Registered No: SC301223

CAPRICORN OIL LIMITED

REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

Capricorn Oil Limited

Directors:

J D Smith
S J Thomson
R C Heaton
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:

SC301223

Capricorn Oil Limited

Directors' Report

The Directors of Capricorn Oil Limited ("the Company") present their Annual Report for the year ended 31 December 2013 together with the audited financial statements of the Company for the year.

Consolidated financial statements are not produced for the Company and its wholly owned subsidiaries (detailed in note 10 to the financial statements) as provided under the exemption in section 400(1) of the Companies Act 2006.

The Company is a wholly-owned subsidiary of Cairn Energy PLC. The results of the Company are consolidated into those of the parent company, 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.

Results and Dividend

During the year the Company made a loss of US$519.0m (2012: profit US$4.3m) due to an impairment of the Company's investment in Capricorn Energy Limited. No dividend has been paid or declared in respect of the year ended 31 December 2013 (2012: US$nil).

Strategic Report

The Company's principal activity is that of a holding Company. The Company also provides administrative and other services to Cairn Energy PLC Group ("the Group") companies and is the main employer of the Group.

The Company's strategy and business model are linked to those of the Group during the year and the information that fulfils the requirements of the Strategic Review can be found in the Strategic Review section of the Group's annual report on pages 2 to 61, which does not form part of this report.

During the coming year the Company will continue to invest funds as required to support subsidiary exploration activity. The Company will also be closely reviewing the progress of exploration programmes to evaluate capital allocation for future periods.

Principal Risks and Uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Group which include those of the Company, are discussed in pages 42 to 49 of the Group's annual report which does not form part of this report.

Key Performance Indicators

The key performance indicators of the Company are the same as that of the Group. These are discussed on page 24 to 29 of the Group's annual report and does not form part of this report.

Directors

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

M J Watts (resigned 15 May 2014)
J M Brown (resigned 15 May 2014)
J D Smith (appointed 15 May 2014)
P J Mayland (appointed 15 May 2014)
S J Thomson
R C Heaton

Capricorn Oil Limited

Directors' Report (continued)

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, 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 prepared at the annual general meeting.

BY ORDER OF THE BOARD

Duncan Wood
Secretary

50 Lothian Road
Edinburgh EH3 9BY

3 June 2014

Capricorn Oil Limited

Independent auditors' report to the members of Capricorn Oil 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 and cash flows 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 Capricorn Oil 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 cash flows 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report to the members of Capricorn Oil 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.

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
17 June 2014

Capricorn Oil Limited
Income Statement
For the year ended 31 December 2013

	Notes	**2013 US$'000**	2012 US$'000
Administrative expenses		**(1,678)**	(1,625)
Impairment of investments	5	**(518,043)**	-
Operating loss	2	**(519,721)**	(1,625)
Finance income	3	**832**	5,946
Finance costs		**(62)**	(32)
(Loss)/profit before taxation		**(518,951)**	4,289
Taxation	4	-	-
(Loss)/profit for the year		**(518,951)**	4,289

Capricorn Oil Limited
Statement of Comprehensive Income
For the year ended 31 December 2013

	2013	2012
	US$'000	US$'000
(Loss)/profit for the year	**(518,951)**	4,289
Total comprehensive income for the year	**(518,951)**	4,289

Capricorn Oil Limited
Balance Sheet
As at 31 December 2013

	Notes	2013 US$'000	2012 US$'000
Non-current assets			
Investments	5	**766,583**	538,460
		766,583	538,460
Current assets			
Trade and other receivables	6	**425,652**	743,543
Cash and cash equivalents	7	**200,017**	356,990
		625,669	1,100,533
Total assets		**1,392,252**	1,638,993
Current liabilities			
Trade and other payables	8	**347,577**	1,789,048
Bank Overdraft	7	**-**	35,244
		347,577	1,824,292
Total liabilities		**347,577**	1,824,292
Net assets/(liabilities)		**1,044,675**	(185,299)
Equity attributable to owners of the parent			
Called-up share capital	9	**1,057,845**	1,057,845
Share premium		**56,226**	56,226
Capital reserve		**1,748,925**	-
Accumulated losses		**(1,818,321)**	(1,299,370)
Total equity		**1,044,675**	(185,299)

The financial statements on pages 6 to 22 were approved by the Board of Directors on 3 June 2014 and signed on its behalf by:

Simon Thomson
Director

Company Registered No: SC301223

Capricorn Oil Limited
Statement of Cash Flows
For the year ended 31 December 2013

	Notes	2013 US$'000	2012 US$'000
Cash flows used in operating activities			
(Loss)/profit before taxation		**(518,951)**	4,289
Impairment of investments		**518,043**	-
Finance income		**(832)**	(5,946)
Finance costs		**62**	32
Interest paid		**(26)**	(1)
Trade and receivables movement		**33**	-
Trade and other payables movement		**73**	1,625
Net cash used in operating activities		**(1,598)**	(1)
Cash flows from investing activities			
Interest received		**457**	772
Net cash from investing activities		**457**	772
Cash flows from financing activities			
Group funding		**(120,550)**	(348,450)
Bank charges		**(36)**	(31)
Net cash flows used in financing activities		**(120,586)**	(348,481)
Net decrease in cash and cash equivalents		**(121,727)**	(347,710)
Opening cash and cash equivalents at beginning of year		**321,746**	669,452
Exchange (loss)/gain on cash and cash equivalents		**(2)**	4
Closing cash and cash equivalents	7	**200,017**	321,746

Capricorn Oil Limited
Statement of Changes in Equity
For the year ended 31 December 2013

	Called-up share capital US$'000	Share premium US$'000	Capital reserve US$'000	Accumulated losses US$'000	**Total Equity US$'000**
At 1 January 2012	683,845	56,226	-	(1,303,659)	**(563,588)**
Profit for the year	-	-	-	4,289	**4,289**
Total comprehensive income for the year	-	-	-	4,289	**4,289**
Shares issued	374,000	-	-	-	**374,000**
At 1 January 2013	1,057,845	56,226	-	(1,299,370)	**(185,299)**
Loss for the year	-	-	-	(518,951)	**(518,951)**
Total comprehensive income for the year	-	-	-	(518,951)	**(518,951)**
Capital contribution	-	-	1,748,925	-	**1,748,925**
At 31 December 2013	**1,057,845**	**56,226**	**1,748,925**	**(1,818,321)**	**1,044,675**

1 Accounting Policies

a) Basis of preparation

The financial statements of Capricorn Oil Limited ("the Company") for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the directors on 3 June 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.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic 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 10 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.

The Company has sufficient financial resources with which the directors believe that the Company is well placed to manage its business risks successfully, despite the current uncertain economic outlook. The directors 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.

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 Capricorn Oil Limited is US Dollars (US$). The Company's policy on foreign currencies is detailed in note 1(h).

d) Investments

The Company's investments in subsidiaries are carried at cost less provisions resulting from impairment. In testing for impairment the carrying value of the investment is compared to its recoverable amount, being its fair value less costs of disposal. The fair value is based on the discounted future net cash flows of oil and gas assets held by the subsidiary, using estimated cash flow projections over the licence period. For exploration assets, the discounted cash flows are risk-weighted for future exploration success.

1 Accounting Policies (continued)

d) Investments (continued)

Discounted future net cash flows for IAS 36 purposes are calculated using an estimated short and long-term oil price of US$90 per boe (2012: short and long-term oil price of US$90 per boe), or the appropriate gas price as dictated by the relevant gas sales contract, escalation for prices and costs of 2.5%, and a discount rate of 10% (2012: 2.5% and 10% respectively).

e) 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

Other receivables

Other receivables that have fixed or determinable payments that are not quoted on an active market are measured at amortised cost using the effective interest method less any impairment. 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 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. 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 Statements 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 fair value initially then amortised cost subsequently.

f) 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.

1 Accounting Policies (continued)

g) 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.

h) 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.

i) 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(d) and 1(e) for further details.

Capricorn Oil Limited
Notes to the Financial Statements (continued)

2 Operating Loss

Auditors' Remuneration
The Company's auditors' remuneration of US$10,953 (2012: US$26,151) has been borne by Capricorn Energy Limited, a subsidiary 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.

3 Finance Income

	2013	2012
	US$'000	US$'000
Bank interest	**457**	816
Exchange gain	**375**	5,130
	832	5,946

4 Taxation

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

	2013	2012
	US$'000	US$'000
(Loss)/profit before taxation	**(518,950)**	4,289
Tax at the standard rate of UK corporation tax of 23.25% (2012: 24.50%)	**(120,656)**	1,051
Effects of:		
Non-deductible expenses and non-taxable income	**120,445**	-
Temporary differences not recognised	**211**	(780)
Group relief claimed	**-**	(253)
Adjustment to deferred tax in relation to previous year	**-**	(18)
Total tax charge	**-**	-

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 expenses of management carried forward for future relief of US$0.9m (2012: US$nil) as it is not considered probable that these will be utilised in future periods.

Capricorn Oil Limited
Notes to the Financial Statements (continued)

5 Investments

	Subsidiary undertakings US$'000	Total US$'000
Cost		
At 1 January 2012	824,374	**824,374**
Additions	374,000	**374,000**
At 31 December 2012	1,198,374	**1,198,374**
Additions	746,166	**746,166**
At 31 December 2013	**1,944,540**	**1,944,540**
Impairments		
At 1 January and 31 December 2012	659,914	**659,914**
Charge during the year	518,043	**518,043**
At 31 December 2013	**1,177,957**	**1,177,957**
Net book value at 31 December 2013	**766,583**	**766,583**
Net book value at 31 December 2012	538,460	538,460
Net book value at 1 January 2012	164,460	164,460

Additions during the year included US$738.7m capital contribution by Capricorn Oil Limited which reduced the amounts owed to the Company by Capricorn Energy Limited. Also, the Company's subsidiaries issued 4,544,631 fully paid ordinary shares of £1 each at par, to the Company for US$7.5m in total. The share capital issued by the subsidiary companies was in settlement of debts due to the Company.

In 2012, the Company purchased Capricorn Norge AS (formerly Agora Oil and Gas AS) from Cairn Energy PLC for US$374.0m. The acquisition was satisfied by the issue of 240,051,347 fully paid ordinary shares of £1 each at par value. Subsequently, the Company transferred Capricorn Norge AS (formerly Agora Oil and Gas AS) to Capricorn Energy Limited for US$374.0m. In exchange, Capricorn Energy Limited issued 240,051,347 fully paid ordinary shares of £1 each at par to the Company.

Investments were reviewed for indicators of impairment at the year end and again as at the date of signing the financial statements and, where indicators were found, tested for impairment. At the year end the Company's investments in Capricorn Energy were impaired to reflect the fair value of the underlying assets of the Capricorn Energy Group. A charge of US$518.0m was made to the Company's Income statement.

The Company's principal subsidiaries as at the Balance Sheet date are set out below. A full list of the subsidiaries can be found on the Annual Return.

The Company holds 100% of the voting rights and ordinary shares of all the companies listed below.

Direct holdings

Company	**Principal activity**	**Country of incorporation**	**Country of operation**
Capricorn Energy Limited	Holding Company	Scotland	Scotland
Capricorn Minerals Limited	Holding Company	Scotland	Scotland

Capricorn Oil Limited
Notes to the Financial Statements (continued)

5 Investments (continued)

Indirect holdings - Capricorn Energy Limited

Company	Principal activity	Country of incorporation	Country of operation
Cairn Energy Dhangari Limited	Exploration	Scotland	Nepal
Cairn Energy Kamali Limited	Exploration	Scotland	Nepal
Cairn Energy Lumbini Limited	Exploration	Scotland	Nepal
Cairn Energy Malangawa Limited	Exploration	Scotland	Nepal
Cairn Energy Birganj Limited	Exploration	Scotland	Nepal
Capricorn Spain Limited	Exploration	Scotland	Spain
Capricorn Malta LImited	Exploration	Scotland	Malta
Capricorn Greenland Exploration A/S	Exploration	Greenland	Greenland
Capricorn Exploration and Development Company Limited	Exploration	Scotland	Morocco
Capricorn Mauritania Limited	Exploration	Scotland	Mauritania
Capricorn Senegal Limited	Exploration	Scotland	Senegal
Capricorn Ireland Limited	Exploration	Scotland	Ireland
Capricorn Norge AS	Exploration	Norway	Norway
Nautical Petroleum Limited	Exploration	England	UK
Nautical Petroleum AG	Exploration and development	Switzerland	UK
Agora Oil and Gas (UK) Limited	Exploration	Scotland	UK

Indirect holdings – Capricorn Minerals Limited

Company	Principal activity	Country of incorporation	Country of operation
Avannaa Resources Limited	Holding Company	England and Wales	Scotland
Avannaa Diamonds Limited	Exploration	England and Wales	Greenland
Avannaa Exploration Limited	Exploration	England and Wales	Greenland
Avannaa Logistics APS	Exploration	Denmark	Greenland
James Land Resources AS	Exploration	Greenland	Greenland

6 Trade and Other Receivables

	2013 US$'000	2012 US$'000
Amounts owed by subsidiary undertakings	**425,580**	743,438
Other debtors	**72**	105
	425,652	743,543

As at 31 December 2013, the ageing analysis of trade and other receivables not impaired is set out below:

	Total US$'000	< 30 days US$'000	30-60 days US$'000	60-90 days US$'000	90-120 days US$'000	>120 days US$'000
2013						
Neither past due nor impaired	**215**	215	-	-	-	-
Current but impaired	-	-	-	-	-	-
Past due and impaired	**451,589**	-	-	-	-	451,589
Allowance for doubtful debts	**(26,224)**	-	-	-	-	(26,224)
As at 31 December 2013	**425,580**	**215**	**-**	**-**	**-**	**425,365**
2012						
Neither past due nor impaired	5,555	5,555	-	-	-	-
Current but impaired	310,819	310,819	-	-	-	-
Past due and impaired	1,254,780	-	-	-	-	1,254,780
Allowance for doubtful debts	(827,611)	-	-	-	-	(827,611)
As at 31 December 2012	743,543	316,374	-	-	-	427,169

The movement in the allowance for doubtful debts individually or collectively impaired is set out below:

	Amounts owed by subsidiary undertakings US$'000	**Total US$'000**
At 1 January 2012	(827,611)	**(827,611)**
Amounts provided during year	-	**-**
At 31 December 2012	(827,611)	**(827,611)**
At 1 January 2013	(827,611)	**(827,611)**
Amount released during the year	801,387	**801,387**
At 31 December 2013	**(26,224)**	**(26,224)**

During the year US$738.7m capital contribution was made by Capricorn Oil Limited which reduced the amounts owed to the Company by Capricorn Energy Limited. The provision for US$801.4m was netted against the intercompany amount due.

7 Cash and Cash Equivalents

	2013 US$'000	2012 US$'000
Cash at bank	17	-
Short-term deposits	200,000	356,990
Bank Overdraft	-	(35,244)
	200,017	321,746

8 Trade and other payables

	2013 US$'000	2012 US$'000
Accruals	1,697	1,624
Amounts owed to group companies	345,880	1,787,424
	347,577	1,789,048

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.

9 Called-up share capital

	Number £1 Ordinary '000	£1 Ordinary US$'000
Allotted, issued and fully paid ordinary shares		
At 1 January 2012	396,367	683,845
Shares issued	240,051	374,000
At 1 January and 31 December 2013	636,418	1,057,845

On 8 August 2012 the Company issued 240,051,347 fully paid ordinary shares of £1 each at par, to Cairn Energy PLC for US$374.0m. The share capital issued was in settlement of the sale of Capricorn Norge AS (formerly Agora Oil and Gas AS) to the Company.

Capital reserve

The capital reserve is stated in the statement of changes in equity.

During the year a US$1,748.9m capital contribution was made by Cairn Energy PLC which reduced the amounts owed to Cairn Energy PLC by the Company.

Share premium

Share premium is stated in the statement of changes in equity.

10 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. On 21 February 2014 the facilities were further increased to US$100.0m.

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).

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.

Capricorn Oil Limited
Notes to the Financial Statements (continued)

10 Financial Risk Management: Objectives and Policies (continued)

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	2012
	US$'000	US$'000
Trade and other payables	**347,577**	1,789,048
Less cash and cash equivalents	**(200,017)**	(321,746)
Net debt	**147,560**	1,467,302
Equity	**1,044,675**	(185,299)
Capital and net debt	**1,192,235**	1,282,003
Gearing Ratio	**12.4%**	114.5%

11 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	
	2013	2012	**2013**	2012
	US$'000	US$'000	**US$'000**	US$'000
Cash at bank	**17**	-	**17**	-
Short-term deposits	**200,000**	356,990	**200,000**	356,990
Amounts owed by subsidiary undertakings	**425,580**	743,438	**425,580**	743,438
Other debtors	**72**	105	**72**	105
	625,669	1,100,533	**625,669**	1,100,533

All of the above financial assets are current and unimpaired. An analysis of the ageing of trade and other receivables is provided in note 8.

Financial liabilities	Carrying amount		Fair value	
	2013	2012	**2013**	2012
	US$'000	US$'000	**US$'000**	US$'000
Bank Overdraft	-	35,244	-	35,244
Amount owed to group companies	**345,880**	1,787,424	**345,880**	1,787,424
	345,880	1,822,668	**345,880**	1,822,668

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

Maturity analysis
The Company's financial liabilities report amounts owed to group companies of US$345.9m (2012: US$1,787.4m) which all have maturity dates of <1 year.

12 Related Party Transactions

The Company's principal subsidiaries are listed in note 5. The following table provides the Company's balances which are outstanding with subsidiary companies at the Balance Sheet date:

	2013 **US$'000**	2012 US$'000
Amounts owed from subsidiary undertakings	**425,580**	743,438
Amounts owed to group companies	**(345,880)**	(1,787,424)
	79,700	(1,043,986)

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 and pension contributions of US$0.3m 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 US$738.7m capital contribution was made by Capricorn Oil Limited which reduced the amounts owed to the Company by Capricorn Energy Limited. Also, the Company's subsidiaries issued 4,544,631 fully paid ordinary shares of £1 each at par, to the Company for US$7.5m in total. The share capital issued by the subsidiary companies was in settlement of debts due to the Company.

During the year US$1,748.9m capital contribution was made by Cairn Energy PLC which reduced the amounts owed to Cairn Energy PLC by the Company.

On 8 August 2012 the Company issued 240,051,347 fully paid ordinary shares of £1 each at par, to Cairn Energy PLC for US$374.0m.

During the year, the Company's subsidiaries issued 240,051,347 (2012: 4,108,140) fully paid ordinary shares of £1 each at par, to the Company for US$374.0m (2012: US$6.3m) in total. The share capital issued by the subsidiary companies was in exchange for the transfer of a subsidiary, Capricorn Norge AS (formerly Agora Oil and Gas AS).

13 Ultimate Parent Company

The Company is a wholly-owned subsidiary of Cairn Energy PLC. 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.