

Registered No: SC255292

**CAIRN ENERGY LUMBINI LIMITED**  
**REPORT & FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

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# **Cairn Energy Lumbini Limited**

## **Directors:**

J D Smith  
S J Thomson  
P J Mayland

## **Secretary:**

D A Wood

## **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:**

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 2013.

The directors have taken advantage of the small companies exemptions provided by Section 414B of the Companies Act 2006 and not prepared a strategic report.

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

The Company has a petroleum agreement (PA) for Nepal blocks 4, 6 and 7 to explore for oil and gas. However, due to ongoing political instability the Company is unable to proceed with the exploration as planned. The directors notified the relevant authorities of their intention to withdraw from the agreement during 2013. Consequently, the Company has provided for US\$1,155,000 relating to unfulfilled license obligation.

During the year the Company made a loss of US\$270,834 (2012: loss of US\$1,187,345) mostly due to administrative costs.

No dividend has been paid or declared in respect of the period ended 31 December 2013.

### **Principal Risks and Uncertainties**

The Company's principal risks and uncertainties derive from the Company's ability to withdraw from the petroleum agreement without incurring further costs than provided for.

### **Financial Instruments**

For detail of the Company's financial risk management policy see note 11.

### **Directors**

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

J M Brown (resigned 15 May 2014)

M J Watts (resigned 15 May 2014)

J D Smith (appointed 15 May 2014)

P J Mayland (appointed 15 May 2014)

S J Thomson

# Cairn Energy Lumbini 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 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



Duncan Wood  
Secretary  
50 Lothian Road  
Edinburgh EH3 9BY

5 September 2014

# **Cairn Energy Lumbini Limited**

## **Independent auditors' report to the members of Cairn Energy Lumbini Limited**

### **Report on the financial statements**

#### **Our opinion**

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 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.

This opinion is to be read in the context of what we say in the remainder of this report.

#### **What we have audited**

The financial statements, which are prepared by Cairn Energy Lumbini Limited, comprise:

- the balance sheet as at 31 December 2013;
- 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 their preparation 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.

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

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("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.

In addition, we read all the financial and non-financial information in the Report and Financial Statements (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.

### **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.

## **Cairn Energy Lumbini Limited**

### **Independent auditors' report to the members of Cairn Energy Lumbini Limited (continued)**

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

##### **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.

#### **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.

#### **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 from preparing a strategic report. We have no exceptions to report arising from this responsibility.

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

##### **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 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.



Bruce Collins (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Glasgow  
9 September 2014

## Cairn Energy Lumbini Limited

### Income Statement

For the year ended 31 December 2013

Continuing Activities	Notes	2013 US\$	2012 US\$
Administrative expenses		(235,152)	(1,195)
Impairment of intangible exploration/appraisal assets	6	4,493	(1,216,008)
<b>Operating loss</b>	2	<b>(230,659)</b>	<b>(1,217,203)</b>
Finance income	3	-	29,858
Finance loss	4	(40,175)	-
<b>Loss before taxation</b>		<b>(270,834)</b>	<b>(1,187,345)</b>
<b>Taxation on loss</b>	5	<b>-</b>	<b>-</b>
<b>Loss for the year</b>		<b>(270,834)</b>	<b>(1,187,345)</b>

### Statement of Comprehensive Income

For the year ended 31 December 2013

	2013 US\$	2012 US\$
<b>Loss for the year</b>	<b>(270,834)</b>	<b>(1,187,345)</b>
<b>Total comprehensive income for the year</b>	<b>(270,834)</b>	<b>(1,187,345)</b>

# Cairn Energy Lumbini Limited

## Balance Sheet

As at 31 December 2013

	Notes	2013 US\$	2012 US\$
<b>Current assets</b>			
Trade and other receivables	7	-	6,183,396
Cash at bank		10,686	10,686
<b>Total assets</b>		10,686	6,194,082
<b>Current liabilities</b>			
Trade and other payables	8	244,868	6,202,874
Provisions	9	1,155,000	1,155,000
<b>Total liabilities</b>		1,399,868	7,357,874
<b>Net liabilities</b>		(1,389,182)	(1,163,792)
<b>Equity</b>			
Called-up share capital	10	2,358,420	2,358,420
Accumulated losses		(3,747,602)	(3,522,212)
<b>Total equity</b>		(1,389,182)	(1,163,792)

The financial statements on pages 6 to 17 were approved by the Board of Directors on 5 September 2014 and signed on its behalf by:



Simon Thomson  
Director

Company Registered No: SC255292

## Cairn Energy Lumbini Limited

### Statement of Changes in Equity

For the year ended 31 December 2013

	Called-up share capital US\$	Accumulated losses US\$	Total Equity US\$
At 1 January 2012	2,358,420	(2,334,867)	(2,000,331)
Loss for the year	-	(1,187,345)	(1,196,355)
Total Comprehensive income for the year	-	(1,187,345)	(1,196,355)
At 1 January 2013	2,358,420	(3,522,212)	(1,163,792)
Loss for the year	-	(270,834)	(270,834)
Total Comprehensive income for the year	-	(270,834)	(270,834)
Debt forgiven by parent	-	45,444	45,444
At 31 December 2013	2,358,420	(3,747,602)	(1,389,182)

# Cairn Energy Lumbini Limited

## Notes to the Financial Statements

### 1 Accounting Policies

#### a) Basis of preparation

The financial statements of Cairn Energy Lumbini Limited ("the Company") for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the directors on 5 September 2014. 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 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 year are consistent with those adopted by the parent Cairn Energy PLC. There was no movement in cash and cash equivalents during the year and therefore a Statement of Cash Flows has not been presented.

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

#### b) Accounting standards

The Company prepares its financial statements 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 2013.

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

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

The amendments to accounting policies may result in minor changes in disclosures within the Statement of Other Comprehensive Income and notes to these financial statements but have no material impact on the results for the year. Other changes to IFRS effective 1 January 2013 have no impact on the accounting policies or financial statements.

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

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

The adoption of these new standards will not result in any changes to the financial statements. No other standards issued by the IASB and endorsed by the EU, but not yet adopted are expected to have any material impact on the financial statements.

#### c) Functional currency

The functional currency of Cairn Energy Lumbini Limited is US Dollars (US\$). The Company's policy on foreign currencies is detailed in note 1(i).

# Cairn Energy Lumbini Limited

## Notes to the Financial Statements (continued)

### 1 Accounting Policies (continued)

#### 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 and property, plant & equipment – development assets

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 and tested for impairment where such indicators exist. An indicator that one of the Group's assets may be impaired is most likely to be one of the following:

- There are no further plans to conduct exploration activities in the area;
- Exploration drilling in the area has failed to discover commercial reserve volumes; or
- Development proposals for appraisal assets in the pre-development stage indicate that it is unlikely that the carrying value of the exploration/appraisal asset will be recovered in full.

In such circumstances the intangible exploration/appraisal asset is allocated to property, plant & equipment - development/producing assets within the same cash generating unit and tested for impairment. Any impairment arising is recognised in the Income Statement for the year. Where there are no development/producing assets within the cash generating unit, the excess of the carrying amount of exploration/appraisal asset over its recoverable amount are charged immediately to the Income Statement.

# Cairn Energy Lumbini Limited

## Notes to the Financial Statements (continued)

### 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.

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.

#### g) Equity

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

Capital contribution from parent is recognised at 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 capital contribution in the subsidiary.

#### h) Taxation

The total tax charge or credit represents the sum of current tax and deferred tax. The current tax is based on taxable profit or loss for the year. Taxable profit or loss differs from net profit or loss 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.

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 or loss.

Deferred 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. Deferred tax assets are recognised for deductible temporary differences that exist only where it is probable that taxable profits will be generated against which the carrying value of the deferred tax asset can be recovered.

A deferred tax asset or 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.

Current and deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

#### 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.

# Cairn Energy Lumbini Limited

## Notes to the Financial Statements (continued)

### 1 Accounting Policies (continued)

#### 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 risk weighted for future explorations and appraisal success to determine the valuation of oil and gas assets held by the subsidiaries. See notes 1(e) and 1(f) for further details.

#### k) Provisions

Provisions are recognised where there is a present obligation for future costs that can be reliably estimated. These provisions are the best estimate of expenditure required to settle the present obligation resulting from a past event.

### 2 Operating Loss

#### Auditors' Remuneration

The Company's auditors' remuneration of US\$3,130 (2012: US\$4,946) has been borne by Capricorn Energy Limited, an intermediary holding company. 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.

#### Employees

This company has no employees (2012: none).

### 3 Finance Income

	2013 US\$	2012 US\$
Exchange Gains	-	29,858

### 4 Finance Loss

	2013 US\$	2012 US\$
Exchange Loss	40,175	-

# Cairn Energy Lumbini Limited

## Notes to the Financial Statements (continued)

### 5 Taxation

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:

	2013 US\$	2012 US\$
<b>Loss before taxation</b>	<b>(270,834)</b>	<b>(1,187,345)</b>
Tax at the standard rate of UK corporation tax of 23.25% (2012: 24.50%)	(62,969)	(290,900)
<b>Effects of:</b>		
Temporary differences not recognised	53,628	279,956
Impact of reduction in UK corporation tax rate	-	18,258
Group relief surrendered/(claimed)	9,341	(7,314)
<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 24% prior to 1 April 2013, and 23% from that date onwards. The reduction in the tax rate from 24% to 23% has resulted in an averaged rate of corporation tax of 23.25% for the year ended 31 December 2013, as shown above. The rate will reduce to 21% on 1 April 2014 and to 20% on 1 April 2015.

No deferred tax asset has been recognised at the year end on temporary differences in respect of pre-trading revenue and capital expenditure carried forward for future relief of \$3,808,073 (2012: \$3,577,413) as it is not considered probable that these will be utilised in future periods.

### 6 Intangible Exploration/Appraisal Assets

	Asia US\$	Total US\$
<b>Net book value</b>		
At 1 January 2012	-	-
Additions	1,216,008	1,216,008
Impairment	(1,216,008)	(1,216,008)
At 31 December 2012	-	-
Additions	(4,493)	(4,493)
Impairment reversal	4,493	4,493
<b>At 31 December 2013</b>	<b>-</b>	<b>-</b>

During 2013, accruals of US\$4,493 were reversed resulting in impairment reversal to that extent. Additions in 2012 include US\$1,155,000 towards unfulfilled license commitments as no further exploration activity is planned.

#### Impairment of exploration/appraisal assets

In the prior year exploration/appraisal assets were reviewed for indicators of impairment and it was 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.

**Cairn Energy Lumbini Limited**  
Notes to the Financial Statements (continued)

**7 Trade and other receivables**

	2013 \$	2012 \$
Other debtors	-	2,176,654
Joint Venture debtors	-	4,006,742
	-	6,183,396

As at 31 December 2013, there are no receivables in the Company. The ageing analysis of trade and other receivables as at 31 December 2012 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	-	-	-	-

There is no allowance for doubtful debts in the Company.

**8 Trade and Other Payables**

	2013 US\$	2012 US\$
Amounts owed to Group companies	10,686	38,658
Accruals	234,182	-
Joint venture accruals	-	6,164,216
	244,868	6,202,874

During the year, the parent company waived loans of US\$45,444 (2012:US\$nil).

**9 Provisions**

In 2012 the Company made a provision of \$1,155,000 towards unfulfilled license obligations where no further exploration activity is planned. This provision remained at the current year end.

**Cairn Energy Lumbini Limited**  
Notes to the Financial Statements (continued)

**10 Called-up share capital**

	2013 £1 Ordinary Number	2012 £1 Ordinary Number	2013 £1 Ordinary US\$	2012 £1 Ordinary US\$
<b>Allotted, issued and fully paid ordinary shares</b>				
At 1 January and 31 December	<b>1,531,839</b>	1,531,839	<b>2,358,420</b>	2,358,420

**11 Financial Risk Management: Objectives and Policies**

The main risks arising from the Company's financial instruments are liquidity risk, credit risk and market risk arising including equity price fluctuations, interest rate risk and foreign currency 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 Group's treasury function, at Cairn Energy PLC, and Executive Team as appropriate, 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 and Group have adequate liquidity at all times in order to meet their immediate cash requirements. There are no significant concentrations of risks unless otherwise stated.

The primary financial instruments comprise cash, short-term deposits, intra-group loans and other receivables and financial liabilities held at amortised cost. The Group's strategy has been to finance its operations through a mixture of retained profits and group borrowings. Other alternatives such as equity and other forms of non investment-grade debt finance are reviewed by the Board, when appropriate.

**Liquidity risk**

The 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 and UK 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.

At 31 December 2012 Cairn Energy PLC Group had a total of US\$55.0m of facilities in place to cover the issue of performance guarantees. During the year these facilities were increased to US\$60.0m. Fixed rates of bank commission and charges applied to these facilities. US\$33.8m was utilised as at 31 December 2013.

Cairn Energy PLC agreed a Reserve Based Lending bank facility for US\$575m on 18 July 2014 to fund future development projects.

Cairn Energy PLC also issued a US\$100.0m Letter of Credit on 22 July 2013 as required under the membership of the Oil Spill Response Scheme's 'Cap and Contain' arrangement. This guarantee is cash backed with US\$100.0m being placed with BNP Paribas to support the letter of credit.

**Interest rate risk**

Surplus funds are placed on short/medium-term deposits at floating rates. It is Cairn's 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 (2012: none).

# Cairn Energy Lumbini Limited

## Notes to the Financial Statements (continued)

### 11 Financial Risk Management: Objectives and Policies (continued)

#### Foreign currency risk

Cairn 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. Generally the exposure has been limited given that receipts and payments have mostly been in US dollars and the functional currency of most companies in the Group is US dollars.

The Group also aims where possible to hold surplus cash, debt and working capital balances in functional currency which in most cases is US dollars, thereby matching the reporting currency and functional currency of most companies in the Group. This minimises the impact of foreign exchange movements on the Group's Balance Sheet.

Where residual net exposures do exist and they are considered significant the Company and Group 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 from cash and cash equivalents, deposits with banks and financial institutions.

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.

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.

#### Capital Management

The objective of the Company's capital management structure is to ensure that there remains sufficient liquidity within the Group 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 Company manages the capital structure and makes adjustments to it in light of changes to economic conditions. To maintain or adjust the capital structure, Cairn may buy-back shares, make a special 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 2013.

Company capital and net debt were made up as follows:

	2013 US\$	2012 US\$
Trade and other payables	244,868	6,202,874
Less cash and cash equivalents	(10,686)	(10,686)
Net debt	234,182	6,192,188
Equity	(1,389,182)	(1,163,792)
Capital and net debt	(1,155,000)	5,028,396
Gearing Ratio	20%	123%

# Cairn Energy Lumbini Limited

## Notes to the Financial Statements (continued)

### 12 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 carrying value of the Company's financial assets and liabilities are equal to their fair values. The fair value has been calculated by discounting the expected future cash flows at prevailing interest rates

The Company's financial assets are current and unimpaired.

#### **Maturity analysis**

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

### 13 Related Party Transactions

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

	2013 US\$	2012 US\$
Amounts owed to group companies	10,686	38,658

The amounts outstanding are unsecured, repayable on demand and will be settled in cash. No guarantees have been given.

#### **a) Remuneration of key management personnel**

The directors of the Company are also directors of other companies in the Cairn Energy PLC group. The directors received remuneration for the year of US\$4.6m (2012: US\$4.2m) and pension contributions of US\$0.3m (2012: US\$0.4m) all of which was paid by other companies in the group. The directors do not believe that it is practicable to apportion this amount between their services as directors of the Company and their services as directors of Cairn Energy PLC and fellow subsidiary companies. There are no agreements between the Company and the Board of Directors.

#### **b) Other transactions**

During the year, the parent company waived loans payable by the Company of US\$45,444.

### 14 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.