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Building a better working world

Independent Auditor's Report

To the members of Cairn South Africa Proprietary Limited

Report on the Audit of the Financial Statements

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Cairn South Africa Proprietary Limited as at 31 March 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

We have audited the financial statements of Cairn South Africa Proprietary Limited set out on pages 9 to 27, which comprise the statement of financial position as at 31 March 2017, and the statement of profit or loss and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Material Uncertainty related to Going Concern
Without qualifying our opinion we draw attention to note 19 on going concern which indicates the entity incurred a loss of $0.724 million (2016: $36.817 million). Note 19 indicates that these conditions, along with other matters, indicate the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern.

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code),* the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants (IESBA code)* and other independence requirements applicable to performing the audit of Black Mountain Mining Proprietary Limited. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code, IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of Cairn South Africa Proprietary Limited. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information
The director is responsible for the other information. The other information comprises the Director's Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or 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, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements
The director is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, 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 director is 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 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.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Ernst & Young Inc.

Ernst & Young Inc.
Director - James Crawford Thomas
Registered Auditor
Chartered Accountant (SA)
27 June 2017

CAIRN SOUTH AFRICA (PTY) LTD

ANNUAL FINANCIAL STATEMENTS AND REPORT OF DIRECTORS

31 March 2017

References to "the Company" or "Cairn" are reference to CAIRN SOUTH AFRICA (PTY) LTD.

Amounts in the Annual Financial Statements have been denominated in United States Dollars ("US$") unless specifically stated otherwise.

General Information

Country of Incorporation:
South Africa

Nature of Business:
To explore for oil and gas in the exclusive economic zone offshore the Republic of South Africa.

Directors:
Sunil Bohra (India)

Registered Office:
22 Bree Street,
Cape Town, 8001,
South Africa.

Holding Company:
Cairn Energy Hydrocarbons Limited (Incorporated in Scotland, UK)

Ultimate Controlling Entity:
Volcan Investments Limited (Incorporated in Bahamas)

Bankers:
CITI Bank NA

Auditors:
Ernst & Young Inc.
102 Rivonia Road
Sandton
2146

Registration Number:
2012/156583/07

Contents

The annual financial statements set out on pages 9-27 were approved by the board of directors on 16 June, 2017.

Signed on behalf of the board by:

Director
Sunil Bohra

Preparation of Annual Financial Statements

These annual financial statements have been audited by our external auditor, Ernst & Young Inc., in compliance with the requirements of the South African Companies Act 71 of 2008.

The annual financial statements have been prepared under the supervision of Sharad Kothari (ACA).

Directors' Responsibilities and Approval

The directors are required in terms of the Companies Act 71 of 2008 to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the Company as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board is responsible to set standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards should include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Company and all employees are required to maintain the highest ethical standards in ensuring the Company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Company is on identifying, assessing, managing and monitoring all known forms of risk across the Company. While operating risk cannot be fully eliminated, the Company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the Company's cash flow forecast for the year to 31 March 2017 and, in the light of this review and the current financial position, they are satisfied that the Company has or has access to adequate resources to continue in operational existence for the foreseeable future. The Company has also received letter of support from its parent entity Cairn Energy Hydrocarbons Limited to help it meet its future financial obligations.

The external auditors are responsible for independently reviewing and reporting on the Company's annual financial statements. The annual financial statements have been examined by the Company's external auditors and their report is presented on pages 6.

The annual financial statements set out on pages 9 to 27, which have been prepared on the going concern basis, were approved by the board on and were signed on its behalf by:

____
Director

REPORT OF DIRECTOR

The director submits the report and Annual Financial Statements for the year ended 31 March 2017.

Nature of operations
The principal activity of the Company during the year was exploration for oil and gas within the exclusive economic zone offshore the Republic of South Africa.

Operations results
The Company holds a 60% participating interest in the exploration right in Block-1, Orange Basin offshore, in South Africa.

The work programme commitments for the first phase have been completed. Detailed interpretation of the 3D and 2D seismic data for outboard and inboard areas was carried out. Petroleum Agency SA (PASA) has granted interim hiatus to the 2nd Phase renewal pending clarification on fiscal stability.

During the year the Company made a loss of US$723,452.

Directors' interest in contracts
No contracts were entered into in which the directors of the Company had an interest.

Going Concern
Due to uncertainty over the Fiscal Regime in South Africa and deferral of the execution of the Deed of Renewal for the 2nd Renewal Phase, the future continuing exploration activities in the block may be discontinued or halted indefinitely. These conditions give rise to a material uncertainty which may cast doubt about the Company's ability to continue as a going concern and, therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Management has been assured by its parent that it will receive adequate financial support whenever required in order to discharge its liabilities. Accordingly, these financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities will occur in the ordinary course of business.

Subsequent Events
There have been no subsequent events between the year-end date and the date of this report that will have a material impact on the current Annual Financial Statements of the Company.

Authorised and Issued Share Capital
The Company is incorporated in the Republic South of Africa. The authorised share capital of the Company is 100,000 ordinary no par value shares. Share capital issued during the current period comprised 3 ordinary no par value shares for US$300,000. The total issued capital as on 31 March, 2017 comprised 752 ordinary no par value shares. Share application money of US$70,000 is pending allotment.

Dividends
No dividend is proposed or was declared in the current financial year 2017.

Directors
The directors of the Company during the year and to the date of this report are as follows:

Name	Nationality
Sunil Bohra	India

REPORT OF DIRECTOR (continued)

Public officer

The public officer of the Company is Christopher Edward Wilson from Kilgetty Statutory Services (Pty) Ltd having business address at 6th Floor, 119 Hertzog Boulevard, Foreshore, Cape Town 8001.

Holding Company

Cairn Energy Hydrocarbons Limited, registered under the laws of Scotland, United Kingdom, is the registered owner of 100% of the issued share capital of the Company.

Ultimate Controlling Entity:

The Company's ultimate controlling entity is Volcan Investments Limited, incorporated in Bahamas.

Financial Results

Full details of the financial results are set out in the annual financial statements forming part of this report.

Disclosure of Information to Auditors

The directors of the Company who held office at 31 March 2017 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.

Reappointment of Auditors

Reappointment of Ernst & Young Inc.as auditors will be put to the shareholders at the next shareholders' meeting.

By Order of the Board

Director
Date: 16 June 2017

STATEMENT OF COMPREHENSIVE LOSS

	Note	Year Ended 31 March 2017 US$	Year Ended 31 March 2016 US$
Comprehensive Loss			
Turnover		Nil	Nil
Cost of Sales			
Exploration Costs written off	7	(674,517)	(351,269)
Gross Loss		**(674,517)**	**(351,269)**
Administrative Expenses	3	(48,237)	(62,840)
Impairment of Assets	7	-	(36,260,752)
Operating Loss		**(722,754)**	**(36,674,862)**
Finance Cost	4	(1,542)	(142,563)
Finance Income	5	844	52
Comprehensive loss for the year		**(723,452)**	**(36,817,373)**
Total Comprehensive Loss for the year		**(723,452)**	**(36,817,373)**

STATEMENT OF FINANCIAL POSITION

	Note	31 March 2017 US$	31 March 2016 US$
ASSETS			
Non-Current Assets			
Intangible exploration/appraisal assets	7	-	-
		-	-
Current Assets			
Trade and Other Receivables	8	6,324	-
Cash and Cash Equivalents	9	39,501	29,119
		45,825	**29,119**
Total Assets		**45,825**	**29,119**
EQUITY AND LIABILITIES			
Equity Attributable to Equity Holders of the Parent			
Stated Capital	10	35,600,000	35,300,000
Accumulated Losses	11	(38,122,150)	(37,398,698)
Total Equity		**(2,522,150)**	**(2,098,698)**
Share application pending allotment	15	70,000	150,000
Current Liabilities			
Trade and Other Payables	12	2,497,975	1,977,817
		2,497,975	**1,977,817**
Total Equity and Liabilities		**45,825**	**29,119**

STATEMENT OF CHANGES IN EQUITY

	Note	Stated Capital US$	Accumulated Losses US$	Total US$
As at 1 April 2015		**35,100,000**	**(581,325)**	**34,518,675**
Issue of share capital for cash 2 shares	10	200,000	-	**200,000**
Total comprehensive loss for the year	11	-	(36,817,373)	(36,817,373)
As at 1 April 2016		**35,300,000**	**(37,398,698)**	**(2,098,698)**
Issue for share capital for cash 3 shares	10	300,000	-	**300,000**
Total comprehensive loss for the year	11	-	(723,452)	(723,452)
As at 31 March 2017		**35,600,000**	**(38,122,150)**	**(2,522,150)**

CASH FLOW STATEMENT

	Note	2017 US$	2016 US$
Cash flows from operating activities			
Loss before tax		(723,452)	(36,817,373)
Adjustments for:			
Unsuccessful exploration costs		674,517	351,269
Finance costs		1,542	142,563
Finance income		(844)	(52)
Impairment loss		-	36,260,752
Unrealised foreign exchange difference		134,682	(21)
Operating profit/(loss) before working capital changes		**86,445**	**(62,862)**
Movement in trade and other payables		(19,457)	36,246
Movement in trade and other receivables		(939)	64,606
Net cash flows from/(used in) operating activities		**66,049**	**37,990**
Cash flows from investing activities			
Expenditure on exploration/appraisal assets		(250,296)	(804,316)
Interest received/(paid)		(6,298)	52
Net cash flows used in investing activities		**(256,594)**	**(804,264)**
Cash flows from financing activities			
Proceeds from issuance of shares		220,000	350,000
Interest paid		(1,542)	(1,308)
Proceeds from related party		(15,907)	(9,100)
Net cash flows generated from financing activities		**202,551**	**339,592**
Net cash (decrease)/increase in cash and cash equivalents		**12,005**	**(426,682)**
Cash and cash equivalents at the beginning of the year		29,119	457,934
Effect of exchange rate changes in cash		(1,623)	(2,133)
Cash and cash equivalents at the end of the year	9	**39,501**	**29,119**

ACCOUNTING POLICIES

1. CORPORATE INFORMATION

1.1 General
Cairn South Africa (Pty) Ltd ("Company") is a private limited Company incorporated and domiciled in South Africa. The registered office of the Company is located at 22, Bree Street, Cape Town, 8001, South Africa.

1.2 Principal Activities and Nature of Operations
During the year, the principal activities of the Company were oil and gas exploration.

1.3 Parent Entity and Ultimate Parent Entity
The Company's parent entity is Cairn Energy Hydrocarbons Limited. The ultimate controlling entity of the Company is Volcan Investments Limited ("Volcan"). Vedanta Resources Plc. is the intermediate holding Company of the Company.

1.4 Date of Authorisation for Issue
The Annual Financial Statements of Company for the year ended 31 March 2017 were authorised for issue in accordance with a resolution of the board of directors on 16 June 2017.

2.1 BASIS OF PREPARATION
The Annual Financial Statements have been prepared in accordance with historical cost basis unless otherwise indicated.

2.1.1 Statement of Compliance
The Annual Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards "IFRS".

2.1.2 Going Concern
The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. Refer to note 19 for further disclosures on going concern matters.

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS
In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the Annual Financial Statements.

ACCOUNTING POLICIES (continued)

Deferred Tax Assets
Deferred tax assets are recognised for all deductible exploration related expenses to the extent that it is probable that taxable profits will be available against which these expenses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are given in Note 2.3.5(b).

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.3.1 Foreign Currency Translation
The Annual Financial Statements are presented in United States Dollars "US$", which is the Company's functional and presentation currency. Transactions in other than "US$" currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in other than "US$" currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss.

Foreign currency exchange rates

	31 March 2017	Average 2017	31 March 2016	Average 2016
ZAR	13.405	14.032	14.837	13.901
Indian Rupee (INR)	64.839	67.062	66.333	65.695

2.3.2 Accounting standards
The Company's annual financial statements are consistent with IFRS as issued by the International Accounting Standards Board ("IASB").

The Company has adopted all new or amended and revised accounting standards and interpretations ('IFRSs') issued by IASB effective for the year ended 31 March 2017.

2.3.3 Presentation currency
The functional and presentation currency of the Company is US Dollars ("US$"). The Company's policy on foreign currencies is detailed in note 2.3.1.

2.3.4 Jointly Controlled Operations
A jointly controlled operation involves the use of assets and other resources of the Company and other venturers rather than the establishment of a corporation, partnership or other entity.

The Company accounts for the assets it controls and the liabilities it incurs, the expenses it incurs and the share of income that it earns from the sale of goods or services by the jointly controlled operations.

The parties to the jointly controlled operations are Cairn South Africa (Pty) Ltd which has a 60% participating interest and PetroSA (SOC) Ltd which has a 40% participating interest. The parties are jointly committed to carrying out the Agreed Work Programme as a joint operation.

In the event that Cairn fails to carry out any part of the Agreed Work Programme in whole or in part, PetroSA shall be entitled to complete the balance of such programme at the cost and expense of Cairn subject to a cap equal to the sum of one hundred million US Dollars (US$100,000,000) less all sums incurred by or on behalf of Cairn on the Block to date.

ACCOUNTING POLICIES (continued)

2.3.5 Taxation

(a) Current Taxes

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

The provision for income tax is based on the elements of income and expenditure as reported in the Annual Financial Statements and computed in accordance with the provisions of the relevant tax legislations.

No income tax has been recognised in these Annual Financial Statements in the absence of taxable profit.

(b) Deferred Taxation

Deferred income tax is provided, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward deductible expenses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry-forward of unused tax assets and deductible expenses can be utilised.

The Company does not anticipate taxable profits up to the year of commercial production.

2.3.6 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, undepleted, within exploration/appraisal assets until such a 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 which are ultimately not considered commercially viable, all related costs are written off to the statement of comprehensive income.

ACCOUNTING POLICIES (continued)

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

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 profit and loss. 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 profit and loss to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalised costs of the asset.

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 and 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 and costs are written off where circumstances indicate that the carrying value might not be recoverable. In such circumstances the exploration asset is allocated to development/producing assets within the same geographic segment and tested for impairment. Any such impairment arising is recognised in the profit and loss for the year. Where there are no development/producing assets within a geographic segment, the exploration/appraisal costs are charged immediately to the income statement.

2.3.7 Decommissioning

At the end of the producing life of a field, costs are incurred in removing and decommissioning production facilities. The Company recognises the full discounted cost of dismantling and decommissioning as an asset and liability when the obligation arises. The decommissioning asset is included within property, plant & equipment – development/producing assets with the cost of the related installation. The liability is included within provisions. Revisions to the estimated costs of decommissioning which alter the level of the provisions required are also reflected in adjustments to the decommissioning asset. The amortisation of the asset, calculated on a unit of production basis based on proved and probable reserves, is included in the "Depletion and decommissioning charge" in the profit and loss, and the unwinding of the discount on the provision is included within "Finance costs".

ACCOUNTING POLICIES (continued)

2.3.8 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, and loans and receivables and available-for-sale financial assets. The Company holds financial assets which are classified as 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.

Derivative financial instruments

The Company uses derivative financial instruments such as foreign currency options to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are designated upon initial recognition as at fair value through profit or loss. The derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year are taken directly to the Income Statement. The Company did not apply hedge accounting for derivative financial instruments held during the current period.

Trade and Other Receivables

Trade receivables are stated at the amounts they are estimated to realise net of allowances for bad and doubtful receivables.

Other receivables and dues from Related Parties are recognised at cost less allowances for bad and doubtful receivables.

Cash and Cash Equivalents

Cash and cash equivalents are cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

Bank deposits

Bank deposits with an original maturity of over three months are held as a separate category of current asset and presented on the face of the Statement of financial position.

ACCOUNTING POLICIES (continued)

2.3.8 Financial instruments (continued)

Trade payables and other non-derivative financial liabilities
Trade payables and other creditors are non-interest bearing and are measured at cost.

Interest-bearing bank loans and borrowings
All interest-bearing bank loans and borrowings represent amounts drawn under the Group's revolving credit facilities, classified according to the length of time remaining under the respective facility. Loans are initially measured at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans are subsequently measured at amortised cost using the effective interest method. Interest payable is accrued in the Income Statement using the effective interest rate method.

Borrowing Costs
Borrowing costs are recognised as an expense in the period in which they are incurred, except to the extent where borrowing costs that are directly attributable to the acquisition, construction, or production of an asset that takes a substantial period of time to get ready for its intended use or sale, are capitalized as part of that asset.

2.3.9 Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

2.3.10 Impairment of Non-Financial Assets
The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2.3.11 Revenue Recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts and sales taxes. The following specific criteria are used for the purpose of recognition of revenue.

a) Interest

Interest is recognised on a time proportion basis that takes in to account the effective interest rate on asset.

b) Others

Other income is recognised on an accrual basis.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2.4 New Standards and Interpretations

2.4.1 Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)

No standards and interpretations adopted in the current period have materially affected the amounts reported in these annual financial statements.

Standards and Interpretations adopted with no effect on the annual financial statements

The following new and revised Standards and Interpretations have also been adopted in these annual financial statements. Their adoption has not had any significant impact on the amounts reported in these annual financial statements, but may affect the accounting for future transactions or arrangements.

- IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception - Amendments to IFRS 10, IFRS 12 and IAS 28
- IFRS 11 Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11
- IFRS 14 Regulatory Deferral Accounts
- IAS 1 Disclosure Initiative - Amendments to IAS 1
- IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38
- IAS 16 and IAS 41 Agriculture - Bearer Plants - Amendments to IAS 16 and IAS 41
- IAS 27 - Equity Method in Separate Financial Statements - Amendments to IAS 27
- AIP IFRS 5 Non-current Assets Held for Sale and Discontinued Operations - Changes in methods of disposal
- AIP IFRS 7 Financial Instruments: Disclosures - Servicing contracts
- AIP IFRS 7 Financial Instruments: Disclosures - Applicability of the offsetting disclosures to condensed interim financial statements
- AIP IAS 19 Employee Benefits - Discount rate: regional market issue
- AIP IAS 34 Interim Financial Reporting - Disclosure of information 'elsewhere in the interim financial report'

Standards and Interpretations in issue but not yet effective

The following Standards and Interpretations have been issued but are not yet effective as at 31 March 2017.

- IFRS 9-Financial Instruments effective for annual periods beginning on or after 01 January 2018
- IFRS 15-Revenue from Contracts with customers period beginning on or after 01 January 2018
- Amendments to IFRS 10 and IAS 28-Sale or contribution of assets between an investor and its Associate or Joint venture whose effective date has been deferred indefinitely
- Amendments to IAS 7-Disclosure Initiatives for annual periods beginning on or after 01 January 2017
- Amendments to IAS 12-Recognition of Deferred Tax Assets for Unrealised Losses for annual periods beginning on or after 01 January 2017
- Amendment to IFRS 2-Classification and Measurement of Share-based Payment Transactions for annual periods beginning on or after 01 January 2018
- IFRS 16-Leases for annual periods beginning on or after 01 January 2019

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

	Year Ended March 2017 US$	Year Ended March 2016 US$
3. ADMINISTRATIVE EXPENSES		
Professional fees	17,641	19,583
Miscellaneous costs	30,596	43,257
	48,237	**62,840**
4. FINANCE COST		
Bank charges	1,542	1,308
Exchange loss	-	141,255
	1,542	**142,563**
5. FINANCE INCOME		
Interest income	89	52
Exchange gain	755	-
	844	**52**
6. DEFERRED TAX		
Loss before tax	(723,452)	(36,817,373)
Tax Rate (@ 28%)	(202,567)	(10,308,865)
Permanent Differences arising on (Para 5 of the10th schedule of -Income tax 1962) exploration deductions	(188,865)	(4,57,757)
Deferred Tax not recognised on Assessed Loss	391,432	10,766,622
Tax	-	-

A deferred income tax asset of US$16,152,086 (Year ended 31 March 2016: US$9,208,929) has not been recognised in respect of tax losses carried forward as the directors consider that it is not probable that future taxable profits will be available against which the unused tax losses can be utilised.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

	2017 US$	2016 US$

7. INTANGIBLE EXPLORATION/APPRAISAL ASSETS

As at 1 April	-	34,977,174
Additions during the year	674,517	1,634,847
Exploration costs written off	(674,517)	(351,269)
Impairment loss*	-	(36,260,752)
	-	-

*Due to the fall in the crude oil prices in the international market and uncertainty over the Fiscal Regime in South Africa as referred in note 2.1.2, management has suspended its exploration activities in Block 1 and had provided for impairment in the previous year.

8. TRADE AND OTHER RECEIVABLES

Security Deposits	6,324	-
	6,324	-

9. CASH AND CASH EQUIVALENTS

Cash and bank balances	39,501	29,119
	39,501	**29,119**

10. STATED CAPITAL

As at 1 April	35,300,000	35,100,000
Fully paid ordinary shares - issued for cash	300,000	200,000
3 shares (2 shares: 2016)		
	35,600,000	**35,300,000**

11. ACCUMULATED LOSSES

As at 1 April	(37,398,698)	(581,325)
Loss during the year	(723,452)	(36,817,373)
	(38,122,150)	**(37,398,698)**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

12. TRADE AND OTHER PAYBLES

Creditors	2,478,396	1,958,176
Sundry creditors including accrued expenses	19,579	19,641
	2,497,975	**1,977,817**

COMMITMENT AND CONTINGENCIES

13. CAPITAL EXPENDITURE COMMITMENT

	2017 US$	2016 US$
Exploration capital commitment	-	-
	-	-

14. CONTINGENCIES

As part of the farm-in agreement for Block 1, the Group was required to carry its joint venture partner, Petro SA, up to a gross expenditure of USD 100 million for a work program including 3D and 2D seismic studies and at least one exploration well. The group has spent USD 37.77 million towards exploration expenditure and a minimum of carry USD 62.23 million (including drilling one well) was outstanding at the end of the initial exploration period. Considering the prevailing situation the Group has sought at an extension for entry into the second renewal phase of the exploration period. However, after assessing past judicial precedents followed by independent legal advice, the Company has provided for the requisite damages and obligation for the aforesaid carry cost has been assessed as possible and disclosed as a contingency.

15. RELATED PARTIES

Relationships	Name of the related party
Ultimate Holding Company	Volcan Investments Limited
Parent Holding Company	Cairn Energy Hydrocarbons Limited
Indian Parent Company of Cairn Energy Hydrocarbons Ltd	Vedanta Limited (formerly Cairn India Limited)

Amounts included in (Trade payables) regarding related Parties	2017 US$	2016 US$
Vedanta Limited (2016: Cairn India Limited)	(2,295,272)	(1,731,583)

Note: During the year, the Company has issued additional equity shares to its holding company Cairn Energy Hydrocarbons Limited of US$300,000 (year ended 31 March 2016: US$200,000). Further, share application money of US$70,000 has been paid which is pending allotment.

16. DIRECTORS' EMOLUMENTS

No emoluments were paid to the directors during the year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

17. FINANCIAL RISK MANAGEMENT: OBJECTIVE AND POLICIES

The Company's primary financial instruments comprise cash, short and medium-term deposits, money market liquidity funds, 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 bank 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. The main risks arising from the Company's financial instruments are liquidity risk, interest rate risk, foreign currency risk, capital management 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 has reduced liquidity risk as there is an undertaking from the Holding Company to support and fund the Company as necessary. The 'Farm Out Agreement' relating to 'Block 1 Offshore of the Republic of South Africa' states that Cairn Energy Hydrocarbons Limited will support the Cairn South Africa (Pty) Ltd with up to US$100,000,000.

Interest rate risk

The Company is not exposed to interest rate risk in respect of fixed and variable rate borrowings.

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 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 Company 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 Statement of financial 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.

The fair value of the outstanding currency derivatives as at 31 March 2017 was US$ nil (Year ended 31 March 2016: US$ nil).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

17. FINANCIAL RISK MANAGEMENT: OBJECTIVE AND POLICIES (continued)

The following table demonstrates the sensitivity to movements in the US$: ZAR and US$: INR exchange rates, with all other variables held constant, on the Company's monetary assets and liabilities. The Company's exposure to foreign currency changes for all other currencies is not material.

	Effect on loss before tax	
	2017	**2016**
	US$'000	**US$'000**
10% increase in ZAR to US$	10.0	12.3
10% decrease in ZAR to US$	(12.3)	(15.0)
10% increase in INR to US$	1.6	(0.2)
10% decrease in INR to US$	(1.9)	0.3

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. 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 Company'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.

No changes were made in the objectives, policies or processes during the Year ended 31 March 2017.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

17. FINANCIAL RISK MANAGEMENT: OBJECTIVE AND POLICIES (continued)

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

	31 March 2017 US$'000	31 March 2016 US$'000
Trade and other payables	2,498	1,978
Less cash and cash equivalents	(39)	(29)
Net debt	2,459	1,949
Equity	(2,522)	(2,099)
Capital and net debt	(63)	(150)
Gearing ratio	0%	0%

18. 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 March 2017 US$'000	**31 March 2016 US$'000**	**31 March 2017 US$'000**	**31 March 2016 US$'000**
Cash and cash equivalents	39	29	39	29
	39	29	39	29

Financial liabilities	**Carrying amount**		**Fair value**	
	31 March 2017 US$'000	**31 March 2016 US$'000**	**31 March 2017 US$'000**	**31 March 2016 US$'000**
Creditors	2,498	1,958	2,498	1,958
	2,498	1,958	2,498	1,958

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

18. FINANCIAL INSTRUMENTS (continued)

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

At 31 March 2017

	Total US$'000	Less than one year US$'000	One to two years US$'000	Two to three years US$'000	Three to four years US$'000	Four to five years US$'000	More than five years US$'000
Creditors	**2,498**	2,498	-	-	-	-	-
	2,498	2,498	-	-	-	-	-

At 31 March 2016

	Total US$'000	Less than one year US$'000	One to two years US$'000	Two to three years US$'000	Three to four years US$'000	Four to five years US$'000	More than five years US$'000
Creditors	**1,958**	1,958	-	-	-	-	-
	1,958	1,958	-	-	-	-	-

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 2017 the Company had no financial instruments in level 1, 2 or 3.

19. GOING CONCERN MATTER

Cairn South Africa (Pty) Limited incurred a net loss for the year ended 31st March 2017 of USD 0.724 million (2016: USD 36.817 million) .The total liabilities exceed total assets as at 31st March 2017 by $2.45 million (2016: USD 1.95 million).

Due to uncertainty over the Fiscal Regime in South Africa and deferral of the execution of the Deed of Renewal for the 2nd Renewal Phase, the future continuing exploration activities in the block may be discontinued or halted indefinitely. These conditions give rise to a material uncertainty which may cast doubt about the Company's ability to continue as a going concern and, therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Management has been assured by its parent that it will receive adequate financial support whenever required in order to discharge its liabilities. Accordingly, these financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities will occur in the ordinary course of business.

20. EVENTS AFTER THE BALANCE SHEET DATE

There were no significant post balance sheet date events that occurred.