

**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF  
GMR LION ENERGY LIMITED**

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**Report on the Financial Statements**

We have audited the financial statements of **GMR LION ENERGY LIMITED** (the "Company") on pages 6 to 23 which comprise the statement of financial position as at 31 March 2011 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

*Directors' Responsibility for the Financial Statements*

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as modified by the exemption from consolidation in the Companies Act 2001 for Companies holding a Category 1 Global Business Licence and in compliance with the requirements of the Mauritian Companies Act 2001, 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.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the financial statements on pages 6 to 23 give a true and fair view of the financial position of the Company as at 31 March 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as modified by the exemption from consolidation in the Companies Act 2001 for Companies holding a Category 1 Global Business Licence and comply with the Companies Act 2001.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF  
GMR LION ENERGY LIMITED (CONTINUED)

Report on the Financial Statements (*Continued*)

*Other matter*

This report, including the opinion, has been prepared for and only for the Company's member in accordance with Section 205 of the Companies Act 2001 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

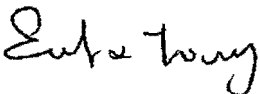
Report on Other Legal and Regulatory Requirements

*Companies Act 2001*

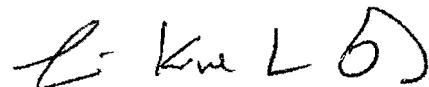
We have no relationship with or interests in the Company other than in our capacity as auditors and dealings in the ordinary course of business.

We have obtained all the information and explanations we have required.

In our opinion, proper accounting records have been kept by the Company as far as it appears from our examination of those records.



ERNST & YOUNG  
Ebene, Mauritius



LI KUNE LAN POOKIM, A.C.A, F.C.C.A

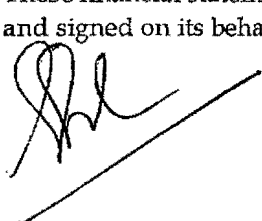
Date... 09 MAY 2011

**GMR LION ENERGY LIMITED**  
**STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2011**

6.

	Notes	2011 USD	2010 USD
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment in subsidiary	4	145,402	145,402
Share application monies	5	6,060,373	2,764,373
		<u>6,205,775</u>	<u>2,909,775</u>
<b>Current assets</b>			
Other receivables	6	4,290	4,290
Cash and cash equivalents		2,277	5,920
		<u>6,567</u>	<u>10,210</u>
<b>Total assets</b>		<u><u>6,212,342</u></u>	<u><u>2,919,985</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Stated capital	7	2,942,117	2,942,117
Advance toward equity	8	3,330,000	17,000
Accumulated losses		(66,950)	(50,935)
<b>Total equity</b>		<u>6,205,167</u>	<u>2,908,182</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Other payables	9	7,175	11,803
<b>Total liabilities</b>		<u>7,175</u>	<u>11,803</u>
<b>Total equity and liabilities</b>		<u><u>6,212,342</u></u>	<u><u>2,919,985</u></u>

These financial statements have been authorised for issue by the Board of Directors on **09 MAY 2011**  
and signed on its behalf by:




|  
| DIRECTORS  
|

The notes on pages 10 to 23 form an integral part of these financial statements.

**GMR LION ENERGY LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 MARCH 2011**

7.

	Note	2011 USD	2010 USD
<b>Expenses</b>			
Licence fees		2,240	1,735
Secretarial fees		1,500	1,500
Bank charges		985	860
Accounting fees		2,700	4,300
Audit fees		5,290	15,295
Professional fees		3,250	2,550
Disbursements		50	330
		<u>16,015</u>	<u>26,570</u>
Loss before tax		(16,015)	(26,570)
Income tax expense	10	-	-
<b>Loss for the year</b>		<u>(16,015)</u>	<u>(26,570)</u>
Other comprehensive income for the year		-	-
<b>Total comprehensive loss for the year</b>		<u><u>(16,015)</u></u>	<u><u>(26,570)</u></u>

The notes on pages 10 to 23 form an integral part of these financial statements.

GMR LION ENERGY LIMITED  
 STATEMENT OF CHANGES IN EQUITY  
 FOR THE YEAR ENDED 31 MARCH 2011

8.

	Stated capital	Advances towards equity	Accumulated losses	Total equity
	USD	USD	USD	USD
At 01 April 2009	935,117	-	(24,365)	910,752
Issue of shares	2,007,000	-	-	2,007,000
Advances towards equity	-	17,000	-	17,000
Other comprehensive income	-	-	-	-
Loss for the year	-	-	(26,570)	(26,570)
At 31 March 2010	2,942,117	17,000	(50,935)	2,908,182
Issue of shares	-	-	-	-
Advances towards equity	-	3,313,000	-	3,313,000
Other comprehensive income	-	-	-	-
Loss for the year	-	-	(16,015)	(16,015)
At 31 March 2011	<u>2,942,117</u>	<u>3,330,000</u>	<u>(66,950)</u>	<u>6,205,167</u>

The notes on pages 10 to 23 form an integral part of these financial statements.

GMR LION ENERGY LIMITED  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED 31 MARCH 2011

9.

	2011	2010
	USD	USD
<i>Cash flow from operating activities</i>		
Loss for the year	(16,015)	(26,570)
Decrease in other receivables	-	1,515
(Decrease)/increase in other payables	(4,628)	3,553
<b>Net cash used in operating activities</b>	<b>(20,643)</b>	<b>(21,502)</b>
<i>Cash flow from investing activities</i>		
Share application monies	(3,296,000)	(2,006,000)
<b>Net cash used in investing activities</b>	<b>(3,296,000)</b>	<b>(2,006,000)</b>
<i>Cash flow from financing activities</i>		
Issue of shares	-	2,007,000
Advances towards equity	3,313,000	17,000
<b>Net cash generated from financing activities</b>	<b>3,313,000</b>	<b>2,024,000</b>
Net movement in cash and cash equivalents	(3,643)	(3,502)
Cash and cash equivalent at beginning of year	5,920	9,422
<b>Cash and cash equivalents at end of year</b>	<b>2,277</b>	<b>5,920</b>

The notes on pages 10 to 23 form an integral part of these financial statements.

**1. LEGAL STATUS AND PRINCIPAL ACTIVITY**

GMR Lion Energy Limited has been incorporated in Mauritius on 29 February 2008 under the Mauritius Companies Act 2001, as a private company limited by shares. The Company holds a Category 1 Global Business Licence and is regulated by the Financial Services Commission (FSC). The Company's registered office is at C/o Multiconsult Limited, Rogers House, 5, President John Kennedy Street, Port Louis, Mauritius.

The principal activity of the Company is that of investment holding.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Company for the year ended 31 March 2011 were authorised for issue in accordance with a resolution of the directors' on ~~.....~~ 09 MAY 2011 .....

**Statement of compliance**

The financial statements of GMR Lion Energy Limited are prepared in accordance with International Financial Reporting Standards (IFRS).

**Basis of accounting**

The financial statements are prepared under the historical cost convention and are denominated in United States Dollars (USD). The preparation of the financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

**Foreign currency translation**

*Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in United States dollars, which is the Company's functional and presentation currency.

*Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

**Cash and cash equivalents**

Cash comprises cash at bank. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

**Other receivables**

Other receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Other payables

Other payables are stated at their nominal value.

### Investments in subsidiary

Subsidiary, are those entities in which the Company has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Company controls another entity.

Investments in subsidiary are shown at cost. Where the carrying amount of an investment is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount and the difference is transferred to the profit or loss. Upon disposal of the investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit or loss.

### Consolidated financial statements

The financial statements contain information about GMR Lion Energy Limited as an individual company and do not contain consolidated financial information as the parent of a group. The Company owns 73% in GMR Upper Karnali Hydropower Public Limited. The Company has taken advantage of the exemption provided by the Mauritian Companies Act 2001 allowing a wholly owned or a virtually owned parent company holding a Category 1 Global Business Licence not to present consolidated financial statements. The ultimate parent, GMR Infrastructure Limited, a company incorporated in India, prepares consolidated financial statements in accordance with Indian Generally Accepted Accounting Principles and not IFRS. The registered office of the ultimate parent is Skip House, 25/1 Museum Road, Bagalore 560 025, India.

### Impairment of non-financial assets

The carrying amount of assets is assessed at the end of each reporting year to determine whether there are any indications of impairment. If any such indication exists, the Company estimates the recoverable amount of the asset being the higher of the asset's net selling price and its value in use, in order to determine the extent of the impairment loss (if any). An impairment loss is recognised for any excess of the asset's carrying amount over its recoverable amount and is taken directly to the profit or loss.

### Impairment of financial assets

The Company assesses at the end of each reporting year whether a financial asset or group of financial assets is impaired.

### Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss 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 been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss shall be recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in profit or loss.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Derecognition of financial assets and liabilities

#### Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

#### Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

### Taxation

#### Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit or loss because it excludes items of income or expense that are taxable or deductible in future years and it further excludes items that are permanently exempt from tax or allowable as a tax deduction. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting year.

Current taxes are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised in other comprehensive income, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Provisions

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

### Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

### Interest income

Interest income from cash at bank is recognised as it accrues.

## 2.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

- (a) The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Company has adopted the following amendments as of 01 July 2009:

- IAS 1 (Revised 2007) Presentation of Financial Statements

The standard replaces IAS 1 Presentation of Financial Statements (revised in 2003) as amended in 2005.

The revised IAS 1 Presentation of Financial Statements was issued in September 2007 and is effective for accounting periods beginning on or after 01 January 2009 with early application permitted.

The revised standard separates owner and non-owner changes in equity. The statement of changes in recognised equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line.

In addition, the standard introduces the statement of comprehensive income: it presents all items of income and expense either in one single statement, or in two linked statements. The Company has elected to present one statement.

- (b) The following standards, amendments and interpretations are effective for 2010 but had no impact on the financial position or performance of the Company:

### IFRS 8 Operating Segments

This standard is effective for accounting periods beginning on or after 01 January 2009. It requires disclosure of information about the Company's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments. The Company is exempt from adopting IFRS 8 operating segments.

## 2.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

- (b) The following standards, amendments and interpretations are effective for 2010 but had no impact on the financial position or performance of the Company (Continued).

### **Amendments to IFRS 7 Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments.**

The amendments to IFRS 7 were issued in March 2009 and become effective for annual periods beginning on or after 01 January 2009, with early application permitted. The Company has not adopted these amendments with effect from 01 July 2009 as the company does not hold any financial asset carried at fair value.

The amendments to IFRS 7 require fair value measurements to be disclosed by the source of inputs, using a three-level fair value hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

In addition, the amendments revise the specified minimum liquidity risk disclosures including: the contractual maturity of non derivative and derivative financial liabilities, and a description of how this is managed.

### **Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation**

Amendments to IAS 32 and IAS 1 were issued by the IASB in February 2008 and become effective for annual periods beginning on or after 01 January 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendments to IAS 1 require disclosure of certain information relating to puttable instruments classified as equity.

### **Amendment to IFRS 2 Share-Based Payments - Vesting Conditions and Cancellations**

This amendment to IFRS 2 Share-based payments was published in January 2008 and becomes effective for financial years beginning on or after 01 January 2009. The standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation.

### **IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)**

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

## 2.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

- (b) The following standards, amendments and interpretations are effective for 2010 but had no impact on the financial position or performance of the Company (Continued):

### **IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) (Continued)**

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

### **IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items**

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company as the Company has not entered into any such hedges.

### **Amendment to IAS 23 Borrowing Costs**

IAS 23 Borrowing Costs issued in March 2007 supersedes IAS 23 Borrowing Costs (revised in 2003). The main change from the previous version is the removal of the option to immediately recognise as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or

### **IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement**

These amendments to IFRIC 9 require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss.

### **IFRIC 13 Customer Loyalty Programmes**

IFRIC 13 Customer Loyalty Programmes addresses accounting by the entity that grants loyalty award credits to its customers.

### **IFRIC 15 Agreements for the Construction of Real Estate**

IFRIC 15 Agreements for the Construction of Real Estate provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 Construction Contracts or IAS 18 Revenue and when revenue from the construction should be recognised.

### **IFRIC 16 Hedges of a Net Investment in a Foreign Operation**

IFRIC 16 Hedges of a Net Investment in a Foreign Operation applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39.

## 2.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

- (b) The following standards, amendments and interpretations are effective for 2010 but had no impact on the financial position or performance of the Company (Continued):

### IFRIC Interpretation 17 Distributions of Non-Cash Assets to Owners

The IFRIC issued IFRIC Interpretation 17 in November 2008. IFRIC 17 provided guidance on how to account for distributions of non-cash assets to its owners and distributions that give owners a choice of receiving either non-cash assets or a cash alternative. An entity shall apply this Interpretation prospectively for annual periods beginning on or after 01 July 2009.

### IFRIC 18 Transfer of Assets from Customers

The IFRIC issued IFRIC Interpretation 18 in January 2009. IFRIC 18 provides guidance on accounting for transfers of assets, where cash is used to purchase those items of plant, property and equipment, which an entity receives from a customer, which is either used to connect the customer to a network, or provide the customer ongoing access to a supply of goods and services. The interpretation is effective prospectively to transfers of assets from customers received on or after 01 July 2009.

### Improvements to IFRSs

In May 2008 and April 2009 the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Company.

- IFRS 8 Operating Segment: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- IAS 16 Property, Plant and Equipment: Replaces the term "net selling price" with "fair value less costs to sell". The Company amended its accounting policy accordingly, which did not result in any change in the financial position.
- IAS 18 Revenue: The Board has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:
  - Has primary responsibility for providing the goods or services
  - Has inventory risk
  - Has discretion in establishing prices
  - Bears the credit risk

The Company has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements. The revenue recognition accounting policy has been updated accordingly.

- IAS 23 Borrowing Costs: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Company has amended its accounting policy accordingly which did not result in any change in its financial position.

## 2.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

- (b) The following standards, amendments and interpretations are effective for 2010 but had no impact on the financial position or performance of the Company (Continued):

### Improvements to IFRSs (Continued)

- IAS 36 Impairment of Assets: When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.

The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment did not have any impact on the Company.

- IAS 38 Intangible Assets: Expenditure on advertising and promotional activities is recognised as an expense when the Company either has the right to access the goods or has received the service. This amendment has no impact on the Company because it does not enter into such promotional activities.

The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed. Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:

- IFRS 2 Share-based Payment
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: Plan to sell the controlling interest in a subsidiary
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements: Assets and Liabilities classification as held for trading in accordance with IAS 39 Financial instruments
- IAS 8 Accounting Policies, Change in Accounting Estimates and Error
- IAS 10 Events after the Reporting Period
- IAS 19 Employee Benefits
- IAS 20 Accounting for Government Grants and Disclosures of Government Assistance: Consistency of terminology with other IFRSs
- IAS 27 Consolidated and Separate Financial Statements: Measurement of subsidiary held for sale in separate financial statements
- IAS 28 Investment in Associates: Required disclosures when investments in associates are accounted for at fair value through profit or loss
- IAS 28 Investment in Associates: Impairment of investment in associate
- IAS 29 Financial Reporting in Hyperinflationary Economies: Description of measurement basis in financial statements
- IAS 29 Financial Reporting in Hyperinflationary Economies: Consistency of terminology with other IFRSs
- IAS 31 Interest in Joint ventures: Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss
- IAS 34 Interim Financial Reporting: Earnings per share disclosures in interim financial reporting
- IAS 36 Impairment of Assets: Disclosure of estimates used to determine recoverable amount
- IAS 38 Intangible Assets: Advertising and promotional activities
- IAS 38 Intangible Assets :Unit of production method of amortisation
- IAS 39 Financial Instruments: Recognition and Measurement: Reclassification of derivatives into or out of the classification of at fair value through profit or loss

## 2.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

- (b) The following standards, amendments and interpretations are effective for 2010 but had no impact on the financial position or performance of the Company (Continued):

### Improvements to IFRSs (Continued)

- IAS 39 Financial Instruments: Recognition and Measurement: Designation and documentation of hedges at the segment level
- IAS 39 Financial Instruments: Recognition and Measurement: Applicable effective interest rate on cessation of fair value hedge accounting
- IAS 40 Investment Property: Property under construction or development for future use as investment property
- IAS 40 Investment Property: Consistency of terminology with IAS 8, Investment property held under lease
- IAS 41 Agriculture: Discount rate for fair value calculations
- IAS 41 Agriculture: Additional biological transformations
- IAS 41 Agriculture: Examples of agricultural produce and products, Point-of-sale costs
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation

### International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities (SMEs)

The standard was issued in July 2009 and is effective immediately. The standard covers all of the recognition, measurement, presentation and disclosure requirements for SMEs.

- (c) The following standards, amendments and interpretations are not effective and are not expected to have material impact on the financial position or performance of the Company:

### IFRS 1 First Time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters

The revised standard was issued in July 2009 and become effective for financial years beginning on or after 01 January 2010. The amendment provides relief from the full retrospective application of IFRS in certain circumstances.

### IFRS 2 Share-based Payments – Group cash-settled share-based payment transactions

The revised standard was issued in July 2009 and is effective for annual periods beginning on or after 01 January 2010. It provides guidance on that to be in the scope of IFRS 2, an award must be a 'share-based payment transaction,' and part of a 'share-based payment arrangement'.

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

**Judgement**

In the process of applying the Company's accounting policies, management has not made any judgments which could have any significant effect on the amounts recognised in the financial statements:

**Estimates and assumptions**

The key assumption concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is discussed below.

The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments however may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

4. INVESTMENT IN SUBSIDIARY

	<u>2011</u>	<u>2010</u>
	USD	USD
01 April and 31 March	<u>145,402</u>	<u>145,402</u>

Details of the investment held in subsidiary as follows:

Name of company	Country of Incorporation	Type of shares held	Number of shares held	% Holding
GMR Upper Karnali Hydropower Public Limited	Nepal	Ordinary	1,095,000	73

The directors are of the opinion that the carrying value of the investment is fairly stated and that it has not suffered any impairment in value.

5. SHARE APPLICATION MONIES

	<u>2011</u>	<u>2010</u>
	USD	USD
At 01 April	2,764,373	758,373
Advance made during the year	<u>3,296,000</u>	<u>2,006,000</u>
At 31 March	<u>6,060,373</u>	<u>2,764,373</u>

Share application monies represent advances made to the Company's subsidiary GMR Upper Karnali Hydropower Public Limited, pending allotment of shares.

6. OTHER RECEIVABLES

	<u>2011</u>	<u>2010</u>
	USD	USD
Prepayments	4,290	4,290

7. STATED CAPITAL

	<u>2010</u>	<u>2009</u>
	USD	USD
<i>Ordinary shares - issued and fully paid up</i>		
At 01 April	2,942,117	935,117
Issued during the year	-	2,007,000
At 31 March	<u>2,942,117</u>	<u>2,942,117</u>

8. ADVANCE TOWARDS EQUITY

	<u>2011</u>	<u>2010</u>
	USD	USD
At 01 April	17,000	-
Advance towards equity during the year	3,313,000	17,000
At 31 March	<u>3,330,000</u>	<u>17,000</u>

This represents funds received from the parent, GMR Energy (Mauritius) Limited, pending allotment of shares.

9. OTHER PAYABLES

	<u>2011</u>	<u>2010</u>
	USD	USD
Accruals	7,175	11,803

10. TAXATION

The Company invests in Nepal and the directors expect to obtain benefits under the Double Taxation Avoidance Agreement (DTAA) between Nepal and Mauritius. To obtain benefits under the DTAA, the Company must meet certain tests and conditions, including the establishment of Mauritius tax residence and related requirements. The Company has obtained a tax residence certificate from the Mauritian Authorities and believes such certification is determinative of its resident status for treaty purposes.

A company which is tax resident in Mauritius under the DTAA, but has no branch or permanent establishment in Nepal, will not be subject to capital gains tax in Nepal on the sale of securities but is subject to Nepali withholding tax on interest earned on Nepali securities at the rate not exceeding 10% if the recipient is an investment company receiving income from financial investments. There is withholding tax on dividends distributed by Nepali companies at the rate not exceeding 5% of the gross amount of the dividends if the recipient is the beneficial owner which holds directly at least 15% of the capital of the company paying the dividends.

10. TAXATION (CONTINUED)

The Company is subject to Income tax in Mauritius on its net taxable income at 15%. However, the Company is entitled to a tax credit equivalent to the higher of the actual foreign tax suffered and 80% of the Mauritius tax on its foreign source income.

The foregoing is based on current interpretation and practice and is subject to any future changes in Nepali or Mauritian tax laws and in the treaty between Nepal and Mauritius.

At 31 March 2011, the Company had accumulated tax losses of USD 64,115 (2010: USD 48,100).

The directors have not recognised a deferred tax asset amounting to USD 1,923 at 31 March 2011 (2010 - USD 1,443), as they may not be used to offset taxable profit. The deferred tax asset arises from the accumulated tax losses.

The accumulated tax losses are available for set-off against future taxable income up as follows:

	USD
Up to year ending 31 March 2014	21,530
Up to year ending 31 March 2015	26,570
Up to year ending 31 March 2016	16,015

The actual income tax rate differs from the theoretical amount that would arise using the applicable income tax rate as follows:

	2011 USD	2010 USD
Loss before tax	(16,015)	(26,570)
Less exempt income	-	-
Loss adjusted for tax purpose	(16,015)	(26,570)
Loss brought forward	(48,100)	(21,530)
Loss carried forward	<u>(64,115)</u>	<u>(48,100)</u>

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

In its ordinary operations, the Company is exposed to various financial risks. Details of those are risks set out below:

Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Market risk**

Market risk is defined as the "the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and includes interest rate risk, foreign currency risk and other price risk.

*Interest rate risk*

The Company's income and operating cash flows are to a large extent independent of changes in market interest rates. The Company's interest earning financial assets include cash and cash equivalents. Interest income on cash at bank may fluctuate in amount, in particular due to changes in market interest rates. The amount involved is not material and no sensitivity analysis has been done.

*Foreign Currency risk*

The Company invests in shares denominated in Nepal rupees (NPR). Investment in subsidiary is accounted at cost and consequently, the Company is not exposed to any foreign exchange risk.

*Currency profile*

The Company's

	Financial assets 2011 USD	Financial liabilities 2011 USD	Financial assets 2010 USD	Financial liabilities 2010 USD
United States Dollars	2,277	7,175	5,920	11,803

*Credit risk*

The Company takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Financial assets which potentially subject the Company to concentrations of credit risk consist principally of bank balances. Cash and cash equivalents are held in reputable financial institutions. Accordingly, the Company has no significant concentration of credit risk. The maximum exposure to credit risk arising from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount 2011 USD	Carrying amount 2010 USD
Cash and cash equivalents	2,277	5,920

*Liquidity risk*

The financial assets are neither past due nor impaired at the reporting date. The cash and cash equivalents are maintained with reputable banks.

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

*Liquidity risk (Continued)*

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of related party loans. However liquidity risk, if any, is managed through the financial support of the shareholder.

The table below summarises the maturity profile of the Company's financial liabilities at the financial position date based on contractual undiscounted payments:-

	<u>Less than one year USD</u>
31 March 2011	<u>7,175</u>
31 March 2010	<u>11,803</u>

*Fair Values*

The carrying amounts of cash at bank and other payables approximate their fair values.

12. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholder and benefits for other stakeholder and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholder, return capital to shareholder, issue new shares or sell assets to reduce debt.

The capital structure of the Company consists of equity attributable to the parent comprising stated capital, advances against equity and accumulated losses.

13. FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in United States dollars, which is the Company's functional and presentation currency.

14. PARENT AND ULTIMATE PARENT

GMR Energy (Mauritius) Limited, a company registered in Mauritius is regarded as the parent. GMR Infrastructure Limited, a company incorporated in India is regarded as the ultimate parent and controlling party.

15. EVENTS AFTER THE REPORTING DATE

There are no events after their reporting date which require amendments to and/or disclosure in these financial statements.