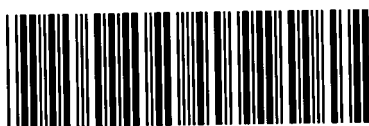


**AVANNAA DIAMONDS LIMITED**  
**REPORT & FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

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COMPANIES HOUSE

# **Avannaa Diamonds Limited**

## **Directors:**

S Bernstein  
NM Rose  
DAE Taylor  
SJ Thomson

## **Secretary:**

M Guild

## **Independent Auditors:**

PricewaterhouseCoopers LLP  
141 Bothwell Street  
Glasgow  
G2 7EQ

## **Solicitors:**

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

## **Registered Office:**

6th Floor  
20 Berkeley Square  
London  
W1J 6EQ

## **Registered No:**

06487757

# **Avannaa Diamonds Limited**

## **Directors' Report**

The directors present their Report and Financial Statements for the year ended 31 December 2014.

### **Principal Activities and Business Review**

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006 and therefore the directors have not prepared a Strategic Report.

The Company transferred its sole exploration licence to a sister company, Avannaa Exploration Limited during 2011 and currently holds no interests in mineral licences.

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

During the year the Company made a loss of US\$57,142 (2013: profit of US\$27,212 ) due to exchange losses and gains. On 31 December 2014, the Company's immediate parent company, Avannaa Resources Limited, waived debts due from the Company of DKK 9,046,581 and GBP £773,876.98 (total of US\$2,697,583). This capital contribution has been credited to accumulated losses and resulted in the Company's liabilities being fully extinguished.

No dividend has been paid or declared in respect of the year ended 31 December 2014 (year ended 31 December 2013: US\$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 directors are considering plans for the Company's future as the Company currently holds no interests in mineral licences. The Company currently has neither assets nor liabilities and to pursue any further opportunities the Company will require funding. The Company's ultimate parent company, Cairn Energy PLC has confirmed that it will make available sufficient funds to allow the Company to meet its future liabilities as they fall due for the next twelve months. The directors therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### **Accounting Policies**

The Company applies accounting policies in line with the Cairn Energy PLC Group accounting policies. Significant accounting policies of the Group are included in their financial statements. Accounting policies relating to non-material items are available on the Cairn Energy PLC website.

### **Directors**

The directors of the Company who were in office during the year and up to the date of signing the financial statements were as follows:

S Bernstein  
NM Rose  
DAE Taylor  
SJ Thomson  
JBW Watt (resigned 5 December 2014)

# Avannaa Diamonds Limited

## Directors' Report (continued)

### Statement of Directors' Responsibilities

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.

### Disclosure of Information to Auditors

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

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the annual general meeting.

### BY ORDER OF THE BOARD



**Maryth Guild**  
Secretary

6th Floor  
20 Berkeley Square  
London  
W1J 6EQ

2 July 2015

# ***Independent auditors' report to the members of Avannaa Diamonds Limited***

## **Report on the financial statements**

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### **Our opinion**

In our opinion, Avannaa Diamonds Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its loss for the year then ended;
  - have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
  - have been prepared in accordance with the requirements of the Companies Act 2006.
- 

### **What we have audited**

Avannaa Diamonds Limited's financial statements comprise:

- the Balance Sheet as at 31 December 2014;
- the Income Statement and Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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## **Opinion on other matter prescribed by the Companies Act 2006**

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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.

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## **Other matters on which we are required to report by exception**

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### **Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

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### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

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## **Entitlement to exemptions**

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: take advantage of the small companies exemption in preparing the Directors' Report; and take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

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## **Responsibilities for the financial statements and the audit**

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### **Our responsibilities and those of the directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, 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) ("ISAs (UK & 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.

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### **What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report 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.



Bruce Collins (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Glasgow

2 July 2015

## Avannaa Diamonds Limited

### Income Statement

For the year ended 31 December 2014

Continuing operations	Notes	2014 US\$	2013 US\$
Operating profit		-	-
Finance income	3	-	27,212
Finance costs	4	(57,142)	-
(Loss)/profit before taxation		(57,142)	27,212
Taxation	5	-	-
(Loss)/profit for the year		(57,142)	27,212

## Avannaa Diamonds Limited

### Statement of Comprehensive Income

For the year ended 31 December 2014

	2014 US\$	2013 US\$
(Loss)/profit for the year	(57,142)	27,212
Other comprehensive income for the year – items that may be recycled to profit or loss		
Currency translation differences	307,472	(117,084)
Other comprehensive income for the year	307,472	(117,084)
Total comprehensive income for the year	250,330	(89,872)

# Avannaa Diamonds Limited

## Balance Sheet

As at 31 December 2014

	Notes	31 December 2014 US\$	31 December 2013 US\$
<b>Current liabilities</b>			
Trade and other payables	6	-	(2,947,913)
<b>Total liabilities</b>		-	(2,947,913)
<b>Net liabilities</b>		-	(2,947,913)
<b>Equity and reserves</b>			
Share capital	7	2	2
Foreign currency translation		272,804	(34,668)
Accumulated losses		(272,806)	(2,913,247)
<b>Total equity</b>		-	(2,947,913)

The financial statements on pages 6 to 13 were approved by the Board of Directors on 2 July 2015 and signed on its behalf by:

  
\_\_\_\_\_  
Douglas Taylor  
Director

Company Registered No: 06487757

# Avannaa Diamonds Limited

## Statement of Changes in Equity

For the year ended 31 December 2014

	Share capital US\$	Foreign currency translation US\$	Accumulated losses US\$	Total Equity US\$
At 1 January 2013	2	82,416	(2,940,459)	(2,858,041)
Profit for the year	-	-	27,212	27,212
Other comprehensive income for the year	-	(117,084)	-	(117,084)
Total comprehensive income for the year	-	(117,084)	27,212	(89,872)
At 1 January 2014	2	(34,668)	(2,913,247)	(2,947,913)
Loss for the year	-	-	(57,142)	(57,142)
Other comprehensive income for the year	-	307,472	-	307,472
Total comprehensive income for the year	-	307,472	(57,142)	250,330
Capital contribution	-	-	2,697,583	2,697,583
<b>At 31 December 2014</b>	<b>2</b>	<b>272,804</b>	<b>(272,806)</b>	<b>-</b>

# Avannaa Diamonds Limited

## Notes to the Financial Statements

### 1 Accounting Policies

#### a) Basis of preparation

The financial statements of Avannaa Diamonds Limited ("the Company") for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Directors on 2 July 2015. 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.

The Company has neither assets nor liabilities and to pursue any further opportunities the Company will require funding. The Company's ultimate parent company, Cairn Energy PLC has confirmed that it will make available sufficient funds to allow the Company to meet its future liabilities as they fall due for the next twelve months. The directors therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The Company is incorporated in England and domiciled in the United Kingdom. The registered office is located at 6th Floor, 20 Berkeley Square, London, W1J 6EQ.

The Company prepares its financial statements on a historical cost basis. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the relevant accounting policy. The Company's financial statements comply with the Companies Act 2006. The accounting policies adopted during the period are consistent with those adopted by the parent Cairn Energy PLC.

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 financial statements in accordance with applicable International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB") 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 2014.

Effective 1 January 2014, the Company has adopted the following standards:

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

The following amendments to standards issued by the IASB and endorsed by the EU have yet to be adopted by the Company:

- Annual improvements to IFRSs 2010-2012 Cycle (effective 1 July 2014)

The adoption of these amendments will have no material impact on the Company's results or financial statement disclosures. There are no other standards or amendments issued by the IASB and endorsed by the EU that will impact the Company.

# Avannaa Diamonds Limited

## Notes to the Financial Statements (continued)

### 1 Accounting Policies (continued)

#### 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(e).

#### d) 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.

#### Trade payables and other non derivative financial liabilities

Trade payables and other creditors are non-interest bearing and are measured at fair value initially then amortised cost subsequently.

#### e) 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, US\$, using the closing rate method for assets and liabilities which are translated into US\$ 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 US\$1 were as follows:

	31 December 2014	Average 2014	31 December 2013	Average 2013
Danish Kroner	6.1552	5.6102	5.4284	5.6145

#### f) 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.

A capital contribution from the parent is recognised at the fair value of the debt forgiven by the parent company. At the reporting date, any debts due to or due from group companies are reviewed. Where the fair value of the assets in the underlying subsidiary supports the issue of equity shares to reduce intercompany balances, equity shares are issued to reduce the debt. However, if this is not the case, the debt is usually forgiven by the parent, and the amount is considered as a capital contribution in the subsidiary.

# Avannaa Diamonds Limited

## Notes to the Financial Statements (continued)

### 1 Accounting Policies (continued)

#### g) Taxation

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

The current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Balance Sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred income tax liabilities are recognised for all taxable temporary differences except in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in Joint Ventures where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. A deferred income tax liability is not recognised if a temporary difference arises on initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, carry forward of unused tax assets and unused tax losses can be utilised, except where the deferred income tax asset relating to the deductible temporary timing difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in Joint Ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods in which the asset is realised or the liability is settled, based on tax rates and laws enacted or substantively enacted at the Balance Sheet date. Deferred tax assets and liabilities are only offset where they arise within the same entity and tax jurisdiction and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

# Avannaa Diamonds Limited

## Notes to the Financial Statements (continued)

### 2 Operating (Loss)/profit

#### Auditors Remuneration

The Company's auditors' remuneration of US\$3,482 (2013: US\$3,130) has been borne by an intermediate holding company, Capricorn Energy 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. No such costs were incurred by the Company during the year (2013: US\$nil).

#### Staff Costs

The Company has no employees (2013: none).

#### Directors Remuneration

The directors received remuneration for the year of US\$3.4m (2013: US\$2.7m) and pension contributions of US\$0.2m (2013: US\$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.

### 3 Finance Income

	2014 US\$	2013 US\$
Exchange gain	-	27,212

### 4 Finance Costs

	2014 US\$	2013 US\$
Exchange loss	57,142	-

### 5 Taxation

#### Factors affecting tax expense for year

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

	2014 US\$	2013 US\$
(Loss)/profit before taxation	(57,142)	27,212
Tax at the standard rate of UK corporation tax of 21.5% (2013: 23.25%)	(12,286)	6,327
Effects of:		
Tax losses (surrendered to)/claimed from other group companies	11,836	(6,403)
Foreign exchange	450	76
<b>Total tax charge</b>	<b>-</b>	<b>-</b>

#### Factors that may affect future corporation tax charges

The UK main rate of corporation tax was 23% prior to 1 April 2014, and 21% from that date onwards. The reduction in the tax rate from 23% to 21% has resulted in an average rate of corporation tax of 21.5% for the year ended 31 December 2014, as shown above. The rate will reduce to 20% on 1 April 2015.

No deferred tax asset has been recognised at the year end on temporary differences in respect of non-current assets of US\$2,526,472 (2013: US\$2,864,737), and pre-trade revenue costs carried forward for future relief of US\$190 (2013: US\$216), as it is not considered probable that these will be utilised in future periods.

# Avannaa Diamonds Limited

## Notes to the Financial Statements (continued)

### 6 Trade and Other Payables

	2014 US\$	2013 US\$
Amounts owed to group companies	-	2,947,913

On 31 December 2014, the Company's immediate parent company, Avannaa Resources Limited, waived debts due from the Company of DKK 9,046,581 and GBP £773,876.98 (total of US\$2,697,583). This capital contribution has been credited to accumulated losses and resulted in the Company's liabilities being fully extinguished.

### 7 Share Capital

	£1 Ordinary Number	US\$
Allotted, issued and fully paid ordinary shares		
At 31 December 2013 and 31 December 2014	1	2

### 8 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 held no financial assets as at 31 December 2014 (31 December 2013: US\$nil). The Company's financial liabilities together with their fair values, calculated by discounting the expected future cash flows at prevailing interest rates, are as follows:

Financial liabilities	Carrying amount		Fair value	
	2014 US\$	2013 US\$	2014 US\$	2013 US\$
Amounts owed to group companies	-	2,947,913	-	2,947,913

The Company's 2013 financial liabilities had a maturity of less than one year.

### 9 Related Party Transactions

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

	2014 US\$	2013 US\$
Amounts owed to group companies	-	2,947,913

On 31 December 2014, the Company's immediate parent company, Avannaa Resources Limited waived debts due from the Company of DKK 9,046,581 and GBP £773,876.98 (total of US\$2,697,583). This capital contribution has been credited to accumulated losses.

#### Remuneration of key management personnel

The remuneration of directors, who are the key management personnel of the Company, is set out in note 2. There are no agreements between the Company and the Board of Directors.

### 10 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.