Registered No 06487757

AVANNAA DIAMONDS LIMITED

REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

Avannaa Diamonds Limited

Directors

S Bernstein
NM Rose
DAE Taylor
SJ Thomson
JBW Watt

Secretary

M Guild

Auditors

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

Solicitors

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

Registered Office.

5th Floor
Condor House
10 St Paul's Churchyard
London EC4M 8AL

Registered No

06487757

Avannaa Diamonds Limited

Directors' Report

The directors present their Report and Financial Statements for the year ended 31 December 2011

Principal Activities and Business Review

The Company's principal activity during 2011 was the exploration for minerals, primarily in Greenland

The Company's functional currency is Danish Kroners (DKK) and its presentation currency is US Dollars (USD)

During the year the Company made a loss of $73,241 (2010 loss $1,964,371) due to unsuccessful efforts on its intangible exploration/appraisal assets and exchange losses

In April 2011 the Company transferred its mineral exploration licence at Ataa in Greenland, 2008/33 to Avannaa Exploration Limited, a fellow subsidiary of the Company's immediate parent company Avannaa Resources Limited, at its net book value of $nil The costs of $43,158 incurred on all the areas of interest within this licence which had been capitalised in intangible assets have been written off in the Income Statement as unsuccessful exploration costs

As at 31 December 2011 there are no remaining exploration costs held on the Balance Sheet, and so there was no requirement to carry out an impairment review of intangible exploration/appraisal assets

No dividend has been paid or declared in respect of the year ended 31 December 2011 (period ended 31 December 2010 $nil)

The Company did not hold any cash and cash equivalents during the year, therefore a Statement of Cash Flows has not been presented

Principal Risks and Uncertainties

The Company is subject to a variety of risks which derive from the nature of the mineral business

The Company's future depends significantly upon its success in finding or acquiring and developing mineral reserves If the Company is unsuccessful, it would adversely affect the results of its operations and financial condition

Financial Instruments

For details of the Company's financial risk management policy see note 8

Avannaa Diamonds Limited

Directors' Report (continued)

Directors

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

S Bernstein
HGD Mackay (resigned 7 October 2011)
NM Rose
DAE Taylor
SJ Thomson
JBW Watt

Charitable and Political Donations

The Company did not make any charitable or political contributions during the year (2010 $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

Qualifying third party indemnity provision

The Company has arranged qualifying third party indemnity for all of its directors

Auditors

The directors of the Company who held office at 31 December 2011 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 all the steps they ought to have taken to make themselves aware of the relevant audit information and that the Company's auditors are aware of this information

BY ORDER OF THE BOARD

Maryth Guild
Secretary

5th Floor, Condor House
10 St Paul's Churchyard
London EC4M 8AL

27 June 2012

Avannaa Diamonds Limited

Directors' Responsibility Statement

The directors are responsible for preparing the Annual Report and the Company's financial statements in accordance with applicable United Kingdom law and regulations Under that law, the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union

Under Company Law the directors must not approve the Company's financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Company for that period In preparing the Company's financial statements the directors are required to

- Select suitable accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- make judgments that are reasonable,
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance, and
- state whether the Company's financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in financial statements

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 Company financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of Company and hence for taking reasonable steps for prevention and detection of fraud and other irregularities

Independent Auditors' Report

To the members of Avannaa Diamonds Limited (registered number 06487757)

We have audited the financial statements of Avannaa Diamonds Limited for the year ended 31 December 2011 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, 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 auditor

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 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

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 the financial statements to identify material inconsistencies with the audited financial statements 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 2011 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

Ernst & Young LLP

Ian James McDowall (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Glasgow
2 July 2012

Avannaa Diamonds Limited
Income Statement
For the year ended 31 December 2011

Continuing operations	Notes	**2011 $**	2010 $
Unsuccessful exploration costs	2	**(43,158)**	(1,928,736)
Operating loss		**(43,158)**	(1,928,736)
Finance costs	3	**(30,083)**	(35,635)
Loss before taxation		**(73,241)**	(1,964,371)
Taxation	4	**-**	-
Loss for the year		**(73,241)**	(1,964,371)

Avannaa Diamonds Limited

Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 $	2010 $
Loss for the year	**(73,241)**	(1,964,371)
Other comprehensive income		
Currency translation differences	**85,515**	42,927
Other comprehensive income for the year	**85,515**	42,927
Total comprehensive income for the year	**12,274**	(1,921,444)

Avannaa Diamonds Limited
Balance Sheet
As at 31 December 2011

	Notes	31 December 2011 $	31 December 2010 $
Non-current assets			
Intangible exploration/appraisal assets	5	-	-
		-	-
Total assets		-	-
Current liabilities			
Trade and other payables	6	**2,777,438**	2,789,712
Total liabilities		**2,777,438**	2,789,712
Net liabilities		**(2,777,438)**	(2,789,712)
Equity and reserves			
Share capital	7	**2**	2
Foreign currency translation		**128,442**	42,927
Retained earnings		**(2,905,882)**	(2,832,641)
Total equity		**(2,777,438)**	(2,789,712)

The financial statements were approved by the board of directors and authorised for issue on 27 June 2012

Douglas Taylor
Director

Company Registered No 06487757

Avannaa Diamonds Limited
Statement of Changes in Equity
For the year ended 31 December 2011

	Share capital $	Foreign currency translation $	Retained earnings $	**Total** **$**
At 1 January 2010	2	-	(868,270)	**(868,268)**
Loss for the year	-	-	(1,964,371)	**(1,964,371)**
Other comprehensive income for the year	-	42,927	-	**42,927**
Total comprehensive income for the year	-	42,927	(1,964,371)	**(1,921,444)**
At 1 January 2011	2	42,927	(2,832,641)	**(2,789,712)**
Loss for the year	-	-	(73,241)	**(73,241)**
Other comprehensive income for the year	-	85,515	-	**85,515**
Total comprehensive income for the year	-	85,515	(73,241)	**12,274**
At 31 December 2011	**2**	**128,442**	**(2,905,882)**	**(2,777,438)**

Avannaa Diamonds Limited

Notes to the Accounts

1 Accounting Policies

a) Basis of preparation

The financial statements of Avannaa Diamonds Limited ("the Company") for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Directors on 27 June 2012 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 and its borrowing facilities are presented in the financial statements and supporting notes In addition, note 8 to the financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit risk and liquidity risk

Although the Company holds net liabilities as at 31 December 2011, 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

The Company is incorporated in England and domiciled in the United Kingdom The registered office is located at 5th Floor, Condor House,10 St Paul's Churchyard, London EC4M 8AL

The Company prepares its accounts 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 did not hold any cash and cash equivalents during the year, therefore a Statement of Cash Flows has not been presented

b) Accounting standards

The Company prepares its accounts in accordance with applicable International Financial Reporting Standards ("IFRS") as adopted by the EU The Company's financial statements are also consistent with IFRS as issued by the International Accounting Standards Board ("IASB") as they apply to accounting periods ended 31 December 2011

For the year ending 31 December 2011, the Company has adopted the following standards and interpretations

Title	Change to accounting treatment	Impact on initial application
IAS 1 'Presentation of Financial Statements' (amendment)	Presentational changes to the financial statements	Additional disclosures given in the Statement of Changes in Equity for individual components of total comprehensive income
IAS 24 'Related Party Transactions' (amendment)	Clarity on the definition of a related party and exemption from general related party disclosure requirements for transactions with Governments	No impact on the financial position or performance of the Company
IAS 32 'Financial Instruments Presentation ' (amendment)	Enables entities to classify rights issues and certain options or warrants as equity instruments	No impact on the financial position or performance of the Company

For the year ending 31 December 2011, the Company has adopted the following amendments to standards which resulted through the IASB's annual 'Improvements to IFRS' There was no impact on the accounting policies, financial position or performance of the Company as a result of these changes

- IFRS 3 'Business combinations',
- IFRS 7 'Financial Instruments – Disclosures', and
- IAS 27 'Consolidated and separate Financial Statements'

The following interpretations and amendments to interpretations which were issued by the IASB have no impact on the accounting policies, financial position or performance of the Company

- IFRIC 13 'Customer Loyalty Programmes',
- IFRIC 14 'Prepayments of a Minimum Funding Requirement' (amendment),
- IFRIC 17 'Distributions of Non-cash Assets to Owners', and
- IFRIC 19 'Extinguishment of Financial Liabilities with Equity Instruments'

1 Accounting Policies (continued)

b) Accounting standards (continued)

The following new standards and interpretations, which are not yet effective and which are not expected to impact on the Company's financial position or performance, have been issued by the IASB

- IFRS 9 'Financial Instruments Classification and Measurement',
- IFRS 10 'Consolidated Financial Statements',
- IFRS 11 'Joint Ventures',
- IFRS 12 'Disclosure of Interest in Other Entities',
- IFRS 13 'Fair Value Measurement' ,
- IAS 1 'Presentation of items in Other Comprehensive Income' ,
- IAS 12 'Income Taxes (amendment) 'Deferred Taxes Recovery of underling assets', and
- IAS 19 'Employee Benefits (Revised)'
-

c) Functional and presentation currency

The Company's functional currency is Danish Kroners (DKK) The presentation currency is US Dollars (USD), the functional currency of most companies within the Group It is deemed to be more appropriate to present the financial statements in line with the functional currency of the majority of the Group The Company's policy on foreign currencies is detailed in note 1(h)

d) Licence Interests

The Company's 100% interest in licence 2008/33 was transferred to Avannaa Exploration Limited, a fellow subsidiary of the Company's immediate parent company Avannaa Resources Limited, in April 2011

e) 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) Mineral intangible exploration/appraisal assets

The Company follows a successful efforts based accounting policy for mineral 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-licence basis, and allocated to defined areas-of-interest within each licence area 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 mineral exploration targets is capitalised initially within intangible exploration/appraisal assets and subsequently allocated to mining activities

Net proceeds from any disposal of an intangible exploration/appraisal asset are initially credited against the previously capitalised costs Any surplus proceeds are credited to the Income Statement

Impairment

Intangible exploration/appraisal assets are reviewed regularly for indicators of impairment Where there are indicators of impairment, an exercise is undertaken to determine whether the carrying values of the exploration/appraisal assets are in excess of their recoverable amount The recoverable amount of assets is the greater of their value in use and fair value less costs to sell In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets

Any impairment arising is recognised in the Income Statement for the year

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

1 Accounting Policies (continued)

g) 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

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 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 payment 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

Trade payables and other non derivative financial liabilities

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

h) Foreign currencies

The Company translates foreign currency transactions into the functional currency, Danish Kroners (DKK), 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 reporting 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

The Company maintains the accounts in its functional currency, Danish Kroners The Company translates into the presentation currency, $, using the closing rate method for assets and liabilities which are translated into $ at the rate of exchange prevailing at the Balance Sheet date and rates at the date of transactions for Income Statement accounts Exchange differences arising on the translation of net assets is taken directly to reserves

Rates of exchange to $1 were as follows

	31 December 2011	**Average 2011**	31 December 2010	Average 2010
Danish Kroner	**5 7439**	**5 3530**	5 5717	5 6125

i) Equity

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs, allocated between share capital and share premium

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

1 Accounting Policies (continued)

j) Taxation (continued)

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) Key estimates 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), 1(g) for further details

2 Operating Loss

Operating loss is stated after charging

	Year ended 31 December 2011 $	Year ended 31 December 2010 $
Unsuccessful exploration costs (note 5)	**43,158**	1,928,736

Auditors Remuneration

The Company's auditors' remuneration of $3,216 (2010 $3,092) has been borne by the Company's parent company, Avannaa Resources Limited

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 Auditors' remuneration for other services is disclosed in the financial statements of Cairn Energy PLC, the ultimate parent undertaking

Staff Costs

The Company has no employees other than directors

Directors Remuneration

The directors received remuneration for the year of $2 5m (2010 $2 1m) and pension contributions of $0 2m (2010 $0 2m), all of which was paid by either Cairn Energy PLC or a fellow subsidiary company 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

Avannaa Diamonds Limited

Notes to the Accounts (continued)

3 Finance Costs

	Year ended 31 December 2011 $	Year ended 31 December 2010 $
Exchange loss	30,083	35,635
	30,083	35,635

4 Taxation

Factors affecting tax expense for year

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

	Year ended 31 December 2011 $	Year ended 31 December 2010 $
Loss before taxation	(73,241)	(1,964,371)
Loss on activities before tax multiplied by the standard rate of UK corporation tax of 26 49% (2010 28%)	(19,402)	(550,024)
Effects of.		
Temporary differences not recognised	(90,545)	540,046
Impact of reduction in UK rate of corporation tax to 25%	641	-
Group relief surrendered	8,881	9,978
Foreign exchange	20,462	-
Adjustments relating to prior period	79,963	-
Total tax charge	-	-

Factors that may affect future corporation tax charges

Finance Act 2010 announced that the UK main rate of corporation tax would reduce from 28% to 27% with effect from 1 April 2011 onwards, Finance Act 2011 further reduced this rate to 26% The UK main rate of corporation tax, therefore, was 28% prior to 1 April 2011, and 26% from that date onwards Finance Act 2011 also announced that the UK main rate of corporation tax would reduce from 26% to 25% from 1 April 2012 onwards

The Government has now proposed further reductions in the corporation tax rate, as announced in the Budget at 21 March 2012 The main rate of corporation tax will now be reduced to 24% from 1 April 2012 and decreased by a further 1% each April thereafter, until the rate reaches 22% with effect from 1 April 2014

The reduction in the tax rate from 28% to 26% from 1 April 2011 onwards has resulted in an averaged rate of corporation tax of 26 49% for the year ended 31 December 2011, as shown above The 2011 deferred tax movement not recognised is based on a rate, for deferred tax purposes, of 25% (2010 27%) being the rate enacted, or substantively enacted, at the period end

There were deferred tax assets of $676,846 and $51 as at 31 December 2011 (2010 $828,778 and $59) relating to exploration costs and pre-trading expenses respectively The reduction in the UK main rate of corporation tax applying to these deferred tax assets reduced their brought forward value by $61,395 These assets have not been recognised as there is insufficient evidence that they will reverse in the foreseeable future The deferred tax assets will be recoverable if the Company generates sufficient taxable income in the future

5 Intangible Exploration/Appraisal Assets

	Greenland $	Total $
Cost		
Cost at 1 January 2010	310,932	**310,932**
Exchange differences arising	(22,981)	**(22,981)**
Additions	1,640,785	**1,640,785**
Unsuccessful exploration costs	(1,928,736)	**(1,928,736)**
Cost at 1 January 2011	-	-
Additions	43,158	**43,158**
Unsuccessful exploration costs	(43,158)	**(43,158)**
At 31 December 2011	-	-
Net book value at 31 December 2011	-	-
Net book value at 31 December 2010	-	-
Net book value at 1 January 2010	310,932	310,932

Unsuccessful exploration costs
During 2010 the Eqi Gold project at Ataa completed without success and the costs of $1,381,496 which had been capitalised in intangible assets were written off in the Income Statement as unsuccessful efforts, together with residual costs of $547,240 on the Kimberlite and Ataa Hills projects, a total of $1,928,736 Further costs of $43,158 which were incurred on those projects during 2011 were written off in the Income Statement as unsuccessful efforts

6 Trade and Other Payables

	31 December 2011 $	31 December 2010 $
Amounts owed to group companies	**2,777,438**	2,789,712
	2,777,438	2,789,712

7 Share Capital

	£1 Ordinary Number	**$**
Allotted, issued and fully paid ordinary shares		
At 31 December 2010 and 31 December 2011	**1**	**2**

8 Financial Risk Management Objectives and Policies

The main risks arising from the Company's financial instruments are liquidity risk, interest rate 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 summarised 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, investment 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

8 Financial Risk Management Objectives and Policies (continued)

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 for 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

Liquidity risk

On 15 December 2010, the Company's ultimate parent undertaking, Cairn Energy PLC, entered into a stand-by secured revolving credit facility of $900m to extend the working capital available, to enable commitments to be made for the 2011 Greenland drilling campaign and for other general corporate purposes The facility was provided by Standard Chartered Bank, Bank of Scotland Plc, Credit Agricole Corporate and Investment Bank, HSBC Bank PLC and Société Générale Security was in the form of a pledge over a number of shares in Cairn UK Holdings Limited Interest was charged at floating rates determined by LIBOR plus an applicable margin The facility was cancelled and repaid in full on 1 August 2011

At December 2011 Cairn Energy PLC Group had $35m of facilities in place to cover the issue of performance guarantees Fixed rates of bank commission and charges applied to these $2 6m was utilised as at 31 December 2011

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 Group is conscious of the current environment and constantly monitors counterparty risk Policies are in place to limit counterparty exposure and maturity The Group monitors counterparties using published ratings and other measures Repayment of principal is the overriding priority and this is achieved by diversification and shorter maturities to provide flexibility

Interest rate risk

Surplus funds are placed on short/medium-term deposits at floating rates It is Group policy to invest with banks or other financial institutions that first of all offer what is perceived as the greatest security and, second, the most competitive interest rate Managing counterparty risk is considered the priority

Short/medium-term borrowing arrangements are generally entered into at floating rates From time to time the Group may opt to manage a proportion of the interest costs by using derivative financial instruments like interest rate swaps At this time, however, there are no such instruments (2010 none)

Foreign currency risk

The Company manages exposures that arise from non-functional currency receipts and payments by matching receipts and payments in the same currency and actively managing the residual net position

Where residual net exposures do exist and they are considered significant 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

Credit risk

Investment credit risk for investments with banks and other financial institutions is managed by the Group Treasury function in accordance with the Board approved policies of Cairn Energy PLC 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 Board continually re-assesses the Group's policy and updates as required The limits are set to minimise the concentration of risks and therefore mitigate financial loss through counterparty failure

Cairn Energy PLC Group limits the placing of deposits, certificates of deposit and other investments to banks or financial institutions that have at least 2 A- or above ratings from Moody's, Standard & Poor's or Fitch unless a Sovereign Guarantee is available from an AAA rated Government The counterparty limits vary between $50m and $200m depending on the ratings of the counterparty During the period, following the receipt of the proceeds of the 30% tranche of the 40% sale of Cairn India Limited, until the completion of the return of cash to Shareholders, these limits were increased to $100m/$400m per counterparty No investments are placed with any counterparty with a 5 year CDS exceeding 250 bps Investments in money market liquidity funds are only made with AAA rated liquidity funds and the maximum holding in any single fund is 5% of total investments

At the year end the Company does not have any significant concentrations of bad debt risk

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

8 Financial Risk Management Objectives and Policies (continued)

Capital Management

The objective of the Company's capital management structure is to ensure that there remains sufficient liquidity within the Company to carry out committed work programme requirements The Group 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 Board manages the capital structure and makes adjustments to it in light of changes to economic conditions To maintain or adjust the capital structure, the Board may adjust the dividend payment to shareholders, return capital, issue new shares for cash, repay debt, put in place new debt facilities or other such restructuring activities as appropriate No significant changes were made in the objectives, policies or processes during the year ended 31 December 2011

Company capital and net debt were made up as follows

	31 December 2011	31 December 2010
	$	$
Trade and other payables	**2,777,438**	2,789,712
Net debt	**2,777,438**	2,789,712
Equity	**(2,777,438)**	(2,789,712)
Company capital and net debt	-	-
Gearing Ratio	-	-

9 Financial Instruments

The Company calculates the fair value of assets and liabilities by reference to amounts considered to be receivable or payable on the reporting date

The Company's held no financial assets as at 31 December 2011 (31 December 2010 $nil) The Company financial liabilities, together with their fair values are as follows

Financial liabilities	**Carrying amount**		**Fair value**	
	31 December 2011	31 December 2010	**31 December 2011**	31 December 2010
	$	$	**$**	$
Amounts owed to group companies	**2,777,438**	2,789,712	**2,777,438**	2,789,712
	2,777,438	2,789,712	**2,777,438**	2,789,712

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

Avannaa Diamonds Limited
Notes to the Accounts (continued)

9 Financial Instruments (continued)

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

	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 $
31 December 2011							
Amounts owed to group companies	**2,777,438**	2,777,438	-	-	-	-	-
	2,777,438	**2,777,438**	-	-	-	-	-
31 December 2010							
Amounts owed to group companies	2,789,712	1,668,148	793,272	328,292	-	-	-
	2,789,712	1,668,148	793,272	328,292	-	-	-

10 Related Party Transactions

The following table provides the balances which are outstanding with group companies at the reporting date

	31 December 2011 $	31 December 2010 $
Amounts owed to group companies	**(2,777,438)**	(2,789,712)
	(2,777,438)	(2,789,712)

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

During the year ended 31 December 2011, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2010 $nil)

All transactions with other Group companies are carried out on an arms length basis

Remuneration of key management personnel

The remuneration of directors who are the key management personnel of the Company is set out in Note 2 in the Notes to Accounts section Further information about the remuneration of certain individual directors is provided in the audited part of the Directors' Remuneration Report included in the ultimate parent company's annual accounts on pages 80 to 87

11 Ultimate Parent Company

The Company is a wholly owned subsidiary of Avannaa Resources Limited The results of the Company are consolidated into those of its ultimate parent company Cairn Energy PLC, registered in Scotland, whose principal place of business is at 50 Lothian Road, Edinburgh, EH3 9BY

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