Registered No: 5220759

MEDOIL PLC

REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

MEDOIL PLC

Directors:

J M 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:

5220759

MEDOIL PLC

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 and development and production of oil and gas.

Consolidated accounts are not produced for the company and its wholly owned subsidiaries (detailed in note 10 to the accounts) as provided under the exemption in section 228(1) of the Company's Act 1985. The results of the company and its subsidiaries are included within the consolidated accounts of the ultimate parent undertaking, Cairn Energy PLC.

At the year end the Company carried out an impairment review of intangible exploration/appraisal assets and concluded that indicators of impairment did not exist.

On 1 January 2008 the Company changed its functional and presentation currency from Pounds Sterling to US Dollars ($). This change was made as the underlying transactions of the Company from this date onwards are predominantly in US Dollars. The results for 2007 have therefore been restated at the rate of exchange on 1 January 2008: (£1 to $1.985).

During the year the Company made a loss of $367,478 (2007: $3,284,906). 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 17.

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

J M McKniff

J M Brown

S J Thomson

M J Watts

D M 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.

MEDOIL PLC

Directors' Report (continued)

Resolutions

The Company has passed elective resolutions to dispense with the requirements to:-

- Lay accounts before the company's shareholders in annual general meeting
- Hold annual general meetings

By Order of the Board

Secretary

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

26 June 2009

MEDOIL PLC

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 PLC

We have audited the financial statements of medOil plc for the year ended 31 December 2008 which comprise the Income Statement, the Balance Sheet, the Statement of Cash Flows, the Statement of Recognised Income and Expense and the related notes 1 to 21. 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 loss 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
Aberdeen

26 June 2009

MEDOIL PLC

Income Statement

For the year ended 31 December 2008

Continuing Operations	Notes	12 months to 31 December 2008 $	15 months to 31 December 2007 (restated) $
Pre-exploration costs		(204,743)	-
Unsuccessful exploration costs		(60,483)	(1,268,429)
Gross profit		(265,226)	(1,268,429)
Administrative expenses		(203,294)	(2,122,686)
Operating loss	2	(468,520)	(3,391,115)
Finance income	5	104,736	106,209
Finance costs	6	(3,694)	-
Loss before taxation		(367,478)	(3,284,906)
Taxation expense on loss	7	-	-
Loss for the period		(367,478)	(3,284,906)

MEDOIL PLC

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 (restated) $
Income and expense recognised directly in equity			
Loss for the period	16	**(367,478)**	(3,284,906)
Total recognised income and expense for the period		**(367,478)**	(3,284,906)

MEDOIL PLC

Balance Sheet

As at 31 December 2008

	Notes	**2008** $	2007 (restated) $
Non-current assets			
Intangible exploration/appraisal assets	8	**14,138,236**	5,402,052
Property, plant & equipment - other	9	**87,289**	18,171
Investments	10	**6**	6
		14,225,531	5,420,229
Current assets			
Trade and other receivables	11	**15,485,523**	273,537
Cash and cash equivalents	12	**31,479**	365,988
		15,517,002	639,525
Total assets		**29,742,533**	6,059,754
Current liabilities			
Trade and other payables	13	**20,299,991**	1,379,734
Cash and cash equivalents	12	**1,709,082**	-
		22,009,073	1,379,734
Total liabilities		**22,009,073**	1,379,734
Net assets		**7,733,460**	4,680,020
Called-up share capital	14	**4,497,892**	1,076,974
Share premium	15	**9,004,168**	9,004,168
Retained earnings	16	**(5,768,600)**	(5,401,122)
Total equity		**7,733,460**	4,680,020

Signed on behalf of the Board on 26 June 2009

Director

MEDOIL PLC

Statement of Cash Flows

For the year ended 31 December 2008

	Notes	12 months to 31 December 2008	15 months to 31 December 2007 (restated)
		$	$
Cash flows from operating activities			
Loss before taxation		**(367,478)**	(3,284,906)
Unsuccessful exploration costs		**60,483**	1,268,429
Depreciation and amortisation		**15,393**	4,665
Finance income		**(104,736)**	(106,209)
Finance costs		**3,694**	-
Foreign exchange differences		**77,046**	-
Trade and other receivables movement		**(1,459,170)**	(60,118)
Trade and other payables movement		**(1,042,661)**	31,030
Net cash used in operating activities		**(2,817,429)**	(2,147,109)
Cash flows from investing activities			
Expenditure on intangible exploration/appraisal assets		**(8,052,355)**	(1,805,367)
Purchase of property, plant & equipment – other		**(84,511)**	(6,253)
Proceeds on disposal of property, plant & equipment – other		**769,714**	-
Interest received		**6,590**	82,080
Net cash used in investing activities		**(7,360,562)**	(1,729,540)
Cash flows from financing activities			
Proceeds from issue of shares		**3,420,918**	29,775
Capital contribution		**-**	1,578,075
Group borrowings		**4,624,967**	288,631
Bank charges		**(3,694)**	-
Net cash flows from financing activities		**8,042,191**	1,896,481
Net decrease in cash and cash equivalents		**(2,135,800)**	(1,980,168)
Opening cash and cash equivalents at beginning of period		**365,988**	2,346,156
Exchange gains on cash and cash equivalents		**92,209**	-
Closing cash and cash equivalents	12	**(1,677,603)**	365,988

1 Accounting Policies

a) Basis of preparation

The financial statements of medOil plc ("the Company") for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the directors on 26 June 2009. 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			
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

On 1 January 2008 the Company changed its functional and presentation currency from Pounds Sterling to US Dollars ($). This change was made as the underlying transactions of the Company from this date onwards are predominantly in US Dollars. The Pounds Sterling Balance Sheet and Profit and Loss account for the period to 31 December 2007 were restated on 1 January 2008 at the US Dollar rate of 1.985, being the US Dollar rate on 1 January 2008 and the average rate for the period to 31 December 2007.

The Company's policy on foreign currencies is detailed in note 1(j).

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.

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.

1 Accounting Policies (continued)

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

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.

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.

1 Accounting Policies (continued)

e) Property, plant and equipment – other

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
Fixtures and fittings and equipment	10 – 20	straight line
Motor vehicles	25 – 50	straight line

f) Investments

The Company's investments in subsidiaries are carried at cost less provisions resulting from impairment. The recoverable value of investments is the higher of its fair value less costs to sell and value in use. Value in use is based on the discounted future net cash flows of the oil and gas assets held by the subsidiary.

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.

g) 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.

1 Accounting Policies (continued)

h) 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.

i) 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.

j) 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.

1 Accounting Policies (continued)

k) Employee benefits

The cost of awards to employees under the Company's share warrants scheme, granted after 7 November 2002, are recognised over the vesting period of the warrants. The amount recognised is based on the fair value of the warrants as measured at the date of the award. The warrants are valued using the binomial model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The Income Statement charge or credit for a period represents the movement in cumulative expense as recognised at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The costs of awards to employees, in the form of cash but based on share performance (phantom options) are recognised over the period to which the performance relates. The amount recognised is based on the fair value of the liability arising from the transaction.

Termination benefits

The Company recognises a liability for termination benefits at the point where the Company is committed to making the payments in return for employee redundancy.

l) Joint Venture

The Company participated in several unincorporated Joint Ventures which involve the joint control of assets used in the Company's oil and gas exploration and producing activities. The Company accounts for its share of assets, liabilities, income and expenditure of Joint Ventures in which the Company holds an interest, classified in the appropriate Balance Sheet and Income Statement headings. The Company's principal licence interests are jointly controlled assets.

At the Balance Sheet date the Company has an interest in the following unincorporated Joint Venture:

	Working Interest
Louza	100%

m) 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); 1 (g)
Share based payments	3

2 Operating Loss

a) Operating loss is stated after charging:

	12 months to 31 December 2008	15 months to 31 December 2007 (restated)
	$	$
Unsuccessful exploration costs	60,483	1,268,429
Depreciation of property, plant & equipment – other	15,393	4,665

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 $8,777 (2007: $9,925) 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 Staff Costs

	12 months to 31 December 2008	15 months to 31 December 2007 (restated)
	$	$
Wages and salaries	145,479	499,803
Social security costs and other taxes	12,110	308,548
	157,589	808,351

The average number of full time equivalent employees, including executive directors, was:

	Number of employees	
	12 months to 31 December 2008	15 months to 31 December 2007
Directors	-	2
Administration	2	1
	2	3

Share warrants scheme
Under the share warrants scheme, certain directors had been granted warrants over the ordinary shares of the Company which vested between December 2005 and January 2006.

200,000 warrants were exercised on 21 September 2007. The remaining 10,600,000 warrants were cancelled on 10 October 2007, and a cash payment was made to the warrant holders in lieu of the warrants. This was triggered by the acquisition of the Company by Capricorn Petroleum Limited. The cash payment is based on the amount that would have been received by the holders if they had been exercised at the offer price of £0.23 per share. The payment was included by the acquiring company, Capricorn Petroleum Limited, in the acquisition price.

3 Staff Costs (continued)

Share warrants scheme (continued)

	Number of warrants 12 months to 31 December 2008	15 months to 31 December 2007
Outstanding at the beginning of the year	-	10,800,000
Exercised during the year	-	(200,000)
Cancelled during the year	-	(10,600,000)
Outstanding at the end of the year	-	-

The warrants had a three year vesting period. There were no conditions attached to the exercise of the warrants, other than continued employment with the Company during the vesting period. The warrants could be exercised up to 5 years from when they vested. All warrants had an exercise price of £0.075. All warrants exercised or cancelled during the period were at the acquisition offer share price of £0.23.

The fair value of the awards was calculated using a binomial model. The main inputs to the model included the number of warrants, volatility, trigger points and discount rate. There were no vesting or performance conditions attached to the warrants. The key assumptions were:

Volatility	101.45%
Lapse of warrants	0%
Trigger points	100% Share price increase – 50%
	No trigger – 50%
Risk free rate	4.2%

4 Directors' Emoluments

	12 months to 31 December 2008 $	15 months to 31 December 2007 (restated) $
Directors' emoluments (excluding pension contributions)	-	431,555
Emoluments of the highest paid director (including pension contributions of $nil (2007: $nil))	-	192,831

No remuneration was paid to directors for services to this Company during the year (2007: $431,555).

5 Finance Income

	12 months to 31 December 2008 $	15 months to 31 December 2007 (restated) $
Bank interest	6,590	82,080
Exchange gain	98,146	24,129
	104,736	106,209

6 Finance Costs

	12 months to 31 December 2008 $	15 months to 31 December 2007 (restated) $
Bank charges	3,694	-
	3,694	-

7 Taxation on Loss

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

	12 months to 31 December 2008 $	15 months to 31 December 2007 (restated) $
Loss before taxation	(367,478)	(3,284,906)
Tax at the standard rate of UK corporation tax of 28.5% (2007: 30%)	**(104,731)**	(985,471)
Effects of:		
Non taxable income/non-deductible expenses	**18,894**	156,420
Deferred tax movement not recognised	**110,013**	625,686
Group relief (claimed)/surrendered	**(26,138)**	81,929
Other	**1,962**	121,436
Total tax charge	-	-

There is a deferred tax asset of $1,810,130 as at 31 December 2008 (2007 (restated) $1,700,117) consisting of temporary differences on fixed assets, tax losses and pre-trade 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.

8 Intangible Exploration/Appraisal Assets

	Mediterranean assets $	**Total $**
Cost		
At 1 October 2006 (restated)	3,945,152	**3,945,152**
Additions	2,725,329	**2,725,329**
Unsuccessful exploration costs	(1,268,429)	**(1,268,429)**
At 1 January 2008 (restated)	5,402,052	**5,402,052**
Additions	9,566,381	**9,566,381**
Disposals	(769,714)	**(769,714)**
Unsuccessful exploration costs	(60,483)	**(60,483)**
At 31 December 2008	**14,138,236**	**14,138,236**
Net book value at 31 December 2008	**14,138,236**	**14,138,236**
Net book value at 31 December 2007 (restated)	5,402,052	5,402,052
Net book value at 1 October 2006 (restated)	3,945,152	3,945,152

Disposals during the year relate to the transfer of the Joni-5 licence at book value to Capricorn Albania Limited, another group Company.

9 Property, Plant & Equipment – Other

	Fixtures and Fittings $	Motor Vehicles $	Total $
Cost			
At 1 October 2006 (restated)	22,691	-	**22,691**
Additions	3,075	-	**3,075**
At 1 January 2008 (restated)	25,766	-	**25,766**
Additions	37,770	46,741	**84,511**
At 31 December 2008	**63,536**	**46,741**	**110,277**
Depreciation			
At 1 October 2006 (restated)	2,930	-	**2,930**
Charge for the year	4,665	-	**4,665**
At 1 January 2008 (restated)	7,595	-	**7,595**
Charge for the year	10,719	4,674	**15,393**
At 31 December 2008	**18,314**	**4,674**	**22,988**
Net book value at 31 December 2008	**45,222**	**42,067**	**87,289**
Net book value at 31 December 2007 (restated)	18,171	-	**18,171**
Net book value at 1 January 2007 (restated)	19,761	-	**19,761**

10 Investments

	Subsidiary undertakings $	Total $
Cost and net book value		
At 1 October 2006 (restated), 31 December 2007 (restated) and 31 December 2008	6	**6**

The Company's principal subsidiary as at the Balance Sheet date is set out below:-

	Principal activity	Country of incorporation	Country of operation	Proportion of voting rights and ordinary shares
Direct holdings				
medOil Resources Limited	Exploration	England and Wales	England	100%

11 Trade and Other Receivables

	31 December 2008 $	31 December 2007 (restated) $
Amounts owed by group companies	**657,870**	113,135
Other debtors	**1,424,758**	160,402
	2,082,628	273,537
Prepayments	**13,402,895**	-
	15,485,523	273,537

Amounts due from group companies are non-interest bearing.

11 Trade and Other Receivables (continued)

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	**1,830,959**	1,830,959	-	-	-	-	-
Past due but not impaired	**251,669**	-	-	-	-	2,012	249,657
As at 31 December 2008	**2,082,628**	**1,830,959**	-	-	-	**2,012**	**249,657**
2007 (restated)							
Neither past due nor impaired	273,537	273,537	-	-	-	-	-
As at 31 December 2007 (restated)	273,537	273,537	-	-	-	-	-

12 Cash and cash equivalents

	31 December 2008	31 December 2007 (restated)
	$	$
Cash at bank	**31,479**	365,988
Overdraft	**(1,709,082)**	-
	(1,677,603)	365,988

13 Trade and Other Payables

	31 December 2008	31 December 2007 (restated)
	$	$
Trade payables	**-**	985,449
Amounts owed to group companies	**5,556,399**	248,044
Other creditors and accruals	**89,029**	146,241
Joint Venture creditors and accruals	**14,654,563**	-
	20,299,991	1,379,734

14 Share Capital

	31 December 2008		31 December 2007	
	Number of shares	**$**	Number of shares	(restated) $
Authorised ordinary shares				
Ordinary shares of £0.01 each	**1,000,000,000**	**19,850,000**	**1,000,000,000**	19,850,000
Allotted, issued and fully paid ordinary shares				
Ordinary shares of £0.01 each	**276,450,856**	**4,497,892**	**54,255,556**	1,076,974

On 1 December 2008, 222,195,300 ordinary shares of £0.01 each fully paid were issued to Capricorn Petroleum Limited in settlement of a loan of $3,420,921 from that company.

14 Share Capital (continued)

On 21 September 2007, 200,000 ordinary shares of £0.01 each were issued at a price of £0.075 per share. Refer to note 3 for further details on the Share Scheme.

15 Share Premium

	$
At 1 October 2006 (restated)	**8,978,363**
Arising on shares issued for employee share options	**25,805**
At 31 December 2007 (restated) and 31 December 2008	**9,004,168**

16 Equity

	Equity Share Capital $	Share Premium $	Retained earnings $	**Total Equity $**
At 1 October 2006 (restated)	1,073,004	8,978,363	(3,694,291)	**6,357,076**
Issuance of share capital	3,970	25,805	-	**29,775**
Capital contribution	-	-	1,578,075	**1,578,075**
Loss for the period	-	-	(3,284,906)	**(3,284,906)**
At 1 January 2008 (restated)	1,076,974	9,004,168	(5,401,122)	**4,680,020**
Issuance of share capital	3,420,918	-	-	**3,420,918**
Loss for the year	-	-	(367,478)	**(367,478)**
At 31 December 2008	**4,497,892**	**9,004,168**	**(5,768,600)**	**7,733,460**

17 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 indirect 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).

17 Financial Risk Management: Objectives and Policies (continued)

Liquidity risk (continued)
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.

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 year ended 31 December 2008.

17 Financial Risk Management: Objectives and Policies (continued)

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

	31 December 2008 $	31 December 2007 (restated) $
Overdraft	**1,709,082**	-
Trade and other payables	**20,299,991**	1,379,734
Less cash and short term deposits	**(31,479)**	(365,988)
Net debt	**21,977,594**	1,013,746
Equity	**7,733,460**	4,680,020
Capital and net debt	**29,711,054**	5,693,766
Gearing ratio	**74%**	18%

18 Financial Instruments

The Company calculates the fair value of assets and liabilities by reference to amounts considered to be receivable or payable on the Balance Sheet date. The Company's financial assets and liabilities, together with their fair values are as follows:

Financial assets

	Carrying amount		Fair value	
	31 December 2008 $	31 December 2007 (restated) $	31 December 2008 $	31 December 2007 (restated) $
Cash and cash equivalents	**31,479**	365,988	**31,479**	365,988
Trade and other receivables	**2,082,628**	273,537	**2,082,628**	273,537
	2,114,107	639,525	**2,114,107**	639,525

An analysis of the ageing of trade and other receivables is provided in note 11.

Financial liabilities

	Carrying amount		Fair value	
	31 December 2008 $	31 December 2007 (restated) $	31 December 2008 $	31 December 2007 (restated) $
Overdraft	**1,709,082**	-	**1,709,082**	-
Trade payables	-	985,449	-	985,449
Amounts owed to group companies	**5,556,399**	248,044	**5,556,399**	248,044
Joint Venture creditors and accruals	**14,654,563**	-	**14,654,563**	-
	21,920,044	1,233,493	**21,920,044**	1,233,493

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

18 Financial Instruments (continued)

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 $**
Overdraft	1,709,082						**1,709,082**
Amounts owed to group companies	5,556,399	-	-	-	-	-	**5,556,399**
Joint Venture creditors and accruals	14,654,563	-	-	-	-	-	**14,654,563**
	21,920,044	-	-	-	-	-	**21,920,044**

At 31 December 2007 (restated)

	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 $
Amounts owed to group companies	248,044						248,044
Trade payables	985,449	-	-	-	-	-	985,449
	1,233,493	-	-	-	-	-	1,233,493

19 Capital Commitments

	31 December 2008	31 December 2007 (restated)
Oil and gas expenditure:	**$**	$
Intangible exploration/appraisal assets	**7,000,000**	45,449,108
	7,000,000	45,449,108

The above capital commitments represent the Company's share of obligations in relation to its interest in a Joint Venture.

20 Related Party Transactions

The Company's principal subsidiary is listed in note 10. 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 (restated) $
Amounts owed by group companies	**657,870**	113,135
Amounts owed to group companies	**5,556,399**	248,044

The amounts outstanding are unsecured, repayable on demand and will be settled in cash.

20 Related Party Transactions (continued)

a) Remuneration of key management personnel
The remuneration of directors, who are the key management personnel of the Company, is set out below in aggregate. Further information on the highest paid director is provided in note 4.

	12 months to 31 December 2008	15 months to 31 December 2007 (restated)
	$	$
Salary	-	420,808
Short term employee benefits	-	10,747
	-	431,555

No remuneration was paid to directors for services to this Company during the year (2007: $431,555).

b) Other transactions
During the year, the Company transferred the Joni-5 licence at book value to Capricorn Albania Limited, another group Company. This is included as a disposal of Intangible Exploration/Appraisal Assets – see note 6.

On 1 December 2008, 222,195,300 ordinary shares of £0.01 each fully paid were issued to Capricorn Petroleum Limited in settlement of a loan of $3,420,921 from that company.

On 21 September 2007, 200,000 ordinary shares of £0.01 each were issued at a price of £0.075 per share. Refer to note 3 for further details on the Share Scheme.

21 Ultimate Parent Company
The Company is a subsidiary of Capricorn Petroleum Limited. The Company's ultimate holding 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.