Registered No 06487757

AVANNAA DIAMONDS LIMITED

REPORT & FINANCIAL STATEMENTS

FOR THE PERIOD FROM 1 APRIL 2009 TO 31 DECEMBER 2009

Avannaa Diamonds Limited

Directors

S Bernstein
HGD Mackay
NM Rose
DAE Taylor
SJ Thomson
JBW Watt

Secretary

M Guild

Auditors.

BDO LLP
55 Baker Street
London EC4M 8AL

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 nine month period ended 31 December 2009

Principal Activities and Business Review

The Company's principal activity is the exploration for minerals, primarily in Greenland

The Company's immediate parent, Avannaa Resources Limited, was acquired in 2009 by Capricorn Minerals Limited, a subsidiary of Cairn Energy PLC The Company therefore changed its accounting reference date from 31 March to 31 December to match that of its new ultimate parent The financial statements are accordingly presented for the nine month period ended 31 December 2009, with the comparatives for the twelve month period ended 31 March 2009

During the period the Company made a loss of £537,289 (Year ended 31 March 2009 loss £140) due to unsuccessful exploration costs which are discussed further below

The Company holds a mineral exploration licence in Greenland 2008/33 at Ataa which includes various areas of interest (diamonds, gold) During the period the licence was reduced in size This is a normal procedure as exploration becomes more focused and does not in itself give rise to any cause for impairment Three projects have been completed without success - the Qajuta, the Ataa hills and the Ataa kimberlite projects which are specific areas of interest within licence 2008/33 The costs of £537,289 which had been capitalised in intangible assets in respect of these projects have been written off in the Income Statement as unsuccessful exploration costs Work continues on the Eqi Ataa gold area of interest within the licence area At the period end and at the date the financial statements were approved by the Board, the Company carried out an impairment review of intangible exploration/appraisal assets and concluded that there were no indicators of impairment

Refer to note 1 (f) for details of the assumptions used in the impairment calculations

No dividend has been paid or declared in respect of the nine month period ended 31 December 2009 (year ended 31 March 2009 £nil)

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 resources 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

Directors

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

S Bernstein
HGD Mackay
NM Rose
DAE Taylor (appointed 13 November 2009)
SJ Thomson (appointed 13 November 2009)
JBW Watt (appointed 13 November 2009)

Charitable and Political Donations

The Company did not make any charitable or political contributions during the period (year ended 31 March 2009 £nil)

Avannaa Diamonds Limited

Directors' Report (continued)

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

Events after Reporting Date

There were no significant events after the reporting date

Auditors

The directors of the Company who held office at 31 December 2009 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

11 February 2011

Avannaa Diamonds Limited

Directors' Responsibility Statement

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 elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS's) 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,
- they have been prepared in accordance with IFRSs as adopted by the European Union, 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 Auditors' Report

To the members of Avannaa Diamonds Limited (registered number 06487757)
We have audited the financial statements of Avannaa Diamonds Limited for the nine month period ended 31 December 2009 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS's) as adopted by the European Union

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

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

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 2009 and of its loss for the period then ended,
- have been properly prepared in accordance with IFRS's 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 period 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

Scott Knight

Scott Knight (Senior statutory auditor)
for and on behalf of BDO LLP, Statutory Auditor
55 Baker Street
London,W1U 7EU
United Kingdom

14 February 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

Avannaa Diamonds Limited

Income Statement

For the nine month period ended 31 December 2009

Continuing operations	Notes	2009 £	1 April 2008 to 31 March 2009 £
Administrative expenses		-	(140)
Unsuccessful exploration costs	2	**(537,289)**	-
Operating loss before taxation	2	**(537,289)**	(140)
Taxation	3	-	-
Loss for the period attributable to equity holders		**(537,289)**	(140)

Avannaa Diamonds Limited

Statement of Comprehensive Income

For the nine month period ended 31 December 2009

	2009 £	1 April 2008 to 31 March 2009 £
Loss for the period	(537,289)	(140)
Total comprehensive income for the period attributable to equity holders	(537,289)	(140)

Avannaa Diamonds Limited
Balance Sheet
As at 31 December 2009

	Notes	31 December 2009 £	31 March 2009 £	31 March 2008 £
Non-current assets				
Intangible exploration/appraisal assets	4	**192,456**	210,277	-
		192,456	210,277	-
Current assets				
Trade and other receivables	5	**1**	1	1
		1	1	1
Total assets		**192,457**	210,278	1
Current liabilities				
Trade and other payables	6	**729,885**	210,417	-
Total liabilities		**729,885**	210,417	-
Net (liabilities)/assets		**(537,428)**	(139)	1
Equity and reserves				
Called-up share capital	7	**1**	1	1
Retained earnings		**(537,429)**	(140)	-
Total equity		**(537,428)**	(139)	1

The financial statements were approved by the board of directors and authorised for issue on 11 February 2011

Douglas Taylor
Director

Avannaa Diamonds Limited

Statement of Changes in Equity

For the nine month period ended 31 December 2009

	Share capital £	Retained earnings £	Total £
At 1 April 2008	1	-	**1**
Total comprehensive income for the year	-	(140)	**(140)**
At 1 April 2009	1	(140)	**(139)**
Total comprehensive income for the period	-	(537,289)	**(537,289)**
At 31 December 2009	**1**	**(537,429)**	**(537,428)**

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 nine month period ended 31 December 2009 were authorised for issue in accordance with a resolution of the directors on 11 February 2011 The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on page 2 The financial position of the Company, its, liquidity position and borrowing facilities are presented in the financial statements and supporting notes The Company funded its operations through inter-company borrowings and thus did not hold any cash and cash equivalents during the period A Statement of Cash Flows has not therefore been presented 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

The Company has an obligation to meet the work programme requirements in respect of its exploration licences in Greenland It has not applied for any new licences in 2010 and the minimum spend required in 2010 and 2011 is £nil It is only in the first year of signing a licence that there are spending commitments as after that period spending is discretionary The Company does however have ongoing general and administrative costs Cairn Energy PLC, the Company's ultimate parent company, confirmed its willingness to continue providing on-going financial support to the Company The directors therefore believe that the Company has adequate financing in place to meet its commitments and working capital requirements and it is appropriate to use the going concern basis for the preparation of the financial statements of the Company

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

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") These are the first financial statements of the Company to have been prepared under IFRS and there are no disclosures required by IFRS 1 "First time adoption of IFRS" concerning the transition from UK GAAP to IFRS

The Company has adopted all the relevant standards and interpretations applicable to it which are effective in 2009

Relevant new standards and interpretations issued by the IASB, but not yet effective and not applied in these financial statements are as follows

		Date of adoption by Company
IAS 39	Amendments – Embedded derivative	30 Jun 2009
IAS 27	Amendment - Consolidated and separate financial statements	1 Jul 2009
IAS 39	Amendment - Recognition and measurement Eligible hedged items	1 Jul 2009
IFRS 3	Revised - Business combinations	1 Jul 2009
IFRS 2*	Amendment – Company cash-settled share based payment transactions	1 Jan 2010
IAS 32	Amendment – Classification of rights issues	1 Feb 2010
IAS 24*	Revised – Related party disclosures	1 Jan 2011
IFRS 9*	Financial instruments	1 Jan 2013

The Company has not yet assessed the impact of IFRS 9 Except for this and the introduction of IFRS 3 revised and IAS27 Revised, which would affect any business combination that the Company completes in the future, and the amended disclosure requirements of IAS24 Revised the above new standards, amendments and interpretations are not expected to materially affect the Company's reporting or reported numbers

* Not yet endorsed by European Union

1 Accounting Policies (continued)

c) **Change in accounting policy**
During the period the Company changed its policy for accounting for mineral exploration/appraisal assets from a full cost policy to a successful efforts based accounting policy

Under the full cost method all expenditure incurred in connection with, and directly attributable to, mineral reserves were capitalised irrespective of the success or failure of specific parts of the overall exploration activity

Under the successful efforts based accounting policy 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 area-of-interest is complete or commercial reserves have been discovered Costs incurred on areas-of-interest where exploration is completed without success are written off to the Income Statement as unsuccessful exploration costs

The Company believes that the successful efforts policy provides reliable and more relevant information than the full cost method

IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) requires retrospective application of changes in accounting policies The directors have considered the impact of the change in the accounting policy on the previous accounting periods and concluded it to be immaterial resulting in no restatement of comparative information

d) **Presentation currency**
The functional and presentation currency of the Company is pound sterling (£) The Company's policy on foreign currencies is detailed in note 1(h)

e) **Licence Interests**

The Company has interests in the following licence

	Working Interest
2008/33	100%

f) **Mineral intangible exploration/appraisal assets**

The Company now follows a successful efforts based accounting policy for mineral assets as explained at note 1c

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 period

Avannaa Diamonds Limited
Notes to the Accounts (continued)

1 Accounting Policies (continued)

f) Mineral intangible exploration/appraisal assets (continued)

Where there has been a charge for impairment in an earlier period that charge will be reversed in a later period where there has been a change in circumstances to the extent that the discounted future net cash flows are higher than the net book value at the time In reversing impairment losses, the carrying amount of the asset will be increased to the lower of its original carrying value or the carrying value that would have been determined (net of depletion) had no impairment loss been recognised in prior periods

g) 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

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and short-term deposits with an original maturity of three months or less

Trade payables and other creditors

All financial liabilities including trade payables and borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issues of the instrument Such liabilities are subsequently measured at amortised costs using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet

Share capital

Financial instruments issued by the Company are treated as equity only to the extent that they do not meet the definition of a financial liability The Company's ordinary shares are classed as equity and recorded at the proceeds received, net of direct issue costs, allocated between share capital and share premium

h) Foreign currencies

The Company translates foreign currency transactions into the functional currency, sterling (£), 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

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

1 Accounting Policies (continued)

j) **Taxation**

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

The current tax is based on taxable profit/(loss) for the period Taxable profit/(loss) differs from net profit/(loss) as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other periods 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 reporting date

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit/(loss)

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 reporting 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 reporting 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 estimations and assumptions**

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

Impairment testing
Discounted future net cash flows for IAS 36 purposes are calculated using commodity price, cost and discount rate assumptions on forecast production profiles The actual outcome may vary See notes 1(f), 1(g) for further details

2 Operating Loss

Operating loss is stated after charging

	1 April 2009 to 31 December 2009 £	1 April 2008 to 31 March 2009 £
Unsuccessful exploration costs (Note 4)	**537,289**	-

Avannaa Diamonds Limited
Notes to the Accounts (continued)

2 Operating Loss (continued)

Auditors Remuneration
The Company's auditors' remuneration of £3,000 (year ended 31 March 2009 £nil) has been borne by the intermediate holding 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 No remuneration was paid to directors, who are the key management personnel of the Company, for services to this Company during the period Refer to note 11 for further details

3 Taxation

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

	1 April 2009 to 31 December 2009 £	1 April 2008 to 31 March 2009 £
Loss before taxation	**(537,289)**	(140)
Loss on activities before tax multiplied by the standard rate of UK corporation tax of 28% (period ended 31 March 2009 30%)	**(150,441)**	(42)
Effects of		
Deferred tax movement not recognised	**150,441**	42
Total tax charge	**-**	-

Finance Act 2008 reduced the UK main rate of tax from 30% to 28% This reduction took effect from 1 April 2008 onwards, resulting in a rate of corporation tax of 28% for the nine month period ended 31 December 2009 and for the period ended 31 March 2009, as shown above

There was a deferred tax asset of £150,480 as at 31 December 2009 (31 March 2009 £42) in relation to taxable losses carried forward This asset has not been recognised as there is insufficient evidence that it will reverse in the foreseeable future This asset will be recoverable if the Company generates sufficient taxable income in the future

4 Intangible Exploration/Appraisal Assets

	Greenland £	Total £
Cost		
At 1 April 2008	-	-
Additions	210,277	**210,277**
Cost at 1 April 2009	210,277	**210,277**
Additions	519,468	**519,468**
Unsuccessful exploration costs	(537,289)	**(537,289)**
At 31 December 2009	**192,456**	**192,456**
Impairment		
At 1 April 2008, 1 April 2009 and at 31 December 2009	-	-
Net book value at 31 December 2009	**192,456**	**192,456**
Net book value at 31 March 2009	210,277	210,277
Net book value at 1 April 2008	-	-

Unsuccessful efforts
Three projects have been completed without success - the Qajuta, the Ataa hills and the Ataa kimberlite projects which are specific areas of interest within licence 2008/33 The costs of £537,289 which had been capitalised in intangible assets in respect of these projects have been written off to the Income Statement as unsuccessful exploration costs Work continues on the Eqi Ataa gold area of interest within the licence area

Impairment of exploration/appraisal assets
Exploration/appraisal assets were reviewed for indicators of impairment at the period end and at the date the financial statements were approved by the Board, and where indicators were found, tested for impairment Refer to note 1(f) for further details At the period end the Company carried out an impairment review of intangible exploration/appraisal assets and concluded that indicators of impairment did not exist

5 Trade and Other Receivables

	31 December 2009 £	31 March 2009 £	31 March 2008 £
Amounts owed by group undertaking	1	1	1
	1	1	1

Avannaa Diamonds Limited
Notes to the Accounts (continued)

5 Trade and Other Receivables (continued)

As at 31 December 2009, 31 March 2009 and 31 March 2008 the ageing analysis of trade and other receivables, excluding prepayments, is set out below

	Total £	Current £	< 30 days £	30-60 days £	60-90 days £	90-120 days £	>120 days £
31 December 2009							
Past due but not impaired	1	-	-	-	-	-	1
As at 31 December 2009	**1**	-	-	-	-	-	**1**
31 March 2009							
Past due but not impaired	1	-	-	-	-	-	1
As at 31 March 2009	1	-	-	-	-	-	1
31 March 2008							
Past due but not impaired	1	-	-	-	-	-	1
As at 31 March 2008	1	-	-	-	-	-	1

6 Trade and Other Payables

	31 December 2009 £	31 March 2009 £	31 March 2008 £
Amounts owed to group companies	**729,885**	210,417	-
	729,885	210,417	-

7 Share Capital

	£1 Ordinary Number
Authorised ordinary shares	
At 1 April 2008, 31 March 2009 and 31 December 2009	**1,000,000**

	£1 Ordinary Number	£
Allotted, issued and fully paid ordinary shares		
At 1 April 2008, 31 March 2009 and 31 December 2009	**1**	**1**

8 Financial Risk Management Objectives and Policies

In common with all other business, the Company is exposed to risks that arise from its use of financial instruments This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them Further quantitative information in respect of these risks is presented through these financial statements

The significant accounting policies regarding financial instruments are disclosed in note 1

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note

The Board of the Company's ultimate parent, Cairn Energy PLC, review and agree policies for managing each of these risks and these are summarised below

Liquidity risk

Liquidity risk arises from the Company's management of working capital and its inter-group loans which are repayable on demand As disclosed in note 1 the Company is dependent on the continued support from the ultimate parent company to meet its obligations as they fall due

Foreign currency risk
The Company is exposed to currency risk through its activities in Greenland due to certain costs arising in Danish Kroner, whilst the Company's functional currency is pounds sterling The Company has no formal policy in respect of foreign exchange risk, however it reviews its currency exposure on a regular basis

In so far as possible the Company manages its foreign currency exposures by minimising cross currencies and retaining cash balances in pounds sterling

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
Credit risk arises principally from the Company's investments in cash deposits

During the period the Company held no cash deposits (31 March 2009 nil, 31 March 2008 nil) The Company funded its operations through inter-company borrowings and thus did not hold any cash and cash equivalents during the period

Market risk
The Company is still at an early stage of exploration and has not been generating any revenues As such there is no specific market risk at the date of this report However, there is a long term market risk associated with the project as a whole whereby a drop in diamond or other mineral prices below expected level may have effect on the viability of the projects

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 Board monitor the long term cash flow requirements of their businesses 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 nine month period ended 31 December 2009

Avannaa Diamonds Limited
Notes to the Accounts (continued)

8 Financial Risk Management Objectives and Policies (continued)

Capital management (continued)

The Company capital and net debt were made up as follows

	31 December 2009 £	31 March 2009 £	31 March 2008 £
Trade and other payables	729,885	210,417	-
Net Debt	729,885	210,417	-
Equity	(537,428)	(139)	1
Capital and net debt	192,457	210,278	1
Gearing ratio	379 3%	100 0%	0 0%

Borrowing facilities
The Company had no undrawn committed borrowing facilities available at 31 December 2009 (31 March 2009 nil, 31 March 2008 nil)

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

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest Fair values have been calculated by discounting expected cash flows at prevailing interest rates and by applying year end exchange rates

The Company's financial assets and liabilities, together with their fair values are as follows

Financial assets	**Carrying amount**			**Fair value**		
	31 December 2009 £	31 March 2009 £	31 March 2008 £	**31 December 2009 £**	31 March 2009 £	31 March 2008 £
Amounts owed by group undertaking	1	1	1	1	1	1
	1	1	1	1	1	1

All of the above financial assets are unimpaired An analysis of the ageing of trade and other receivables is provided in note 5

Financial liabilities	**Carrying amount**			**Fair value**		
	31 December 2009 £	31 March 2009 £	31 March 2008 £	**31 December 2009 £**	31 March 2009 £	31 March 2008 £
Amounts owed to group companies	729,885	210,417	-	729,885	210,417	-
	729,885	210,417	-	729,885	210,417	-

Avannaa Diamonds Limited

Notes to the Accounts (continued)

9 Financial Instruments (continued)

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 £
31 December 2009						
Amounts owed to group companies	**729,885**	519,438	210,417	-	-	-
	729,855	**519,438**	**210,417**	-	-	-
31 March 2009						
Amounts owed to group companies	210,417	210,417	-	-	-	-
	210,417	210,417	-	-	-	-

10 Capital Commitments

	31 December 2009 £	31 March 2009 £	31 March 2008 £
Mineral expenditure			
Intangible exploration/appraisal assets	-	-	267,000
Contracted for	-	-	267,000

The above capital commitments represent the Company's share of obligations in relation to its interests in the licence

11 Related Party Transactions

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

	31 December 2009 £	31 March 2009 £	31 March 2008 £
Amounts owed to group companies	**(729,885)**	(210,417)	-
Amounts owed by group companies	**1**	1	1
	(729,884)	(210,416)	1

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

Remuneration of key management personnel

No remuneration was paid to directors who are the key management personnel of the Company, for services to this Company during the period (year ended 31 March 2009 £nil)

12 Ultimate Parent Company

In an agreement signed on 12 June 2009 and ratified by the Greenlandic authorities on 3 November 2009, the entire shareholding of the Company's immediate parent undertaking, Avannaa Resources Limited, was acquired by Capricorn Minerals Limited The ultimate parent company of Capricorn Minerals is Cairn Energy PLC The results of the Company are consolidated into those of 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