

CAIRN INDIA LIMITED

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WE FUEL AMAZING

7th Nov 2014

To

The Director General

Directorate General of Hydrocarbons,

OIDB Bhawan

Plot No.2, Sector-73

NOIDA

Sub: Audit Exceptions in respect to block KG-ONN-2003/1 for FYs 2011-12 & 2012-13

Dear Sir

This is with reference to ^{MOPNG} letter no: O-22015/55/2014-ONG-IV/EO dated 11th Sep 2014 on the above mentioned subject. We acknowledge the receipt of this letter on 31st Oct 2014. Please find enclosed Operator's point wise response to the audit exceptions along with appropriate documentary support (Annexures 1, 2 & 3).

Kindly acknowledge the receipt of the same.

Regards,


Dr. Nicholas Whiteley

General Manager – Indian Exploration

Copy to : (i) Mr. Amrish Kumar
Under Secretary to the Govt. of India,
Ministry of Petroleum & Natural Gas,
Shastri Bhawan,
New Delhi 110 001

(ii) Mr. Dinesh K Sarraf
Chairman & Managing Director,
Oil and Natural Gas Corporation Ltd.,
9th Floor, Jeevan Bharti Building,
124, Indira Chowk, Sansad Marg,
New Delhi 110 001



Dr. Ajit Singh
11/11

Sh. Rupam Barua plz

Response to Audit Exceptions - KG-ONN-2003/1 for FYs 2011-12 & 2012-13

Exception No. 1:

Subject: Adoption of Audited Accounts by MC

Audit Observation: Audit accounts for the F.Y 2011-12 Adopted late by 224 days and Audited accounts for the F.Y 2012-13 not yet approved by MC.

Contractor may be advised to follow up with MC for the timely adoption of audited accounts.

Operator's Response:

Audited accounts for FY 2012-13 have been adopted on 9th July 2014. Copy of MC minutes is attached herewith as **Annexure 1**.

Operator has noted the above and will endeavor to adhere to PSC timelines in future.

Exception No. 2:

Subject: Local Procurement Statement

Audit Observation: Operator has prepared and submitted the Local Procurement statement as required in Article 23.3 of PSC to DGH. However, it has not been submitted timely to DGH in FY 2012-13.

Contractor may be advised to follow the timelines in future.

Operator's Response:

The Operator would like to mention that additional time till 30th June 2013 was sought vide letter dated 30th May 2013 (**Annexure 2**). Accordingly local procurement statement was submitted on 27th June 2013 for the FY 2012-13. Copy of same is attached for reference as **Annexure 3**.

Operator has noted the above and will endeavor to adhere to PSC timelines in future.

Exception No. 3:

Subject: Late submission of WP & B for FY 2011-12.

Audit Observation: WP & B for FY 2011-12 was submitted by the operator on 09.03.2011 in place of 31.12.2010 (due date).

Contractor may be advised to follow the timelines in future.

Operator's Response:

Operator has noted the above and will endeavor to adhere to PSC timelines in future.

Exception No.4:

Subject: Production Statement & Value of Production and Pricing Statements.

Audit Observation: During the F.Y 2012-13 CEIL has assigned its (24%) participating and operatorship in the favor of the CIL w.e.f 16th October 2012. However as a result of change in the participating interest, the amendment in PSC is required to be executed and the same is executed and signed by CIL and ONGC. However the Revised executed PSC is not signed by DGH representative.

Contractor may be advised to explain and follow up the matter.

Operator's Response:

As mentioned by the Audit, the PSC amendment is executed by CIL and ONGC; currently awaiting DGH approval. Operator will coordinate with DGH for completing the process.

MANAGEMENT COMMITTEE RESOLUTION
BLOCK - KG-ONN-2003/1
Venue & Date: MoPNG, 09.07.2014

MC Members
 1st Govt. Nominee
 2nd Govt. Nominee
 ONGC Representative
 CIL Representative

Agenda Point	MC Agenda	MC member View	MC Decision
1	Review of proposal for Declaration of commerciality (DOC) of Oil & Gas discovery in Nagayalanka-1z in KG-ONN-2003/1 block.	<p>Contractor's View Contractor has proposed the DoC with following inputs (1) INPLACE : (a) OIL Inplace</p> <ul style="list-style-type: none"> • OIIP (1P) : 24.08 MMbbl Recoverable : 4.5 MMbbl • OIIP (2P) : 46.32 MMbbl Recoverable : 9.13 MMbbl • OIIP (3P) : 88.25 MMbbl Recoverable : 18.10 MMbbl <p>(b) Gas Inplace</p> <ul style="list-style-type: none"> • GIIP(1P) : 69 BCF Recoverable : 23.4 BCF • GIIP(2P) : 140 BCF Recoverable : 47.2 BCF • GIIP(3P) : 280 BCF Recoverable : 94.2 BCF <p>(2) Reserves and Cumulative Production Recoverable Reserves</p> <ul style="list-style-type: none"> • OIL : 9.13 MMbbbls • GAS : 47.2 Bcf <p>(a) As per Production Profile submitted at time of DOC (27.03.2012).</p> <p>Cumulative Production</p> <ul style="list-style-type: none"> • OIL : 8.33 MMbbbls • GAS : 20.9 Bcf <p>(b) Revised Production Profile re-submitted by the operator on the basis of testing results from Nagayalanka-SE-1.</p> <p>Cumulative Production</p> <ul style="list-style-type: none"> • OIL : 4.88 MMbbbls • GAS : 10.40 Bcf <p>(3) Proposed development wells: 07 nos. (Horizontal) (4) Estimated Cost :</p> <ul style="list-style-type: none"> • CAPEX : US \$ 214.2 MM • OPEX : US \$ 56.2 MM <p>(5) Conclusion</p> <p>Standalone development of Raghavapuram reservoir is marginally commercially viable with the revised production profile.</p> <p>Contractor proposes to MC for considering a combined development of Raghavapuram and Golapalli discoveries. The Contractor will submit DoC for combined development of Nagayalanka-1z and Nagayalanka-SE-1.</p>	<p>MC reviews Declaration of commerciality (DOC) of Oil discovery in Nagayalanka-1z in KG-ONN-2003/1 block.</p> <p>The DOC of Nagayalanka-1z is commercially viable.</p>

		<p>DGH Views</p> <p>DOC has been evaluated and following are the main parameters</p> <p>(a) OIIP (2P) : 41.21 MMbbl (b) EUR (2P) : 3.998MMbbls : 5.93BCF(Solution Gas)</p> <p>(c) Development wells: 07 nos. (Horizontal).</p> <p>(d) The surface facilities at FDP stage may be examined and designed for maximum handling capacity of 3000 BOPD oil and 4MMSCFD gas with associated facilities. In case any upside can be proved by the operator and agreed by MC, scope may be kept for modular expansion of facilities, if required, which will however be implemented only after seeing field performance.</p> <p>(e) The delivery point/custody transfer point will be as per PSC provision and will be finalized at the time of FDP as per PSC.</p> <p>(f) The DOC for Nagayalanka-1z appear to be viable at an oil price of USD 90 and USD 100 per barrel and gas price at USD 4.2/MMBTU, considering the past exploration cost as sunk cost.</p> <p>(g) Contractor vide e-mail dt. 19.08.13 and letter dt. 22.08.13 has submitted "Standalone development of Raghavapuram reservoir is not commercially viable with the revised production profile".</p> <p>(h) DGH vide letter dt. 05.02.13 submitted the draft MCR for review of DOC to MoPNG and vide letter dated 12.02.13 to the operator, to propose the MC meeting.</p> <p>(i) Operator vide letter dt. 14.03.13 sought some clarification regarding the DOC and after examination of the issues, a meeting was held on 17.05.13 with the operator. MoPNG vide letter dt. 14.08.13, agreed for the MC meeting on 23.08.13. The said MC meeting was deferred on the request of the operator vide MoPNG letter dt. 04.09.13.</p> <p>(j) DGH vide letters dt. 10.09.13 & 16.01.14 repeatedly asked the operator to get the DOC reviewed by MC but no reply was received from the operator. DGH vide letter dt. 29.01.2014 proposed the MC meeting for pending agenda points on 17.02.2014, the meeting was postponed by MoPNG vide letter dated 14.02.2014.</p> <p>(k) DGH vide letter dt. 06.06.2014 proposed the MC meeting for pending agenda points on 12.06.2014, the meeting was rescheduled on 09.07.2014 by MoPNG vide letter dt. 12.06.2014.</p> <p>In light of present view of the contractor, the issue requires deliberation in MC.</p>	
2	<p>Approval of Annual Audited Accounts for FY 2012-13 with actual expenditure amounting to US\$ 8,590,897</p> <p>(US Dollar Eight Million Five Hundred Ninety Thousand Eight Hundred Ninety Seven only)</p>	<p>DGH View:</p> <p>The audited expenditure includes amounts incurred for both Exploration (US\$ 5.756MM) and Appraisal Activities (US\$ 2.787 MM).</p>	<p>MC approves and adopts Audited Account for FY 2012-13 amounting to US\$ 8,542,923</p> <p>(US Dollar Eight Million Five Hundred Forty Two Thousand Nine Hundred Twenty Three only) as allowable cost recovery subject to Article 15.13 of the PSC.</p>


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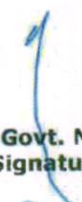
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<p>3</p>	<p>Review of proposal for Declaration of Commerciality (DOC) of Oil & Gas discovery in well Nagayalanka-SE-1 in the block KG-ONN-2003/1.</p>	<p>Contractor's View</p> <p>Contractor has proposed the DOC with following inputs</p> <p>(1) INPLACE :</p> <p>(a) Oil Inplace</p> <ul style="list-style-type: none"> • OIIP : 214 MMbbls • Recoverable : 30.5 MMbbls <p>(b) Gas Inplace</p> <ul style="list-style-type: none"> • GIIP : 384 BCF • Recoverable : 56.4 BCF <p>(2) Proposed development wells: 20 nos. (Vertical)</p> <p>(3) Estimated Cost :</p> <ul style="list-style-type: none"> • CAPEX : US \$ 677.14 MM • OPEX : US \$ 227 MM <p>Contractor proposes to MC for considering a combined development of Raghavapuram and Golapalli discoveries. The Contractor will submit DoC for combined development of Nagayalanka-1z and Nagayalanka-SE-1.</p> <p>DGH View</p> <p>As the operator reported the discovery as oil with associated gas under Article 10.5 of PSC, the reserves have been estimated for oil only.</p> <p>DOC has been evaluated and following are the main parameters</p> <p>(l) OIIP (2P) : 195.09 MMbbl</p> <p>(m) Recoverable : 26.28 MMbbls</p> <p>(n) Development wells : 20 nos. (Vertical)</p> <p>The DOC for Nagayalanka-SE-1 appear to be viable at an oil price of USD 60 and USD 90 per barrel and gas price at USD 4.2/MMBTU, considering the past exploration cost as sunk cost.</p>	<p>MC reviews Declaration of commerciality (DOC) of Oil discovery in Nagayalanka-SE-1 in the block KG-ONN-2003/1.</p> <p>The DOC for Nagayalanka-SE-1 is commercially viable.</p>
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09/07/2014
(B.K.Dey)
1st Govt. Nominee
(Name & Signature with date)


2nd Govt. Nominee
(Name & Signature with date)


ONGC Representative
(Name & Signature with date)
(P. R AJA)


CIL Representative
(Name & Signature with date)
N. WHITELEY 09/07/2014

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WE FUEL AMAZING

May 30th, 2013

To,

KG-ONN-2003/1 Block

Directorate General of Hydrocarbons,
OIDB Bhawan, C-Block
Plot no. 2, Sector-73
Noida

Kind Attn: Mr. Promothesh Baruah,

Fax no. 0120.2472049

Dear Sir,

SUBJECT: Report on "Utilization of Indian Resources for KG-ONN-2003/1"

As per Article 23 of the Production Sharing Contract, Local Procurement Statement is to be submitted within 60 days from end of year. Please note that data is being compiled at our end and since it is expected to take some time, it is requested to allow us extension for submitting the same up to 30 June 2013.

Yours sincerely

Sudhir 30/05/2013

Sudhir Mathur
Alt MC Member

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June 27, 2013

Directorate General of Hydrocarbons,
OIDB Bhawan, C-Block,
Plot No. 2, Sector-73m,
Noida-201301
Uttar Pradesh

Kind Attn: Mr. Promotes Baruah, Nodal Officer

Dear Sir,

SUBJECT: Report on "Utilization of Indian Resources for KG-ONN-2003/1 block"

Please find enclosed annual Report on "Utilization of Indian Resources for KG-ONN-2003/1 block" for the year 2012-13.

Yours sincerely

A handwritten signature in dark ink, appearing to read "Sudhir".

Dr. Sudhir Mathur
Alt. MC Member