

Registered number: SC 284624

**CAIRN EXPLORATION (NO.2) LIMITED
REPORT & FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016**

Cairn Exploration (No.2) Limited

Directors:

Sunil Bohra

Auditors:

Ernst & Young LLP
G1 Building
5 George Square
Glasgow
G2 1DY

Company Secretaries

Accomplish Secretaries Limited
18 South Street, Mayfair,
London- W1K 1DG
United Kingdom

Registered Office:

Summit House,
4-5 Mitchell Street, Edinburgh,
EH6 7BD, Scotland

Registered No:

SC 284624

Cairn Exploration (No.2) Limited

Directors' Report

The directors present their report and financial statements for the year ended 31 March 2016. The Company has taken advantage of the small companies' exemption from preparing a Strategic Report.

Principal Activities and Business Review

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

At 1 January 2008, the Company had a 30% interest in block RJ-ONN-2003/1. On 14 February 2008, the Company transferred its 30% interest in block RJ-ONN-2003/1 to Cairn India Limited by way of assignment of interest.

The Company did not have any operations during the year ended 31 March 2016. During the year the Company made a profit of \$29,006 (year ended 31 March 2015: profit of \$1,043). No dividend has been paid or declared in respect of the year ended 31 March 2016 (period ended 31 March 2015: \$nil).

Future Developments

The Company did not trade during the year ended 31 March 2016. A similar outlook is expected for 2016-17.

Risk Factors

Exchange Rates

The Company's cash flow, income statement and balance sheet are reported in US Dollars and may be significantly affected by fluctuations in exchange rates.

War, Terrorist Attack and Natural Disasters

The Company's business may be adversely affected by a war, terrorist attack, natural disaster or other catastrophe.

Political Climate

The Company cannot predict the impact of future changes in fiscal policy in the country in which it operates.

Risks and uncertainties of the Cairn India Group, which includes this company, are discussed in detail within the annual report of the parent undertaking, Cairn India Limited.

Financial Instruments

For details of the Company's financial risk management: objectives and policies see note 11 of the Notes to the Accounts.

Going Concern

The directors have considered the factors relevant to support a statement on going concern. They have a reasonable expectation that the Company has adequate financial resources to continue in operational existence for the foreseeable future and have therefore continued to use the going concern basis in preparing the financial statements.

Directors

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

Sunil Bohra

Charitable and Political Donations

The Company did not make any political or charitable contributions in UK during the year ended 31 March 2016 (year ended 31 March 2015: \$nil).

Cairn Exploration (No.2) Limited

Directors' Report (continued)

Creditors Payment Policy

It is the Company's payment policy to ensure settlement of suppliers' services in accordance with the terms of the applicable contracts. In most circumstances, settlement terms are agreed prior to business taking place.

Disclosure of Information to Auditors

The directors of the Company who held office at 31 March 2016 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.

Auditors

In accordance with section 487(2) of the Companies Act 2006, the auditors, Ernst & Young LLP are deemed re-appointed.

By Order of the Board



Sunil Bohra

DLF Atria, Phase II,
Jacaranda Marg,
DLY City, Gurgaon - 122 002
Haryana, India

Date: 21 April 2016

Cairn Exploration (No.2) Limited

Directors' Responsibility Statement

The directors are responsible for preparing the Directors' Report and the Company's financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom law and those International Financial Reporting Standards 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 for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable IFRSs issued by the IASB and adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis, unless they consider that to be inappropriate.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAIRN EXPLORATION (NO.2) LIMITED
(Registration Number: SC 284624)

We have audited the financial statements of Cairn Exploration (No.2) Limited for the year ended 31 March 2016 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 13. 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 auditors

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 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 financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material management or inconsistencies, we consider the implications for our report.

Opinion on the 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 March 2016 and of its profit 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 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: or
- the directors were not entitled to take advantage of the small companies' exemption in not preparing the Strategic Report.



James Nisbet (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Glasgow
21 April 2016

Cairn Exploration (No.2) Limited

Income Statement

For the year ended 31 March 2016

	Notes	Year ended March 2016 \$	Year ended March 2015 \$
Administrative expenses		(397)	(170)
Other Income		33,743	-
Operating Profit		33,346	(170)
Finance income	3	5	1,213
Finance cost		(4,345)	-
Profit before taxation		29,006	1,043
Taxation	4	-	-
Profit for the year		29,006	1,043

Cairn Exploration (No.2) Limited
Statement of Comprehensive Income
For the year ended 31 March 2016

	Year ended March 2016 \$	Year ended March 2015 \$
Profit for the year	29,006	1,043
Total comprehensive income for the year	29,006	1,043

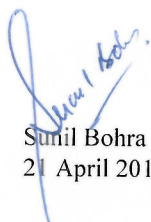
Cairn Exploration (No.2) Limited

Balance Sheet

As at 31 March 2016

	Notes	31 March 2016 \$	31 March 2015 \$
Current assets			
Trade and other receivables	5	-	321
Cash and cash equivalents	6	4,891	4,888
Total assets		4,891	5,209
Current liabilities			
Trade and other payables	7	-	(29,324)
Total liabilities		-	(29,324)
Net liabilities		4,891	(24,115)
Equity			
Called-up share capital	8	594,930	594,930
Other equity		319,256	319,256
Retained earnings		(909,295)	(938,301)
Total equity attributable to the equity holders		4,891	(24,115)

Signed on behalf of the Board



Sunil Bohra
21 April 2016

Cairn Exploration (No.2) Limited
Statement of Cash Flows
For the year ended 31 March 2016

	Note	Year ended March 2016 \$	Year ended March 2015 \$
Cash flows from operating activities			
Profit before taxation		29,006	1,043
Finance Income	3	(5)	(1,213)
Foreign exchange differences		(4,345)	1,202
Trade and other receivables movement		321	13
Trade and other payables movement		(24,979)	(1,215)
Net cash used in operating activities		(2)	(170)
Cash flows from investing activities			
Interest received		5	11
Net cash from investing activities		5	11
Cash flows from financing activities			
Issue of share capital		-	-
Net proceeds from/to related parties		-	-
Net cash flows from financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		3	(159)
Opening cash and cash equivalents at beginning of the year		4,888	5,047
Closing cash and cash equivalents	6	4,891	4,888

Cairn Exploration (No.2) Limited

Statement of Changes in Equity

For the year ended 31 March 2016

	Share Capital \$	Other Equity \$	Retained Earnings \$	Total \$
At 1 April 2014	594,930	319,256	(939,344)	(25,158)
Issued during the year	-	-	-	-
Profit for the year	-	-	1,043	1,043
Total comprehensive income for the year	-	-	1,043	1,043
At 1 April 2015	594,930	319,256	(938,301)	(24,115)
Issued during the year	-	-	-	-
Profit for the year	-	-	29,006	29,006
Total comprehensive income for the year	-	-	29,006	29,006
At 31 March 2016	594,930	319,256*	(909,295)	4,891

* Other equity represents waiver of intergroup balances and these are non-distributable.

The accompanying notes form an integral part of these financial statements.

Cairn Exploration (No.2) Limited

Notes to the Accounts

For the year ended 31 March 2016

1 Accounting Policies

a) Basis of preparation

The financial statements of the Company for the year ended 31 March 2016 were authorised for issue in accordance with a resolution of the directors on 21 April 2016. The Company is a private company incorporated and domiciled in Scotland. The registered office is located at Summit House, 4-5 Mitchell Street, Edinburgh, EH6 7BD, 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 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 cash flows, liquidity position and borrowing facilities are presented in the financial statements and supporting notes. In addition, notes 11 and 12 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

Management believes that it has no assets which have a carrying value in excess of its realisable value and has been assured by its parent for adequate financial support whenever required in order to discharge its liabilities. Thus the directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

b) Accounting standards

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the IASB and in accordance with IFRS as adopted by the European Union and as they apply to the year ended 31 March 2016. IFRS as adopted by the European Union differs in certain respects from IFRS as issued by the IASB. However, the differences have no impact on the financial statements for the years presented.

The Company has adopted all new or amended and revised accounting standards and interpretations ('IFRSs') issued by IASB and as adopted by the European Union effective for the year ended 31 March 2016. Based on an analysis by the Company, the application of the new IFRSs has not had a material impact on the financial statements in reported period and we do not anticipate any significant impact on future periods from the adoption of these new IFRSs.

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended IAS and IFRS effective as of 1 April 2015:

- Amendments to IAS 19: Defined Benefit Plans: Employee Contributions effective 1 July 2014
- Annual Improvements to IFRSs 2010-2012 Cycle effective 1 July 2014
- Annual Improvements to IFRSs 2011-2013 Cycle effective 1 July 2014

New IFRSs that have been issued but not yet come into effect

In addition to the above, IASB has issued a number of new or amended and revised accounting standards and interpretations (IFRSs) that have not yet come into effect. The Company has thoroughly assessed the impact of these IFRSs which are not yet effective and determined that we do not anticipate any significant impact on the financial statements from the adoption of these standards.

- IFRS 9 Financial Instruments effective for annual periods beginning on or after 01 January 2018
- IFRS 14 Regulatory Deferral Accounts for annual periods beginning on or after 01 January 2016
- IFRS 15 Revenue from Contracts with customers period beginning on or after 01 January 2017
- Amendments to IAS 16 and IAS 38- Clarifications of Acceptable Methods of Depreciation and Amortization for annual periods beginning on or after 01 January 2016
- Amendments to IFRS 11-Accounting for Acquisition of interest in Joint Operations for annual periods beginning on or after 01 January 2016
- Annual Improvements to IFRSs 2012-2014 Cycle for annual periods beginning on or after 01 January 2016
- Amendments to IAS 27-Equity Method in Separate Financial Statements for annual periods beginning on or after 01 January 2016
- Amendments to IFRS 10 and IAS 28-Sale or contribution of assets between an investor and its Associate or Joint venture for annual periods beginning on or after 01 January 2016
- Amendments to IFRS 10, IFRS 12 and IAS 28-Investment Entities: Applying the Consolidation Exception for annual periods beginning on or after 01 January 2016
- Amendments to IAS 1-Disclosure Initiative for annual periods beginning on or after 01 January 2016

Cairn Exploration (No.2) Limited

Notes to the Accounts (continued)

For the year ended 31 March 2016

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 I(g).

d) **Joint Arrangements**

At 1 January 2008, the Company had a 30% interest in block RJ-ONN-2003/1. On 14 February 2008, the Company transferred its 30% interest in block RJ-ONN-2003/1 to Cairn India Limited by way of assignment of interest.

The Company accounts for its share of assets, liabilities, income and expenditure of the Joint Operation in which the Company holds an interest, classified in the appropriate Balance Sheet and Income Statement headings. The Company’s principal licence interest was a joint operation.

e) **Finance income**

Interest income

Interest income is recognised using the effective interest method on an accruals basis and is recognised within “Finance income” in the Income Statement.

f) **Oil and gas intangible exploration/appraisal assets and property, plant & equipment - development/producing 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 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 exploration targets is capitalised initially within 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 exploration/appraisal costs are transferred into a single field cost centre within development/producing assets after testing for impairment (see below). Where results of exploration drilling indicate the presence of hydrocarbons that are ultimately not considered commercially viable, all related costs are written off to the Income Statement.

All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons has been demonstrated are capitalised within development/producing assets on a field-by-field basis. Subsequent expenditure is capitalised only where it either enhances the economic benefits of the development/producing asset or replaces part of the existing development/producing asset. Any remaining costs associated with the part replaced are expensed.

Net proceeds from any disposal of an exploration asset are initially credited against the previously capitalised costs. Any surplus proceeds are credited to the Income Statement. Net proceeds from any disposal of development/producing assets are credited against the previously capitalised cost. A gain or loss on disposal of a development/producing asset is recognised in the Income Statement to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalised costs of the asset.

Cairn Exploration (No.2) Limited

Notes to the Accounts (continued)

For the year ended 31 March 2016

1 Accounting Policies (continued)

f) Oil and gas intangible exploration/appraisal assets and property, plant & equipment - development/producing assets (continued)

Depletion

The Company depletes separately, where applicable, any significant components within development/producing assets, such as fields, processing facilities and pipelines, which are significant in relation to the total cost of a development/producing asset.

The Company depletes expenditure on property, plant & equipment - development/producing assets on a unit of production basis, based on proved and probable reserves on a field-by-field basis. In certain circumstances, fields within a single development area may be combined for depletion purposes.

Impairment

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 asset is allocated to 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.

Impairment reviews on development/producing assets are carried out on each cash-generating unit identified in accordance with IAS 36 'Impairment of Assets'. The Company's cash generating units are those assets which generate largely independent cash flows and are normally, but not always, single development areas.

At each reporting date, where there are indicators of impairment, the net book value of the cash generating unit is compared with the associated expected discounted future net cash flows. If the net book value is higher, then the difference is written off to the Income Statement as impairment. Discounted future net cash flows for IAS 36 purposes are calculated using a consensus short and long-term oil price forecast and the appropriate gas price as dictated by the relevant gas sales contract, escalation for costs, and a pre-tax discount rate. Forecast production profiles are determined on an asset by asset basis, using appropriate petroleum engineering techniques.

Where there has been a charge for impairment in an earlier period that charge will be reversed in a later period where there has been a change in circumstances to the extent that the discounted future net cash flows are higher than the net book value at the time. In reversing impairment losses, the carrying amount of the asset will be increased to the lower of its original carrying value or the carrying value that would have been determined (net of depletion) had no impairment loss been recognised in prior periods.

g) 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.

Rates of exchange to \$1 were as follows:

	31 March 2016	Average Year ended March 2016	31 March 2015	Average Year ended March 2015
Sterling	0.698	0.666	0.677	0.623
Indian Rupee	66.333	65.695	62.591	61.221

Cairn Exploration (No.2) Limited

Notes to the Accounts (continued)

For the year ended 31 March 2016

1 Accounting Policies (continued)

h) 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 the key areas of estimation are noted below, with further details of the assumptions used listed at the relevant note.

Impairment testing

Discounted future net cash flows for IAS 36 purposes are calculated using commodity price, cost and discount rate assumptions on forecast production profiles. See notes 1(f) and 1(i) for further details.

i) 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 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.

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.

Borrowing costs

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

Cairn Exploration (No.2) Limited

Notes to the Accounts (continued)

For the year ended 31 March 2016

1 Accounting Policies (continued)

j) **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 Arrangements where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. A deferred income tax liability is not recognised if a temporary difference arises on initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

k) **Exceptional items**

Exceptional items are those not considered to be part of the normal operation of the business. Such items are identified as exceptional and a full explanation is given in the Notes to the Accounts.

2 Operating Profit

a) **Discontinued operations**

All profits and losses in the current and preceding year were derived from discontinued operations.

b) **Auditors' remuneration**

Fees amounting to \$5,763 (year ended 31 March 2015: \$5,938) are payable to the Company's auditors for the audit of the Company's annual accounts and are payable by another group company.

The Company has a system in place for the award of non-audit work to the auditors which, in certain circumstances, requires Audit Committee approval.

Cairn Exploration (No.2) Limited

Notes to the Accounts (continued)

For the year ended 31 March 2016

3 Finance Income

	Year ended March 2016	Year ended March 2015
	\$	\$
Bank interest	5	11
Exchange gain	-	1,202
	<hr/> 5	<hr/> 1,213

4 Taxation

Factors affecting tax charge for year

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

	Year ended March 2016	Year ended March 2015
	\$	\$
Profit before taxation	<hr/> 29,006	<hr/> 1,043
Corporation tax at the standard UK rate 20% (Apr-Mar'15- 21%)	5,801	219
Effects of:		
Other permanent difference	<hr/> (5,801)	<hr/> (219)
Total tax charge	<hr/> -	<hr/> -

The UK Government has announced that the main rate of UK Corporation tax for the year 2015 is 20% (2014 is 21%). Further, reduction in the main rate to 19% from 1st April 2017 and 18% effective from 1st April 2020 have been fully enacted into UK law in the period.

Cairn Exploration (No.2) Limited
Notes to the Accounts (continued)
For the year ended 31 March 2016

5 Trade and Other Receivables

			31 March		31 March	
			2016		2015	
			\$		\$	
Other debtors			-		321	
			-		321	
	Total	Current	< 30	30-60	60-90	90-120
	\$	\$	days	days	days	>120 days
2015-16						
Past due but not impaired	-	-	-	-	-	-
At 31 March 2016	-	-	-	-	-	-
2014-15						
Past due but not impaired	321	-	-	-	-	321
At 31 March 2015	321	-	-	-	-	321

There is no allowance for doubtful debts in the Company.

6 Cash and Cash Equivalents

	31 March		31 March	
	2016		2015	
	\$		\$	
Cash at bank	4,891		4,888	
	4,891		4,888	

Cash at bank earns interest at floating rates based on daily bank deposit rates.

7 Trade and Other Payables

	31 March		31 March	
	2016		2015	
	\$		\$	
Other creditors and accruals	-		29,324	
	-		29,324	

Cairn Exploration (No.2) Limited

Notes to the Accounts (continued)

For the year ended 31 March 2016

8 Share Capital

	31 March 2016		31 March 2015	
	£1 Ordinary Number		£1 Ordinary Number	
Authorised ordinary shares	5,100,000		5,100,000	
	31 March 2016	31 March 2016	31 March 2015	31 March 2015
	£1 Ordinary Number	£1 Ordinary \$	£1 Ordinary Number	£1 Ordinary \$
Allotted, issued and fully paid ordinary shares	359,456	594,930	359,456	594,930

9 Capital Commitments

There are no capital commitments as at year ended 31 March 2016 (31 March 2015: Nil).

10 Related Party Transactions

No related party transactions were incurred during the year and no balances were outstanding as at balance sheet date.

Remuneration of key management personnel

Being in the non-executive position, Mr Sunil Bohra is not entitled for any remuneration from the Company. No remuneration has been paid to them from the Company.

11 Financial Risk Management: Objectives and Policies

The Company's primary financial instruments comprise cash, short and medium-term deposits, money market liquidity funds, marketable bonds, loans and other receivables and financial liabilities held at amortised cost. The Company's strategy has been to finance its operations through a mixture of retained profits and inter group borrowings. Other alternatives, such as equity finance and project finance are reviewed by the Board, when appropriate, to fund substantial acquisitions of oil and gas development projects.

The Company treasury function is responsible for managing investment and funding requirements including banking and cash flow monitoring. It must also recognise and manage interest and foreign exchange exposure whilst ensuring that the Company has adequate liquidity at all times in order to meet its immediate cash requirements.

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. Derivative financial instruments have not been used throughout the year ended 31 March 2016. It is, and has been throughout the year under review, the Company's policy that no trading in derivative financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are liquidity risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and these are summarised below:

Cairn Exploration (No.2) Limited

Notes to the Accounts (continued)

For the year ended 31 March 2016

11 Financial Risk Management: Objectives and Policies (continued)

Liquidity risk

Cairn India Group entered into uncommitted secured working capital facility for aggregating \$25m to fund its short term capital requirements. Uncommitted facility as of 31 March 2016 was \$25m (31 March 2015-\$75m). As at 31 March 2016, there were no outstanding amounts under these facilities. In addition, as at 31 March 2016, the Cairn India Group had \$89.0m of trade finance facilities (31 March 2015: \$105.9m) in place to cover the issue of bank guarantees / letter of credit. Fixed rates of bank commission and charges apply to these. A sum of \$28.5m was utilised as at 31 March 2016 (31 March 2015: \$18.9m).

The Cairn India Group currently has surplus cash which it has placed in a combination of money market liquidity funds, fixed term deposits, mutual funds and marketable bonds with a number of International and Indian banks, financial institutions and corporates, ensuring sufficient liquidity to enable the Cairn India Group to meet its short/medium-term expenditure requirements.

The Cairn India Group is conscious of the current environment and constantly monitors counterparty risk. Policies are in place to limit counterparty exposure. The Cairn India Group monitors counterparties using published ratings and other measures where appropriate.

Foreign currency risk

The Company manages exposures that arise from non-functional currency receipts and payments by matching receipts and payments in the same currency and actively managing the residual net position. Generally the exposure has been limited given that receipts and payments have mostly been in US dollars and the functional currency of the Company is US dollars.

As a result of the Rajasthan developments, there has been an increased exposure between the Indian Rupee and US Dollar in the current period. This has now been significantly mitigated with the CE Group USD and INR facilities which allow matching of drawings and payments, out of which USD facility is held by the Company.

In order to minimise the Company's exposure to foreign currency fluctuations, currency assets are matched with currency liabilities by borrowing or entering into foreign exchange contracts in the applicable currency if deemed appropriate. The Group also aims to hold working capital balances in the same currency as functional currency, thereby matching the reporting currency and functional currency of most companies in the Group. This minimises the impact of foreign exchange movements on the Company'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. The fair value of the outstanding currency derivatives in Cairn India Holdings Group as at 31 March 2016 was \$nil (31 March 2015: \$nil).

Credit risk

Credit risk from investments with banks and other financial institutions is managed by the Treasury functions in accordance with the Board approved policies of Cairn India Limited. 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 respective Boards continually re-assess the Group's Policy and update 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, other than that disclosed in note 5.

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 Company 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.

Cairn Exploration (No.2) Limited

Notes to the Accounts (continued)

For the year ended 31 March 2016

11 Financial Risk Management: Objectives and Policies (continued)

Capital management (continued)

The Company manages its capital structure and makes adjustments to it, in light of changes to economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital, issue new shares for cash, repay debt, put in place new debt facilities or undertake other such restructuring activities as appropriate.

No changes were made in the objectives, policies or processes during the year ended 31 March 2016.

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

	31 March 2016 \$	31 March 2015 \$
Trade and other payables	-	29,324
Less: cash and cash equivalents	(4,891)	(4,888)
Net debt	(4,891)	24,436
Equity	4,891	(24,115)
Capital and net debt	-	321
Gearing ratio	-	7,612.4%

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 Company's financial assets, together with their fair values are as follows:

Financial assets	Carrying amount		Fair value	
	31 March 2016 \$	31 March 2015 \$	31 March 2016 \$	31 March 2015 \$
Cash and cash equivalents	4,891	4,888	4,891	4,888
Other debtors	-	321	-	321
	4,891	5,209	4,891	5,209

All of the above financial assets are current and unimpaired with the exception of amounts owed by group companies. An analysis of the ageing of amounts owed by group companies is provided in note 5.

Financial liabilities	Carrying amount		Fair value	
	31 March 2016 \$	31 March 2015 \$	31 March 2016 \$	31 March 2015 \$
Amounts owed to group companies	-	-	-	-
Others creditors	-	29,324	-	29,324
	-	29,324	-	29,324

Cairn Exploration (No.2) Limited

Notes to the Accounts (continued)

For the year ended 31 March 2016

12 Financial Instruments (continued)

Maturity Analysis

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

At 31 March 2016

	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	-	-	-	-	-	-	-
Other creditors	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

At 31 March 2015

	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	-	-	-	-	-	-	-
Other creditors	29,324	-	29,324	-	-	-	-
	29,324	-	29,324	-	-	-	-

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

At 31 March 2016 and 31 March 2015, the Company had no financial instruments in level 1, 2 or 3.

13 Ultimate Parent Company

The Company is a wholly-owned subsidiary of Cairn India Holdings Limited which in turn is a subsidiary of Cairn India Limited. Vedanta Resources Plc is the intermediary holding company. Volcan Investments Limited ("Volcan") is the ultimate controlling entity and controls Vedanta Resources Plc.

The results of the Company are consolidated into intermediate parent company, viz. Vedanta Resources Plc. The registered office of Vedanta Resources Plc, is 2nd Floor, Vintners Place, 68 Upper Thames Street, London, EC4V 3BJ. Copies of Vedanta Resources Plc's financial statements are available on its website.