Registered No: 5138951

MEDOIL RESOURCES LIMITED

REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

MEDOIL RESOURCES LIMITED

Directors:

J McKniff
M J Watts
S J Thomson
J M Brown

Secretary:

D A Wood

Auditors:

Ernst & Young LLP
Blenheim House
Fountainhall Road
Aberdeen AB15 4DT

Solicitors:

Shepherd and Wedderburn LLP
1 Exchange Crescent
Conference Square
Edinburgh EH3 8UL

Registered Office:

5th Floor
Condor House
10 St Paul's Churchyard
London EC4M 8AL

Registered No:

5138951

MEDOIL RESOURCES LIMITED

Directors' Report

The directors present their report and financial statements for the year ended 31 December 2008.

Principal Activities and Business Review
The Company's principal activity is the exploration for oil and gas.

On 1 January 2008 the Company changed its presentation currency from Pounds Sterling (£) to US Dollars ($). During the year the Company made a profit of $1,799 (2007: loss of $18,083). No dividend has been paid or declared in respect of the year ended 31 December 2008 (2007: $nil).

Principal Risks and Uncertainties
The Company is subject to a variety of risks which derive from the nature of the oil and gas exploration business.

The Company's future depends significantly upon its success in finding or acquiring and developing oil and gas reserves. If the Company is unsuccessful, it would adversely affect the results of its operations and financial condition.

The cost of drilling, completing and operating wells is often uncertain. As a result, the Company may incur cost overruns or may be required to curtail, delay or cancel drilling operations because of many factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, adverse weather conditions, the need for compliance with environmental regulations, governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment.

Financial Instruments
For detail of the Company's financial risk management policy see note 13.

Directors
The Directors who held office during the year and subsequently are as follows:

J McKniff

J M Brown

S J Thomson

M J Watts

D Thomas (resigned 6 February 2008)

Charitable and Political Donations
The Company did not make any charitable or political contributions during the year (2007: nil).

Creditors Payment Policy
It is the Company's payment policy to ensure settlement of suppliers' services in accordance with the terms of the applicable contracts. In most circumstances, settlement terms are agreed prior to business taking place.

Disclosure of Information to Auditors
The directors of the Company who held office at 31 December 2008 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.

By Order of the Board

Duncan Wood

Secretary

5th Floor, Condor House
10 St Paul's Churchyard
London EC4M 8AL

28 September 2009

MEDOIL RESOURCES LIMITED

Directors' Responsibility Statement

The directors are responsible for preparing the Directors' Report and the Company financial statements in accordance with applicable United Kingdom law and those IFRSs as adopted by the EU.

The directors are required to prepare the Company financial statements for each financial year which present fairly the financial position of the Company and the financial performance and cash flows of the Company for that period. In preparing the Company financial statements, the directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirement in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- state that the Company have complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Company's financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MEDOIL RESOURCES LIMITED

We have audited the financial statements of MedOil Resources Limited for the year ended 31 December 2008 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes 1 to 16. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Directors' Responsibility Statement.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
Edinburgh

28 September 2009

MEDOIL RESOURCES LIMITED

Income Statement

For the year ended 31 December 2008

Continuing Operations	Notes	12 months to 31 December 2008 $	15 months to 31 December 2007 $
Administrative expenses		(3,136)	(17,973)
Impairment of Property Plant and Equipment		-	(2,373)
Operating loss	2	(3,136)	(20,346)
Finance income	4	5,849	2,487
Finance costs	5	(914)	(224)
Profit/(loss) before taxation		1,799	(18,083)
Taxation expense on profit/(loss)	6	-	-
Profit/(loss) for the year		1,799	(18,083)

MEDOIL RESOURCES LIMITED

Statement of Recognised Income and Expense

For the year ended 31 December 2008

	Notes	**12 months to 31 December 2008 $**	15 months to 31 December 2007 $
Income and expense recognised directly in equity			
Currency translation differences	12	**9,668**	144
Profit/(loss) for the year	12	**1,799**	(18,083)
Total recognised income and expense for the year	12	**11,467**	(17,939)

MEDOIL RESOURCES LIMITED
Balance Sheet
As at 31 December 2008

	Notes	2008 $	2007 $
Non-current assets			
Property, plant & equipment	7	-	-
		-	-
Current assets			
Trade and other receivables	8	**88**	218
Cash and cash equivalents	9	**165,834**	83,521
		165,922	83,739
Total assets		**165,922**	83,739
Current liabilities			
Trade and other payables	10	**192,902**	122,397
Total liabilities		**192,902**	122,397
Net liabilities		**(26,980)**	(38,658)
Called-up share capital	11	**6**	6
Share premium	12	**198,498**	198,498
Foreign currency translation reserve	12	**10,023**	144
Retained earnings	12	**(235,507)**	(237,306)
Total equity		**(26,980)**	(38,658)

Signed on behalf of the Board on 28 September 2009.

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Director

MEDOIL RESOURCES LIMITED

Statement of Cash Flows

For the year ended 31 December 2008

	Note	12 months to 31 December 2008 $	15 months to 31 December 2007 $
Cash flows from operating activities			
Profit/(loss) before taxation		**1,799**	(18,083)
Impairment of Property plant and equipment		**-**	2,373
Depreciation		**-**	1,640
Finance income		**(5,849)**	(2,487)
Finance costs		**914**	224
Foreign exchange differences		**9,880**	113
Trade and other receivables movement		**218**	(97)
Trade and other payables movement		**(2,643)**	(1,868)
Net cash generated used in operating activities		**4,319**	(18,185)
Cash flows from investing activities			
Interest received		**5,437**	2,487
Net cash from investing activities		**5,437**	2,487
Cash flows from financing activities			
Group borrowings		**73,060**	(40,585)
Bank charges		**(914)**	(224)
Net cash flows from/(used in) financing activities		**72,146**	(40,809)
Net increase/(decrease) in cash and cash equivalents		**81,902**	(56,507)
Opening cash and cash equivalents at beginning of year		**83,521**	140,028
Exchange gains on cash and cash equivalents		**411**	-
Closing cash and cash equivalents	9	**165,834**	83,521

1 Accounting Policies

a) Basis of preparation

The financial statements of MedOil Resources Limited ("the Company") for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the directors on 28 September 2009. The Company's ultimate parent company, Cairn Energy PLC, has confirmed it will make available sufficient funds to allow the Company to meet its liabilities as they fall due for the next twelve months. Hence these accounts have been prepared on a going concern basis. The Company is incorporated in England and Wales under the Companies Act 1985 and domiciled in the United Kingdom. The registered office is located at 5th Floor, Condor House, 10 St Paul's Churchyard, London EC4M 8AL.

The Company prepares its accounts on a historical cost basis. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the relevant accounting policy.

b) Accounting standards

The Company prepares its accounts in accordance with applicable International Financial Reporting Standards ("IFRS") as adopted by the EU. The Company's financial statements are also consistent with IFRS as issued by the International Accounting Standards Board ("IASB").

Relevant new standards and interpretations issued by the IASB, but not yet effective and not applied in these financial statements are as follows:

Title	Change to accounting policy	Date of adoption by Company	Impact on initial application
Effective date from 1 January 2009			
Revised IAS 23 'Borrowing Costs (Revised)'	May result in more borrowing costs being capitalised than current policy.	1 Jan 2009	Decrease in borrowing costs charged to the income statement, with corresponding increase in assets.
IAS 1 'Revised Presentation of Financial Statements'	No changes to current accounting policy.	1 Jan 2009	Presentation and disclosure requirements for certain items in the Income Statement.

No other IFRS as issued by the IASB which are not yet effective are expected to have an impact on the Company's financial statements.

c) Presentation currency

The functional currency of the Company is Pounds Sterling (£). On 1 January 2008 the Company changed its presentation currency from Pounds Sterling (£) to US Dollars ($), the functional currency of most companies within the Group. It is deemed to be more appropriate to present the financial statements inline with the functional currency of the majority of the Group.

The Company translated its balance sheet at 31 December 2007 at the balance sheet rate of £1 = $1.985, and translated its profit and loss account at the average rate ruling for the fifteen month period to 31 December 2007 of £1 = $2.001. The Company's policy on foreign currencies is detailed in note 1(i).

d) 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, un-depleted, within exploration/appraisal assets until such time as the exploration phase on the licence area is complete or commercial reserves have been discovered.

1 Accounting Policies (continued)

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

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.

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.

Depletion

The Company depletes separately, where applicable, any significant components within development/producing assets, such as fields, processing facilities and pipelines, which are significant in relation to the total cost of a development/producing asset.

The Company depletes expenditure on property, plant & equipment - development/producing assets on a unit of production basis, based on proved and probable reserves on a field by field basis. In certain circumstances, fields within a single development area may be combined for depletion purposes.

Impairment

Exploration/appraisal assets are reviewed regularly for indicators of impairment following the guidance in IFRS 6 'Exploration for and Evaluation of Mineral Resources' and tested for impairment where such indicators exist. In such circumstances the exploration asset is allocated to development/producing assets within the same operating segment and tested for impairment. Any impairment arising is recognised in the Income Statement for the year. Where there are no development/producing assets within an operating segment, the exploration/appraisal costs are charged immediately to the Income Statement.

Impairment reviews on development/producing assets are carried out on each cash-generating unit identified in accordance with IAS 36 'Impairment of Assets'. The Company's cash generating units are those assets which generate largely independent cash flows and are normally, but not always, single development areas.

At each reporting date, where there are indicators of impairment, the net book value of the cash generating unit is compared with the associated expected discounted future net cash flows. If the net book value is higher, then the difference is written off to the Income Statement as impairment. Discounted future net cash flows for IAS 36 purposes are calculated using an estimated short term oil price of $50/bbl and a long term oil price of $65/bbl (2007: short and long term of $60/bbl), or the appropriate gas price as dictated by the relevant gas sales contract, escalation for prices and costs of 3%, and a discount rate of 10% (2007: 3% and 10% respectively). Forecast production profiles are determined on an asset by asset basis, using appropriate petroleum engineering techniques.

1 Accounting Policies (continued)

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

Where there has been a charge for impairment in an earlier period that charge will be reversed in a later period where there has been a change in circumstances to the extent that the discounted future net cash flows are higher than the net book value at the time. In reversing impairment losses, the carrying amount of the asset will be increased to the lower of its original carrying value or the carrying value that would have been determined (net of depletion) had no impairment loss been recognised in prior periods.

e) Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment and depreciated over their expected useful economic lives as follows:

	Annual Rate (%)	Depreciation Method
Property, plant and equipment	10 - 33	straight line

f) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets are categorised as financial assets held at fair value through profit or loss, held-to-maturity investments, loans and receivables and available for sale financial assets. The Company holds financial assets that are classified as loans and receivables.

Financial liabilities generally substantiate claims for repayment in cash or another financial asset. Financial liabilities are categorised as either fair value through profit or loss or held at amortised cost. All of the Company's financial liabilities are held at amortised cost.

Financial instruments are generally recognised as soon as the Company becomes party to the contractual regulations of the financial instrument.

Loans and other receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted on an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Trade and other receivables are recognised when invoiced. Interest income is recognised by applying the effective interest rate, except for short term receivables where the recognition of interest would be immaterial.

The carrying amounts of loans and other receivables are tested at each reporting date to determine whether there is objective material evidence of impairment, for example overdue trade debt. Any impairment losses are recognised through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Income Statement or Balance Sheet in accordance with where the original receivable was recognised.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and short term deposits with an original maturity of three months or less.

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

Trade payables and other non derivative financial liabilities

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

g) Equity

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs, allocated between share capital and share premium.

1 Accounting Policies (continued)

h) Taxation

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

The current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Balance Sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred income tax liabilities are recognised for all taxable temporary differences except in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in Joint Ventures where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. A deferred income tax liability is not recognised if a temporary difference arises on initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, carry forward of unused tax assets and unused tax losses can be utilised, except where the deferred income tax asset relating to the deductible temporary timing difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in Joint Ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets are reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be utilised.

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 is settled, based on tax rates and laws enacted or substantively enacted at the Balance Sheet date.

Deferred tax assets and liabilities are only offset where they arise within the same entity and tax jurisdiction and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

i) Foreign currencies

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 foreign currency are translated into the functional currency at the rate of exchange prevailing at the Balance Sheet date. Exchange differences arising are taken to the Income Statement except for those incurred on borrowings specifically allocable to development projects, which are capitalised as part of the cost of the asset.

The Company maintains its accounts in the functional currency, £. The Company translates the accounts into the presentation currency, $, using the closing rate method for assets and liabilities which are translated into $ at the rate of exchange prevailing at the Balance Sheet date and rates at the date of transactions for Income Statement accounts. Exchange differences arising on the translation of net assets is taken directly to reserves.

j) Key estimations and assumptions

The Company has used estimates and assumptions in arriving at certain figures within the financial statements. The resulting accounting estimates may not equate with the actual results, which will only be known in time. Those areas believed to be key areas of estimation are noted below, with further details of the assumptions used listed at the relevant note.

Item	**Refer to:**
Impairment testing	1(d);1(f)

2 Operating Loss

a) Operating loss is stated after charging:

	12 months to 31 December 2008 $	15 months to 31 December 2007 $
Depreciation of property, plant & equipment	-	1,640
Impairment of property, plant & equipment	-	2,373

The Company has a policy in place for the award of non-audit work to the auditors which, in certain circumstances, requires approval by the Audit Committee of Cairn Energy PLC, the ultimate parent undertaking.

The Company's auditors' remuneration of $4,388 (2007: $8,777) has been borne by the intermediate holding company Capricorn Energy Limited. Auditors' remuneration for other services is disclosed in the financial statements of Cairn Energy PLC, the ultimate parent undertaking.

b) Continuing operations
All profits and losses in the current and preceding year were derived from continuing operations.

3 Directors' Emoluments

No remuneration was paid to directors for services to this Company during the year (2007: $nil).

4 Finance Income

	12 months to 31 December 2008 $	15 months to 31 December 2007 $
Bank interest	5,437	2,487
Exchange gain	412	-
	5,849	2,487

5 Finance Costs

	12 months to 31 December 2008 $	15 months to 31 December 2007 $
Bank charges	914	224
	914	224

6 Taxation on Profit/(Loss)

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

	2008 $	2007 $
Profit/(Loss) before taxation	**1,799**	(18,083)
Tax at the standard rate of UK corporation tax of 28.5% (2007: 30%)	**513**	(5,425)
Effects of:		
Non-taxable income / non-deductible expenses	**266**	-
Deferred tax movement not recognised	**576**	5,698
Group relief claimed	**(1,371)**	(678)
Other	**16**	405
Total tax charge	**-**	-

Finance Act 2007 reduced the UK main rate of tax from 30% to 28%. This reduction took effect from 1 April 2008 onwards, resulting in an averaged main rate of corporation tax of 28.5% for the period from 1 January to 31 December 2008, as shown above.

There was a deferred tax asset at 31 December 2008 of $49,604 (2007: $66,694) in relation to fixed asset timing differences and pre-trading expenditure. This asset has not been recognised as there is insufficient evidence that it will reverse in the foreseeable future. This asset will be recoverable if the Company generates sufficient taxable income in the future.

The movement during 2008 in the unrecognised deferred tax asset includes $17,666 of foreign exchange, which has had the effect of reducing the asset.

7 Property, Plant & Equipment

	Fixtures and Fittings $	Total $
Cost		
At 1 October 2006, 1 January 2008 and 31 December 2008	**6,513**	**6,513**
Depreciation		
At 1 October 2006	2,531	**2,531**
Charge for the year	1,640	**1,640**
Impairment charge for the year	2,373	**2,373**
Foreign exchange differences	(31)	**(31)**
At 1 January 2008	6,513	**6,513**
Charge for the year	-	-
At 31 December 2008	**6,513**	**6,513**
Net book value at 31 December 2008	**-**	**-**
Net book value at 31 December 2007	-	-
Net book value at 1 October 2006	3,982	3,982

MEDOIL RESOURCES LIMITED
Notes to the Accounts (continued)

8 Trade and Other Receivables

	31 December 2008	31 December 2007
	$	$
Amounts owed by group companies	**88**	-
Other debtors	**-**	218
	88	218

Amounts due from group companies are non-interest bearing.

As at 31 December, the ageing analysis of trade and other receivables is set out below:

	Total	**Current**	**< 30 days**	**30-60 days**	**60-90 days**	**90-120 days**	**>120 days**
	$	**$**	**$**	**$**	**$**	**$**	**$**
2008							
Neither past due nor impaired	**88**	88	-	-	-	-	-
As at 31 December 2008	**88**	**88**	-	-	-	-	-
2007							
Neither past due nor impaired	218	218	-	-	-	-	-
As at 31 December 2007	218	218	-	-	-	-	-

9 Cash and cash equivalents

	31 December 2008	31 December 2007
	$	$
Cash at bank	**165,834**	83,521

10 Trade and Other Payables

	31 December 2008	31 December 2007
	$	$
Trade payables	**6,619**	9,262
Amounts owed to group companies	**186,283**	113,135
	192,902	122,397

11 Share Capital

	Number of Shares	
	31 December 2008	31 December 2007
Authorised ordinary shares		
Ordinary shares of £1 each	**1,000**	1,000

Allotted, issued and fully paid ordinary shares	**31 December 2008 Number of shares**	**$**	31 December 2007 Number of shares	$
Ordinary shares of £1 each	**3**	**6**	**3**	6

12 Equity

	Equity Share Capital $	Share Premium $	Retained earnings $	Foreign currency translation reserve	Total Equity $
At 1 October 2006	6	198,498	(219,223)	-	(20,719)
Currency translation differences	-	-	-	144	144
Loss for the year	-	-	(18,083)	-	(18,083)
At 1 January 2008	6	198,498	(237,306)	144	(38,658)
Currency translation differences	-	-	-	9,879	9,879
Profit for the year	-	-	1,799	-	1,799
At 31 December 2008	**6**	**198,498**	**(235,507)**	**10,023**	**(26,980)**

13 Financial Risk Management: Objectives and Policies

The main risks arising from the Company's financial instruments are liquidity risk, interest rate risk, foreign currency risk and credit risk. The Board of Cairn Energy PLC ("the Board"), the ultimate parent company, reviews and agrees policies for managing each of these risks and these are summarised below:

The Company's treasury functions are managed by the treasury functions of Cairn Energy PLC and Capricorn Oil Limited. Local operational offices are responsible for managing liquidity and credit risk relating to instruments other than receivables for their respective businesses in accordance with the policy set by their Board. This is carried out by monitoring of investment and funding requirements by using a number of techniques including daily cash flow monitoring. They 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. Credit risk relating to receivables is managed by both the parent company and local management.

The primary financial instruments comprise cash, intra-group loans and other receivables and financial liabilities held at amortised cost. The Company's finance strategy is managed as part of a wider strategy undertaken by the Board for the various companies in the group – mainly to finance its operations through a mixture of retained profits and bank borrowings. Other alternatives like equity and other forms of non investment grade debt finance are reviewed by the Board, when appropriate, to fund substantial acquisitions or oil and gas projects.

Liquidity risk
The Company, through its intermediate holding company Capricorn Oil Limited, has access to the available cash balances of the Capricorn Oil Group. Subsequently, Capricorn Oil Limited has access, if so required, to the Cairn Energy PLC £30 million revolving credit facility to fund working capital, obtained on 28 March 2008. The facility is jointly provided by The Royal Bank of Scotland PLC and the Bank of Scotland PLC and expires on 31 January 2013. Interest is charged at floating rates determined by LIBOR plus an applicable margin. At 31 December 2008 £nil was drawn (2007: £nil).

In addition, the Company has access to the Capricorn Oil Limited facilities to cover the issue of bank guarantees. As at 31 December 2008 there were $35.0m (2007: $35.0m) of facilities in place to cover the issue of bank guarantees. Fixed rates of interest apply to these. $29.2m (2007: $28.8m) was unutilised at 31 December 2008.

The Board is conscious of the current environment and constantly monitors counterparty risk. Policies are in place to limit counterparty exposure. The treasury function monitors counterparties using published ratings and when investing in money market liquidity and mutual funds primarily by consideration of the funds investment policy.

Interest rate risk
Surplus funds are placed on short/medium term deposit at floating rates. It is Board's policy to deposit funds with banks or other financial institutions that offer the most competitive interest rate at time of issue. The requirement to achieve an acceptable yield is balanced against the need to minimise liquidity and counterparty risk.

13 Financial Risk Management: Objectives and Policies (continued)

Interest rate risk (continued)
Short/medium term borrowing arrangements are available at floating rates. The treasury function may from time to time opt to manage a proportion of the interest costs on this debt by using derivative financial instruments like interest rate swaps. At this time, however, there are no such instruments (2007: none).

Foreign currency risk
The Board manages exposures that arise from receipt of revenues in foreign currencies, 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, the functional currency.

In order to minimise the Company's exposure to foreign currency fluctuations, currency assets are matched with currency liabilities by borrowing or entering into foreign exchange contracts in the applicable currency if deemed appropriate. The loan facilities are multi-currency and allow drawings in currencies in US dollars, Sterling or such other currency as may be agreed between the lenders and the Company from time to time.

The Company reports in US dollars which, with most assets US dollar denominated, minimises the impact of foreign exchange movements on the Balance Sheet.

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.

Credit risk
Investments in money market liquidity funds are only made with AAA rated funds and where the investment policy is limited to liquidity instruments which excludes equity. Deposits and other investments are generally only placed with banks or financial institutions that has a Moody's or Standard & Poor's rating of AA and above.

The Board will continue to assess the Company's strategies for managing credit risks but at this time they view existing policies as satisfactory. 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 Board monitor the long term cash flow requirements of their businesses in order to assess the requirement for changes to the capital structure to meet that objective and to maintain flexibility.

The Board manages the capital structure and makes adjustments to it, in light of changes to economic conditions. To maintain or adjust the capital structure, the Board may adjust the dividend payment to shareholders, return capital, issue new shares for cash, repay debt, put in place new debt facilities or other such restructuring activities as appropriate.

No significant changes were made in the objectives, policies or processes during the period ended 31 December 2008.

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

	31 December 2008 $	31 December 2007 $
Trade and other payables	**192,902**	122,397
Less cash and cash equivalents	**(165,834)**	(83,521)
Net debt	**27,068**	38,876
Equity	**(26,980)**	(38,658)
Capital and net debt	**88**	218
Gearing ratio	**308%**	178%

14 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 December 2008 $	31 December 2007 $	**31 December 2008 $**	31 December 2007 $
Amounts owed by group companies	**88**	-	**88**	-
Cash and cash equivalents	**165,834**	83,521	**165,834**	83,521
Trade and other receivables	-	218	-	218
	165,922	83,739	**165,922**	83,739

All of the above financial assets are current and unimpaired. An analysis of the ageing of trade and other receivables is provided in note 8.

Financial liabilities	Carrying amount		Fair value	
	31 December 2008 $	31 December 2007 $	**31 December 2008 $**	31 December 2007 $
Trade and other payables	**192,902**	122,397	**192,902**	122,397
	192,902	122,397	**192,902**	122,397

The fair value of financial assets and liabilities has been calculated by discounting the expected future cash flows at prevailing interest rates.

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

At 31 December 2008

	Less than one year $	One to two years $	Two to three years $	Three to four years $	Four to five years $	More than five years $	**Total $**
Trade and other payables	192,902	-	-	-	-	-	**192,902**
	192,902	-	-	-	-	-	**192,902**

At 31 December 2007

	Less than one year $	One to two years $	Two to three years $	Three to four years $	Four to five years $	More than five years $	Total $
Trade and other payables	122,397	-	-	-	-	-	122,397
	122,397	-	-	-	-	-	122,397

15 Related Party Transactions

The following table provides the balances which are outstanding with group companies at the Balance Sheet date:

	At 31 December 2008 $	At 31 December 2007 $
Amounts owed by group companies	**88**	-
Amounts owed to group companies	**186,283**	113,135

The amounts outstanding are unsecured, repayable on demand and will be settled in cash. Interest, where charged, is at market rates. No guarantees have been given. All transactions with other Group companies are carried out on an arms length basis.

16 Ultimate Parent Company

The Company is a subsidiary of Capricorn Petroleum Limited. The Company's ultimate parent company is Cairn Energy PLC, registered in Scotland, whose principal place of business is at 50 Lothian Road, Edinburgh, EH3 9BY.

Copies of Cairn Energy PLC's financial statements are available to the public and may be obtained from the above mentioned address.