

Registered number: SC 284624

**CAIRN EXPLORATION (NO.2) LIMITED
REPORT & FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

Cairn Exploration (No.2) Limited

Directors:

Sunil Bohra

Auditors:

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Company Secretaries

Accomplish Secretaries Limited
3rd Floor, 11-12 St. James's Square
London
SW1Y4LB

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 2018. 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.

The Company did not have any operations during the year ended 31 March 2018. During the year the Company made no profits/(losses). (Year ended 31 March 2017: loss of \$4,891). No dividend has been paid or declared in respect of the year ended 31 March 2018 (Year ended 31 March 2017: \$nil).

Future Developments

The Company did not trade during the year ended 31 March 2018. A similar outlook is expected for 2018-19.

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.

Financial Instruments

For details of the Company's financial risk management: objectives and policies see note 10 of the Notes to the Accounts.

Going Concern

The directors, in their meeting held on 23rd June 2016, have resolved to liquidate the Company. The Company has the continued support of its parent while it initiates the liquidation process. The Company's ultimate parent undertaking is Vedanta Resources plc.

For reasons stated above, the director considers it inappropriate to prepare the financial statements on a going concern basis. The Company has nil assets and liabilities and following the directors resolution to liquidate the company, the accounts have been prepared on a break up basis. As there are no assets or liabilities at the balance sheet date, no difference has resulted from adopting the break up basis instead of the going concern basis

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 2018 (Year ended 31 March 2017: \$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 2018 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,
DLF City, Gurugram - 122 002
Haryana, India

Date: 11 May 2018

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

We have audited the financial statements of Cairn Exploration (No.2) Limited for the year ended 31 March 2018 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Cash Flows, and the Statement of Changes in Equity and the related notes 1 to 12, including a summary of significant accounting policies. 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.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 March 2018 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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.

Conclusions relating to going concern

As described in note 1, the financial statements have been prepared under the break-up basis.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and the directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, 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 a strategic report.

Responsibilities of directors

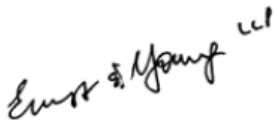
As explained more fully in the Directors' Responsibility Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.



*Mirco Bardella (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
11 May 2018*

Cairn Exploration (No.2) Limited

Income Statement

For the year ended 31 March 2018

	Notes	Year ended March 2018 \$	Year ended March 2017 \$
Administrative expenses	3	-	(4,891)
Other Income		-	
Operating (Loss)/ Profit		-	(4,891)
Finance income	4	-	1
Finance cost		-	(1)
(Loss)/Profit before taxation		-	(4,891)
Taxation	5	-	-
(Loss) / Profit for the year		-	(4,891)

Cairn Exploration (No.2) Limited

Statement of Comprehensive Income

For the year ended 31 March 2018

	Year ended March 2018 \$	Year ended March 2017 \$
(Loss) / Profit for the year	-	(4,891)
Total comprehensive (loss)/income for the year	-	(4,891)

Cairn Exploration (No.2) Limited

Balance Sheet

As at 31 March 2018

	Notes	31 March 2018 \$	31 March 2017 \$
Current assets			
Cash and cash equivalents	6	-	-
Total assets		-	-
Current liabilities			
Total liabilities		-	-
Net Assets		-	-
Equity			
Called-up share capital	7	594,930	594,930
Other equity		319,256	319,256
Retained earnings		(914,186)	(914,186)
Total equity attributable to the equity holders		-	-

Signed on behalf of the Board



Sunil Bohra
11 May 2018

Cairn Exploration (No.2) Limited

Statement of Cash Flows

For the year ended 31 March 2018

	Note	Year ended March 2018 \$	Year ended March 2017 \$
Cash flows from operating activities			
Loss before taxation		-	(4,891)
Finance income	4	-	(1)
Cash generated from operations		-	(4,892)
Net cash from/(used in) operating activities		-	-
Cash flows from investing activities			
Interest received		-	1
Net cash from/(used in) investing activities		-	1
Cash flow from financing activities			
Net cash from/(used in) financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		-	(4,891)
Cash and cash equivalents at beginning of the year		-	4,891
Cash and cash equivalents at the end of the year	6	-	-

Cairn Exploration (No.2) Limited

Statement of Changes in Equity

For the year ended 31 March 2018

	Share Capital (Note 7) \$	Other Equity* \$	Retained Earnings \$	Total \$
At 1 April 2016	594,930	319,256	(909,295)	4,891
Issued during the year	-	-	-	-
Loss for the year	-	-	(4,891)	(4,891)
At 1 April 2017	594,930	319,256	(914,186)	-
Issued during the year	-	-	-	-
Loss for the year	-	-	-	-
At 31 March 2018	594,930	319,256	(914,186)	-

* 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 2018

1 Accounting Policies

a) Basis of preparation

The financial statements of the Company for the year ended 31 March 2018 were authorised for issue in accordance with a resolution of the directors on 11 May 2018. 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 financial statements have been prepared on a break up basis as the directors of the Company resolved to liquidate the company on 23 June 2016. The parent entity has agreed to bear all closure costs in relation to the liquidation of the Company. No adjustments were necessary to values in the balance sheet.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Principal Activities and 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 10 and 11 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 its exposures to credit risk and liquidity risk.

The directors, in their meeting held on 23rd June 2016, have resolved to liquidate the Company. The Company has the continued support of its parent while it initiates the liquidation process. The Company's ultimate parent undertaking is Vedanta Resources plc.

For reasons stated above, the director considers it inappropriate to prepare the financial statements on a going concern basis. The Company has nil assets and liabilities and following the directors resolution to liquidate the company, the accounts have been prepared on a break up basis. As there are no assets or liabilities at the balance sheet date, no difference has resulted from adopting the break up basis instead of the going concern basis.

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 adopted by the European Union and as they apply to the year ended 31 March 2018. 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 2018. Based on an analysis by the Company, the application of the new IFRSs has not had a material impact on the financial statements in the current reporting period and we do not anticipate any significant impact on future periods from the adoption of these new IFRSs as and when they become effective.

Cairn Exploration (No.2) Limited

Notes to the Accounts

For the year ended 31 March 2018

1 Accounting Policies

b) Accounting standards (continued)

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 15-Revenue from Contracts with customers effective for annual periods beginning on or after 01 January 2018
- Amendments to IAS 28- IFRS 9 shall apply to long term interests in associates and joint ventures that form part of the net investment where the equity method is not applied. The amendments are effective for annual periods beginning on or after 1 January 2019
- Amendment to IFRS 2-Classification and Measurement of Share-based Payment Transactions effective for annual periods beginning on or after 01 January 2018
- IFRS 16-Leases effective for annual periods beginning on or after 01 January 2019
- IFRS 17-Insurance contracts effective for annual periods beginning on or after 1 January 2021
- Amendments to IAS 40 clarifies when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments are effective for annual periods beginning on or after 1 January 2018
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration effective for annual periods beginning on or after 1 January 2018
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatment effective for annual periods beginning on or after 01 January 2019

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(e).

d) Finance income

Revenues are measured at the fair value of the consideration received or receivable, net of discounts, volume rebates, outgoing sales taxes, excise duty and other indirect taxes. Revenues from sales are recognised when all significant risks and rewards of ownership of the commodity sold are transferred to the customer and the commodity has been delivered to the shipping agent. Revenues from sale of by-products are included in revenue.

Interest income

Interest income is recognised using the effective interest rate method, accounted for as finance income in the income statement.

e) Foreign currencies

The Company translates foreign currency transactions into the functional currency, US dollar (US \$), at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in other currencies 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.

Non – monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss respectively).

Cairn Exploration (No.2) Limited

Notes to the Accounts (continued)

For the year ended 31 March 2018

1 Accounting Policies (continued)

e) Foreign currencies (continued)

Rates of exchange to \$1 were as follows:

	31 March 2018	Average Year ended March 2018	31 March 2017	Average Year ended March 2017
Sterling	0.704	0.716	0.802	0.771
Indian Rupee	65.044	65.021	64.839	67.062

f) Loans and other receivables

Trade receivables are stated at their transaction value as reduced by appropriate allowances for estimated irrecoverable amounts. An allowance for impairment of trade receivables is made where there is an event, which based on previous experience, is an indication of a reduction in the recoverability of the carrying value of trade receivables.

Trade receivables are subsequently measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised on non-current receivables on specific items by applying the effective interest rate method.

g) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, short-term deposits with bank and short term highly liquid investments that are readily convertible into cash which are subject to insignificant risk of changes in value and are held for the purpose of meeting short-term cash commitments.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

h) Trade and other payables

Trade and other payables are recognised at their transaction cost, which is its fair value, and subsequently measured at amortised cost.

i) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

j) Taxation

The tax expense represents the sum of current tax payable and deferred tax.

Current tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authorities using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is provided, using the balance sheet method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Exceptions to this principle are:

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future;
- When the deferred tax liability arises from the initial recognition of goodwill or 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.

Cairn Exploration (No.2) Limited

Notes to the Accounts (continued)

For the year ended 31 March 2018

1 Accounting Policies (continued)

j) Taxation (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interested in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised
- When the deferred tax asset relating to the deductible temporary differences 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

The carrying amount of deferred tax assets are reviewed at each balance sheet date and is adjusted to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when 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 relating to items recognised outside profit or loss is recognised either in OCI or directly in equity.

Deferred tax assets and liabilities are only offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxable entity and the same taxation authority and the Company intends either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Cairn Exploration (No.2) Limited

Notes to the Accounts (continued)

For the year ended 31 March 2018

1 Accounting Policies (continued)

2 Operating Profit/Loss

a) Discontinued operations

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

b) Auditors' remuneration

Fees amounting to \$5,896 (Year ended 31 March 2017: \$6,049) 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.

3 Administrative Expenses

	Year ended March 2018	Year ended March 2017
	\$	\$
Consultancy charges	-	4,891
	-	4,891

4 Finance Income

	Year ended March 2018	Year ended March 2017
	\$	\$
Bank interest	-	1
	-	1

5 Taxation

Factors affecting tax charge for year

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

	Year ended March 2018	Year ended March 2017
	\$	\$
(Loss)/Profit before taxation	-	(4,891)
Corporation tax at the standard UK rate 19% (Apr-Mar'17- 20%)	-	(979)
Effects of:		
Other permanent difference	-	979
Total tax charge	-	-

The UK Government has announced that the main rate of UK Corporation tax for the year ended 2018 is 19% (2017 is 20%). Further, reduction in the main rate 17% effective from 1st April 2020 have been fully enacted into UK law in the previous period.

Cairn Exploration (No.2) Limited

Notes to the Accounts (continued)

For the year ended 31 March 2018

6 Cash and Cash Equivalents

	31 March 2018 \$	31 March 2017 \$
Cash at bank	-	-
	-	-

7 Share Capital

	31 March 2018 £1 Ordinary Number	31 March 2017 £1 Ordinary Number		
Authorised ordinary shares	5,100,000	5,100,000		
	31 March 2018 £1 Ordinary Number	31 March 2018 £1 Ordinary \$	31 March 2017 £1 Ordinary Number	31 March 2017 £1 Ordinary \$
Allotted, issued and fully paid ordinary shares	359,456	594,930	359,456	594,930

Cairn Exploration (No.2) Limited

Notes to the Accounts (continued)

For the year ended 31 March 2018

8 Capital Commitments

There are no capital commitments as at year ended 31 March 2018 (31 March 2017: Nil).

9 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 him by the Company.

10 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 2018. 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:

Liquidity risk

The Company does not have any operations and is dependent on its Holding Company / Group companies for meeting its short / medium term expenditure requirements. The Company though has a policy of putting its surplus cash 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 to ensure sufficient liquidity to enable the Company to meet its short/medium-term expenditure requirements.

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

Cairn Exploration (No.2) Limited

Notes to the Accounts (continued)

For the year ended 31 March 2018

10 Financial Risk Management: Objectives and Policies (continued)

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.

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 2018 was \$nil (31 March 2017: \$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 the group. 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. 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.

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.

Cairn Exploration (No.2) Limited

Notes to the Accounts (continued)

For the year ended 31 March 2018

10 Financial Risk Management: Objectives and Policies (continued)

No changes were made in the objectives, policies or processes during the year ended 31 March 2018.

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

	31 March 2018 \$	31 March 2017 \$
Cash and cash equivalents	-	-
Net debt	-	-
Equity	-	-
Capital and net debt	-	-
Gearing ratio	-	-

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, together with their fair values are as follows:

Financial assets	Carrying amount		Fair value	
	31 March 2018 \$	31 March 2017 \$	31 March 2018 \$	31 March 2017 \$
Cash and cash equivalents	-	-	-	-
	-	-	-	-

All of the above financial assets are current.

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 2018 and 31 March 2017, the Company had no financial instruments in level 1, 2 or 3.

Cairn Exploration (No.2) Limited

Notes to the Accounts (continued)

For the year ended 31 March 2018

12 Ultimate Parent Company

The Company is a wholly-owned subsidiary of Cairn India Holdings 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 5th Floor, 6 St. Andrew Street, London, EC4A 3AE.

Copies of Vedanta Resources Plc’s financial statements are available on its website.