Registered No 05303276

PLECTRUM OIL & GAS LIMITED

REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

PLECTRUM OIL & GAS LIMITED

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:

05303276

PLECTRUM OIL & GAS LIMITED

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 that of a holding company

Consolidated accounts are not produced for the Company and its wholly owned subsidiaries (detailed in note 5 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 subsidiaries are included within the consolidated accounts of the ultimate parent undertaking, Cairn Energy PLC

During the year the Company did not trade, and as such made neither profits nor losses (2009 $nil) The Company did not hold any cash and cash equivalents during the year, therefore a Statement of Cash Flows has not been presented No dividend has been paid or declared in respect of the year ended 31 December 2010 (2009 $nil)

Principal Risks and Uncertainties
The principal risks and uncertainties facing the Company derive from holding investments, where the value of its investments is ultimately dependent on the performance of its subsidiaries

Financial Instruments
For detail of the Company's financial risk management policy see note 9

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

J M Brown

S J Thomson

M J Watts

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

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

Duncan Wood

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

31 May 2011

PLECTRUM OIL & GAS LIMITED

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 PLECTRUM OIL & GAS LIMITED (Registered No 05303276)

We have audited the financial statements of Plectrum Oil & Gas Limited for the year ended 31 December 2010 which comprises the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and related notes 1 to 12 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 3, 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,
- 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
31 May 2011

PLECTRUM OIL & GAS LIMITED

Income Statement

For the year ended 31 December 2010

Continuing Operations	Notes	**2010** **$**	2009 $
Operating loss	2	-	-
Profit before taxation		-	-
Taxation	4	-	-
Profit for the year		-	-

Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 **$**	2009 $
Profit for the year	-	-
Currency translation differences	**(8,142)**	22,454
Total comprehensive income for the year	**(8,142)**	22,454

PLECTRUM OIL & GAS LIMITED

Balance Sheet

As at 31 December 2010

	Notes	2010 $	2009 $
Non-current assets			
Investments	5	-	-
		-	-
Current assets			
Trade and other receivables	6	**229,289**	237,431
		229,289	237,431
Total assets		**229,289**	237,431
Net assets		**229,289**	237,431
Equity			
Called-up share capital	7	**129,025**	129,025
Share premium	8	**1,561,123**	1,561,123
Foreign currency translation reserve		**(138,041)**	(129,899)
Retained earnings		**(1,322,818)**	(1,322,818)
Total equity		**229,289**	237,431

Signed on behalf of the Board on 31 May 2011

Jann Brown
Director

PLECTRUM OIL & GAS LIMITED

Statement of Changes in Equity

For the year ended 31 December 2010

	Equity Share Capital $	Share Premium $	Foreign Currency Translation $	Retained Earnings $	Total Equity $
At 1 January 2009	129,025	1,561,123	(152,353)	(1,322,818)	**214,977**
Currency translation differences			22,454	-	**22,454**
Total comprehensive income for the year	-	-	22,454	-	**22,454**
At 1 January 2010	129,025	1,561,123	(129,899)	(1,322,818)	**237,431**
Currency translation differences	-	-	(8,142)	-	**(8,142)**
Total comprehensive income for the year	-	-	(8,142)	-	**(8,142)**
At 31 December 2010	**129,025**	**1,561,123**	**(138,041)**	**(1,322,818)**	**229,289**

PLECTRUM OIL & GAS LIMITED
Notes to the Accounts

1 Accounting Policies

a) Basis of preparation

The financial statements of Plectrum Oil & Gas Limited ("the Company") for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the directors on 31 May 2011 The Company is incorporated in England and Wales under the Companies Act 2006 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 The Company did not hold any cash and cash equivalents during the year, therefore a Statement of Cash Flows has not been presented

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, liquidity position and borrowing facilities are presented in the financial statements and supporting notes In addition, note 9 to the financial statements includes the Company's objectives, policies and processes for managing its capital, and its financial risk management objectives and details of its financial instruments

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

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'

1 Accounting Policies (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 currency of the Company is Pounds Sterling (£) The Company presents accounts in US Dollars ($) because it is deemed to be more appropriate to present the financial statements in line with the functional currency of the majority of the Group

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

d) 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

e) 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

f) 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 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

1 Accounting Policies (continued)

f) Taxation (continued)

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

g) Foreign currencies

The Company translates foreign currency transactions into the functional currency at the rate of exchange prevailing at the transaction date Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the rate of exchange prevailing at the Balance Sheet date Exchange differences arising are taken to the Income Statement except for those incurred on borrowings specifically allocable to development projects, which are capitalised as part of the cost of the asset

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

Rates of exchange to $1 are as follows

	31 December 2010	**Average 2010**	31 December 2009	Average 2009
Sterling	**0 641**	**0 647**	0 619	0 639

h) 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 note 1(d) for further details

2 Operating Loss

Auditor's remuneration

The Company's auditors' remuneration of $4,638 (2009 $4,698) has been borne by the intermediate holding company Capricorn Energy Limited Auditors' remuneration for other services is disclosed in the financial statements of Cairn Energy PLC, the ultimate parent undertaking

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

3 Directors' Emoluments

The directors of the Company are also directors of the ultimate parent company, Cairn Energy PLC The directors received remuneration for the year of $3 1m (2009 $2 9m) and pension contributions of $0 3m (2009 $0 3m), all of which was paid by its ultimate parent company 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 Cairn Energy PLC and fellow subsidiary companies

4 Taxation

There is no recognised or unrecognised deferred tax asset or liability as at 31 December 2010 (2009 $nil)

5 Investments

	Total $'000
Cost	
At 1 January 2009	274,871
Exchange differences arising	(52,941)
At 1 January 2010	221,930
Exchange differences arising	(7,610)
At 31 December 2010	**214,320**
Impairment	
At 1 January 2009	274,871
Exchange differences arising	(52,941)
At 1 January 2010	221,930
Exchange differences arising	(7,610)
At 31 December 2010	**214,320**
Net book value at 31 December 2010, 2009 and 2008	-

The Company's subsidiaries as at the Balance Sheet date are set out below -

	Principal activity	Country of incorporation	Country of operation	Proportion of voting rights
Plectrum Oil Limited	Exploration	England and Wales	Scotland	100%
Banchory Exploration Limited	Holding Company	England and Wales	Scotland	100%

PLECTRUM OIL & GAS LIMITED
Notes to the Accounts (continued)

6 Trade and Other Receivables

	31 December 2010 $	31 December 2009 $
Amounts owed by group companies	**1,020,194**	1,056,419
Allowance for doubtful debts	**(790,905)**	(818,988)
	229,289	237,431

In the opinion of the directors an amount of $790,905 (2009 $818,988) due from Plectrum Oil Limited is unlikely to be recoverable Full provision has therefore been made for this amount

The movement in the allowance for doubtful debts is set out below

	31 December 2010 $	31 December 2009 $
At 1 January	**818,988**	769,118
Foreign exchange differences	**(28,083)**	49,870
	790,905	818,988

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

	Total $	Current $	< 30 days $	30-60 days $	60-90 days $	90-120 days $	>120 days $
2010							
Past due but not impaired	**229,289**	-	-	-	-	-	229,289
Past due and impaired	**790,905**	-	-	-	-	-	790,905
Allowance for doubtful debts	**(790,905)**	-	-	-	-	-	(790,905)
As at 31 December 2010	**229,289**	-	-	-	-	-	**229,289**
2009							
Past due but not impaired	237,431	-	-	-	-	-	237,431
Past due and impaired	818,988	-	-	-	-	-	818,988
Allowance for doubtful debts	(818,988)	-	-	-	-	-	(818,988)
As at 31 December 2009	237,431	-	-	-	-	-	237,431

7 Share Capital

Authorised ordinary shares	**5p Ordinary shares** Number of shares
At 31 December 2009 and 2010	**5,000,000**

Allotted, issued and fully paid ordinary shares	**5p Ordinary shares** Number of shares	**5p Ordinary shares** $
At 31 December 2009 and 2010	**1,300,000**	**129,025**

8 Share Premium

	31 December 2010 $	31 December 2009 $
Share Premium	**1,561,123**	1,561,123

9 Financial Risk Management Objectives and Policies

The main risk arising from the Company's financial instruments is foreign currency risk The Board of Cairn Energy PLC ("the Board"), the ultimate parent company, reviews and agrees policies for managing this risk 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

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

9 Financial Risk Management Objectives and Policies (continued)

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's capital and net debt were made up as follows

	31 December 2010 $	31 December 2009 $
Trade and other payables	-	-
Net debt	-	-
Equity	**229,289**	237,431
Capital and net debt	**229,289**	237,431
Gearing ratio	-	-

10 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 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 $
Amount owed by group companies	**229,289**	237,431	**229,289**	237,431
	229,289	237,431	**229,289**	237,431

An analysis of the ageing of trade and other receivables is provided in note 6

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

The Company had no financial liabilities as at 31 December 2010 (2009 $nil)

11 Related Party Transactions

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

	31 December 2010 $	31 December 2009 $
Amounts owed by group companies after allowance for doubtful debts	**229,289**	237,431

Note 6 provides further details on the allowance for doubtful debts

Other transactions
The Company did not make any purchases in the ordinary course of business from an entity under common control in the year (2009 $nil)

Remuneration of key management personnel and directors
The remuneration of directors, who are the key management personnel of the Company, is set out in Note 3 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

12 Ultimate Parent Company

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

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