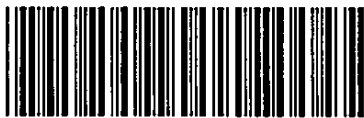


**MEDOIL PLC**  
**REPORT & FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**

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# **MEDOIL PLC**

## **Directors**

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 2010

### 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

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 loss of \$15.8m (2009: \$15.2m) due to \$15.9m being written off as unsuccessful exploration costs in relation to the Louza Permit (for a detailed note, refer to note 8). No dividend has been paid or declared in respect of the year ended 31 December 2010 (2009: \$nil).

### Post Balance Sheet Events

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

### 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

J M McKniff (resigned 29<sup>th</sup> October 2010)

### Charitable and Political Donations

The Company did not make any charitable or political contributions during the year (2009: \$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 2010 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



Secretary  
Duncan Wood  
5th Floor, Condor House  
10 St Paul's Churchyard  
London EC4M 8AL  
29 June 2011

## MEDOIL PLC

### Directors' Responsibility Statement

The directors are responsible for preparing the Annual Report and the Company financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union

Under Company Law the directors must not approve the Company 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 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 requirements 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 has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements

Each of the directors, whose names are listed in the Board of Directors on page 1 confirms to the best of his 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 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 the Company 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 2010 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 22. 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 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. In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatement 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 2010 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 2011

**MEDOIL PLC****Income Statement**

For the year ended 31 December 2010

		2010 \$	2009 \$
Continuing Operations	Notes		
Pre-award costs		-	6,379
Unsuccessful exploration costs		(15,943,928)	(15,083,590)
<b>Gross loss</b>		<b>(15,943,928)</b>	<b>(15,077,211)</b>
Administrative expenses		(14,089)	556
<b>Operating loss</b>	2	<b>(15,958,017)</b>	<b>(15,076,655)</b>
Finance income	5	120,694	1,749
Finance costs	6	(103)	(135,176)
<b>Loss before taxation</b>		<b>(15,837,426)</b>	<b>(15,210,082)</b>
<b>Taxation</b>	7	<b>-</b>	<b>-</b>
<b>Loss for the year</b>		<b>(15,837,426)</b>	<b>(15,210,082)</b>

**Statement of Comprehensive Income**

For the year ended 31 December 2010

	2010 \$	2009 \$
<b>Loss for the year</b>	<b>(15,837,426)</b>	<b>(15,210,082)</b>
<b>Total comprehensive income for the year</b>	<b>(15,837,426)</b>	<b>(15,210,082)</b>

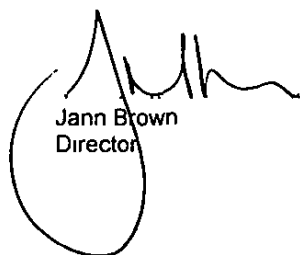
# MEDOIL PLC

## Balance Sheet

As at 31 December 2010

	Notes	2010 \$	2009 \$
<b>Non-current assets</b>			
Intangible exploration/appraisal assets	8	-	-
Property, plant & equipment - other	9	-	61,179
Investments	10	6	6
		<b>6</b>	<b>61,185</b>
<b>Current assets</b>			
Trade and other receivables	11	3,132,201	2,960,975
Cash and cash equivalents	12	89,891	50,030
		<b>3,222,092</b>	<b>3,011,005</b>
<b>Assets held-for-sale</b>	13	-	1,500,900
<b>Total assets</b>		<b>3,222,098</b>	<b>4,573,090</b>
<b>Current liabilities</b>			
Trade and other payables	14	26,536,146	12,049,712
<b>Total liabilities</b>		<b>26,536,146</b>	<b>12,049,712</b>
<b>Net liabilities</b>		<b>(23,314,048)</b>	<b>(7,476,622)</b>
Called-up share capital	15	4,497,892	4,497,892
Share premium	16	9,004,168	9,004,168
Retained earnings		(36,816,108)	(20,978,682)
<b>Total equity</b>		<b>(23,314,048)</b>	<b>(7,476,622)</b>

Signed on behalf of the Board on 29 June 2011



Jann Brown  
Director



# MEDOIL PLC

## Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 \$	2009 \$
<b>Cash flows from operating activities</b>			
Loss before taxation		(15,837,426)	(15,210,082)
Unsuccessful exploration costs		15,943,928	15,083,590
Depreciation and amortisation		24,095	32,266
Finance income		(120,694)	(1,749)
Finance costs		103	135,176
Trade and other receivables movement		(7,249)	164
Trade and other payables movement		2,870	(4,762)
<b>Net cash from operating activities</b>		<b>5,627</b>	<b>34,603</b>
<b>Cash flows from investing activities</b>			
Expenditure on intangible exploration/appraisal assets		(17,779,022)	(154,729)
Purchase of property, plant & equipment – other		(30,617)	(6,156)
Proceeds on disposal of intangible exploration/appraisal assets		500,000	-
Interest received		-	1,749
<b>Net cash used in investing activities</b>		<b>(17,309,639)</b>	<b>(159,136)</b>
<b>Cash flows from financing activities</b>			
Group borrowings		17,423,805	2,338,242
Bank charges		(103)	(551)
<b>Net cash flows from financing activities</b>		<b>17,423,702</b>	<b>2,337,691</b>
Net increase in cash and cash equivalents		119,690	2,213,158
Opening cash and cash equivalents at beginning of year		50,030	(1,677,603)
Exchange losses on cash and cash equivalents		(79,829)	(485,525)
<b>Closing cash and cash equivalents</b>	<b>12</b>	<b>89,891</b>	<b>50,030</b>

## **MEDOIL PLC**

### **Statement of Changes in Equity**

For the year ended 31 December 2010

	Equity Share Capital \$	Share Premium \$	Retained earnings \$	Total Equity \$
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)
Total comprehensive income for the year	-	-	(15,210,082)	(15,210,082)
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 31 December 2010	4,497,892	9,004,168	(36,816,108)	(23,314,048)

# MEDOIL PLC

## Notes to the Accounts

### 1 Accounting Policies

#### a) Basis of preparation

The financial statements of medOil plc ("the Company") for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the directors on 29 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 2010, 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 2010, the Company has adopted the following standards and interpretations:

Title	Change to accounting policy	Impact on initial application
IFRS 3 'Business Combinations (revised)'	Significant changes to accounting for business combinations including the non-capitalisation of acquisition costs, recognition of contingent liabilities at fair values and re-measurement of deferred consideration at subsequent reporting dates.	Changes in accounting policy are prospective and therefore there is no impact on the financial position or performance of the Company.
IAS 7 'Statement of Cash Flows'	Explicitly states that only expenditure that results in a recognised asset can be classified as investing activities.	No impact on the financial position or performance of the Company.

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:

- Amendment to IFRS 2 'Group-Settled Share-based Payment Arrangements',
- IFRS 5 'Non-current assets held-for-sale and Discontinued operations',
- IFRS 8 'Operating Segments',
- IAS 1 'Presentation of Financial Statements',
- IAS 17 'Leases',
- IAS 18 'Revenue',
- IAS 27 'Consolidated and Separate Financial Statements (amended)',
- IAS 36 'Impairment of assets',
- IAS 38 'Intangible assets',
- Amendment to IAS 39 'Financial Instruments: Recognition and Measurement',
- IFRIC 12 'Service Concession Arrangements',
- IFRIC 15 'Agreements for the Construction of Real Estate',
- IFRIC 17 'Distributions of Non-cash Assets to Owners', and
- IFRIC 18 'Transfers of Assets from Customers'.

# MEDOIL PLC

## Notes to the Accounts (continued)

### b) Accounting standards (continued)

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

- Improvements to IFRS 7 'Transfers of financial assets',
- IFRS 9 'Financial Instruments Classification and Measurement',
- IFRS 10 'Consolidation',
- IFRS 11 'Joint Arrangements',
- IFRS 12 'Disclosure of Interests in Other Entities',
- IFRS 13 'Fair Value Measurement'
- Amendment to IAS 12 'Deferred tax Recovery of underlying assets',
- IAS 24 (Revised) 'Related Party Disclosures',
- Amendment to IAS 32 'Classification of rights issues', and
- IFRIC 19 'Extinguishment of financial liabilities with equity instruments'

### 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

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 and 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

All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons has been demonstrated are capitalised within property, plant and equipment - 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 intangible exploration/appraisal 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 property, plant and equipment - 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

# MEDOIL PLC

## Notes to the Accounts (continued)

### 1 Accounting Policies (continued)

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

##### *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 and 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.

Impairment reviews on property, plant and equipment - 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 \$75/bbl (2009 short and 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 pre-tax discount rate of 10% (2009 3% and 10% respectively). Forecast production profiles are determined on an asset-by-asset basis, using appropriate petroleum engineering techniques.

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

#### 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.

#### 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

# MEDOIL PLC

## Notes to the Accounts (continued)

### 1 Accounting Policies (continued)

#### 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 \$75/bbl (2009 short and 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 7% (2009 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 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.

#### 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.

# MEDOIL PLC

## Notes to the Accounts (continued)

### 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.

# MEDOIL PLC

## Notes to the Accounts (continued)

### 1 Accounting Policies (continued)

#### 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.

On 30 November 2009, Cairn Energy PLC, the Company's ultimate parent company, announced the acquisition of 9.99% minority interest held by Dyas B.V. in Capricorn Oil Limited, a parent company of medOil plc, for, amongst other things, the transfer of 15% of certain of the Cairn Energy PLC Group's working interests in the Mediterranean. As part of this transaction, medOil plc agreed to sell to Dyas Tunisia B.V., a subsidiary of Dyas B.V., a 15% interest in the Louza Permit. Total consideration for the purchase of this 15% interest in the Louza Permit was \$1.5m (€1m).

#### 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

	2010 \$	2009 \$
Unsuccessful exploration costs	15,943,928	15,083,590
Depreciation of property, plant & equipment – other	24,095	32,266

The Company's auditors' remuneration of \$9,278 (2009: \$9,397) 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.



**MEDOIL PLC**  
**Notes to the Accounts (continued)**

**3 Staff Costs**

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Wages and salaries	398,496	300,572
Social security costs and other taxes	74,143	51,221
	<b>472,639</b>	<b>351,793</b>

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

	<b>Number of employees</b>	
	<b>2010</b>	<b>2009</b>
Administration	4	6
	<b>4</b>	<b>6</b>

**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 \$3.3m (2009: \$3.1m) and pension contributions of \$0.3m (2009: \$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**

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Bank interest	-	1,749
Exchange gain	120,694	-
	<b>120,694</b>	<b>1,749</b>

**6 Finance Costs**

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Bank charges	103	551
Exchange loss	-	134,625
	<b>103</b>	<b>135,176</b>

# MEDOIL PLC

## Notes to the Accounts (continued)

### 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

	2010 \$	2009 \$
<b>Loss before taxation</b>	<b>(15,837,426)</b>	<b>(15,210,082)</b>
Tax at the standard rate of UK corporation tax of 28% (2009 28%)	(4,434,479)	(4,258,823)
<b>Effects of:</b>		
Non taxable income/non-deductible expenses	-	398,906
Deferred tax movement not recognised	4,434,479	4,240,871
Group relief surrendered/(claimed)	-	12,074
Other	-	(393,028)
<b>Total tax charge</b>	<b>-</b>	<b>-</b>

There was a deferred tax asset of \$10,299,461 as at 31 December 2010 (2009 \$6,051,001) 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 \$
<b>Cost</b>		
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)
<b>At 1 January 2010</b>	<b>-</b>	<b>-</b>
Additions	16,443,928	16,443,928
Disposals	(500,000)	(500,000)
Unsuccessful exploration costs	(15,943,928)	(15,943,928)
<b>At 31 December 2010</b>	<b>-</b>	<b>-</b>
<b>Net book value at 31 December 2010</b>	<b>-</b>	<b>-</b>
<b>Net book value at 31 December 2009</b>	<b>-</b>	<b>-</b>
<b>Net book value at 1 January 2009</b>	<b>14,138,236</b>	<b>14,138,236</b>

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 (2009 \$15.0m) were charged to unsuccessful exploration costs.

During the year, 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.

On 30 November 2009, Cairn Energy PLC announced the acquisition of the 9.99% minority interest held by Dias in Capricorn Oil Limited. As part-settlement of this transaction, medOil plc agreed to transfer a 15% interest in Louza to Dias. A further detailed note is provided in Note 13.

# MEDOIL PLC

## Notes to the Accounts (continued)

### 9 Property, Plant & Equipment – Other

	Fixtures and Fittings \$	Motor Vehicles \$	Total \$
<b>Cost</b>			
At 1 January 2009	63,536	46,741	110,277
Additions	6,156	-	6,156
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	-	-	-
<b>Depreciation</b>			
At 1 January 2009	18,314	4,674	22,988
Charge for the year	21,360	10,906	32,266
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	-	-	-
<b>Net book value at 31 December 2010</b>	-	-	-
Net book value at 31 December 2009	30,018	31,161	61,179
Net book value at 1 January 2009	45,222	42,067	87,289

During the year, 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 \$
<b>Cost and net book value</b>		
At 31 December 2009 and 2010	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
<b>Direct holdings</b>				
medOil Resources Limited	Exploration	England and Wales	Scotland	100%

# MEDOIL PLC

## Notes to the Accounts (continued)

### 11 Trade and Other Receivables

	31 December 2010 \$	31 December 2009 \$
Amounts owed by group companies	2,553,710	2,915,841
Other debtors	115,262	25,653
Joint Venture debtors	463,229	17,299
	<b>3,132,201</b>	<b>2,958,793</b>
Prepayments	-	2,182
	<b>3,132,201</b>	<b>2,960,975</b>

Amounts due from group companies are non-interest bearing

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

#### 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	-	-	-	-	-
<b>As at 31 December 2010</b>	<b>3,132,201</b>	<b>3,130,775</b>	-	-	-	-	-

#### 31 December 2009

	Total \$	Current \$	< 30 days \$	30-60 days \$	60-90 days \$	90-120 days \$	>120 days \$
Neither past due nor impaired	2,960,975	2,960,975	-	-	-	-	-
<b>As at 31 December 2009</b>	<b>2,960,975</b>	<b>2,960,975</b>	-	-	-	-	-

### 12 Cash and cash equivalents

	31 December 2010 \$	31 December 2009 \$
Cash at bank	89,891	50,030

# MEDOIL PLC

## Notes to the Accounts (continued)

### 13 Assets held-for-sale

	31 December 2010 \$	31 December 2009 \$
<b>Assets held-for-sale</b>	-	1,500,900

On 30 November 2009, Cairn Energy PLC, the Company's ultimate parent company, announced the acquisition of 9.99% minority interest held by Dyas B V in Capricorn Oil Limited, a parent company of medOil plc, for, amongst other things, the transfer of 15% of certain of the Cairn Energy PLC Group's working interests in the Mediterranean. As part of this transaction, medOil plc agreed to sell to Dyas Tunisia B V, a subsidiary of Dyas B V, a 15% interest in the Louza Permit. Total consideration for the purchase of this 15% interest in the Louza Permit was \$1.5m (€1m). The transfer was subsequently approved by the Tunisian government in 2010.

### 14 Trade and Other Payables

	31 December 2010 \$	31 December 2009 \$
Trade payables	6,067	-
Amounts owed to group companies	25,989,723	10,006,060
Other taxation and social security	66,041	47,109
Other creditors	-	19,800
Joint Venture creditors	113,479	-
Accruals	4,857	586,261
Joint Venture accruals	355,979	1,390,482
	<b>26,536,146</b>	<b>12,049,712</b>

### 15 Share Capital

Share Capital		1p Ordinary Shares
Authorised ordinary shares		Number of shares
Ordinary shares of £0.01 each		1,000,000,000
At 31 December 2009 and 2010		1,000,000,000

	1p Ordinary Shares	1p Ordinary Shares
	Number of shares	\$
Allotted, issued and fully paid ordinary shares		
At 31 December 2009 and 2010	276,450,856	4,497,892

### 16 Share Premium

	31 December 2010 \$	31 December 2009 \$
<b>Share Premium</b>	<b>9,004,168</b>	<b>9,004,168</b>

# MEDOIL PLC

## Notes to the Accounts (continued)

### 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 parent company reviews and agrees policies for managing each of these risks and these are summarised below.

The Group's treasury functions at Cairn Energy PLC, ultimate parent undertaking and local operational offices are responsible for these risks for their respective businesses, in accordance with the policy 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 companies and the Group have adequate liquidity at all times in order to meet their immediate cash requirements.

There are no significant concentrations of risks unless otherwise stated.

The primary financial instruments comprise bank loans, cash, short and medium term deposits, certificates of deposit, money market liquidity and mutual funds, intra-group loans, forward contracts, swaps, options, and other receivables and financial liabilities held at amortised cost. The Group's strategy has been 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, to fund substantial acquisitions or oil and gas projects.

#### **Liquidity risk**

On 28 March 2008 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 the Bank of Scotland and was to expire on 31 January 2013. Interest was charged at floating rates determined by LIBOR plus an applicable margin. The facility was cancelled on 20 January 2010. No sums were drawn at 31 December 2009.

On 15 September 2010 Cairn Energy PLC entered into a £200m revolving credit facility to fund its working capital. The facility was provided by Standard Chartered Bank Plc and was to expire on 30 September 2011. Interest was charged at floating rates determined by LIBOR plus an applicable margin.

On 15 December 2010 the above facility was refinanced. Cairn Energy PLC entered into a stand-by secured revolving credit 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 is provided by Standard Chartered Bank, Bank of Scotland Plc, Crédit Agricole Corporate and Investment Bank, HSBC Bank PLC and Société Générale and expires on 30 September 2012. Security, in the form of a pledge over a number of shares in Cairn UK Holdings Limited, would be provided prior to first drawdown. Interest is charged at floating rates determined by LIBOR plus an applicable margin. No sums were drawn at 31 December 2010.

In addition, Cairn Energy PLC and the Capricorn Group have \$35m of facilities (2009: \$35m) in place to cover the issue of performance guarantees. Fixed rates of bank commission and charges apply to these. \$0.7m was utilised as at 31 December 2010 (2009: \$5.9m).

The 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 Surplus funds are placed on short/medium-term deposits at floating rates. It is Group 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 functions may from time to time 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 (2009: none).

# MEDOIL PLC

## Notes to the Accounts (continued)

### 17 Financial Risk Management Objectives and Policies (continued)

#### 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. Generally the exposure has been limited given that receipts and payments have mostly been in US dollars, the functional currency of the Company.

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 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 respective Boards 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.

Cairn Energy PLC and Capricorn Group limit the placing of deposits, certificates of deposit 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. Investments in international money market liquidity funds are only made with AAA rated funds and where the investment policy is limited to money market instruments.

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

The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the Balance Sheet date.

#### Capital Management

The objective of the Group's capital management structure is to ensure that there remains sufficient liquidity within the Group to carry out committed work programme requirements. The Group monitors 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 2010.

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

	31 December 2010 \$	31 December 2009 \$
Trade and other payables	26,536,146	12,049,712
Less cash and cash equivalents	(89,891)	(50,030)
Net debt	26,446,255	11,999,682
Equity	(23,314,048)	(7,476,622)
Capital and net debt	3,132,207	4,523,060
Gearing ratio	844%	265%

**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 2010	31 December 2009	31 December 2010	31 December 2009
	\$	\$	\$	\$
Cash and cash equivalents	89,891	50,030	89,891	50,030
Other debtors	115,262	45,134	115,262	45,134
Joint Venture debtors	462,229	-	462,229	-
Amounts owed by group companies	2,553,710	2,915,841	2,553,710	2,915,841
	<b>3,221,092</b>	<b>3,011,005</b>	<b>3,221,092</b>	<b>3,011,005</b>

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

Financial liabilities	Carrying amount		Fair value	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
	\$	\$	\$	\$
Trade payables	6,067	-	6,067	-
Amounts owed to group companies	25,989,723	10,006,060	25,989,723	10,006,060
Joint Venture creditors	113,479	19,800	113,479	19,800
	<b>26,109,269</b>	<b>10,025,860</b>	<b>26,109,269</b>	<b>10,025,860</b>

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 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	-	-	-	-	-
	<b>26,109,269</b>	<b>26,109,269</b>	-	-	-	-	-

**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
	\$	\$	\$	\$	\$	\$	\$
Amounts owed to group companies	10,006,060	10,006,060	-	-	-	-	-
Other creditors	19,800	19,800	-	-	-	-	-
	<b>10,025,860</b>	<b>10,025,860</b>	-	-	-	-	-



# MEDOIL PLC

## Notes to the Accounts (continued)

### 19 Capital Commitments

	31 December 2010 \$	31 December 2009 \$
Oil and gas expenditure		
Intangible exploration/appraisal assets	-	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 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 2010 \$	31 December 2009 \$
Amounts owed by group companies	2,553,710	2,915,841
Amounts owed to group companies	(25,989,723)	(10,006,060)
	(23,436,013)	(7,090,219)

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

During the year, 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 76 to 83

### 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

### 22 Post Balance Sheet Events

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