Registered No 5220759

MEDOIL PLC

REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

MEDOIL PLC

Directors

M J Watts
S J Thomson
J M Brown

Secretary

D A Wood

Auditors

Ernst & Young LLP
G1
5 George Square
Glasgow G2 1DY

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 2011

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 subsidiary (detailed in note 10 to the accounts) as provided under the exemption in section 400(1) of the Companies Act 2006 The results of the Company and its subsidiary are included within the consolidated accounts of the ultimate parent undertaking, Cairn Energy PLC

On 23rd January 2011, the Company was awarded a permit for 3 blocks offshore Spain – Albufera, Benifayó and Gandia

The Louza Permit was relinquished on 30 September 2010 The Company, as Contractor responsible for Exploration Operations under the PSC, completed an exploration well offshore Tunisia in the Louza block The M'Sela West 1 well reached a total depth of 2,555m in the Serdj formation Although minor evidence of light oil was observed, the expected Isis target reservoir was not developed in the well The well was plugged and abandoned without testing as these operations did not prove to be commercially viable

During the year the Company made a profit of $92,690 (2010 loss of $15 8m) mainly due to exchange gains and write back of certain unsuccessful costs which were accrued during 2010, however, not incurred in 2011 No dividend has been paid or declared in respect of the year ended 31 December 2011 (2010 $nil)

Events after the Balance Sheet date
On 3rd January 2012, the Company transferred all of its license interest in Spain to Capricorn Spain Limited at book value

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 Brown

S J Thomson

M J Watts

Charitable and Political Donations
The Company did not make any charitable or political contributions during the year (2010 $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

MEDOIL PLC
Directors' Report (continued)

Disclosure of Information to Auditors
The directors of the Company who held office at 31 December 2011 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
Duncan Wood
5th Floor, Condor House
10 St Paul's Churchyard
London EC4M 8AL
25 June 2012

MEDOIL PLC

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report and the Company's financial statements in accordance with applicable United Kingdom law and regulations Under that law, the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union

Under Company Law the directors must not approve the Company's financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Company for that period In preparing the Company's 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,
- make judgments that are reasonable,
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union 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 whether the Company's financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in financial statements

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that Company financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of Company and hence for taking reasonable steps for prevention and detection of fraud and other irregularities

Independent Auditor's Report

To the members of medOil plc (Registered No 5220759)

We have audited the financial statements of medOil Plc for the year ended 31 December 2011 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 21 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditor's 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the report and the financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Ian James McDowall (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Glasgow
25 June 2012

MEDOIL PLC

Income Statement

For the year ended 31 December 2011

Continuing Operations	Notes	2011 $	2010 $
Unsuccessful exploration costs		**90,947**	(15,943,928)
Administrative expenses		**(28,102)**	(14,089)
Operating profit/(loss)	2	**62,845**	(15,958,017)
Finance income	5	**29,845**	120,694
Finance costs	6	**-**	(103)
Profit/(loss) before taxation		**92,690**	(15,837,426)
Taxation	7	**-**	-
Profit/(loss) for the year		**92,690**	(15,837,426)

Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 $	2010 $
Profit/(loss) for the year	**92,690**	(15,837,426)
Total comprehensive income for the year	**92,690**	(15,837,426)

MEDOIL PLC
Balance Sheet
As at 31 December 2011

	Notes	2011 $	2010 $
Non-current assets			
Intangible exploration/appraisal assets	8	**796,698**	-
Investments	10	**6**	6
		796,704	6
Current assets			
Trade and other receivables	11	**2,388,206**	3,132,201
Cash and cash equivalents	12	**342,927**	89,891
		2,731,133	3,222,092
Total assets		**3,527,837**	3,222,098
Current liabilities			
Trade and other payables	13	**26,749,195**	26,536,146
Total liabilities		**26,749,195**	26,536,146
Net liabilities		**(23,221,358)**	(23,314,048)
Called-up share capital	14	**4,497,892**	4,497,892
Share premium	15	**9,004,168**	9,004,168
Retained earnings		**(36,723,418)**	(36,816,108)
Total equity		**(23,221,358)**	(23,314,048)

Signed on behalf of the Board on 25 June 2012

Jann Brown
Director
Registered Company Number 5220759

MEDOIL PLC

Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 $	2010 $
Cash flows from operating activities			
Profit/(loss) before taxation		**92,690**	(15,837,426)
Unsuccessful exploration costs		**(90,947)**	15,943,928
Depreciation and amortisation		**-**	24,095
Finance income		**(29,845)**	(120,694)
Finance costs		**-**	103
Trade and other receivables movement		**123,876**	(7,249)
Trade and other payables movement		**(76,095)**	2,870
Net cash from operating activities		**19,679**	5,627
Cash flows from investing activities			
Expenditure on intangible exploration/appraisal assets		**(763,673)**	(17,779,022)
Purchase of property, plant & equipment – other		**-**	(30,617)
Proceeds on disposal of intangible exploration/appraisal assets		**-**	500,000
Interest received		**4,060**	-
Net cash used in investing activities		**(759,613)**	(17,309,639)
Cash flows from financing activities			
Group borrowings		**1,001,953**	17,423,805
Bank charges		**-**	(103)
Net cash flows from financing activities		**1,001,953**	17,423,702
Net increase in cash and cash equivalents		**262,019**	119,690
Opening cash and cash equivalents at beginning of year		**89,891**	50,030
Exchange losses on cash and cash equivalents		**(8,983)**	(79,829)
Closing cash and cash equivalents	12	**342,927**	89,891

MEDOIL PLC

Statement of Changes in Equity

For the year ended 31 December 2011

	Equity Share Capital $	Share Premium $	Retained earnings $	**Total Equity $**
At 1 January 2010	4,497,892	9,004,168	(20,978,682)	**(7,476,622)**
Loss for the year	-	-	(15,837,426)	**(15,837,426)**
Total comprehensive income for the year	-	-	(15,837,426)	**(15,837,426)**
At 1 January 2011	4,497,892	9,004,168	(36,816,108)	**(23,314,048)**
Profit for the year	-	-	92,690	**92,690**
Total comprehensive income for the year	-	-	92,690	**92,690**
At 31 December 2011	**4,497,892**	**9,004,168**	**(36,723,418)**	**(23,221,358)**

1 Accounting Policies

a) Basis of preparation

The financial statements of medOil plc ("the Company") for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the directors on 25 June 2011 The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on page 2 The financial position of the Company, its cash flows, liquidity position and borrowing facilities are presented in the financial statements and supporting notes In addition, note 17 to the financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit risk and liquidity risk

Although the Company holds net liabilities as at 31 December 2011, 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 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") as they apply to accounting periods ended 31 December 2011

For the year ending 31 December 2011, the Company has adopted the following standards and interpretations

Title	Change to accounting treatment	Impact on initial application
IAS 1 'Presentation of Financial Statements' (amendment)	Presentational changes to the financial statements	Additional disclosures given in the Statement of Changes in Equity for individual components of total comprehensive income
IAS 24 'Related Party Transactions' (amendment)	Clarity on the definition of a related party and exemption from general related party disclosure requirements for transactions with Governments	No impact on the financial position or performance of the Company
IAS 32 'Financial Instruments Presentation ' (amendment)	Enables entities to classify rights issues and certain options or warrants as equity instruments	No impact on the financial position or performance of the Company

The following interpretations and amendments to interpretations which were issued by the IASB have no impact on the accounting policies, financial position or performance of the Company

- IFRIC 13 'Customer Loyalty Programmes',
- IFRIC 14 'Prepayments of a Minimum Funding Requirement' (amendment),
- IFRIC 17 'Distributions of Non-cash Assets to Owners', and
- IFRIC 19 'Extinguishment of Financial Liabilities with Equity Instruments'

The following new standards and interpretations, which are not yet effective and which are not expected to impact on the Company's financial position or performance, have been issued by the IASB

- IFRS 9 'Financial Instruments Classification and Measurement',
- IFRS 10 'Consolidated Financial Statements',
- IFRS 11 'Joint Ventures',
- IFRS 12 'Disclosure of Interest in Other Entities',
- IFRS 13 'Fair Value Measurement' ,
- IAS 1 'Presentation of items in Other Comprehensive Income' ,
- IAS 12 'Income Taxes (amendment) 'Deferred Taxes Recovery of underlying assets', and
- IAS 19 'Employee Benefits (Revised)'

1 Accounting Policies (continued)

b) Accounting standards (continued)

For the year ending 31 December 2011, the Company has adopted the following amendments to standards which resulted through the IASB's annual 'Improvements to IFRS' There was no impact on the accounting policies, financial position or performance of the Company as a result of these changes

- IFRS 7 'Financial Instruments – Disclosures', and
- IAS 27'Consolidated and separate Financial Statements'

c) Functional currency

The functional currency of the Company is US Dollars ('$') The Company's policy on foreign currencies is detailed in note 1(k)

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 intangible 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 oil and gas exploration targets is capitalised initially within intangible 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 intangible exploration/appraisal costs are transferred into a single field cost centre within property, plant & equipment - development/producing assets after testing for impairment (see below) Where results of exploration drilling indicate the presence of hydrocarbons which are ultimately not considered commercially viable, all related costs are written off to the Income Statement

Impairment

Intangible 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/appraisal asset is allocated to property, plant & equipment - 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

At the year end or prior to the intangible exploration/appraisal assets being transferred to assets held-for-sale, the Company reviews intangible/exploration assets for indicators of impairment Where an indicator is identified, the asset is tested for impairment

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 – 33	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 development or producing oil and gas assets held by the subsidiary, or by using estimated cash flow projections over the licence period of the exploration assets of the subsidiary, risk-weighted for future exploration success where no development/producing assets exist

Discounted future net cash flows for IAS 36 purposes are calculated using an estimated short and long-term oil price of $85/bbl (2010 short and long-term oil price of $75/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 7% (2010 3% and 7% respectively)

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 which are classified as either available for sale financial assets or loans and receivables, with the exception of derivative financial instruments which are held at fair value through profit or loss

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, with the exception of derivative financial instruments which are held at fair value through profit or loss

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

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

1 Accounting Policies (continued)

k) 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

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

The Louza Permit was relinquished on 30 September 2010 The Company, as Contractor responsible for Exploration Operations under the PSC, completed an exploration well offshore Tunisia in the Louza block The M'Sela West 1 well reached a total depth of 2,555m in the Serdj formation Although minor evidence of light oil was observed, the expected Isis target reservoir was not developed in the well The well was plugged and abandoned without testing as these operations did not prove to be commercially viable

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

Impairment testing

The Company has reviewed exploration/appraisal assets for indicators of impairment and has concluded that no such indicators of impairment existed at the year end

2 Operating Profit

a) Operating profit/(loss) is stated after charging.

	2011	2010
	$	$
Unsuccessful exploration costs	**(90,947)**	15,943,928
Depreciation of property, plant & equipment – other	-	24,095

The Company's auditors' remuneration of $9,624 (2010 $9,278) 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

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

3 Staff Costs

	2011	2010
	$	$
Wages and salaries	-	398,496
Social security costs and other taxes	-	74,143
	-	472,639

The staff costs shown above are gross before amounts recharged to Joint Ventures

3 Staff Costs (continued)

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

	Number of employees 2011	2010
Administration	3	4
	3	4

4 Directors' Emoluments

The directors of the Company are also directors of other companies of Cairn Energy PLC Group The directors received remuneration for the year of $3 8m (2010 $3 3m) and pension contributions of $0 3m (2010 $0 3m), some of which was paid by its ultimate parent company and rest by intermediary parent company, Capricorn Energy Limited The directors do not believe that it is practicable to apportion this amount between their services as directors of the Company and their services as directors of other companies of Cairn Energy PLC Group

5 Finance Income

	2011 $	2010 $
Bank interest	4,060	-
Exchange gain	25,785	120,694
	29,845	120,694

6 Finance Costs

	2011 $	2010 $
Bank charges	-	103
	-	103

7 Taxatıon

A reconcılıatıon of ıncome tax expense applıcable to loss before ıncome tax at the applıcable tax rate to ıncome tax expense at the Company's effectıve ıncome tax rate ıs as follows

	2011 $	2010 $
Profit/(loss) before taxatıon	**92,690**	(15,837,426)
Tax at the standard rate of UK corporatıon tax of 26 49% (2010 28%)	**24,554**	(4,434,479)
Effects of:		
Non taxable ıncome/non-deductıble expenses	**(17,913)**	-
Deferred tax movement not recognısed	**(591,206)**	4,434,479
Impact of reductıon ın UK rate of corporatıon tax to 25%	**(373)**	-
Adjustment to prıor perıod	**584,938**	-
Total tax charge	**-**	-

Fınance Act 2010 announced that the UK maın rate of corporatıon tax would reduce from 28% to 27% wıth effect from 1 Aprıl 2011 onwards, Fınance Act 2011 further reduced thıs rate to 26% The UK maın rate of corporatıon tax, therefore, was 28% prıor to 1 Aprıl 2011, and 26% from that date onwards Fınance Act 2011 also announced that the UK maın rate of corporatıon tax would reduce from 26% to 25% from 1 April 2012 onwards

The Government has now proposed further reductıons ın the corporatıon tax rate, as announced ın the Budget at 21 March 2012 The maın rate of corporatıon tax wıll now be reduced to 24% from 1 Aprıl 2012 and decreased by a further 1% each Aprıl thereafter, untıl the rate reaches 22% wıth effect from 1 Aprıl 2014

The reductıon ın the tax rate from 28% to 26% from 1 Aprıl 2011 onwards has resulted ın an averaged rate of corporatıon tax of 26 49% for the year ended 31 December 2011, as shown above The 2011 deferred tax movement not recognısed ıs based on a rate, for deferred tax purposes, of 25% (2010 27%) beıng the rate enacted, or substantıvely enacted, at the perıod end

There was a deferred tax asset of $507,646, $66,934 and $8,370,752 as at 31 December 2011 (2010 $556,316, $71,000, $9,672,145) relatıng to excess expenses of management, pre-tradıng expenses and exploratıon costs respectıvely The reductıon ın the UK maın rate of corporatıon tax applyıng to these deferred tax assets reduced theır brought forward value by $762,923 These assets have not been recognısed as there ıs ınsuffıcıent evıdence that they wıll reverse ın the foreseeable future The deferred tax assets wıll be recoverable ıf the Company generates suffıcıent taxable ıncome ın the future

8 Intangible Exploration/Appraisal Assets

	Mediterranean assets $	Total $
Cost		
At 1 January 2010	-	-
Additions	16,443,928	**16,443,928**
Disposals	(500,000)	**(500,000)**
Unsuccessful exploration costs	(15,943,928)	**(15,943,928)**
At 1 January 2011	-	-
Additions	705,751	**705,751**
Unsuccessful exploration costs	90,947	**90,947**
At 31 December 2011	**796,698**	**796,698**
Net book value at 31 December 2011	**796,698**	**796,698**
Net book value at 31 December 2010	-	-
Net book value at 1 January 2010	-	-

On 23rd January 2011, the Company was awarded a permit for 3 blocks offshore Spain – Albufera, Benifayó and Gandia The balance of $796,698 represents spend relating to the blocks referred to above

The Louza Permit was relinquished on 30 September 2010 The Company, as Contractor responsible for Exploration Operations under the PSC, completed an exploration well offshore Tunisia in the Louza block The M'Sela West 1 well reached a total depth of 2,555m in the Serdj formation Although minor evidence of light oil was observed, the expected Isis target reservoir was not developed in the well The well was plugged and abandoned without testing as these operations did not prove to be commercially viable As a result, costs of $15 9m were charged to unsuccessful exploration costs in 2010

During 2011, the Company had a credit to unsuccessful efforts of $90,947 as some of the costs accrued as at 31 December 2010 were reversed in 2011

During 2010, inventory of $500,000 held by the Company in Intangible exploration assets was transferred at book value to Capricorn Oil & Gas Tunisia GmbH, a group company

9 Property, Plant & Equipment – Other

	Fixtures and Fittings $	Motor Vehicles $	Total $
Cost			
At 1 January 2010	69,692	46,741	116,433
Additions	30,617	-	**30,617**
Transfer/Disposals	(100,309)	(46,741)	**(147,050)**
At 31 December 2010 and 31 December 2011	-	-	-
Depreciation			
At 1 January 2010	39,674	15,580	55,254
Charge for the year	15,331	8,764	**24,095**
Transfers/Disposals	(55,005)	(24,344)	**(79,349)**
At 31 December 2010 and 31 December 2011	-	-	-
Net book value at 31 December 2011	-	-	-
Net book value at 31 December 2010	-	-	-
Net book value at 1 January 2010	30,018	31,161	61,179

During the year 2010, the Company transferred the following assets at their net book values to group companies

- Fixed assets with a net book value of $59,574 to Capricorn Oil and Gas Tunisia GmbH
- Fixed assets with a net book value of $8,127 to Capricorn Energy

10 Investments

	Subsidiary undertaking $	Total $
Cost and net book value		
At 31 December 2010 and 2011	6	**6**

The Company's 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	Scotland	100%

11 Trade and Other Receivables

	31 December 2011 $	31 December 2010 $
Amounts owed by group companies	**2,336,512**	2,553,710
Other debtors	-	115,262
Joint Venture debtors	**51,694**	463,229
	2,388,206	3,132,201

Amounts due from group companies are non-interest bearing

During the year, the Company wrote off $23,315 which was due from its subsidiary, medOil Resources Limited This company is in the process of liquidation as at the date of signing

The ageing analysis of trade and other receivables excluding prepayments, is set out below

31 December 2011

	Total $	Current $	< 30 days $	30-60 days $	60-90 days $	90-120 days $	>120 days $
Neither past due nor impaired	2,388,206	2,388,206	-	-	-	-	-
As at 31 December 2011	**2,388,206**	**2,388,206**	-	-	-	-	-

31 December 2010

	Total $	Current $	< 30 days $	30-60 days $	60-90 days $	90-120 days $	>120 days $
Neither past due nor impaired	3,132,201	3,132,201	-	-	-	-	-
As at 31 December 2010	3,132,201	3,130,775	-	-	-	-	-

12 Cash and cash equivalents

	31 December 2011 $	31 December 2010 $
Cash at bank	**342,927**	89,891

13 Trade and Other Payables

	31 December 2011 $	31 December 2010 $
Trade payables	-	6,067
Amounts owed to group companies	**26,749,195**	25,989,723
Other taxation and social security	-	66,041
Joint Venture creditors	-	113,479
Accruals	-	4,857
Joint Venture accruals	-	355,979
	26,749,195	26,536,146

14 Share Capital

Authorised ordinary shares	1p Ordinary Shares Number of shares
Ordinary shares of £0 01 each	1,000,000,000
At 31 December 2010 and 2011	**1,000,000,000**

Allotted, issued and fully paid ordinary shares	1p Ordinary Shares Number of shares	1p Ordinary Shares $
At 31 December 2010 and 2011	**276,450,856**	**4,497,892**

15 Share Premium

	31 December 2011 $	31 December 2010 $
Share Premium	**9,004,168**	9,004,168

16 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 the Company's ultimate parent company, Cairn Energy PLC, reviews and agrees policies for managing each of these risks and these are summarised below

The Company's treasury functions at Cairn Energy PLC and local operational offices are responsible for managing these risks, in accordance with the policies set by the Board Management of these risks is carried out by monitoring of cash flows, investment and funding requirements using a variety of techniques These potential exposures are managed whilst ensuring that the Company has adequate liquidity at all times in order to meet its immediate cash requirements There are no significant concentrations of risks unless otherwise stated

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

16 Financial Risk Management Objectives and Policies (continued)

Liquidity risk

On 15 December 2010, the Company's ultimate parent undertaking, Cairn Energy PLC, entered into a stand-by secured revolving credit facility of $900m to extend the working capital available, to enable commitments to be made for the 2011 Greenland drilling campaign and for other general corporate purposes The facility was provided by Standard Chartered Bank, Bank of Scotland Plc, Crédit Agricole Corporate and Investment Bank, HSBC Bank PLC and Société Generale Security was in the form of a pledge over a number of shares in Cairn UK Holdings Limited Interest was charged at floating rates determined by LIBOR plus an applicable margin The facility was cancelled and repaid in full on 1 August 2011

At December 2011 Cairn Energy PLC Group had $35m of facilities in place to cover the issue of performance guarantees Fixed rates of bank commission and charges applied to these $2 6m was utilised as at 31 December 2011

The Cairn Energy PLC Group currently has surplus cash which it has placed in a combination of money market liquidity funds and term deposits with a number of international financial institutions, ensuring sufficient liquidity to enable the Group to meet its short/medium-term expenditure requirements The Group is conscious of the current environment and constantly monitors counterparty risk Policies are in place to limit counterparty exposure and maturity The Group monitors counterparties using published ratings and other measures Repayment of principal is the overriding priority and this is achieved by diversification and shorter maturities to provide flexibility

Interest rate risk

Surplus funds are placed on short/medium-term deposits at floating rates It is Group policy to invest with banks or other financial institutions that first of all offer what is perceived as the greatest security and, second, the most competitive interest rate Managing counterparty risk is considered the priority

Short/medium-term borrowing arrangements are generally entered into at floating rates From time to time the Group may opt to manage a proportion of the interest costs by using derivative financial instruments like interest rate swaps At this time, however, there are no such instruments (2010 none)

Foreign currency risk

The Company manages exposures that arise from non-functional currency receipts and payments by matching receipts and payments in the same currency and actively managing the residual net position

Where residual net exposures do exist and they are considered significant the Company may from time to time, opt to use derivative financial instruments to minimise its exposure to fluctuations in foreign exchange and interest rates

Credit risk

Investment credit risk for investments with banks and other financial institutions is managed by the Group Treasury function in accordance with the Board approved policies of Cairn Energy PLC Investments of surplus funds are only made with approved counterparties who meet the appropriate rating and/or other criteria, and are only made within approved limits The Board continually re-assesses the Group's policy and updates as required The limits are set to minimise the concentration of risks and therefore mitigate financial loss through counterparty failure

Cairn Energy PLC Group limits the placing of deposits, certificates of deposit and other investments to banks or financial institutions that have at least 2 A- or above ratings from Moody's, Standard & Poor's or Fitch unless a Sovereign Guarantee is available from an AAA rated Government The counterparty limits vary between $50m and $200m depending on the ratings of the counterparty During the period, following the receipt of the proceeds of the 30% tranche of the 40% sale of Cairn India Limited, until the completion of the return of cash to Shareholders, these limits were increased to $100m/$400m per counterparty No investments are placed with any counterparty with a 5 year CDS exceeding 250 bps Investments in money market liquidity funds are only made with AAA rated liquidity funds and the maximum holding in any single fund is 5% of total investments

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

17 Financial Risk Management Objectives and Policies (continued)

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 Group monitors the long-term cash flow requirements of the business in order to assess the requirement for changes to the capital structure to meet that objective and to maintain flexibility

The 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 2011

The Company's capital and net debt were made up as follows

	31 December 2011 $	31 December 2010 $
Trade and other payables	**26,749,195**	26,536,146
Less cash and cash equivalents	**(342,927)**	(89,891)
Net debt	**26,406,268**	26,446,255
Equity	**(23,221,357)**	(23,314,048)
Capital and net debt	**3,187,911**	3,132,207
Gearing ratio	**829%**	844%

MEDOIL PLC
Notes to the Accounts (continued)

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 2011 $	31 December 2010 $	**31 December 2011 $**	31 December 2010 $
Cash and cash equivalents	**342,927**	89,891	**342,927**	89,891
Other debtors	**-**	115,262	**-**	115,262
Joint Venture debtors	**51,694**	462,229	**51,694**	462,229
Amounts owed by group companies	**2,336,512**	2,553,710	**2,336,512**	2,553,710
	2,731,133	3,221,092	**2,731,133**	3,221,092

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

Financial liabilities	Carrying amount		Fair value	
	31 December 2011 $	31 December 2010 $	**31 December 2011 $**	31 December 2010 $
Trade payables	**-**	6,067	**-**	6,067
Amounts owed to group companies	**26,749,195**	25,989,723	**26,749,195**	25,989,723
Joint Venture creditors	**-**	113,479	**-**	113,479
	26,749,195	26,109,269	**26,749,195**	26,109,269

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 2011

	Total $	Less than one year $	One to two years $	Two to three years $	Three to four years $	Four to five years $	More than five years $
Amounts owed to group companies	**26,749,195**	26,749,195	-	-	-	-	-
	26,749,195	**26,749,195**	-	-	-	-	-

At 31 December 2010

	Total $	Less than one year $	One to two years $	Two to three years $	Three to four years $	Four to five years $	More than five years $
Trade payables	6,067	6,067	-	-	-	-	-
Amounts owed to group companies	25,989,723	25,989,723	-	-	-	-	-
Joint Venture creditors	113,479	113,479	-	-	-	-	-
	26,109,269	26,109,269	-	-	-	-	-

19 Related Party Transactions

The Company's subsidiary is listed in note 10 The following table provides the balances which are outstanding with group companies at the Balance Sheet date

	31 December 2011 $	31 December 2010 $
Amounts owed by group companies	**2,336,512**	2,553,710
Amounts owed to group companies	**(26,749,195)**	(25,989,723)
	(24,412,683)	(23,436,013)

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

During the year, the Company wrote off some of the debts due by its subsidiary, medOil Resrouces Limited See note 11 for further details

During 2010, the Company transferred the following assets at their net book values to group companies

- Fixed assets with a net book value of $59,574 to Capricorn Oil and Gas Tunisia GmbH
- Fixed assets with a net book value of $8,127 to Capricorn Energy
- Inventory which were held in intangible exploration assets with a net book value of $500,000 to Capricorn Oil and Gas Tunisia GmbH

b) Remuneration of key management personnel

The remuneration of directors, who are the key management personnel of the Company, is set out in Note 4 Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report included in the ultimate parent company's annual accounts on pages 80 to 87

20 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

21 Events after the Balance Sheet date

On 3rd January 2012, the Company transferred the three permits - Albufera, Benifayó and Gandía to Capricorn Spain Limited at book value

The Company's subsidiary, medOil Resources Limited is in the process of liquidation as at the date of signing the accounts