

**CAPRICORN GREENLAND EXPLORATION 10 LIMITED**  
**REPORT & FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**



## **Capricorn Greenland Exploration 10 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:**

SC341589

# Capricorn Greenland Exploration 10 Limited

## Directors' Report

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

### Principal Activities and Business Review

The Company's principal activity is the exploration for oil and gas.

During the year the Company made a loss of \$2,354 due to foreign exchange losses (2011: profit \$3,880).

At the year end and at the date the financial statements were approved by the Board, the Company carried out an impairment review of intangible exploration/appraisal assets and concluded that indicators of impairment did not exist. Refer to note 1(e) for details of the assumptions used in the impairment calculations.

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.

### Event after the Balance Sheet Date

In December 2012, the Company received approval from the Greenland Government to contribute its net assets into a Greenlandic entity, Capricorn Greenland Exploration A/S, in exchange for an interest in Capricorn Greenland Exploration A/S. Following the contribution, which is expected to take place shortly after the signing of these financial statements, the Company will hold a 11.4% share of Capricorn Greenland Exploration A/S. The remaining 88.6% will be held by other Capricorn group entities under common control.

### 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).

### 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.

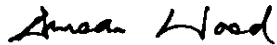
# Capricorn Greenland Exploration 10 Limited

## Directors' Report (continued)

### 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

28 January 2012

# Capricorn Greenland Exploration 10 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 Auditors' Report

## To the members of Capricorn Greenland Exploration 10 Limited (registered number SC341589)

We have audited the financial statements of Capricorn Greenland Exploration 10 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 17. 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.

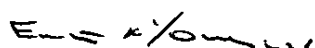
### Opinion on other matter prescribed by the Companies Act 2006

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.



Ian James McDowall (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Glasgow  
28 January 2012

# Capricorn Greenland Exploration 10 Limited

## Income Statement

For the year ended 31 December 2012

	Notes	2012 \$	2011 \$
<b>Continuing Operations</b>			
Operating loss		-	-
Finance income	4	-	3,880
Finance costs	5	(2,354)	-
(Loss)/profit before taxation		(2,354)	3,880
Taxation on (loss)/profit	6	-	-
(Loss)/profit for the year		(2,354)	3,880

## Capricorn Greenland Exploration 10 Limited

### Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 \$	2011 \$
(Loss)/profit for the year	(2,354)	3,880
Total comprehensive income for the year	(2,354)	3,880



# Capricorn Greenland Exploration 10 Limited

## Balance Sheet

As at 31 December 2012

	Notes	2012 \$	2011 \$
<b>Non-current assets</b>			
Intangible exploration/appraisal assets	7	3,831,015	3,888,562
		3,831,015	3,888,562
<b>Current assets</b>			
Trade and other receivables	8	4,373,543	4,009,393
Cash and cash equivalents	9	2,023	21,393
		4,375,566	4,030,786
<b>Total assets</b>		8,206,581	7,919,348
<b>Current liabilities</b>			
Trade and other payables	10	534,675	245,088
<b>Total liabilities</b>		534,675	245,088
<b>Net assets</b>		7,671,906	7,674,260
<b>Equity</b>			
Called-up share capital	11	5,720,049	5,720,049
Retained earnings		1,951,857	1,954,211
<b>Total equity</b>		7,671,906	7,674,260

Signed on behalf of the Board on 28 January 2012.

  
Jann Brown  
Director

Company Registered No: SC341589

# Capricorn Greenland Exploration 10 Limited

## Statement of Cash Flows

For the year ended 31 December 2012

	Notes	2012 \$	2011 \$
<b>Cash flows from operating activities</b>			
(Loss)/profit before taxation		(2,354)	3,880
Finance income		-	(3,880)
Finance costs		2,354	-
<b>Net cash used in operating activities</b>		-	-
<b>Cash flows from investing activities</b>			
Expenditure on intangible exploration/appraisal assets		(519,370)	(848,705)
<b>Net cash used in investing activities</b>		(519,370)	(848,705)
<b>Cash flows from financing activities</b>			
Group borrowings		500,000	866,222
<b>Net cash flows from financing activities</b>		500,000	866,222
Net (decrease)/increase in cash and cash equivalents		(19,370)	17,517
Opening cash and cash equivalents at beginning of year		21,393	3,876
<b>Closing cash and cash equivalents</b>	9	2,023	21,393

## Capricorn Greenland Exploration 10 Limited

### Statement of Changes in Equity

For the year ended 31 December 2012

	Equity share capital \$	Retained earnings \$	Total Equity \$
At 1 January 2011	5,624,166	1,950,331	7,574,497
Profit for the year	-	3,880	3,880
Total comprehensive income for the year	-	3,880	3,880
Shares issued during the year	95,883	-	95,883
At 1 January 2012	5,720,049	1,954,211	7,674,260
Loss for the year	-	(2,354)	(2,354)
Total comprehensive income for the year	-	(2,354)	(2,354)
At 31 December 2012	5,720,049	1,951,857	7,671,906

# Capricorn Greenland Exploration 10 Limited

## Notes to the Accounts

### 1 Accounting Policies

#### a) Basis of preparation

The financial statements of Capricorn Greenland Exploration 10 Limited ("the Company") for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the directors on 28 January 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, 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.

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 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'

# Capricorn Greenland Exploration 10 Limited

## Notes to the Accounts (continued)

### 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 an unincorporated Joint Venture which involves 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 the Joint Venture in which the Company holds an interest, classified in the appropriate Balance Sheet and Income Statement headings. The Company's principal licence interest is a jointly controlled asset.

The Company has an interest in the following unincorporated Joint Venture offshore Greenland:

	Working Interest
Salliitt	57.0%

#### 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.

# Capricorn Greenland Exploration 10 Limited

## Notes to the Accounts (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, 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 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.

#### 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.

#### 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 Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Balance Sheet date.

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

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

# Capricorn Greenland Exploration 10 Limited

## Notes to the Accounts (continued)

### 1 Accounting Policies (continued)

#### h) Taxation (continued)

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods in which the asset is realised or the liability is settled, based on tax rates and laws enacted or substantively enacted at the Balance Sheet date.

Deferred tax assets and liabilities are only offset where they arise within the same entity and tax jurisdiction and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### 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 estimates 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

The Company has reviewed exploration/appraisal assets for indicators of impairment and has concluded that no such indicators of impairment existed at the year end.

# Capricorn Greenland Exploration 10 Limited

## Notes to the Accounts (continued)

### 2 Operating Profit

#### Auditors' Remuneration

The Company's auditors' remuneration of \$5,015 (2011: \$4,823) 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 approval by the Audit Committee of Cairn Energy PLC, the ultimate parent undertaking.

### 3 Directors' Remuneration

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: \$3.8m) and pension contributions of \$0.2m (2011: \$0.3m), all of which was paid by its ultimate parent company. The directors do not believe that it is practicable to apportion this amount between their services as directors of the Company and their services as directors of Cairn Energy PLC and fellow subsidiary companies.

### 4 Finance Income

	2012 \$	2011 \$
Exchange gain	-	3,880
	-	3,880

### 5 Finance Costs

	2012 \$	2011 \$
Exchange loss	2,354	-
	2,354	-

### 6 Taxation on (Loss)/profit

#### Factors affecting tax expense for year

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:

	2012 \$	2011 \$
<b>(Loss)/profit before taxation</b>	<b>(2,354)</b>	<b>3,880</b>
Tax at the weighted average rate of corporation tax of 24.50% (2011: 26.49%)	577	1,028
<b>Effects of:</b>		
Group relief claimed	(577)	(1,028)
<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 26% prior to 1 April 2012, and 24% from that date onwards. The rate will decrease again to 23% on 1 April 2013.

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.

There was no deferred tax asset or liability as at 31 December 2012 (2011: \$nil).



# Capricorn Greenland Exploration 10 Limited

## Notes to the Accounts (continued)

### 7 Intangible Exploration/Appraisal Assets

	Greenland \$	Total \$
<b>Cost</b>		
At 1 January 2011	2,941,231	2,941,231
Additions	947,331	947,331
At 1 January 2012	3,888,562	3,888,562
Additions	(57,547)	(57,547)
<b>At 31 December 2012</b>	<b>3,831,015</b>	<b>3,831,015</b>
<b>Net book value at 31 December 2012</b>	<b>3,831,015</b>	<b>3,831,015</b>
Net book value at 31 December 2011	3,888,562	3,888,562
Net book value at 1 January 2011	2,941,231	2,941,231

At the year end and at the date the financial statements were approved by the Board, the Company carried out an impairment review of intangible exploration/appraisal assets and concluded that indicators of impairment did not exist. Refer to note 1(e) for details of the assumptions used in the impairment calculations.

### 8 Trade and Other Receivables

	31 December 2012 \$	31 December 2011 \$
Amounts owed by group companies	4,000,002	4,000,002
Joint Venture debtors	373,541	9,391
	<b>4,373,543</b>	<b>4,009,393</b>

Amounts owed by group companies are non-interest bearing. 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.

As at 31 December 2012, 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 \$
<b>2012</b>						
Neither past due nor impaired	373,541	373,541	-	-	-	-
Past due but not impaired	4,000,002	-	-	-	-	4,000,002
<b>As at 31 December 2012</b>	<b>4,373,543</b>	<b>373,541</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,000,002</b>
<b>2011</b>						
Neither past due nor impaired	9,391	9,391	-	-	-	-
Past due but not impaired	4,000,002	-	-	-	-	4,000,002
<b>As at 31 December 2011</b>	<b>4,009,393</b>	<b>9,391</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,000,002</b>

There is no allowance for doubtful debts in the Company.

# Capricorn Greenland Exploration 10 Limited

## Notes to the Accounts (continued)

### 9 Cash and Cash Equivalents

	31 December 2012 \$	31 December 2011 \$
Cash and cash equivalents	2,023	21,393

### 10 Trade and other payables

	31 December 2012 \$	31 December 2011 \$
Amounts owed to group companies	500,000	-
Joint Venture accruals	34,675	245,088
	534,675	245,088

### 11 Issued Capital and Reserves

	2012 £1 Ordinary Number	2011 £1 Ordinary Number	2012 £1 Ordinary \$	2011 £1 Ordinary \$
<b>Allotted, issued and fully paid ordinary shares</b>				
At 1 January	3,666,482	3,604,772	5,720,049	5,624,166
Issued in year	-	61,710	-	95,883
<b>At 31 December</b>	<b>3,666,482</b>	<b>3,666,482</b>	<b>5,720,049</b>	<b>5,720,049</b>

In December 2011, the Company issued 61,710 fully paid shares of £1 ordinary shares at par in settlement of debt due to its immediate holding company, Capricorn Energy Limited. The debts arose in the course of funding the Company's exploration activities.

### 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.

# Capricorn Greenland Exploration 10 Limited

## Notes to the Accounts (continued)

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

#### 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 currency 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.

#### 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.

Company capital and net debt were made up as follows:

	31 December 2012 \$	31 December 2011 \$
Trade and other payables	534,675	245,088
Less cash and cash equivalents	(2,023)	(21,393)
Net debt	532,652	223,695
Equity	7,671,906	7,674,260
Company capital and net debt	8,204,558	7,897,955
Gearing Ratio	6.5%	2.9%

# Capricorn Greenland Exploration 10 Limited

## Notes to the Accounts (continued)

### 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	2,023	21,393	2,023	21,393
Amounts owed by group companies	4,000,002	4,000,002	4,000,002	4,000,002
Joint Venture debtors	373,541	9,391	373,541	9,391
	<b>4,375,566</b>	<b>4,030,786</b>	<b>4,375,566</b>	<b>4,030,786</b>

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

Financial liabilities	Carrying amount		Fair value	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	\$	\$	\$	\$
Amounts owed to group companies	500,000	-	500,000	-
	<b>500,000</b>	<b>-</b>	<b>500,000</b>	<b>-</b>

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 following tables set 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
	\$	\$	\$	\$	\$	\$	\$
Amounts owed to group companies	500,000	500,000	-	-	-	-	-
	<b>500,000</b>	<b>500,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

### 14 Capital Commitments

	31 December 2012	31 December 2011
	\$	\$
Oil and gas expenditure:		
Intangible exploration/appraisal assets	1,564,032	379,500
Contracted for	<b>1,564,032</b>	<b>379,500</b>

The above capital commitments represent the Company's share of obligations in relation to its interests in its Joint Venture. As all the Company Joint Venture is a jointly controlled asset, these commitments represent the Company's share of the capital commitment of the Joint Venture itself.

# Capricorn Greenland Exploration 10 Limited

## Notes to the Accounts (continued)

### 15 Related Party Transactions

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

	31 December 2012 \$	31 December 2011 \$
Amounts owed by group companies	4,000,002	4,000,002
Amounts owed to group companies	(500,000)	-
	<b>3,500,002</b>	<b>4,000,002</b>

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.

During the year ended 31 December 2012, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2011: \$nil).

#### Remuneration of key management personnel and directors

The remuneration of directors, who are the key management personnel of the Company, is set out in Note 3 in the Notes to Accounts section. 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.

#### Other transactions

All transactions with other group companies are carried out on an arm's length basis.

In December 2011, the Company issued 61,710 fully paid shares of £1 ordinary shares at par in settlement of debt due to its immediate holding company, Capricorn Energy Limited. The debts arose in the course of funding the Company's exploration activities.

### 16 Ultimate Parent Company

The Company is a wholly-owned subsidiary of Capricorn Energy 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.

### 17 Event after the Balance Sheet Date

In December 2012, the Company received approval from the Greenland Government to contribute its net assets into a Greenlandic entity, Capricorn Greenland Exploration A/S, in exchange for an interest in Capricorn Greenland Exploration A/S. Following the contribution, which is expected to take place shortly after the signing of these financial statements, the Company will hold a 11.5% share of Capricorn Greenland Exploration A/S. The remaining 88.5% will be held by other Capricorn group entities under common control.