

**CAIRN SOUTH AFRICA (PTY) LTD**  
**ANNUAL FINANCIAL STATEMENTS AND REPORT OF DIRECTORS**

**31 March 2018**

**CAIRN SOUTH AFRICA (PTY) LTD**  
(Registration number: 2012/156583/07)  
Annual Financial Statements for the year ended 31 March 2018

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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

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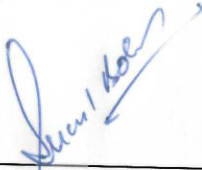
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The annual financial statements set out on pages 10-35 were approved by the board of directors on 18 July, 2018.

**CAIRN SOUTH AFRICA (PTY) LTD**  
(Registration number: 2012/156583/07)  
Annual Financial Statements for the year ended 31 March 2018

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Signed on behalf of the board by:



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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 2018 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 page 6.

The annual financial statements set out on pages 10 to 35, which have been prepared on the going concern basis, were approved by the board on and were signed on its behalf by:



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Director

## Independent Auditor's Report

To the Shareholders of Cairn South Africa (Pty) Ltd

Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Cairn South Africa (Pty) Ltd out on pages 10 to 35, which comprise the statement of financial position as at 31 March 2018, and the statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

### 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 Consolidated Financial Statements section of our report. We are independent of the group 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 audit of Cairn South Africa (Pty) Ltd. 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 (Pty) Ltd. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material uncertainty related to going concern

We draw attention to Note 18 on going concern which indicates the entity incurred a loss of \$201,758 during the year ended 31 March 2018 and, as of that date, the Company's current liabilities exceeded its total assets by \$2,603,908. As stated in Note 18, these events or conditions, along with other matters, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in this regard.

### Other Information

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

Our opinion on the consolidated 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 on the other information obtained prior to the date of this auditor's report, 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 directors are responsible for the preparation and fair presentation of the 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 directors are responsible for assessing the group'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 group 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 consolidated 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 consolidated 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 consolidated 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 Group'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 group'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 consolidated 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 group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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)  
Date: 19 July 2018

102 Rivonia Road  
Sandton  
Johannesburg

## CAIRN SOUTH AFRICA (PTY) LTD

(Registration number: 2012/156583/07)

Annual Financial Statements for the year ended 31 March 2018

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### REPORT OF DIRECTOR

The director submits the report and Annual Financial Statements for the year ended 31 March 2018.

#### 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\$ 201,758

#### 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 1 ordinary no par value shares for US\$100,000. The total issued capital as on 31 March, 2018 comprised 753 ordinary no par value shares. Share application money of US\$20,000 is pending allotment.

#### Dividends

No dividend is proposed or was declared in the current financial year 2018.

#### 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 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.

**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: 18 July 2018

**CAIRN SOUTH AFRICA (PTY) LTD**  
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 Annual Financial Statements for the year ended 31 March 2018

**STATEMENT OF COMPREHENSIVE LOSS**

	Note	Year Ended 31 March 2018 US\$	Year Ended 31 March 2017 US\$
<b>Cost of Sales</b>			
Exploration costs written off	7	(207,674)	(674,517)
<b>Gross loss</b>		<b>(207,674)</b>	<b>(674,517)</b>
Administrative expenses	3	(32,451)	(48,237)
<b>Operating loss</b>		<b>(240,125)</b>	<b>(722,754)</b>
Finance cost	4	(1,342)	(1,542)
Finance income	5	39,709	844
<b>Loss for the year</b>		<b>(201,758)</b>	<b>(723,452)</b>
<b>Total comprehensive loss for the year</b>		<b>(201,758)</b>	<b>(723,452)</b>

**CAIRN SOUTH AFRICA (PTY) LTD**  
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 Annual Financial Statements for the year ended 31 March 2018

**STATEMENT OF FINANCIAL POSITION**

	Note	31 March 2018 US\$	31 March 2017 US\$
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible exploration/appraisal assets	7	-	-
<b>Current assets</b>			
Trade and other receivables	8	-	6,324
Cash and cash equivalents	9	27,893	39,501
<b>Total assets</b>		<u>27,893</u>	<u>45,825</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Stated capital	10	35,700,000	35,600,000
Accumulated losses	11	(38,323,908)	(38,122,150)
<b>Total equity</b>		<u>(2,623,908)</u>	<u>(2,522,150)</u>
Share application pending allotment	15	20,000	70,000
<b>Current liabilities</b>			
Trade and other payables	12	2,631,801	2,497,975
<b>Total liabilities</b>		<u>2,631,801</u>	<u>2,497,975</u>
<b>Total equity and liabilities</b>		<u>27,893</u>	<u>45,825</u>

**CAIRN SOUTH AFRICA (PTY) LTD**  
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 Annual Financial Statements for the year ended 31 March 2018

**STATEMENT OF CHANGES IN EQUITY**

	Note	Stated capital US\$	Accumulated losses US\$	Total US\$
<b>As at 1 April 2016</b>		<b>35,300,000</b>	<b>(37,398,698)</b>	<b>(2,098,698)</b>
Issue of share capital for cash 3 shares	10	300,000	-	300,000
Total comprehensive loss for the year	11	-	(723,452)	(723,452)
<b>As at 31 March 2017</b>		<b>35,600,000</b>	<b>(38,122,150)</b>	<b>(2,522,150)</b>
Issue of share capital for cash 1 share	10	100,000	-	100,000
Total comprehensive loss for the year	11	-	(201,758)	(201,758)
<b>As at 31 March 2018</b>		<b>35,700,000</b>	<b>(38,323,908)</b>	<b>(2,623,908)</b>

**CAIRN SOUTH AFRICA (PTY) LTD**  
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**CASH FLOW STATEMENT**

	Note	2018 US\$	2017 US\$
<b>Cash flows from operating activities</b>			
Loss before tax		(201,758)	(723,452)
Adjustments for:			
Unsuccessful exploration costs	7	207,674	674,517
Finance costs	4	1,342	1,542
Finance income	5	(91)	(844)
Unrealised foreign exchange difference		(39,618)	134,682
<b>Operating (loss)/profit before working capital changes</b>		<b>(32,451)</b>	<b>86,445</b>
Movement in trade and other payables		173,483	(35,365)
Movement in trade and other receivables		6,324	(939)
<b>Net cash flows from operating activities (A)</b>		<b>147,356</b>	<b>50,141</b>
<b>Cash flows from investing activities</b>			
Expenditure on exploration/appraisal assets		(207,674)	(250,296)
Interest received		91	-
<b>Net cash flows used in investing activities (B)</b>		<b>(207,583)</b>	<b>(250,296)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of shares		50,000	220,000
Bank and other charges paid		(1,342)	(1,542)
Interest paid		-	(6,298)
<b>Net cash flows generated from financing activities (C)</b>		<b>48,658</b>	<b>212,160</b>
<b>Net cash (decrease)/increase in cash and cash equivalents (A+ B+ C)</b>		<b>(11,569)</b>	<b>12,005</b>
Cash and cash equivalents at the beginning of the year		39,501	29,119
Effect of exchange rate changes in cash		(39)	(1,623)
<b>Cash and cash equivalents at the end of the year</b>	9	<b>27,893</b>	<b>39,501</b>

## **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 2018 were authorised for issue in accordance with a resolution of the board of directors on 18 July 2018.

### **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 18 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.

#### **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.



**ACCOUNTING POLICIES (continued)**

**2.2 SIGNIFICANT ACCOUNTING JUDGMENTS (continued)**

**Contingencies and commitments**

In the normal course of business, contingent liabilities may arise from litigation, taxation and other claims against the Company, provision is recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation.

Where it is management's assessment that the outcome cannot be reliably quantified or is uncertain the claims are disclosed as contingent liabilities unless the likelihood of an adverse outcome is remote. Such liabilities are disclosed in the notes but are not provided for in the financial statements.

When considering the classification of a legal or tax cases as probable, possible or remote there is a judgement involved. This pertains to the application of the legislation, which in certain cases is based upon management's interpretation of laws of the land and the likelihood of settlement. Management uses in-house and external legal professionals to inform their decision.

Although there can be no assurance regarding the final outcome of the legal proceedings, the company doesn't expect them to have a materially adverse impact on the its financial position or profitability.

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.3.1 Foreign Currency Translation**

The functional currency for entity is determined as the currency of the primary economic environment in which it operates. 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 other currencies are translated into the functional currency at the rate of exchange prevailing at the Balance Sheet date. Non – monetary assets and liabilities denominated in other currencies and measured at historical cost or fair value are translated at the exchange rates prevailing on the dates on which such values were determined. 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.

Foreign currency exchange rates

	31 March 2018	Average 2018	31 March 2017	Average 2017
ZAR	11.826	12.997	13.405	14.032
Indian Rupee (INR)	65.044	64.447	64.839	67.062

**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 2018.

**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.

## **ACCOUNTING POLICIES (continued)**

### **2.3.4 Jointly Controlled Operations**

A Joint arrangement is an arrangement of which two or more parties have joint control. Joint control is considered when there is contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Company participates in unincorporated joint operations which involves the joint control of assets used in the Company's oil and gas exploration and producing activities. The Company accounts for its share of assets, liabilities, income and expenditure of the Joint Operation in which the Company holds an interest, classified in the appropriate Statement of Financial Position and Income Statement headings. The Company's principal licence interests are jointly 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.

### **2.3.5 Taxation**

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

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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:

- Tax payable on future remittance of the past earnings of subsidiaries where 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;
- Deferred income tax is not recognised on the impairment of goodwill which is not deductible for tax purposes or on the initial recognition of an asset or liability in a transaction that is not a business combination, which are at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- Deferred tax assets are recognised only to the extent that it is more likely than not that will be recovered.

The carrying amount of deferred income 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 asset to be recovered.

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 availed) is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Tax relating to items recognised directly in other

**ACCOUNTING POLICIES (continued)**

**2.3.5 Taxation (continued)**

comprehensive income is recognised in the statements of comprehensive income and not in the income statement.

Deferred tax assets and liabilities are only offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**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, are not amortised or depreciated, 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. The cost of such quantity of crude oil inventory which is expected to be lying in the pipeline during the entire life of the pipeline (initial fill) is capitalised within the development assets.

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. There are no restrictions on title and no amount is pledged as security for fixed assets.

## **ACCOUNTING POLICIES (continued)**

### **2.3.7 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.

All expenditure carried within each field is depreciated from the commencement of production on a unit of production basis, which is the ratio of oil and gas production in the period to the estimated quantities of commercial reserves at the end of the period plus the production in the period, generally on a field –by–field basis or group of fields which are reliant on common infrastructure.

Commercial reserves are proven and probable oil and gas reserves, which are defined as the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50 per cent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable reserves and a 50 per cent statistical probability that it will be less.

Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs required to access commercial reserves. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively.

### **2.3.8 Impairment**

#### **Non-Financial Assets**

Impairment charges and reversals are assessed at the level of cash generating units. A cash generating unit (CGU) is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or group of assets.

Formal impairment tests are carried out annually for goodwill. In addition, formal impairment tests for all assets are performed when there is an indication of impairment. The company conducts an internal review of asset values annually, which is used as a source of information to assess for any indications of impairment or reversal of previously recognised impairment losses.

Internal and external factors are also monitored to assess for indicators of impairment or reversal of previously recognised impairment losses.

If any such indication exists then an impairment review is undertaken, the recoverable amount is calculated as the higher of fair value less costs of disposal and asset's value in use.

Fair value less cost of disposal is the price that would be received to sell the asset in an orderly transaction between market participants less costs of disposal and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general. Fair value for mineral and oil and gas assets is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of asset, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted at an appropriate post tax discount rate to arrive at the net present value.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. The cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates estimated of future cash flows have not been adjusted.

## **ACCOUNTING POLICIES (continued)**

### **2.3.8 Impairment (continued)**

#### **Non-Financial Assets (continued)**

Value in use is determined by applying assumptions specific to the company's continued use and cannot take into account future development. These assumptions are different to those used in calculating fair value and consequently the value in use calculation is likely to give a different result to a fair value calculation.

The carrying amount of the CGU is determined on a basis consistent with the way the recoverable amount of the CGU is determined. The carrying amount is net of deferred tax liability recognised in the fair value of the assets acquired in business combination.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the assets or CGU is reduced to its recoverable amount. An impairment loss is recognised in the income statement.

Any reversal of the previously recognised impairment loss is limited to the extent that the asset's carrying amount doesn't exceed the carrying amount that would have been determined if no impairment loss had previously been recognised except if initially attributed to goodwill.

#### **Intangible exploration/appraisal assets**

In assessing whether there is any indication that an Intangible exploration/appraisal assets may be impaired, the company considers, as a minimum, the following indicators:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale; and
- Reserve information prepared annually by external experts.

When a potential impairment is identified, an assessment is performed for each area of interest in conjunction with the group of operating assets (representing a cash-generating unit) to which the exploration and evaluation assets is attributed. Exploration areas in which reserves have been discovered but require major capital expenditure before production can begin, are continually evaluated to ensure that commercial quantities of reserves exist or to ensure that additional exploration work is under way or planned. To the extent that capitalised expenditure is no longer expected to be recovered, it is charged to the income statement.

### **2.3.9 Restoration, rehabilitation and environmental costs**

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the development or ongoing production of oil fields. Costs arising from the decommissioning of plant and other site preparation work are provided for based on their discounted net present value, with a corresponding amount being capitalised at the start of each project. 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.

## **ACCOUNTING POLICIES (continued)**

### **2.3.9 Restoration, rehabilitation and environmental costs (continued)**

The liability is included within provisions. The amount provided for is recognised, as soon as the obligation to incur such costs arises. These costs are charged to the income statement over the life of the operation through the depreciation of the asset and the unwinding of the discount on the provision. The cost estimates are reviewed periodically and are adjusted to reflect known developments which may have an impact on the cost estimates or life of operations. The cost of the related asset is adjusted for changes in the provision due to factors such as updated cost estimates, new disturbance and revisions to discount rates.

The adjusted cost of the asset is depreciated prospectively over the lives of the assets to which they relate. The unwinding of the discount is shown as a finance cost in the income statement.

Costs for restoration of subsequent site damage which is caused on an ongoing basis during production are provided for at their net present value and charged to the income statement as extraction progresses. Where the costs of site restoration are not anticipated to be significant, they are expensed as incurred..

### **2.3.10 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.

#### **i) Financial assets**

##### **A) Initial recognition and measurement**

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available for sale (AFS) financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

##### **B) Subsequent measurement**

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- AFS financial assets

##### **a) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. The Company has not designated any financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.



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### ACCOUNTING POLICIES (continued)

#### 2.3.10 Financial instruments (continued)

##### i) Financial assets (continued)

##### b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

This category generally applies to trade and other receivables.

##### c) Available for sale (AFS) financial assets

AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in OCI and credited to the AFS reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss in finance costs. Interest earned whilst holding AFS financial assets is reported as interest income using the EIR method.

The Company evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets, the Company may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

**ACCOUNTING POLICIES (continued)**

**2.3.10 Financial instruments (continued)**

**i) Financial assets (continued)**

**C) Derecognition**

A financial asset (or, where applicable, a part of a financial asset or part of a company of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

**D) Impairment of financial assets**

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a company of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the company of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

**a) Financial assets carried at amortised cost**

For financial assets carried at amortised cost, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

**ACCOUNTING POLICIES (continued)**

**2.3.10 Financial instruments (continued)**

**i) Financial assets (continued)**

**a) Financial assets carried at amortised cost (continued)**

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income (recorded as finance income in the statement of profit or loss) continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

**b) AFS financial assets**

For AFS financial assets, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from OCI and recognised in the statement of profit or loss.

Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in OCI.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

**ACCOUNTING POLICIES (continued)**

**2.3.10 Financial instruments (continued)**

**ii) Financial liabilities**

**A) Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, financial guarantee contracts and derivative financial instruments.

**B) Subsequent measurement**

The measurement of financial liabilities depends on their classification, as described below:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at fair value through profit or loss include financial liabilities held for trading and
- Financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The company has not designated any financial liability as at fair value through profit or loss.

**Loans and borrowings**

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

**Financial guarantee contracts**

Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

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**ACCOUNTING POLICIES (continued)**

**2.3.10 Financial instruments (continued)**

**ii) Financial liabilities (continued)**

**Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

**iii) Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

**2.3.11 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, net of bank overdrafts.

**2.3.12 Liquid Investments and bank deposits**

Liquid investments represent short-term investments that do not meet the definition of cash and cash equivalents for one or more of the following reasons:

- i) They have a maturity profile greater than 90 days;
- ii) They may be subject to a greater risk of changes in value than cash;
- iii) They are held for investment purposes.

These include short term marketable securities and other bank deposits.

Short term marketable securities are categorised as held for trading and are initially recognised at fair value with any gains or losses arising on remeasurement recognised in the income statement.

Other bank deposits are subsequently measured at amortised cost using the effective interest method.

The value of trading investments incorporates any dividend and interest earned on the held for trading investments.

**2.3.13 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.

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**ACCOUNTING POLICIES (continued)**

**2.3.14 Interest-bearing bank loans and borrowings**

Interest bearing loans and overdrafts are recorded at the fair value. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis and charged to the income statement using the effective interest method. They are netted against the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

**2.3.15 Borrowing Costs**

Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalised and added to the project cost during construction until such time that the assets are substantially ready for their intended use in accordance with the company's policy which is when they are capable of commercial production. Where funds are borrowed specifically to finance a qualifying capital projects, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available out of money borrowed specifically to finance a project, the income generated from such short-term investments is also capitalised to reduce the total capitalised borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the company during the year.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Capitalisation of interest on borrowings related to construction or development projects is ceased when substantially all the activities that are necessary to make the assets ready for their intended use are complete or when delays occur outside the normal course.

**2.3.16 Provisions for liabilities and charges**

Provisions are recognised when the company has a present obligation (legal or constructive), as a result of past events, and it is probable that an outflow of resources, that can be reliably estimated, will be required to settle such an obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows to the net present value using an appropriate pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Unwinding of the discount is recognised in the income statement as a finance cost. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimates.

**2.3.17 Revenue Recognition**

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.

**Revenue from operating activities**

Revenue represents the Company's share of oil, gas and condensate production, recognised on a direct entitlement basis.

**Interest income**

Interest income is recognised using the effective interest rate method on an accrual basis and is recognised as finance income in the income statement.



**ACCOUNTING POLICIES (continued)**

**2.4 New Standards and Interpretations**

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

The Company has adopted with effect from 01 April 2017, the following new amendments and pronouncements:

- IAS 7 Statement of Cash Flows
- Amendments to IAS -12
- Amendments to IFRS 12 Disclosure of Interests in Other Entities issued in the Annual Improvements Cycle 2014 – 2016

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

**Standards and Interpretations in issue but not yet effective**

The Company has 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. The Company plans to adopt new amendments, standards or interpretations as and when they become effective.

The following Standards and Interpretations have been issued but are not yet effective as at 31 March 2018.

- IFRS 9-Financial Instruments effective for annual periods beginning on or after 01 January 2018
- IFRS 15-Revenue from Contracts with customers effective for 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
- Amendment to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts for annual periods beginning on or after 01 January 2018
- Annual Improvements to IFRSs 2014-2016 Cycle
- Amendment to IAS 19 – Plan Amendment, Curtailment or Settlement for annual periods beginning on or after 01 January 2019
- Annual Improvements to IFRSs 2015-2017 Cycle

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

	Year Ended March 2018 US\$	Year Ended March 2017 US\$
<b>3. ADMINISTRATIVE EXPENSES</b>		
Professional fees	9,510	17,641
Miscellaneous costs	22,941	30,596
	<u>32,451</u>	<u>48,237</u>

Administrative expenses include \$ 9,316 (year ended 31 March 2017: \$9,222) relating to auditor's remuneration.

**4. FINANCE COST**

Bank and other charges	1,342	1,542
	<u>1,342</u>	<u>1,542</u>

**5. FINANCE INCOME**

Interest income	91	89
Exchange gain	39,618	755
	<u>39,709</u>	<u>844</u>

**6. DEFERRED TAX**

Loss before tax	(201,758)	(723,452)
Tax Rate (@ 28%)	(56,492)	(202,567)
Permanent differences arising on (Para 5 of the 10th schedule of -Income tax 1962) exploration deductions	(58,149)	(188,865)
Deferred tax not recognised on assessed loss	114,641	391,432
<b>Tax</b>	<u>-</u>	<u>-</u>

A deferred income tax asset of US\$ 18,943,677 (ZAR 800,545,380) [Year ended 31 March 2017: US\$16,152,086 (ZAR 795,224,173)] 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.

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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**

	2018	2017
	US\$	US\$
<b>7. INTANGIBLE EXPLORATION/APPRaisal ASSETS</b>		
As at 1 April	-	-
Additions during the year	207,674	674,517
Exploration costs written off	(207,674)	(674,517)
<b>As at 31 March</b>	<u>-</u>	<u>-</u>
<b>8. TRADE AND OTHER RECEIVABLES</b>		
Security Deposits	-	6,324
	<u>-</u>	<u>6,324</u>
<b>9. CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	27,893	39,501
	<u>27,893</u>	<u>39,501</u>
<b>10. STATED CAPITAL</b>		
As at 1 April	35,600,000	35,300,000
Fully paid ordinary shares - issued for cash 1 share (3 shares: 2017)	1,00,000	300,000
	<u>35,700,000</u>	<u>35,600,000</u>
<b>11. ACCUMULATED LOSSES</b>		
Opening	(38,122,150)	(37,398,698)
Loss during the year	(201,758)	(723,452)
<b>Closing</b>	<u>(38,323,908)</u>	<u>(38,122,150)</u>

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**

**12. TRADE AND OTHER PAYABLES**

Joint operation creditors	2,610,803	2,478,396
Sundry creditors including accrued expenses	20,998	19,579
	<u>2,631,801</u>	<u>2,497,975</u>

**13. CONTINGENCIES**

As part of the farm-in agreement for Block 1, the Company was required to carry its joint venture partner, Petro SA, up to a gross expenditure of US\$ 100.0 million for a work program including 3D and 2D seismic studies and at least one exploration well. The Company has spent US\$ 38.0 million towards exploration expenditure and a minimum carry of US\$ 62.0 million (including drilling one well) was outstanding at the end of the initial exploration period. The Company had sought an extension for execution of deed for entry into the second renewal phase of the exploration period with a request to maintain status quo of the prior approvals due to uncertainty in the proposed changes in fiscal terms impacting the Company financial interest in the block. The same was granted by the South African authority subject to risk of exploration right getting expired on account of recent High Court judgements. After assessing past judicial precedents followed by independent legal advice, the Company has provided for the requisite damages as applicable under the South African Regulations and obligation for the aforesaid carry cost of US\$ 62.0 million has been assessed as possible and disclosed as a contingency. (Also refer note 2.3.4)

**14. RELATED PARTIES**

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

<b>Amounts included in trade payables regarding related parties</b>	<b>2018 US\$</b>	<b>2017 US\$</b>
Vedanta Limited	(2,436,204)	(2,295,272)
Cairn Lanka (Private) Limited	(92,844)	(92,844)

**Note:** During the current year, the Company has issued one additional equity shares to its holding company Cairn Energy Hydrocarbons Limited of US\$100,000 (2017: 3 shares for US\$ 300,000). Further, share application money of US\$20,000 is still outstanding which is pending allotment.

**15. DIRECTORS' EMOLUMENTS**

No emoluments were paid to the directors during the year.

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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)****16. 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.

The maturity profile of the company's financial liabilities based on the remaining period from the balance sheet date to the contractual maturity date is given in the table below:

	(In US\$)				
<b>At 31<sup>st</sup> March 2018</b>	<b>&lt; 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>&gt;5 years</b>	<b>Total</b>
Trade and other Payables	2,631,801	-	-	-	2,631,801
	<b>2,631,801</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,631,801</b>
<b>At 31<sup>st</sup> March 2017</b>	<b>&lt; 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>&gt;5 years</b>	<b>Total</b>
Trade and other Payables	2,497,975	-	-	-	2,497,975
	<b>2,497,975</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,497,975</b>

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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)****16. FINANCIAL RISK MANAGEMENT: OBJECTIVE AND POLICIES (continued)****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 2018 was US\$ nil (Year ended 31 March 2017: US\$ nil).

The carrying amount of the company's financial assets and liabilities in different currencies are as follows:

	31 March 2018	31 March 2018	31 March 2017	(In US\$) 31 March 2017
	Financial Assets	Financial Liabilities	Financial Assets	Financial Liabilities
USD	27,757	2,593,852	39,102	2,390,726
INR	-	37,949	-	20,164
ZAR	136	-	6,723	87,085
<b>Total</b>	<b>27,893</b>	<b>2,631,801</b>	<b>45,825</b>	<b>2,497,975</b>

The following table demonstrates the sensitivity to movement in the 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.

	(In US\$) 31 March 2018	
	Closing exchange rate	Effect of 10% strengthening of US dollar on net earning
INR	65.04	3,795

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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)****16. FINANCIAL RISK MANAGEMENT: OBJECTIVE AND POLICIES (continued)****Foreign currency risk (continued)**

	(In US\$)	
	31 March 2017	
	Closing exchange rate	Effect of 10% strengthening of US dollar on net earning
INR	64.84	2,016

**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 Board 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 2018.

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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)****17. 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 2018 US\$	31 March 2017 US\$	31 March 2018 US\$	31 March 2017 US\$
Cash and cash equivalents	27,893	39,501	27,893	39,501
Trade and other receivables	-	6,324	-	6,324
	<b>27,893</b>	<b>45,825</b>	<b>27,893</b>	<b>45,825</b>

Financial liabilities	Carrying amount		Fair value	
	31 March 2018 US\$	31 March 2017 US\$	31 March 2018 US\$	31 March 2017 US\$
Trade and other payables	2,631,801	2,497,975	2,631,801	2,497,975
	<b>2,631,801</b>	<b>2,497,975</b>	<b>2,631,801</b>	<b>2,497,975</b>

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



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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**

**18. GOING CONCERN MATTER**

Cairn South Africa (Pty) Limited incurred a net loss for the year ended 31<sup>st</sup> March 2018 of US\$ 201,758 (31 March 2017: US\$ 723,452). The total liabilities exceed total assets as at 31<sup>st</sup> March 2018 by US\$ 2,603,908 (31 March 2017: US\$ 2,452,150).

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.

**19. EVENTS AFTER THE BALANCE SHEET DATE**

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

**20. ULTIMATE PARENT COMPANY**

The Company is a wholly-owned subsidiary of Cairn Energy Hydrocarbons Limited which in turn is a subsidiary of Cairn India Holdings Limited. Cairn India Holdings Limited is the subsidiary of Vedanta Limited. Vedanta Resources Plc is the intermediary holding company. Volcan Investments Limited ("Volcan") is the ultimate controlling entity and controls Vedanta Resources Plc. Volcan is controlled by persons related to the Executive Chairman, Mr. Anil Agarwal.

The results of the Company are consolidated into intermediate parent company, viz. Vedanta Resources Plc. The registered office of Vedanta Resources Plc is 5<sup>th</sup> Floor, 6<sup>th</sup> St. Andrew Street, London, EC4A 3AE. Copies of Vedanta Resources Plc's financial statements are available on its website.