Registered No 5220759

MEDOIL PLC

REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

MEDOIL PLC

Directors

J M McKniff
M J Watts
S J Thomson
J M Brown

Secretary

D A Wood

Auditors

Ernst & Young LLP
Ten George Street
Edinburgh EH2 2DZ

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 2009

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 Company's Act 2006 The results of the company and its subsidiary are included within the consolidated accounts of the ultimate parent undertaking, Cairn Energy PLC

During the year the Company made a loss of $15,210,082 (2008 $367,478) due to $15,083,590 being written off as unsuccessful exploration costs in relation to the Louza licence (for a detailed note, refer to note 8) No dividend has been paid or declared in respect of the year ended 31 December 2009 (2008 $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

Charitable and Political Donations
The Company did not make any charitable or political contributions during the year (2008 $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 2009 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

Susan Wood

Secretary

5th Floor, Condor House
10 St Paul's Churchyard
London EC4M 8AL
29 June 2010

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 confirm that they have complied with the above requirements in preparing the financial statements

Each of the directors, whose names are listed in on page 3 confirms to the best of his/her knowledge that

- The financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and
- The Directors Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces

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 2006 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 (Registered No: 5220759)

We have audited the financial statements of medOil plc the year ended 31 December 2009 which comprises 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 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 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 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
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 the financial statements in accordance with applicable law and International Standards on Auditing (UK & 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

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 2009 and of its loss 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
29 June 2010

MEDOIL PLC
Income Statement
For the year ended 31 December 2009

Continuing Operations	Notes	2009 $	2008 $
Pre-award costs		**6,379**	(204,743)
Unsuccessful exploration costs		**(15,083,590)**	(60,483)
Gross loss		**(15,077,211)**	(265,226)
Administrative expenses		**556**	(203,294)
Operating loss	2	**(15,076,655)**	(468,520)
Finance income	5	**1,749**	104,736
Finance costs	6	**(135,176)**	(3,694)
Loss before taxation		**(15,210,082)**	(367,478)
Taxation	7	**-**	-
Loss for the year		**(15,210,082)**	(367,478)

MEDOIL PLC
Statement of Comprehensive Income
For the year ended 31 December 2009

	2009 $	2008 $
Loss for the year	**(15,210,082)**	(367,478)
Total comprehensive income for the year	**(15,210,082)**	(367,478)

MEDOIL PLC
Balance Sheet
As at 31 December 2009

	Notes	2009 $	2008 $
Non-current assets			
Intangible exploration/appraisal assets	8	-	14,138,236
Property, plant & equipment - other	9	61,179	87,289
Investments	10	6	6
		61,185	14,225,531
Current assets			
Trade and other receivables	11	2,960,975	15,485,523
Cash and cash equivalents	12	50,030	31,479
		3,011,005	15,517,002
Assets held-for-sale	13	1,500,900	-
Total assets		4,573,090	29,742,533
Current liabilities			
Trade and other payables	14	12,049,712	20,299,991
Cash and cash equivalents	12	-	1,709,082
Total liabilities		12,049,712	22,009,073
Net (liabilities)/ assets		(7,476,622)	7,733,460
Called-up share capital	15	4,497,892	4,497,892
Share premium	16	9,004,168	9,004,168
Retained earnings		(20,978,682)	(5,768,600)
Total equity		(7,476,622)	7,733,460

Signed on behalf of the Board on 29 June 2010

Director

MEDOIL PLC
Statement of Cash Flows
For the year ended 31 December 2009

	Notes	2009 $	2008 $
Cash flows from operating activities			
Loss before taxation		**(15,210,082)**	(367,478)
Unsuccessful exploration costs		**15,083,590**	60,483
Depreciation and amortisation		**32,266**	15,393
Finance income		**(1,749)**	(104,736)
Finance costs		**135,176**	3,694
Foreign exchange differences		**-**	77,046
Trade and other receivables movement		**164**	(1,459,170)
Trade and other payables movement		**(4,762)**	(1,042,661)
Net cash from/(used) in operating activities		**34,603**	(2,817,429)
Cash flows from investing activities			
Expenditure on intangible exploration/appraisal assets		**(154,729)**	(8,052,355)
Purchase of property, plant & equipment – other		**(6,156)**	(84,511)
Proceeds on disposal of property, plant & equipment – other		**-**	769,714
Interest received		**1,749**	6,590
Net cash used in investing activities		**(159,136)**	(7,360,562)
Cash flows from financing activities			
Proceeds from issue of shares		**-**	3,420,918
Group borrowings		**2,338,242**	4,624,967
Bank charges		**(551)**	(3,694)
Net cash flows from financing activities		**2,337,691**	8,042,191
Net decrease in cash and cash equivalents		**2,213,158**	(2,135,800)
Opening cash and cash equivalents at beginning of year		**(1,677,603)**	365,988
Exchange (losses)/gains on cash and cash equivalents		**(485,525)**	92,209
Closing cash and cash equivalents	12	**50,030**	(1,677,603)

MEDOIL PLC

Statement of Changes in Equity

For the year ended 31 December 2009

	Equity Share Capital $	Share Premium $	Retained earnings $	**Total Equity $**
At 1 January 2008	1,076,974	9,004,168	(5,401,122)	**4,680,020**
Issued during the year	3,420,918			**3,420,918**
Loss for the year	-	-	(367,478)	**(367,478)**
At 1 January 2009	**4,497,892**	**9,004,168**	**(5,768,600)**	**7,733,460**
Loss for the year	-	-	**(15,210,082)**	**(15,210,082)**
At 31 December 2009	**4,497,892**	**9,004,168**	**(20,978,682)**	**(7,476,622)**

1 Accounting Policies

a) Basis of preparation

The financial statements of medOil plc ("the Company") for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the directors on 29 June 2010 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 3 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 2009, the Company's ultimate parent company, Cairn Energy PLC, has confirmed it will make available sufficient funds to allow the Company to meet its liabilities as they fall due for the next twelve months Hence these accounts have been prepared on a going concern basis

The Company is incorporated 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')

For the year ending 31 December 2009, the Company has adopted the following standards and interpretations

Title	Change to accounting policy	Impact on initial application
IFRS 7 'Financial Instruments Disclosures (amendments)'	Increased disclosures on fair value measurement and liquidity risk	Liquidity risk disclosures in note 17 are not significantly impacted
IAS 1 'Presentation of Financial Statements (revised)'	Terminology changes and changes to the format and content of the Company's primary statements	The Company now presents a Statement of Comprehensive Income, presented in two linked statements and the Statement of Changes in Equity as a primary statement

Other amendments to IFRS effective during the year but with no impact on the accounting policies, financial position or performance of the Company were as follows

- IAS 23 'Borrowing costs (revised)',
- IAS 27 'Consolidated and Separate Financial Statements (amendments)',
- IFRIC 9 'Reassessment of Embedded Derivatives and IAS 39 'Financial Instruments Recognition and Measurement (amendments)',
- IAS 32 'Financial Instruments Presentation (amendments)' and IAS 1 'Puttable Financial Instruments and Obligations Arising on Liquidation (amendments)',
- IFRIC 13 'Customer Loyalty Programmes',
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation', and
- IFRIC 19 'Extinguishing Liabilities with Equity Instruments'

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

c) Presentation currency

The functional and presentational 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

1 Accounting Policies (continued)

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

Exploration expenditure incurred in the process of determining exploration targets is capitalised initially within 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 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 period 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 and long term oil price of $65/bbl (2008 short-term of $50/bbl and a long term oil price of $65/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% 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

e) Assets held-for-sale

Intangible exploration/appraisal assets are classified as held-for-sale if their carrying amounts are expected to be recovered through a sale transaction rather than through continuing use This condition is regarded as met only when the sale is highly probable Intangible exploration/appraisal assets which are classified as held-for-sale are measured at the lower of net book value equal to the expected consideration and fair value less costs to sell

1 Accounting Policies (continued)

f) 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

g) 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 and long-term oil price of $65/bbl (2008 short-term of $50/bbl, long-term of $65/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% (2008 3% and 10% respectively) Forecast production profiles are determined on an asset by asset basis, using appropriate petroleum engineering techniques

h) 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

i) Equity

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

1 Accounting Policies (continued)

j) 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

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

Rates of exchange to $1 are as follows

	31 December 2009	Average 2009	31 December 2008	Average 2008
Sterling	0 619	0 639	0 684	0 540

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

On 30 November 2009, Cairn announced the acquisition of 9 99% minority interest held by Dyas in Capricorn Oil Limited for the transfer of 15% of Capricorn's working interest As part of this transaction, medOil plc agreed to sell a 15% interest in Louza Total consideration for purchase of the Louza license was $1 5m (€1m)

The balance of 15% is disclosed as 'assets held-for-sale'

The Company had 100% interest in Louza license Due to the sale during the year, medOil plc now holds 85% interest in Louza

1 Accounting Policies (continued)

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
Discounted future net cash flows for IAS 36 purposes are calculated using commodity price, cost and discount rate assumptions on forecast production profiles See notes 1(d), 1(g) and 1(h) for further details

2 Operating Loss

a) Operating loss is stated after charging.

	2009 $	2008 $
Unsuccessful exploration costs	**15,083,590**	60,483
Depreciation of property, plant & equipment – other	**32,266**	15,393

The Company's auditors' remuneration of $9,397 (2008 $8,777) has been borne by the intermediate holding company Capricorn Energy Limited Auditors' remuneration for other services is disclosed in the financial statements of Cairn Energy PLC, the ultimate parent undertaking

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

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

3 Staff Costs

	2009 $	2008 $
Wages and salaries	**300,572**	145,479
Social security costs and other taxes	**51,221**	12,110
	351,793	157,589

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

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

	Number of employees 2009	2008
Administration	**6**	2
	6	2

4 Directors' Emoluments

No remuneration was paid to directors for services to this Company during the year (2008 $nil)

5 Finance Income

	2009 $	2008 $
Bank interest	**1,749**	6,590
Exchange gain	**-**	98,146
	1,749	104,736

6 Finance Costs

	2009 $	2008 $
Bank charges	**551**	3,694
Exchange loss	**134,625**	-
	135,176	3,694

7 Taxation

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

	2009 $	2008 $
Loss before taxation	**(15,210,082)**	(367,478)
Tax at the standard rate of UK corporation tax of 28% (2008 28 5%)	**(4,258,823)**	(104,731)
Effects of		
Non taxable income/non-deductible expenses	**398,906**	18,894
Deferred tax movement not recognised	**4,240,871**	110,013
Group relief surrendered/(claimed)	**12,074**	(26,138)
Other	**(393,028)**	1,962
Total tax charge	-	-

Finance Act 2008 reduced the UK main rate of tax from 30% to 28% This reduction took effect from 1 April 2008 onwards, resulting in a rate of corporation tax of 28% for the year ended 31 December 2009, and an averaged rate of 28 5% for the year ended 31 December 2008, as shown above

There was a deferred tax asset of $6,051,001 as at 31 December 2009 (2008 $1,810,130) consisting of temporary differences in 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 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 1 January 2009	14,138,236	**14,138,236**
Additions	2,446,254	**2,446,254**
Transfer to assets held-for-sale	(1,500,900)	**(1,500,900)**
Unsuccessful exploration costs	(15,083,590)	**(15,083,590)**
At 31 December 2009	-	-
Net book value at 31 December 2009	-	-
Net book value at 31 December 2008	14,138,236	14,138,236
Net book value at 1 January 2008	5,402,052	5,402,052

8 Intangible Exploration/Appraisal Assets (continued)

In April 2010, medOil plc completed an exploration well offshore Tunisia in the Louza block Although minor evidence of light oil was observed, the expected target reservoir was not developed in the well The well has therefore been plugged and abandoned without testing As a result, costs of $15m were charged to unsuccessful exploration costs

On 30 November 2009, Cairn Energy PLC announced the acquisition of the 9 99% minority interest held by Dyas in Capricorn Oil Limited As part-settlement of this transaction, medOil plc agreed to transfer a 15% interest in Louza to Dyas The agreed sale price has been transferred to assets held-for-sale A further detailed note is provided in Note 13

9 Property, Plant & Equipment – Other

	Fixtures and Fittings	Motor Vehicles	Total
	$	$	$
Cost			
At 1 January 2008	25,766	-	**25,766**
Additions	37,770	46,741	**84,511**
At 1 January 2009	63,536	46,741	**110,277**
Additions	6,156	-	**6,156**
At 31 December 2009	69,692	46,741	**116,433**
Depreciation			
At 1 January 2008	7,595	-	**7,595**
Charge for the year	10,719	4,674	**15,393**
At 1 January 2009	18,314	4,674	**22,988**
Charge for the year	21,360	10,906	**32,266**
At 31 December 2009	39,674	15,580	**55,254**
Net book value at 31 December 2009	30,018	31,161	**61,179**
Net book value at 31 December 2008	45,222	42,067	87,289
Net book value at 1 January 2008	18,171	-	18,171

10 Investments

	Subsidiary undertaking	Total
	$	$
Cost and net book value		
At 31 December 2008 and 2009	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

	2009 $	2008 $
Amounts owed by group companies	**2,915,841**	657,870
Other debtors	**45,134**	1,424,758
	2,960,975	2,082,628
Prepayments	**-**	13,402,895
	2,960,975	15,485,523

Amounts due from group companies are non-interest bearing

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

	Total $	Current $	< 30 days $	30-60 days $	60-90 days $	90-120 days $	>120 days $
2009							
Neither past due nor impaired	**2,960,975**	2,950,964	-	-	-	-	10,011
Past due but not impaired	-	-	-	-	-	-	-
As at 31 December 2009	**2,960,975**	**2,950,964**	**-**	**-**	**-**	**-**	**10,011**
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

12 Cash and cash equivalents

	At 1 January 2009 $	Cash flow $	Exchange movements $	**At 31 December 2009 $**
Cash at bank	31,479	504,076	(485,525)	**50,030**
Overdraft	(1,709,082)	1,709,082	-	-
Cash and cash equivalents	**(1,677,603)**	**2,213,158**	**(485,525)**	**50,030**

	At 1 January 2008 $	Cash flow $	Exchange movements $	At 31 December 2008 $
Cash at bank	365,988	(426,718)	92,209	31,479
Overdraft	-	(1,709,082)	-	(1,709,082)
Cash and cash equivalents	365,988	(2,135,800)	92,209	(1,677,603)

13 Assets held-for-sale

	2009 $	2008 $
Assets held-for-sale	**1,500,900**	-

On 30 November 2009, Cairn Energy PLC announced the acquisition of the 9 99% minority interest held by Dyas in Capricorn Oil Limited As part-settlement of this transaction, medOil plc agreed to transfer a 15% interest in Louza to Dyas Under the terms of the agreement, $1 5m (€1m) was allocated to the 15% working interest share in Louza license The transfer was subsequently approved by the Tunisian government No such approval had been received at the Balance Sheet date, and hence the assets have been re-classified from intangible/exploration appraisal assets to 'assets held-for-sale'

14 Trade and Other Payables

	2009 $	2008 $
Trade payables	**5,278**	-
Amounts owed to group companies	**10,006,060**	**5,556,399**
Other creditors and accruals	**69,139**	**89,029**
Joint Venture creditors and accruals	**1,969,235**	**14,654,563**
	12,049,712	20,299,991

15 Share Capital

	Ordinary shares of 1p each
Authorised ordinary shares	
Ordinary shares of £0 01 each	1,000,000,000
At 31 December 2008 and 2009	**1,000,000,000**

	2009		2008	
	Number of shares	**$**	Number of shares	$
Allotted, issued and fully paid ordinary shares				
Ordinary shares of £0 01 each	**276,450,856**	**4,497,892**	276,450,856	4,497,892

There were no shares issued during the current year

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

16 Share Premium

	2009 $	2008 $
Share Premium	**9,004,168**	9,004,168

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

17 Financial Risk Management Objectives and Policies (continued)

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
On 28 March 2008, the Company's parent undertaking, Cairn Energy PLC, entered into a £30 0m revolving credit facility to fund its working capital The facility was jointly provided by The Royal Bank of Scotland PLC and HBOS PLC and was to expire on 31 January 2013 Interest was charged at floating rates determined by LIBOR plus an applicable margin No sums were drawn at 31 December 2009 (2008 £nil) The facility was cancelled on 20 January 2010

In addition, as at 31 December 2009 the Cairn Energy PLC Group has $66 2m (2008 $80 0m) of facilities in place to cover the issue of bank guarantees Fixed rates of interest apply to these $47 6m (2008 $49 0m) was unutilised at 31 December 2009

The Cairn Energy PLC Group currently has surplus cash which it has placed in a combination of money market liquidity funds, fixed term deposits and mutual funds with a number of International and Indian banks and 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 The Group monitors counterparties using published ratings and other measures where appropriate

Interest rate risk
Surplus funds are placed on short/medium term deposit at floating rates It is the 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

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
Credit risk from investments with banks and other financial institutions is managed by the Treasury functions 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-assess the Group's policy and update as required The limits are set to minimise the concentration of risks and therefore mitigate financial loss through counterparty failure

Investments by the Group in money market liquidity funds are only made with AAA rated funds and where the investment policy is limited to money market instruments

PLC and Capricorn Group limit the placing of deposits and other investments to banks or financial institutions that have at least 2 AA- or above ratings from Moody's, Standard & Poor's or Fitch unless a Sovereign Guarantee is available from a AAA rated Government The counterparty limit is $100m and a maximum of 5% of a fund

At the year end the Company does not have any significant concentrations of bad debt risk

17 Financial Risk Management Objectives and Policies (continued)

Credit risk (continued)
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 2009 The Company capital and net debt were made up as follows

	2009 $	2008 $
Overdraft	-	1,709,082
Trade and other payables	12,049,712	20,299,991
Less cash and cash equivalents	(50,030)	(31,479)
Net debt	11,999,682	21,977,594
Equity	(7,476,622)	7,733,460
Capital and net debt	4,523,060	29,711,054
Gearing ratio	265%	74%

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	
	2009 $	2008 $	2009 $	2008 $
Cash and cash equivalents	50,030	31,479	50,030	31,479
Other debtors	45,134	1,424,758	45,134	1,424,758
Amounts owed by group companies	2,915,841	657,870	2,915,841	657,870
	3,011,005	2,114,107	3,011,005	2,114,107

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

Financial liabilities	Carrying amount		Fair value	
	2009 $	2008 $	2009 $	2008 $
Overdraft	-	1,709,082	-	1,709,082
Trade payables	5,278	-	5,278	-
Amounts owed to group companies	10,006,060	5,556,399	10,006,060	5,556,399
Joint Venture creditors and accruals	1,969,235	14,654,563	1,969,235	14,654,563
	11,980,573	21,920,044	11,980,573	21,920,044

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 2009

	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	**5,278**	5,278	-	-	-	-	-
Amounts owed to group companies	**10,006,060**	10,006,060	-	-	-	-	-
Joint Venture creditors and accruals	**1,969,235**	1,969,235	-	-	-	-	-
	11,980,573	**11,980,573**	-	-	-	-	-

At 31 December 2008

	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 $
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	-	-	-	-	-

19 Capital Commitments

Oil and gas expenditure	**2009** $	2008 $
Intangible exploration/appraisal assets	**7,000,000**	7,000,000
	7,000,000	7,000,000

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

	2009 $	2008 $
Amounts owed by group companies	**2,915,841**	657,870
Amounts owed to group companies	**(10,006,060)**	(5,556,399)

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

a) Remuneration of key management personnel

No remuneration was paid to directors for services to this Company during the year (2008 $nil)

MEDOIL PLC

Notes to the Accounts (continued)

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