Registered No: SC255292

CAIRN ENERGY LUMBINI LIMITED

REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

Cairn Energy Lumbini Limited

Directors:

J M Brown
S J Thomson
M J Watts

Secretary:

D A Wood

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:

50 Lothian Road
Edinburgh EH3 9BY

Registered No:

SC255292

Cairn Energy Lumbini Limited

Directors' Report

The directors present their report and financial statements for the year ended 31 December 2012.

Principal Activities and Business Review

Cairn Energy Lumbini Limited's ("the Company") principal activity is exploration for oil and gas.

The Company has signed a petroleum agreement (PA) for Nepal blocks 4, 6 and 7 where it will explore for oil and gas. However, due to ongoing political instability the Company is unable to proceed with the exploration as planned. The directors are therefore considering withdrawing from the agreement during 2013. Consequently, the Company has provided for $1,155,000 relating to unfulfilled license obligation.

The Company carried out an impairment review of intangible exploration/appraisal assets and concluded that indicators of impairment existed. The ongoing political instability in the country prevents further exploration activities and the balance was accordingly impaired in full. Refer to note 1(e) for details of the assumptions used in the impairment calculations.

During the year the Company made a loss of $1,187,345 mainly due to the impairment of intangible exploration/appraisal assets noted above (2011: $650,399). No dividend has been paid or declared in respect of the year ended 31 December 2012 (2011: $nil).

Principal Risks and Uncertainties

The Company is subject to a variety of risks which derive from the nature of the oil and gas exploration business.

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

The cost of drilling, completing and operating wells is often uncertain. As a result, the Company may incur cost overruns or may be required to curtail, delay or cancel drilling operations because of many factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, adverse weather conditions, the need for compliance with environmental regulations, governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment.

Financial Instruments

For details of the Company's financial risk management policy see note 12.

Directors

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

J M Brown
S J Thomson
M J Watts

Charitable and Political Donations

The Company did not make any charitable or political contributions during the year (2011: $nil).

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.

Disclosure of Information to Auditors

The directors of the Company who held office at 31 December 2012 confirm, as far as they are aware, there is no relevant audit information of which the Company's auditors are unaware. In making this confirmation, the directors have taken appropriate steps to make themselves aware of the relevant audit information and that the Company's auditors are aware of this information.

BY ORDER OF THE BOARD

Duncan Wood
Secretary

50 Lothian Road
Edinburgh EH3 9BY

9 September 2013

Cairn Energy Lumbini Limited

Directors' Responsibility Statement

The directors are responsible for preparing the Annual Report and the Company's 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 are required to prepare the Company financial statements and have elected to prepare the Company financial statements in accordance with United Kingdom law and those IFRSs as adopted by the European Union.

Under Company law the directors must not approve the Company 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 those 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;
- provide additional disclosures when compliance with the specific requirements in IFRSs 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;
- state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are reasonable.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAIRN ENERGY LUMBINI LIMITED

We have audited the financial statements of Cairn Energy Lumbini Limited for the year ended 31 December 2012 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 16. 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 2012 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
11 September 2013

Cairn Energy Lumbini Limited
Income Statement
For the year ended 31 December 2012

Continuing Activities	Notes	**2012**	2011
		$	$
Administrative expenses		**(1,195)**	(1,068)
Impairment of intangible exploration/appraisal assets	6	**(1,216,008)**	(659,280)
Operating loss	2	**(1,217,203)**	(660,348)
Finance income	4	**29,858**	9,949
Loss before taxation		**(1,187,345)**	(650,399)
Taxation on loss	5	**-**	-
Loss for the year		**(1,187,345)**	(650,399)

Cairn Energy Lumbini Limited

Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 $	2011 $
Loss for the year	**(1,187,345)**	(650,399)
Total comprehensive income for the year	**(1,187,345)**	(650,399)

Cairn Energy Lumbini Limited
Balance Sheet
As at 31 December 2012

	Notes	2012 $	2011 $
Non-current assets			
Intangible exploration/appraisal assets	6	**-**	-
		-	-
Current assets			
Trade and other receivables	7	**6,183,396**	5,930,190
Cash and cash equivalents	8	**10,686**	10,686
		6,194,082	5,940,876
Total assets		**6,194,082**	5,940,876
Current liabilities			
Trade and other payables	9	**6,202,874**	5,917,323
Provisions	10	**1,155,000**	-
Total liabilities		**7,357,874**	5,917,323
Net (Liabilities)/assets		**(1,163,792)**	23,553
Equity			
Called-up share capital	11	**2,358,420**	2,358,420
Retained earnings		**(3,522,212)**	(2,334,867)
Total equity		**(1,163,792)**	23,553

Signed on behalf of the Board on 9 September 2013

Jann Brown
Director

Registered company number SC255292.

Cairn Energy Lumbini Limited
Statement of Cash Flows
For the year ended 31 December 2012

	Notes	2012 $	2011 $
Cash flows from operating activities			
Loss before taxation		**(1,187,345)**	(650,399)
Finance income		**(29,858)**	(9,949)
Impairment		**1,216,008**	659,280
Net cash used in operating activities		**(1,195)**	(1,068)
Cash flows from financing activities			
Payment from group companies		**1,195**	1,068
Net cash from financing activities		**1,195**	1,068
Net movement in cash and cash equivalents		**-**	-
Opening cash and cash equivalents at beginning of year		**10,686**	10,686
Closing cash and cash equivalents	8	**10,686**	10,686

Cairn Energy Lumbini Limited

Statement of Changes in Equity

For the year ended 31 December 2012

	Equity share capital $	Retained earnings $	**Total Equity $**
At 1 January 2011	2,358,420	(1,684,468)	**673,952**
Loss for the year	-	(650,399)	**(650,399)**
Total comprehensive income for the year	-	(650,399)	**(650,399)**
At 1 January 2012	2,358,420	(2,334,867)	**23,553**
Loss for the year	-	(1,187,345)	**(1,187,345)**
Total comprehensive income for the year	-	(1,187,345)	**(1,187,345)**
At 31 December 2012	2,358,420	(3,522,212)	**(1,163,792)**

1 Accounting Policies

a) Basis of preparation

The financial statements of Cairn Energy Lumbini Limited ("the Company") for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the directors on 9 September 2012. The Company is a limited company incorporated in Scotland and domiciled in the United Kingdom. The registered office is located at 50 Lothian Road, Edinburgh, Scotland.

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'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. In addition, note 12 to the financial statements includes the company's objectives, policies and processes for managing its capital; its financial risk management objectives and details of its financial instruments; and its exposures to credit risk and liquidity risk.

Although the Company holds net liabilities as at 31 December 2012, 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.

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 2012.

For the year ending 31 December 2012, 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 7 'Financial Instruments – Disclosures'; and
- IAS 12 'Income Taxes'

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 7 'Financial Instruments Disclosures';
- IFRS 9 'Financial Instruments';
- IFRS 10 'Consolidated Financial Statements';
- IFRS 11 'Joint Arrangements';
- IFRS 12 'Disclosure of Interest in Other Entities';
- IFRS 13 'Fair Value Measurement';
- IAS 1 'Presentation of items in Other Comprehensive Income';
- IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors';
- IAS 19 'Employee Benefits (Revised)';
- IAS 27 'Separate Financial Statements';
- IAS 28 'Investments in Associates and Joint Ventures';
- IAS 32 'Financial Instruments: Presentation'; and
- IAS 34 'Interim Financial Reporting'

1 Accounting Policies (continued)

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

d) Joint ventures
The Company participates in several unincorporated Joint Ventures which involve the joint control of assets used in the Company's oil and gas exploration and producing activities. The Company accounts for its share of assets, liabilities, income and expenditure of Joint Ventures in which the Company holds an interest, classified in the appropriate Balance Sheet and Income Statement headings. The Company's principal licence interests are jointly controlled assets.

The company has interests in the following unincorporated joint ventures:

	Working interest
Block 4, Nepal	35.0%
Block 6, Nepal	35.0%
Block 7, Nepal	35.0%

e) Intangible exploration/appraisal assets (summarised)

The Company follows a successful efforts based accounting policy for oil and gas assets.

Costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Income Statement.

Expenditure incurred on the acquisition of a licence interest is initially capitalised on a licence-by-licence basis. Costs are held, un-depleted, 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 oil and gas exploration targets is capitalised initially within intangible exploration/appraisal assets and subsequently allocated to drilling activities. Exploration/appraisal drilling costs are initially capitalised on a well-by-well basis until the success or otherwise of the well has been established. The success or failure of each exploration/appraisal effort is judged on a well-by-well basis. Drilling costs are written off on completion of a well unless the results indicate that hydrocarbon reserves exist and there is a reasonable prospect that these reserves are commercial.

Following appraisal of successful exploration wells, if commercial reserves are established and technical feasibility for extraction demonstrated, then the related capitalised intangible exploration/appraisal costs are transferred into a single field cost centre within property, plant & equipment - development/producing assets after testing for impairment (see below). Where results of exploration drilling indicate the presence of hydrocarbons which are ultimately not considered commercially viable, all related costs are written off to the Income Statement.

Impairment

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

At the year end or prior to the intangible exploration/appraisal assets being transferred to assets held-for-sale, the Company reviews intangible/exploration assets for indicators of impairment. Where an indicator is identified, the asset is tested for impairment.

1 Accounting Policies (continued)

f) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets are categorised as financial assets held at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Company holds financial assets which are classified as either available for sale financial assets or loans and receivables, with the exception of derivative financial instruments which are held at fair value through profit or loss.

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, with the exception of derivative financial instruments which are held at fair value through profit or loss.

Financial instruments are generally recognised as soon as the Company becomes party to the contractual regulations of the financial instrument.

Loans and other receivables

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

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

Cash and cash equivalents

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

For the purposes of the consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Trade payables and other non derivative financial liabilities

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

Borrowing costs

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

g) 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)

h) 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 Group'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 group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

i) Foreign currencies

The Company translates foreign currency transactions into the functional currency at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the rate of exchange prevailing at the Balance Sheet date. Exchange differences arising are taken to the Income Statement except for those incurred on borrowings specifically allocable to development projects, which are capitalised as part of the cost of the asset.

j) Significant accounting judgements, estimates and assumptions

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 contained in 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(e) and 1(f) for further details.

2 Operating Loss

The Company's auditors' remuneration of $4,946 (2011: $4,812) has been borne by the intermediate holding company Capricorn Energy Limited. Auditors' remuneration for other services is disclosed in the financial statements of Cairn Energy PLC, the ultimate parent undertaking. The Company has a policy in place for the award of non-audit work to the auditors which, in certain circumstances, requires Audit Committee approval.

3 Directors' Emoluments

The directors of the company are also directors of the ultimate parent company, Cairn Energy PLC. The directors received remuneration for the year of $4.2m (2011: $8.9m) and pension contributions of $0.2m (2011: $0.4m), all of which was paid by its ultimate parent company. The total remuneration in 2011 includes $4.3m paid to directors as compensation for loss of office. 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.

4 Finance Income

	2012 $	2011 $
Exchange gain	**29,858**	9,949
	29,858	9,949

5 Taxation on Loss

Factors affecting tax expense for year
A reconciliation of income tax expense applicable to loss before income tax at the applicable tax rate to income tax expense at the Company's effective income tax rate is as follows:

	2012 $	2011 $
Loss before taxation	**(1,187,345)**	(650,399)
Tax at the weighted average rate of corporation tax of 24.5% (2011: 26.49%)	**(290,900)**	(172,291)
Effects of:		
Temporary differences not recognised	**279,956**	165,087
Impact of reduction in UK rate of corporation tax	**18,258**	9,839
Group relief claimed	**(7,314)**	(2,635)
Total tax expense	**-**	-

The UK main rate of corporation tax was 26% prior to 1 April 2012, and 24% from that date onwards. The rate will decrease again to 23% on 1 April 2013, to 21% on 1 April 2014, and to 20% on 1 April 2015.

The reduction in the tax rate from 26% to 24% from 1 April 2012 onwards has resulted in an averaged rate of corporation tax of 24.5% for the year ended 31 December 2012, as shown above. The 2012 deferred tax movement not recognised is based on a rate, for deferred tax purposes, of 23% (2011: 25%) being the rate enacted, or substantively enacted, at the period end.

There are deferred tax assets of $1,015 and $821,790 as at 31 December 2012 (2011: $805 and $589,248) relating to pre-trading expenses and exploration costs respectively. The reduction in the UK main rate of corporation tax applying to these deferred tax assets reduced their brought forward value by $47,204. 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.

6 Intangible Exploration/Appraisal Assets

	South Asia $	Total $
Cost		
At 1 January 2011	2,212,269	**2,212,269**
Additions	144,722	**144,722**
At 1 January 2012	2,356,991	**2,356,991**
Additions	1,216,008	**1,216,008**
At 31 December 2012	**3,572,999**	**3,572,999**
Impairment		
At 1 January 2011	1,697,711	**1,697,711**
Impairment	659,280	**659,280**
At 1 January 2012	2,356,991	**2,356,991**
Impairment	1,216,008	**1,216,008**
At 31 December 2012	**3,572,999**	**3,572,999**
Net book value at 31 December 2012	**-**	**-**
Net book value at 31 December 2011	-	-
Net book value at 1 January 2011	514,558	514,558

Additions in 2012 include $1,155,000 towards unfulfilled license commitments where no further exploration activity is planned.

Impairment of exploration/appraisal assets

Exploration/appraisal assets were reviewed for indicators of impairment at year end and concluded that indicators of impairment existed. The ongoing political instability in the country prevents further exploration activities and the balance was accordingly impaired in full. Refer to note 1(e) for details of the assumptions used in the impairment calculations.

7 Trade and other receivables

	2012 $	2011 $
Other debtors	**2,176,654**	2,107,814
Joint Venture debtors	**4,006,742**	3,822,376
	6,183,396	5,930,190

7 Trade and other receivables (continued)

As at 31 December, the ageing analysis of trade and other receivables not impaired is set out below:

	Total $	< 30 days $	30-60 days $	60-90 days $	90-120 days $	>120 days $
2012						
Neither past due nor impaired	**6,183,396**	**6,183,396**	-	-	-	-
As at 31 December 2012	**6,183,396**	**6,183,396**	-	-	-	-
2011						
Neither past due nor impaired	5,930,190	5,930,190	-	-	-	-
As at 31 December 2011	5,930,190	5,930,190	-	-	-	-

There is no allowance for doubtful debts in the Company.

In determining the recoverability of a trade or other receivable, the Company carries out a risk analysis based on the type and age of the outstanding receivable.

8 Cash and Cash Equivalents

	2012 $	2011 $
Cash and cash equivalents	**10,686**	10,686
	10,686	10,686

9 Trade and other payables

	2012 $	2011 $
Amounts owed to Group companies	**38,658**	36,746
Joint Venture accruals	**6,164,216**	5,880,577
	6,202,874	5,917,323

10 Provisions

The Company has made a provision of $1,155,000 (2011: $nil) towards unfulfilled license obligations where no further exploration activity is planned.

11 Issued Capital and Reserves

	2012 £1 Ordinary Number	2011 £1 Ordinary Number	**2012 £1 Ordinary $**	2011 £1 Ordinary $
Allotted, issued and fully paid ordinary shares				
At 1 January and 31 December	**1,531,839**	1,531,839	**2,358,420**	2,358,420

12 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.

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
At 31 December 2012 the Cairn Energy PLC Group had $55m of facilities in place to cover the issue of performance guarantees. This can be utilised by any Group company. Fixed rates of bank commission and charges applied to these. $22.5m was utilised as at 31 December 2012.

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 (2011: 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 by Cairn Energy PLC, 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.

12 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 2012.

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

	31 December 2012 $	31 December 2011 $
Trade and other payables	**6,202,874**	5,917,323
Less cash and cash equivalents	**(10,686)**	(10,686)
Net debt	**6,192,188**	5,906,637
Equity	**(1,163,792)**	59,257
Company capital and net debt	**5,028,396**	5,965,894
Gearing Ratio	**123%**	99%

13 Financial Instruments

The Company calculates the fair value of assets and liabilities by reference to amounts considered to be receivable or payable on the Balance Sheet date. The Company's financial assets and liabilities, together with their fair values are as follows:

Financial assets	**Carrying amount**		**Fair value**	
	31 December 2012 $	31 December 2011 $	**31 December 2012 $**	31 December 2011 $
Cash and cash equivalents	**10,686**	10,686	**10,686**	10,686
Joint Venture debtors	**4,006,742**	3,822,376	**4,006,742**	3,822,376
	4,017,428	3,833,062	**4,017,428**	3,833,062

All of the above financial assets are current and unimpaired.

Financial liabilities	**Carrying amount**		**Fair value**	
	31 December 2012 $	31 December 2011 $	**31 December 2012 $**	31 December 2011 $
Amount owed to Group companies	**38,658**	36,746	**38,658**	36,746
	38,658	36,746	**38,658**	36,746

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

13 Financial Instruments (continued)

Maturity analysis

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

At 31 December 2012

	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 $
Amount owed to Group companies	**38,658**	**38,658**	-	-	-	-	-
	38,658	**38,658**	-	-	-	-	-

At 31 December 2011

	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 $
Amount owed to Group companies	36,746	36,746	-	-	-	-	-
	36,746	36,746	-	-	-	-	-

14 Capital Commitments

	2012 $	2011 $
Oil and gas expenditure:		
Intangible exploration/appraisal assets	-	1,155,000
Contracted for	-	1,155,000

Capital commitments for 2011 are now included in Provisions.

The above capital commitments represent the Company's share of obligations in relation to its interests in Joint Ventures. As all Company joint ventures are jointly controlled assets, these commitments also represent the Company's share of the capital commitments of the Joint Ventures themselves.

15 Related Party Transactions

The following table provides the Company's balances which are outstanding with subsidiary companies at the Balance Sheet date:

	At 31 December 2012 $	At 31 December 2011 $
Amounts owed to Group companies	**38,658**	36,746
	38,658	36,746

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.

Remuneration of key management personnel
The remuneration of directors, who are the key management personnel of the Company, is set out in Note 3. Further information about the remuneration of 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 83.

16 Ultimate Parent Company

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

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