total exposure.

Possible actions are implemented on a group level in accordance with existing procedures.

Directors' report (continued)

Going concern

Following the Board's review of the Company's financial position and forward cash forecasts, the Directors are of the view that the Company has adequate financial resources to continue its operational activities and meet its liabilities as and when they fall due for the foreseeable future and for a period of at least 12 months from the date of authorisation of these financial statements. Although the Company holds net liabilities as at 31 December 2013, the Company's ultimate parent company, Cairn Energy PLC, has confirmed it will make available sufficient funds to allow the Company to meet its liabilities as they fall due for the next twelve months. Hence these accounts have been prepared on a going concern basis.

Post balance sheet events

Details of significant post balance sheet events are set out in note 21 in the financial statements.

Directors

The Directors of the Company during the year ended 31 December 2013 were:
Paul Joseph Mayland
Richard Charles Heaton
Douglas Andrew Edward Taylor
Andrew Richard Armour - resigned 29 August 2013
Timothy Sullivan - resigned 29 August 2013
Svein Ilebekk - resigned 29 August 2013

Agora maintains third party indemnity insurance on behalf of its Directors.

Environment

The Company is aware of its responsibility to protect the environment and will ensure that the operators of the licenses we participate in take due care and precautions with regards to minimizing the environmental impact seismic and drilling operations have and as a minimum meet the statutory requirements and regulations that prevail in the UK.

Political and charitable contributions

The Company made no political or charitable donations in the current year or preceding period.

Payments policy

Payments made by the Company are mainly to suppliers in accordance with the relevant credit terms. Oil and gas exploration costs and administrative expenses are paid by the Company using equity or monies advanced from the ultimate parent Company.

Directors' statement as to disclosure of information to auditors

The Directors who were members of the board at the time of approving the Directors' report are listed on page 3. Having made enquiries of fellow directors and of the Company's auditors, each of these of Directors confirms that:

- To the best of each Directors knowledge and belief, there is no information (that is, information that is needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware; and
- Each Director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the Board
Douglas Taylor

10 April 2014

Statement of Directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) 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 of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Independent auditor's report to the members of Agora Oil & Gas (UK) Limited

We have audited the financial statements of Agora Oil & Gas (UK) Limited for the year ended 31 December 2013 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flow and the related notes. 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.

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 8, 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 and express an opinion on 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.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 Directors' Report and Financial Statements for the year ended 31 December 2013 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on 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 December 2013 and of its loss and cash flows 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 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; or
- the directors were not entitled to take advantage of the small companies' exemption in preparing the Directors' Report.

Bruce Collins

Bruce Collins, Senior Statutory Auditor
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
11 April 2014

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2013

	Note	2013 GBP '000	2012 GBP '000
REVENUES AND OTHER INCOME			
Gain on sales of assets		1 112	
Total other income		1 112	0
OPERATING EXPENSES			
Exploration and evaluation expenses	3	(7 588)	(38 939)
Administrative expenses	6, 7, 8	(1 524)	(2 347)
Other operating expenses	4, 5	168	(1 957)
Total operating expenses		(8 944)	(43 243)
Operating loss		(7 832)	(43 243)
FINANCIAL ITEMS			
Net foreign exchange loss	9	(12)	(13)
Financial income	9	5	17
Financial expenses	9	(5)	(56)
Net financial items	9	(12)	(52)
Loss before tax		(7 844)	(43 295)
Tax expense	10	-	-
Loss for the period		(7 844)	(43 295)
Attributable to:			
Owners of the parent		(7 844)	(43 295)

The results above were entirely derived from continued operations.

STATEMENT OF FINANCIAL POSITION

	Note	At 31 Dec 2013 GBP '000	At 31 Dec 2012 GBP '000
ASSETS			
Non-current assets			
Intangible assets	11	20 851	11 187
Total non-current assets		20 851	11 187
Current assets			
Spare parts		7	-
Trade and other receivables	12, 15	4 693	4 500
Cash and cash equivalents	13, 15	871	849
Total current assets		5 571	5 349
TOTAL ASSETS		26 422	16 536
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	14, 15, 19	9 456	7 139
Debt to group company	19	44 578	29 228
Total current liabilities		54 034	36 367
Total liabilities		54 034	36 367
NET LIABILITIES		(27 612)	(19 831)
Capital and reserves			
Share capital	16	37 022	37 022
Capital contribution		539	476
Retained deficit		(65 173)	(57 329)
TOTAL EQUITY		(27 612)	(19 831)

The financial statements were approved by the Board of Directors on the 10 April 2014

Director

DOUGLAS TAYLOR

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2013

Amounts in GBP '000	Share-capital	Capital contribution	Retained earnings	Total equity
At 31 December 2011	37 022	105	(14 034)	23 093
Net loss and total comprehensive income	-	-	(43 295)	(43 295)
Share-based payment transactions	-	371	-	371
At 31 December 2012	37 022	476	(57 329)	(19 831)
Net loss and total comprehensive income	-	-	(7 844)	(7 844)
Share-based payment transactions	-	63	-	63
At 31 December 2013	37 022	539	(65 173)	(27 612)

STATEMENT OF CASH FLOW
For the year ended 31 December 2013

	Note	2013 GBP '000	2012 GBP '000
OPERATING ACTIVITIES			
Loss before tax		(7 844)	(43 295)
Unsuccessful exploration costs and net impairment losses		3 245	35 998
Share-based payments, non-cash		63	371
Income taxes paid		-	(80)
(Increase) / decrease in trade and other receivables		(193)	2 539
Increase in trade and other payables		2 317	6 155
Decrease in spare parts		(7)	-
Net cash flow from operating activities		(2 419)	1 688
INVESTING ACTIVITIES			
Exploration expenditure capitalised		(12 909)	(30 917)
Cash flow from investing activities		(12 909)	(30 917)
FINANCING ACTIVITIES			
Debt to group company		15 350	29 228
Cash flow from financing activities		15 350	29 228
Net increase in cash and cash equivalents		22	(1)
Cash and cash equivalents at the beginning of the year		849	850
Cash and cash equivalents at the end of the year	13	871	849

Notes to the accounts at 31 December 2013

Note 1. Accounting policies

Statements of Compliance
The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements were approved by the Board of Directors on 10 April 2014.

Basis of preparation
The Company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU as they apply to the financial statements of the Company for the year ended 31 December 2013 and applied in accordance with the Companies Act 2006. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2013.

Although the Company holds net liabilities as at 31 December 2013, the Company's ultimate parent company, Cairn Energy PLC, has confirmed it will make available sufficient funds to allow the Company to meet its liabilities as they fall due for the next twelve months. Hence these accounts have been prepared on a going concern basis.

Foreign currency translation
The financial statements are presented in Pounds sterling, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates on the dates of the transactions. Monetary items in foreign currencies are valued at the exchange rates of the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary items denominated in foreign currencies are recognised as financial items in the statement of income.

Intangible assets – Exploration and evaluation assets
Capitalisation
The Company applies the successful efforts method to account for exploration costs. All exploration costs (including seismic acquisitions, seismic studies and "own time"), with the exception of acquisition costs of licenses and drilling costs for exploration wells, are charged as an expense when incurred.

Drilling costs for exploration wells are temporarily capitalised pending the evaluation of potential existence of oil and gas reserves. If reserves are not found, or if discoveries are assessed not to be technically and commercially recoverable, these costs are expensed. The costs for acquiring licenses are capitalised and assessed for impairment at each reporting date.

Capitalised exploration expenditures are classified as intangible assets and are re-classified to tangible assets upon start of development.

Impairment
Intangible assets with finite useful life (excluding goodwill) are reviewed for potential impairment indicators annually, and whenever events and/or circumstances indicate that the carrying amount of an asset may not be recoverable.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. For oil and gas assets this is done on a field by field basis. An impairment loss is the amount by which the carrying amount of the assets exceeds the recoverable amount. The recoverable amount is the higher of the asset's fair value less cost of disposal and its value in use. The value in use is determined by reference to discounted future cash flows expected to be generated by the asset. Cash flow is discounted using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

A previously recognised impairment loss is reversed only if there has been a change in estimates used to determine the recoverable amount, however, not to a higher amount than if no impairment loss had been recognised. Such reversal is recognised in the statement of income. After such reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value on a systematic basis over its remaining useful life.

Joint ventures
The Company is engaged in oil and gas exploration assets through unincorporated joint arrangements. The Company recognises investments in jointly controlled assets (oil and gas licenses) by proportionate consolidation, by reporting its interest of related revenue, expenses, assets, liabilities and cash flows under the respective items in the Company's financial statements.

Farm-in/outs arrangements
For exploration and evaluation acquisitions (farm-in agreements) in which Agora has made arrangements to fund a portion of the selling partners' (farmor's) exploration, expenditures are reflected in the financial statements as and when the exploration work progresses. Exploration and evaluation asset disposals (farm-out arrangements) are accounted for on a historical cost basis with no gain or loss recognition.

Swaps
Exchange of exploration and evaluation assets are accounted for at the carrying amounts of the assets given up with no gain or loss recognition.

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and deposits held with banks within original maturities of 3 months or less.

Trade and other receivables
Trade and other receivables are recognised and carried at their anticipated realisable value, which is the original invoice amount less any estimated valuation allowance for any uncollectible amounts. A provision is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are expensed when identified.

Trade and other payables
Trade and other payables are initially recognised at fair value. Fair value is considered to be the original invoice amount, discounted where material.

Balance sheet classification
Current assets and current liabilities include items due less than a year from the balance sheet date and items relating to the goods cycle. Current year's instalments on long-term liabilities are classified as current liabilities.

Taxation
Income tax
Income tax in the Statement of Comprehensive Income for the year comprises current and deferred tax expense. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in the Statement of Comprehensive Income.

Current tax
Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred tax
Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future
- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realized or liability settled, based on the tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets are reviewed each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforcement right exists to set off the current tax asset against liabilities. The deferred income taxes relate to the same taxation authority and that authority permits the Company to make a single net payment.

Employee benefits
Pensions
The Company operates a defined contribution pension scheme. Contributions payable for the year are charged to the Statement of Comprehensive Income.

Bonus and share-based compensation
Employees participate in various bonus and/or share based compensation agreements.

The expected cost of profit sharing and bonus payments is expensed as salary costs when the employees have rendered the service in exchange of those benefits and a reliable estimate of the obligation can be made.

Share-based compensation arrangements which are to be settled in equity instruments (in the parent company), including arrangements involving grants of options and grants of free shares are measured at fair value at the date of grant using a Black & Scholes valuation model. The fair value is expensed as salary costs over the vesting period in the Company, as the transaction is considered as a capital contribution from the parent company in the subsidiary Agora Oil & Gas Limited.

Estimated social security costs are amortised over the vesting period and included in salary costs. Changes in estimated social security cost are amortised over the remaining vesting period.

Commitments and contingencies
Commitments and contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statement but disclosed when an inflow of economic benefit is virtually certain.

Dividends
Dividends are recognised in the financial statements in the period which they are approved by the Company's shareholders.

Significant accounting judgements, estimates and assumptions
In the process of applying the Company's accounting policies, management makes judgements and estimates. The key assumptions concerning the future, and other sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the financial year are that the Company makes judgements whether the exploration and evaluation assets are impaired in accordance with the accounting policy.

Cash flow
The statement of cash flow has been prepared using the indirect method.

Change in accounting policy
The accounting policies adopted are consistent with those of the previous year except as described below.

Impact of new IFRS
Effective 1 January 2013, the company has adopted the following standards impacting the Company's accounting policies and/or presentation in the Company's financial statements:

- IFRS 13 'Fair Value Measurement'; (effective 1 January 2013)
- IAS 1 (amended) 'Presentation of Financial Statements; (effective 1 January 2013)
- IAS 19 (revised) 'Employee Benefits'; (effective 1 January 2013)

The amendments to accounting policies will result in minor changes in disclosures within the notes to accounts in the year end financial statements but have no material impact on the results for the period. Other changes to IFRS effective 1 January 2013 have no impact on the company's accounting policies or financial statements.

Approved IFRSs and IFRICs with future effective dates
The following new standards, issued by the IASB and endorsed by the EU, have yet to be adopted by the company:

- IFRS 10 'Consolidated Financial Statements; (effective 1 January 2014)
- IFRS 11 'Joint Arrangements'; (effective 1 January 2014)
- IFRS 12 'Disclosure of interests in Other Entities' (effective 1 January 2014)
- IAS 27 (amendment) 'Separate Financial Statements" (effective 1 January 2014)
- IAS 28 (amendment) 'Investments in Associates and Joint Ventures' (effective 1 January 2014)

The adoption of these new standards will result in the company's participating interests in material exploration and development licences, currently disclosed as joint ventures, being re-classified as joint operations. No other changes to the financial statements are expected. No other standards issued by the IASB and endorsed by the EU, but not yet adopted are expected to have any material impact on the company's financial statements.

Note 2. Segmental information

The Company manages its operations in one operating segment: exploration. The operating segment aligns with internal management reporting to the Company's Board of Directors.

The Company's geographical segment is the United Kingdom.

Note 3. Exploration expenses

	2013 GBP '000	2012 GBP '000
Seismic acquisitions, analysis and general G&G expenses	2 661	2 557
Impairment unsuccessful cost	3 245	35 998
Other exploration expenses	1 682	384
Total exploration and evaluation expenses	7 588	38 939

The Tybalt well, Cladhan South well, Bardolph well and Timon well were drilled in 2012 and were not hydrocarbon bearing. The drilling costs for these wells are expensed and are included in Exploration drilling expenses, see note 11.

Note 4. Other operating expenses

	2013 GBP '000	2012 GBP '000
Legal and professional expenses	33	62
Consultant fees	(370)	1 691
Other	169	204
Total other operating expenses	(168)	1 957

Note 5. Auditors' remuneration

	2013 GBP '000	2012 GBP '000
Audit fee	4	21
Taxation services	-	31
Total fee	4	52

The statutory audit fees have been paid by cairn energy plc.

Note 6. Administrative expenses

	2013 GBP '000	2012 GBP '000
Wage and salaries	1 057	1 397
Pension costs	68	231
Social security costs	162	205
Other salary related expenses	3	72
Equity settled share-based payments	234	442
Total administrative expenses	1 524	2 347

	Remuneration GBP '000	Pension GBP '000	Other GBP '000
Total compensation to management	257	20	14

Key Managment personnel participate in the Special Share Award, see note 17.

The directors of the Company are also directors of other companies in the Cairn Energy PLC group. The directors received remuneration for the year of GBP 1 810.4k (2012: GBP 2 244.6k) and pension contributions of GBP 117.8k (2012: GBP 95.7k), all of which was paid by other companies in the group. The directors do not believe that it is practicable to apportion this amount between their services as directors of the Company and their services as directors of Cairn Energy PLC and fellow subsidiary companies. There are no agreements between the Company and the Board of Directors. No loans or guarantees have been granted on behalf of the Management, shareholders or the Board of Directors.

Note 7. Employees

There are no employees within the Company and the total recharged by another member of the Group for wages and salaries amounted to GBP 1,524k (2012: GBP 2,347k).

Note 8. Pension commitments

For employees of Agora UK Limited, Cairn Energy PLC contributes to a defined contribution pension scheme. GBP 68k has been charged to the Statement of Comprehensive income for the year ended 31 December 2013.

Note 9. Net financial items

	2013 GBP '000	2012 GBP '000
Foreign exchange losses realised	(62)	(134)
Foreign exchange gain unrealised	50	121
Net foreign exchange losses	(12)	(13)
Bank interest	5	17
Interest income	5	17
Net interest expenses from group companies	-	(25)
Other financial expenses	(5)	(31)
Financial expenses	(5)	(56)
Net financial items	(12)	(52)

Note 10. Income tax

	2013 GBP '000	2012 GBP '000
Tax on loss on ordinary activities		
UK corporation tax	-	-
Deferred tax charge	-	-
Total tax charge for the period	-	-

Factors affecting tax charge for the period

The differences between the total current corporation tax shown above and the amount calculated by applying the standard rate of UK corpòration tax on the profit before tax is as follows:

	2013	2012
Loss before tax	(7 844)	(43 295)
Accounting loss at the UK standard rate of ring fence corporation tax of 62% (2012: 62%)	(4 863)	(26 843)
Expenses not deductible for tax purposes	234	46
Transfer of chargeable gain to group entity	(690)	-
Group relief surrendered	14	26
Deferred tax asset not recognised	5 305	26 771
Current tax charge for the period	-	-

As of 31 December 2013 Agora Oil & Gas (UK) Limited has an unrecognised deferred tax asset of GBP 40,480k (2012: GBP 35,592k). As in the prior periods, the deferred tax is not being recognised, as the Petroliferous trade has not yet commenced and there is no evidence that taxable profits sufficient for utilisation of the deferred tax assets will be generated in future.

As at 31 December 2013, it is anticipated that the Company will be eligible for Field Allowances in the UK which will reduce the Ring Fence profits chargeable to Supplementary Charge. Field Allowances will only be granted when DECC appproves a field development plan and claimed when production commences.

Note 11. Intangible assets

Amounts in GBP '000	Capitalised exploration expenditure
Cost	
At 1 January 2012	22 386
Additions	30 917
At 31 December 2012	53 303
Additions	12 909
At 31 December 2013	66 212
Impairments/ Write offs	
At 1 January 2012	6 118
Exploration write off in 2012	35 998
At 31 December 2012	42 116
Current year exploration write offs	3 245
At 31 December 2013	45 361
Net book value	
At 31 December 2013	20 851
At 31 December 2012	11 187

The drilling costs for dry wells in 2012 are expensed and are included in Exploration drilling expenses. see note 3.

Note 12. Trade and other receivables

	At 31 Dec 2013 GBP '000	At 31 Dec 2012 GBP '000
Prepayments	62	715
Amounts due from group undertaking	533	23
Other receivables	4 098	3 762
Total Trade and other receivables	4 693	4 500

As at 31 December 2013 and 2012, all trade and other receivables, excluding prepayments, were neither past due nor impaired.

Note 13. Cash and cash equivalents

	At 31 Dec 2013 GBP '000	At 31 Dec 2012 GBP '000
Cash at bank	871	849
Total Cash and cash equivalents	871	849

Note 14. Trade and other payables

	At 31 Dec 2013 GBP '000	At 31 Dec 2012 GBP '000
Trade creditors	4 470	3 104
Amounts due to group undertakings	590	602
Accruals	4 396	3 433
Total trade and other payables	9 456	7 139

Accruals include a provision of GBP 2,240k for the costs of abandonment of two exploration wells. The operations are scheduled to be carried out during 2014.

Note 15. Financial instruments

	At 31 Dec 2013 GBP'000	At 31 Dec 2012 GBP'000
Financial assets		
Trade and other receivables	4 693	4 500
Cash and cash equivalents	871	849
Financial liabilities		
Debt to group company	44 578	29 228
Trade and other payables	9 456	7 139

Age composition list of ledger balances	Not due	< 30d	30-60 d	> 60 d
Trade receivables	533	-	-	-

Financial assets are classified as "loans and receivables" and financial liabilities are classified as "financial liabilities measured at amortised cost". There are no material differences between the book value and fair value of the financial instruments as of 31 December 2013 and 2012.

The main risks arising from the Company's financial instruments are liquidity risk, interest risk, foreign currency risk and credit risk. The Board of the Company's ultimate parent company, Cairn Energy PLC, reviews and agrees policies for managing each of these risks and these are summarized below.

The Company's treasury functions at Cairn Energy PLC and local operational offices are responsible for managing these risks, in accordance with the policies set by the Board. Management of these risks is carried out by monitoring of cash flows, investments and funding requirements using a variety of techniques. These potential exposures are managed whilst ensuring that the Company has adequate liquidity at all times in order to meet its immediate cash requirements. There are no significant concentrations of risks unless otherwise stated.

The primary financial instruments comprise cash, intra-group loans and other receivables and financial liabilities held at amortised cost. The Company's strategy is managed as part of a wider strategy undertaken by the Board of the various companies of the group – mainly to finance its operations through a mixture of retained profits and bank borrowings. Other alternatives such as equity and other forms of non investment-grade debt finance are reviewed by the Board, when appropriate.

Market risk
As an upstream oil and gas entity, the Company is subject to many risks arising in the normal course of the Company's business. The principal business risks are outlined in more detail in the Directors' Report. The Company is exposed to macroeconomic risks including, but not limited to, the strength of capital markets, the oil price and the risk of co-venture or supplier default, all of which could adversely affect the ability of the Company to finance and execute its planned work programmes. The Company has a diversified portfolio of assets which remain unhedged with respect to commodity price, interest rates and currency fluctuations. Specific financial instruments risks associated with the Company's financial assets and financial liabilities are therefore unlikely to have the quantum of impact that broader macro risks, such as those outlined above, could pose. The Board reviews and establishes appropriate policies for the management of risks and monitors them on a regular basis:

Commodity price risk
The Company is not exposed to any material commodity price risk on its financial instruments.

Foreign currency risk
The Company has transactional currency exposure whereby expenditure is incurred in currencies which are not the functional currency of the relevant Company (UK sterling). The primary exposure is to the US dollar and Norwegian kroner. The Company monitors exchange rate movements and considers forward purchase i.e. prior to major capital programmes requiring dollars. In 2013 the impact of a 10 per cent change in the UK Sterling/USD exchange rate would have been a +/- GBP 285,267k effect on the loss before tax (2012; +/- GBP 66,243k) and the

impact of a 10 per cent change in the Sterling/NOK exchange rate would have been a +/- GBP 38,188k (2012; +/- GBP 18,760k)

Interest rate risk
There is an insignificant risk of change in the value of cash and deposits as a result of interest rate movements.

Credit risk
Credit risk is primarily that a partner fails to pay amounts due, causing financial loss to the Company. The Company currently has limited exposure to such credit risk. Maximum exposure would be the amounts shown in the balance sheet. The Company is exposed to credit risk on the financial institutions with which it holds cash, short-term deposits and deposits maturing in greater than one year. At 31 December 2013 the Company had GBP 0.9 million (2012: GBP 0.9 million) cash and deposits with Sparebank 1 SR-Bank.

Liquidity risk
Liquidity risk is the risk that sources of funding for the Company's business activities are not available. Liquidity management is a core activity and is regularly reviewed by the board, in conjunction with the Company's cash forecast information. The board always ensures that there is sufficient funding available before committing to any significant expenditure. As the Company's primary focus is on exploration and appraisal, to date the Company's funding needs have been met through a combination of equity and funding from its ultimate parent company.

The Cairn Energy PLC Group currently has surplus cash which it has placed in a combination of money market liquidity funds and term deposits with a number of international financial institutions, ensuring sufficient liquidity to enable the group to meet its short/medium-term expenditure requirements.

The current liabilities fall due within 1 year. The Company's payment policy is to settle amounts in accordance with agreed terms which are typically 30 days.

Capital management
The Company defines capital as the total equity of the Company. The objective of the Company's capital management is to ensure that it makes maximum use of its capital to support its business operations and maximise shareholder value. There are no constraints on the Company's capital.

As the Company begins to develop its fields, debt funding, such as reserve based lending, will become more significant and its availability will be key to the successful transition of projects from the appraisal to the development phase. As outlined above the Company is exposed to macroeconomic risks including, but not limited to, the strength of capital markets, the oil price and the risk of co-venture or supplier default, all of which could adversely affect the availability of future debt and equity funding.

Note 16. Share capital

	No. of shares	GBP '000
At 1 January 2013	345 000 001	37 022
At 31 December 2013	345 000 001	37 022

The total authorised number of ordinary shares at 31 December 2013 was 345 000 001 of which all shares were in issue. The share capital consist of 345 000 000, ordinary shares of NOK 1.00 each and 1 ordinary share of GBP 1.00.

Note 17. Share-based payment plans

Equity settled share-options

The company until April 2012 had three different employee compensation arrangements involving the company's own equity instruments ("Agora share-based payments"). Firstly there was an "annual bonus arrangement" which was a cash settled annual bonus measured as a percentage of the base salary and from which a minimum of half of the after-tax bonus was required to be used to purchase Agora shares at prevailing market prices and for their own risk and reward. Secondly, there was a "matching share scheme" entitling the employees to receive additional shares (to those purchased out of the annual bonus arrangement), on a one-for-one basis, at an Exit Event, if certain objectives were met. Thirdly, there was an "option scheme" where employees are granted share options. These options, with strike price corresponding to the Agora's shares market price at the time of grant, may be exercised between zero and ten years following the grant date subject to the employee still being employed at the exercise date. All the Agora share-based payments plans were exercised when Agora was acquired by Cairn in May 2012.

The company has from May 2012 been included in the employee compensation arrangement involving the parent company's own equity instruments ("Cairn share-based payments"). Further information is provided in the Directors' Remuneration Report included in the ultimate parent company's annual accounts.

Share options - "Agora share-based payments"

NOK per share	2013 Average exercise price	2013 Options (1 000)	2012 Average exercise price	2012 Options (1 000)
At 1 January	-	-	14.83	500
Granted	-	-	-	-
Forfeited	-	-	30.95	(500)
At 31 December		-		-
Total outstanding options		-		-

The fair value of the options is calculated on the allotment date and charged to expenses over the accrual period of three years. The amounts of GBP 160.0k have been expensed in 2012 in relation to the Agora option programme.

Share options - "Cairn share-based payments"

GBP per share	2013 Average exercise price	2013 Options (1 000)	2012 Average exercise price	2012 Options (1 000)
At 1 January	-	294	-	-
Granted	2.77	403	2.89	294
Forfeited	-	(102)	-	-
At 31 December		595		294
Total outstanding options		595		294

The fair value of the options is calculated on the allotment date and charged to expenses over the accrual period of three years. The amounts of GBP 171.1k have been expensed in the Financial Statement 2013 in relation to the Cairn option programme (2012: GBP 71.2k). The fair value of options granted in 2013 was GBP 446.2k (2012: GBP 366.1k).

Share awards - "Retention payments"

There are two elements to the retention payment payable and include a retention payment and a Special Share Award. See note

GBP per share	2013 Average exercise price	2013 Share awards (1 000)	2012 Average exercise price	2012 Share awards (1 000)
At 1 January	-	60	-	-
Granted	-	-	3.07	60
Exercised	2.78	(30)	-	-
Forfeited	-	(10)	-	-
At 31 December		20	-	60
Total outstanding options		20		60

The fair value of the share awards is calculated on the allotment date and charged to expenses over the accrual period of one or two years respectively. The amounts of GBP 63.0k have been expensed in the Financial Statement 2013 in relation to the share awards (2012: GBP 104.2k). The fair value of options granted in 2012 was GBP 219k.

In the current year the share awards were valued using a monte carol model.
Awards in the prior year were valued using a binomial model:
- the share incentive awards will be based on the value of shares at the future date at which those awards vest
- volatility of 52 per cent p.a. is assumed to represent a good indication of future volatility
- the duration of the share awards are set at one and two years respectively
- no dividend has been assumed
- 5 per cent p.a., is used as an estimate of the expected future turnover of employees eligible for share awards

Note 18. Commitments and provisions

Expected contractual obligation / license commitments

As a condition for being awarded production licenses, participants may be committed to drill a certain number of wells. At the end of 2013, Agora was committed to participate in two exploration wells on the UK Continental Shelf. Expected expenditures to drill these wells amounts to approximately GBP 41.4 million.

Guarantees

At 31 December 2013 Agora has no guarantees outstanding.

Legal disputes

At 31 December 2013 Agora is not subject to any legal disputes.

Liability for damages / insurance

The company has an extensive insurance programme in place, that covers wells (well out of control), third party liability and pollution.

Note 19. Related party transactions

Key management personnel
See to note 6 for remuneration to key management personnel (including directors).

Other related parties
During the course of the year the company entered into transactions, in the ordinary course of business, with other related parties. Cost related to technical or other work performed by employees of a related party is allocated based on timewriting, including a five per cent mark up on the hourly rate.

	2013	2012
Net invoiced from group companies	(3 997)	(2 603)
Net invoiced to group companies	590	211

The company has an intercompany loan with Capricorn Energy Limited At the end of 2013 an amount of GBP 44.6 million was outstanding (GBP 29.2 million in 2012). The loan is free of interest.

Note 20. Group companies

Agora Oil & Gas (UK) Limited is a wholly owned subsidiary of Capricorn Norge AS. The results of the company are consolidated into those of the ultimate parent company, Cairn Energy PLC, registered in Scotland, whose principal place of business is at 50 Lothian Road, Edinburgh, EH3 9BY, (pr@cairnenergy.com).

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

Note 21. Subsequent events

License P2040 and P2086
In January 2014 Capricorn Norge AS reached an agreement with Statoil Petroleum AS to purchase a 20 per cent participating interest in PL 248C and PL 420B, in the North Sea. In exchange for a 20 per cent interest, Capricorn Norge AS will pay a disproportionate share of the dry hole costs of the first wells to be drilled on the two licenses and Agora Oil And Gas (UK) Limited and Nautical Petroleum Limited have divested an aggregate of 25 per cent of their participating interest in UKCS Licenses P2040 and P2086 to Statoil (U.K.) Limited. The transaction is dependent on partner and authority approvals.