Company Registration No. 05377234

Plectrum Petroleum Limited
(formerly Plectrum Petroleum Plc)

Report and Financial Statements

31 December 2007

Plectrum Petroleum Limited
(formerly Plectrum Petroleum Plc)

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Plectrum Petroleum Limited
(formerly Plectrum Petroleum Plc)

Officers and professional advisers

Directors

J Brown (appointed 10 October 2007)
S Thomson (appointed 10 October 2007)
M J Watts (appointed 10 October 2007)

Secretary

D Wood

Registered Office

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

Independent Auditors

Ernst & Young LLP
Aberdeen

Plectrum Petroleum Limited
(formerly Plectrum Petroleum Plc)

Directors' report

The Directors submit their Report and Financial Statements for the year ended 31 December 2007

Principal Activities and Business Performance Review
The Company was purchased by Capricorn Oil and Gas Limited, a subsidiary of Cairn Energy PLC on 10 October 2007

The Company reregistered on 17 March 2008 as a private company limited by shares with the name Plectrum Petroleum Limited

The Company's principal activity is the exploration for oil and gas As at 31 December 2007, the Company held a 50% equity interest in Block Z-34 offshore Peru and 100% interests in each of WA 379P and WA 380 P in Western Australia

The loss after tax for the year ended 31 December 2007 was £9 4m (2006 £1m) No dividend has been paid or declared in respect of the year ended 31 December 2007 (2006 $nil)

Consolidated accounts are not produced for the Company and its wholly owned subsidiaries however the results of the Company are included within the consolidated accounts of the ultimate parent undertaking Cairn Energy PLC

Principal Risks and uncertainties
The Company is subject to a variety of risks which derive from the nature of the oil and gas exploration and production business

The Company's future production 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
The financial risk management objectives and policies of the Company are detailed in note 14 of the Notes to the Accounts

Post Balance Sheet Events
On 29 July 2008, the Company completed the transfer of its licence interests in Western Australia to Arcadia Petroleum Limited and Enovation Resources Limited for nil consideration

Plectrum Petroleum Limited
(formerly Plectrum Petroleum Plc)

Directors' report

Directors

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

J M Brown	(appointed 10 October 2007)
S J Thomson	(appointed 10 October 2007)
M J Watts	(appointed 10 October 2007)
M Whyatt	(resigned 11 December 2007)
M H Evans	(resigned 18 January 2008)
J D Bain	(resigned 8 February 2008)
A Reynolds	(resigned 10 May 2007)
G J Hall	(resigned 10 October 2007)

Charitable Donations

The Company did not make any charitable contributions in the UK during the year (2006 £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 will be agreed prior to business taking place

Disclosure of Information to Auditors

The directors of the Company who held office at 31 December 2007 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

Resolutions

The Company has passed elective resolutions to dispense with requirements to

- lay accounts before the Company in Annual General Meeting
- hold Annual General Meetings

By Order of the Board

Secretary

50 Lothian Road
Edinburgh EH3 9BY

2 October 2008

Plectrum Petroleum Limited
(formerly Plectrum Petroleum Plc)

Statement of directors' responsibilities

The dırectors are responsıble for preparıng the Company financıal statements ın accordance wıth applıcable laws and regulatıons

UK company law requıres the dırectors to prepare Company financıal statements for each financıal year Under such law the dırectors are requıred to prepare the Company financıal statements ın accordance wıth IFRS (as adopted by the EU)

The Company financıal statements are requıred by law and IFRS (as adopted by the EU) to present faırly the financıal posıtıon and performance of the Company, the Companıes Act provıdes ın relatıon to such financıal statements that references ın the relevant part of the Companıes Act to financıal statements gıvıng a true and faır vıew, are references to theır achıevıng a faır presentatıon

In preparıng the Company financıal statements, the dırectors are requıred to

- select suıtable accountıng polıcıes and apply them consıstently,
- make judgements and estımates that are reasonable and prudent,
- state whether they have been prepared ın accordance wıth IFRS (as adopted by the EU), and
- prepare the financıal statements on the goıng concern basıs unless ıt ıs ınapproprıate to assume that the Company wıll contınue ın busıness

The dırectors are responsıble for keepıng proper accountıng records that dısclose wıth reasonable accuracy at any tıme the financıal posıtıon of the Company and enable them to ensure that ıts financıal statements comply wıth the Companıes Act They have a general responsıbılıty for takıng such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other ırregularıtıes

The dırectors confirm that, to the best of theır knowledge and belıef

- the financıal statements have been prepared ın accordance wıth the standards summarısed above, gıve a true and faır vıew of the assets, lıabılıtıes and financıal posıtıon of the Company's affaırs as at 31 December 2007 and of ıts loss for the year then ended, and
- the Dırectors Report ıncludes a faır revıew of the development and performance of the Company's busıness and a descrıptıon of the prıncıpal rısks and uncertaıntıes that ıt faces

Independent auditors' report to the members of Plectrum Petroleum Limited (formerly Plectrum Petroleum Plc)

We have audited the financial statements of Plectrum Petroleum Limited for the year ended 31 December 2007 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Shareholders' Equity and the related notes 1 to 22 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether the information given in the directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Ernst & Young LLP
Registered auditor
Aberdeen
2 October 2008

Plectrum Petroleum Limited
(formerly Plectrum Petroleum Plc)

Income statement
Year ended 31 December 2007

	Notes	2007 £	2006 £
Continuing operations			
Revenue		-	-
Pre - Exploration costs		(56,487)	(260,605)
Unsuccessful exploration costs		(407,991)	-
Gross loss		(464,478)	(260,605)
Administrative expenses		(2,792,948)	(1,001,078)
Operating loss	3	(3,257,426)	(1,261,683)
Loss on impairment of investments	10	(6,408,037)	-
Finance income	6	223,288	274,785
Finance costs	7	(2,066)	(96)
Loss on ordinary activities before taxation		(9,444,241)	(986,994)
Tax	8	-	-
Loss for the year attributable to equity holders		(9,444,241)	(986,994)

Plectrum Petroleum Limited
(formerly Plectrum Petroleum Plc)

Statement of changes in equity
Year ended 31 December 2007

	Notes	2007 £	2006 £
Balance as at 1 January		13,153,767	11,676,211
Loss for the year		(9,444,241)	(986,994)
Share capital issue	16	587,290	892,857
Increase in share premium	16	776,461	1,571,693
Share based payments charge	16	1,001,300	-
Balance as at 31 December		6,074,577	13,153,767

Plectrum Petroleum Limited
(formerly Plectrum Petroleum Plc)

Balance sheet
At 31 December 2007

	Notes	2007 £	2006 £
Non-current assets			
Intangible exploration/appraisal assets	9	-	93,376
Investments in subsidiaries	10	396,963	6,805,000
		396,963	6,898,376
Current assets			
Trade and other receivables	11	5,662,286	521,570
Cash and cash equivalents	11	182,562	6,041,382
		5,844,848	6,562,952
Total assets		6,241,811	13,461,328
Current liabilities			
Trade and other payables	12	167,234	307,561
Total liabilities		167,234	307,561
Net assets		6,074,577	13,153,767
Equity			
Share capital	15	9,018,625	8,431,335
Share premium account	16	7,249,709	6,473,248
Retained losses	16	(10,193,757)	(1,750,816)
Equity attributable to equity holders		6,074,577	13,153,767

Signed on behalf of the Board on 2 October 2008

Director

Plectrum Petroleum Limited
(formerly Plectrum Petroleum Plc)

Cashflow Statement
Year ended 31 December 2007

	Notes	2007 £	2006 £
Net cash used in operating activities	17	(7,131,244)	(1,489,338)
Investing activities			
Interest received		223,288	274,785
Purchase of oil and gas assets		(314,615)	(93,376)
Acquisition of subsidiary		-	(250,000)
Net cash used in investing activities		(91,327)	(68,591)
Financing activities			
Proceeds from issue of shares		1,363,751	2,500,000
Costs of issuing shares		-	(35,450)
Net cash from financing activities		1,363,751	2,464,550
Net (decrease)/increase in cash and cash equivalents		(5,858,820)	906,621
Cash and cash equivalents at the beginning of the year		6,041,382	5,134,761
Cash and cash equivalents at the end of the year	11	182,562	6,041,382

1. Accountıng polıcıes

(a) General informatıon

Plectrum Petroleum Lımıted ıs a company ıncorporated ın England under the Companıes Act 1985 The address of the regıstered office ıs gıven on page 1 The nature of the Company's operatıons and ıts prıncıpal actıvıtıes are set out ın the Dırectors' report on page 2

(b) Basıs of preparatıon

The Company prepares ıts financıal statements on a hıstorıcal cost basıs Where there are assets and lıabılıtıes calculated on a dıfferent basıs, thıs fact ıs dısclosed ın the relevant accountıng polıcy

These financıal statements are presented ın pounds sterlıng because that ıs the currency of the prımary economıc envıronment ın whıch the Company operates

(c) Accountıng standards

The Company prepares ıts accounts ın accordance wıth applıcable Internatıonal Fınancıal Reportıng Standards ('IFRSs') as adopted by the EU These are the first financıal statements of the Company to have been prepared under IFRS and the dısclosures requıred by IFRS 1 "Fırst tıme adoptıon of IFRS" concernıng the transıtıon from UK GAAP to IFRS are gıven ın note 21

Relevant new standards and ınterpretatıons ıssued by the IASB, but not effectıve and not applıed ın these financıal statements, are as follows

Tıtle	Change to accountıng polıcy	Date of adoptıon	Impact on ınıtıal applıcatıon
Effectıve date from 1 March 2007			
IFRIC 11 'Group and Treasury Share Transactıons'	Share based payment awards relatıng to employees of a subsıdıary wıll be recognısed ın the equıty of that company	1 Jan 2008	Movement ın reserves wıth correspondıng movement ın ıntra-group balances or cash
Effectıve date from 1 January 2009			
Revısed IAS 23 'Borrowıng Costs'	May result ın more borrowıng costs beıng capıtalısed than current polıcy	1 Jan 2009	Decrease ın borrowıng costs charged to the ıncome statement, wıth correspondıng ıncrease ın assets
Revısed IAS 1 'Presentatıon of Fınancıal Statements'	No changes to current accountıng polıcy	1 Jan 2009	Presentatıon and dısclosure requırements for certaın ıtems ın the Income Statement

No other IFRS as ıssued by the IASB whıch are not yet effectıve are expected to have an ımpact on the Company's financıal statements

1. **Accountıng polıcıes (contınued)**

(d) **Joınt ventures**

The Company partıcıpates ın unıncorporated joınt ventures whıch ınvolves the joınt control of assets used ın the Company's oıl and gas exploratıon actıvıtıes The Company accounts for ıts share of assets, lıabılıtıes, ıncome and expendıture of joınt ventures ın whıch the Company holds an ınterest, classıfied ın the approprıate Balance Sheet and Income Statement headıngs

(e) **Oıl and gas ıntangıble exploratıon/appraısal assets**

The Company follows a successful effortsbased accountıng polıcy for oıl and gas assets

Costs ıncurred prıor to obtaınıng the legal rıghts to explore an area are expensed ımmedıately to the Income Statement

Expendıture ıncurred on the acquısıtıon of a lıcence ınterest ıs ınıtıally capıtalısed on a lıcence by lıcence basıs Costs are held, undepleted, wıthın exploratıon/appraısal assets untıl such tıme as the exploratıon phase on the lıcence area ıs complete or commercıal reserves have been dıscovered

Exploratıon expendıture ıncurred ın the process of determınıng exploratıon targets ıs capıtalısed ınıtıally wıthın exploratıon/appraısal assets and subsequently allocated to drıllıng actıvıtıes Exploratıon/appraısal drıllıng costs are ınıtıally capıtalısed on a well by well basıs untıl the success or otherwıse of the well has been establıshed The success or faılure of each exploratıon/appraısal effort ıs judged on a well by well basıs Drıllıng costs are wrıtten off on completıon of a well unless the results ındıcate that hydrocarbon reserves exıst and there ıs a reasonable prospect that these reserves are commercıal

Impaırment

Exploratıon/appraısal assets are revıewed regularly for ındıcators of ımpaırment and costs are wrıtten off where cırcumstances ındıcate that the carryıng value mıght not be recoverable Any such ımpaırment arısıng ıs recognısed ın the Income Statement forthe perıod

Impaırment revıews on development/producıng assets are carrıed out on each cash-generatıng unıt ıdentıfied ın accordance wıth IAS 36 "Impaırment of Assets" The Company's cash generatıng unıts are those assets whıch generate largely ındependent cash flows and are normally, but not always, sıngle development areas

At each reportıng date, where there are ındıcators of ımpaırment, the net book value of the cash generatıng unıt ıs compared wıth the assocıated expected dıscounted future net cash flows If the net book value ıs hıgher, then the dıfference ıs wrıtten off to the Income Statement as ımpaırment Dıscounted future net cash flows for IAS 36 purposes are calculated usıng an estımated oıl prıce of $60/bbl (2006 $30/bbl) or the approprıate gas prıce as dıctated by the relevant gas sales contract, escalatıon for prıces and costs of 3% and a dıscount rate of 10% (2006 3% and 10% respectıvely) Forecast productıon profiles are determıned on an asset by asset basıs, usıng approprıate petroleum engıneerıng technıques

Where there has been a charge for ımpaırment ın an earlıer perıod that charge wıll be reversed ın a later perıod where there has been a change ın cırcumstances to the extent that the dıscounted future net cash flows are hıgher than the net book value at the tıme In reversıng ımpaırment losses, the carryıng amount of the asset wıll be ıncreased to the lower of ıts orıgınal carryıng value or the carryıng value that would have been determıned (net of depletıon) had no ımpaırment loss been recognısed ın prıor perıods

1 Accounting policies (continued)

(f) Investments

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

Discounted future net cash flows for IAS 36 purposes are calculated using an estimated oil price of $60/bbl (2006 $30/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% (2006 3% and 10% respectively) Forecasted production profiles are determined on an asset by asset basis, using appropriate petroleum engineering techniques

(g) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established

(h) Operating loss

Operating loss is stated before investment income and finance costs

(i) 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

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 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 payment 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

1. Accounting policies (continued)

(i) Financial instruments (continued)

Loans and other receivables (continued)

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 purpose 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

(j) 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

(k) Taxation

The tax expense represents the sum of current tax and deferred tax

The current tax is based on taxable profit/ (loss) for the year Taxable profit/(loss) differs from net profit/(loss) 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/ (loss)

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)**

(k) 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 tax jurisdiction and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously

(l) Foreign currency translation

The Company translates foreign currency transactions into its functional currency, pounds sterling, at the rate of exchange prevailing at the transaction date Monetary assets and liabilities denominated in foreign currencies 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 those incurred on borrowings specifically allocable to development projects which are capitalised as part of the cost of the asset

(m) Operating lease commitments

The Company charges rentals payable under operating leases to the Income Statement on a straight line basis over the lease term

(n) Employee benefits

Share schemes

The cost of awards to employees under the Company's share scheme, granted after 7 November 2002, are recognised over the three year period to which the performance relates The amount recognised is based on the fair value of the shares as measured at the date of the award The shares are valued using either the Black Scholes or binomial model

1. Accounting policies (continued)

(n) Employee benefits (continued)

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

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

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

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

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

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

2 Critical judgements and accounting estimates

In the process of applying the Company's accounting policies described in Note 1, management has made judgements that may have a significant effect on the amounts recognised in the financial statements In particular, Note 1(e) describes the judgements necessary to implement the Company's policy with respect to the carrying value of intangible exploration and evaluation assets, and Note 1(f) describes the judgements necessary to implement the Company's policy with respect to thecarrying value of investments

3 Loss for the year

	2007 £	2006 £
Operating loss is stated after charging		
Unsuccessful exploration costs	407,991	-
Net foreign exchange losses	2,066	96
Fees payable to the Company's auditors for the audit of the Company's annual accounts	-	5,000
Fees payable to the Company's auditors for the audit of the subsidiary companies pursuant to legislation	-	10,000
Fees payable to the Company's auditors for other services to the group	-	5,000

The Auditors' remuneration for the current year of £9,000 has been borne by the ultimate holding company Cairn Energy PLC

The Company has a policy in place for the award of non-audit work to the auditors which, in certain circumstances, requires Audit Committee approval Auditors' remuneration for other services is disclosed in the financial statements of Cairn Energy PLC, the ultimate parent undertaking

4 Staff costs

The average monthly number of employees (including executive directors) was

	2007 No.	2006 No.
Management, Administration and Operations	2	2
Directors	5	5

	2007 £	2006 £
Their aggregate remuneration comprised		
Wages and salaries	1,267,906	54,000
Social security costs	169,877	9,815
Share based payments charge	1,001,300	-
	2,439,083	63,815

Share Scheme

Under the share scheme, certain directors had been invited to subscribe to nil paid shares The acquisition of the company by Capricorn Oil and Gas Limited on 10 October 2007 triggered the shares to vest The original vesting period of the share scheme was 3 years, or 28 September 2008, which ever was the earlier The nil paid shares were equity settled Under the share scheme rules, in this circumstance, the number of shares which vest will be determined by the remuneration committee with reference to the existing performance conditions The performance conditions attached to the shares are set out below It was determined by the remuneration committee that 100% of the shares would vest As at 31 December 2007 all shares are fully paid up

	2007 Number of nil paid shares	2006 Number of nil paid shares
Outstanding at the beginning of the year	11,746,000	10,109,000
Granted during the year	-	1,637,000
Lapsed during the year	-	-
Exercised during the year	(11,746,000)	-
Outstanding at the end of the year	-	11,746,000

The weighted average fair value of the shares exercised during the year was £0 09 The fair value has been determined based on the information set out below

In prior years no charge was recognised in relation to the share based payments, as it was determined that there was a 0% probability of the non-market performance conditions being met In the current year, it was determined that 100% of the shares would vest, so the full charge to the Income Statement has been recognised in the current year

4. Staff costs (continued)

Share scheme (continued)

The fair value of the awards has been calculated using a binomial model The main inputs to the model include the number of warrants, volatility, trigger points and discount rate The number of shares which will ultimately vest is determined with reference to the performance conditions An independent valuation of the hydrocarbon assets is to be obtained The monetary value of the hydrocarbon assets will determine the percentage of shares which vest as follows

Monetary value of hydrocarbon assets is greater than	Percentage of shares which will vest
$50m	25%
$100m	50%
$150m	75%
$200m	100%

The key assumptions used in calculating the fair value are

Volatility	93% - 133%
Risk free rate	4 2% - 4 8%

5 Directors' emoluments and benefits

	2007 £	2006 £
Directors' emoluments (excluding pension contributions)	1,089,493	54,000
Emoluments of the highest paid director (including pension contributions of £ nil (2006 £nil)	455,304	30,000

6 Finance Income

	2007 £	2006 £
Bank interest	223,288	274,785

7 Finance Costs

	2007 £	2006 £
Realised exchange loss	2,066	96

8. Tax

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

	2007 £	2006 £
Loss on ordinary activities before tax	(9,444,241)	(986,994)
Loss on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 30% (2006 30%)	(2,833,272)	(296,098)
Effects of		
Permanent differences	2,269,245	70,244
Change of UK rate of corporation tax to 28% on deferred tax	31,200	-
Deferred tax not recognised	436,803	225,854
Group relief	96,024	-
	-	-

There is a deferred tax asset of £768,776 as at 31 December 2007 (2006 £509,575) in relation to fixed asset timing differences, pre-trading expenditure and tax losses This asset has not been recognised as there is insufficient evidence that this will reverse in the foreseeable future This asset will be recoverable on the generation of sufficient taxable income in the future

9 Intangible exploration/appraisal assets

	£
Cost	
At 1 January 2006	-
Additions	93,376
At 1 January 2007	93,376
Additions	314,615
Unsuccessful exploration costs	(407,991)
At 31 December 2007	-
Carrying amount	
At 31 December 2007	-
At 31 December 2006	93,376

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Year ended 31 December 2007

10 Investments

	Shares in subsidiary undertakings £
Cost	
At 1 January 2006	6,555,000
Additions	250,000
At 1 January 2007 and 31 December 2007	6,805,000
Provisions for impairment	
At 1 January 2006 and 1 January 2007	-
Written off	(6,408,037)
At 31 December 2007	(6,408,037)
Carrying amount	
At 31 December 2007	396,963
At 31 December 2006	6,805,000

The Company has provided against the investment in Plectrum Oil and Gas Ltd to reduce the carrying value of the investment to the current fair value

The Company's principal subsidiaries as at the balance sheet date are set out below

Subsidiary undertakings	Country of incorporation	Country of operation	Activity	Proportion of voting rights and ordinary shares held at 31 December 2007
Plectrum Oil and Gas Ltd (formerly Plectrum Oil and Gas Plc)	England & Wales	Scotland	Holding company	100%
Plectrum Oil Limited (see below)	England & Wales	Scotland	Oil & gas exploration	100%
Banchory Exploration Limited	England & Wales	Scotland	Holding company	100%
Capricorn Oil and Gas Limited (formerly REAP Tunisia GmbH)	Switzerland	Tunisia	Oil & gas exploration	100%

In February 2007, Plectrum Oil and Gas Limited acquired the whole of the issued share capital of Banchory Exploration Limited for a cash consideration of £72,365 Banchory Exploration Limited's sole asset is the 49 9% minority shareholding in Plectrum Oil Limited and therefore has increased the Company's holding in the issued share capital of Plectrum Oil Limited to 100% In February 2007, the Company acquired the remaining 10% of REAP Tunisia GmbH for a nominal amount

11. Other financial assets

The Company calculates the fair value of assets by reference to amounts considered to be receivable on the balance sheet date The Directors believe the carrying value to approximate the fair value at 31 December 2007

The Company's financial assets are as follows

Trade and other receivables

	2007 £	2006 £
Due within one year		
Amounts owed by Group companies	4,975,724	503,635
Other debtors and prepayments	686,562	17,935
	5,662,286	521,570

Amounts due from other group companies are repayable on demand and are non-interest bearing All trade and other receivables are current

Cash and cash equivalents

	2007 £	2006 £
Cash at bank	182,562	6,041,382

All of the above financial assets are current and neither past due nor impaired

12. Other financial liabilities

The Company calculates the fair value of liabilities by reference to amounts considered to be payable on the balance sheet date The Directors believe the carrying value to approximate the fair value at 31 December 2007

The Company's financial liabilities are as follows

Trade and other payables

	2007 £	2006 £
Trade payables	19,853	16,990
Amounts due to subsidiaries	146,963	219,690
Other taxation and social security	-	2,202
Other creditors and accruals	418	68,679
	167,234	307,561

Amounts due to subsidiaries are repayable on demand and are non-interest bearing All trade and other payables are current

13 Financial commitments

The Company was committed to the following payments under operating leases

	2007		2006	
	Land and Buildings	**Other**	Land and Buildings	Other
Expiring in less than 1 year	-	-	4,645	1,422

The Company was committed to the following capital commitments

	2007	2006
	£	£
Oil and gas expenditure	5,318,892	-

The above capital commitments represent the Company's share of obligations in relation to its interests in Joint Ventures As all Company joint ventures are jointly controlled assets, these commitments also represent the Company's share of the capital commitments of the Joint Ventures themselves

14 Financial Risk Management: Objectives and Policies

The Parent Company's treasury function is responsible for managing investment and funding requirements including banking and cash flow monitoring It 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

The Company may from time to time, opt to use derivative financial instruments to minimise its exposure to fluctuations in foreign exchange rates, interest rates and movements in oil and gas prices Derivative financial instruments have not been used throughout the period It is, and has been throughout the period under review, the Company's policy that no trading in derivative financial instruments shall be undertaken

The main risks arising from the Company's financial instruments are liquidity risk, interest rate risk, foreign currency risk, commodity price risk and credit risk The Board reviews and agrees policies for managing each of these risks and these are summarised below

Liquidity risk
The Parent Company group currently has surplus cash which it has placed on short and medium term deposit, ensuring sufficient liquidity to enable the Group to meet its short/medium term expenditure requirements

14 Financial Risk Management: Objectives and Policies (continued)

Interest rate risk

Surplus funds will be placed on short/medium term deposit at floating rates It is the Company's policy to deposit funds with a bank or banks that offer the most competitive interest rate at time of issue

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, thereare no such instruments in place

Foreign currency risk

The Company will manage 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

In order to minimise the Company's exposure to foreign currency fluctuations, currency assets will be matched with currency liabilities by borrowing or entering into foreign exchange contracts in the applicable currency if deemed appropriate

No forward foreign exchange contracts were entered into during the period There were no outstanding foreign exchange contracts at the start of the period or at the end of the period

Commodity price risk

No commodity price hedging contracts have been entered into during the period There were no outstanding commodity price contracts at the start of the period or at the end of the period

Credit risk

With respect to deposit and treasury arrangements, as a general rule the Board will only approve a bank that has a Moody's rating for long term deposits of A and above

The Board will continue to assess the Company's strategies for managing credit risks At the period end the Company does not have any non-group debtors

Capital Management

The Company manages its capital structure and makes adjustments to it, in light of changes to economic conditions To maintain or adjust the capital structure, the Company may adjust the dividend payment to the parent, return capital, issue new shares for cash, repay debt or other such restructuring activities as appropriate

No changes were made in the objectives, policies or processes during the period ended 31 December 2007

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Year ended 31 December 2007

14 Financial Risk Management: Objectives and Policies (continued)

As at 31 December 2007 Capital and net debt was made up as follows

	2007 £	2006 £
Trade payables	**19,853**	16,990
Amounts due to subsidiaries	**146,963**	219,690
Other creditors and accruals	**418**	70,881
Less cash and short term deposits	**(182,562)**	(6,041,382)
Net Debt	**(15,328)**	(5,733,821)
Equity	**6,074,577**	13,153,767
Capital and Net Debt	**6,059,249**	7,419,946
Gearing ratio	-	-

15. Share capital

	2007 No of shares	2007 £	2006 No of shares	2006 £
Authorised				
Ordinary shares of £0 05 each	435,300,000	21,765,000	435,300,000	21,765,000
Allotted, issued and fully paid:				
Allotted, called and fully paid ordinary shares of £0 05 each	180,372,499	9,018,625	168,626,707	8,431,335
Allotted, not called or paid ordinary shares of £0 05 each	-	-	11,745,792	587,290

The increase in Allotted, called and fully paid ordinary shares is due to the nil paid shares which vested in the period Further details are provided in note 4

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16. Equity

	Equity share capital £	Share premium account £	Retained losses £	Total £
At 1 January 2006	7,538,478	4,901,555	(763,822)	11,676,211
Loss for year	-	-	(986,994)	(986,994)
Increase in paid up share capital	892,857	1,571,693	-	2,464,550
At 1 January 2007	8,431,335	6,473,248	(1,750,816)	13,153,767
Loss for the year	-	-	(9,444,241)	(9,444,241)
Increase in paid up share capital	587,290	776,461	-	1,363,751
Share based payments			1,001,300	1,001,300
At 31 December 2007	9,018,625	7,249,709	(10,193,757)	6,074,577

17 Notes to the cash flow statement

	2007 £	2006 £
Loss on ordinary activities before taxation	(9,444,241)	(986,994)
Adjustments for		
Unsuccessful exploration costs	407,991	-
Impairment of investments	6,408,037	-
Finance income	(223,288)	(274,785)
Share-based payments charge	1,001,300	-
Operating cash flows before movements in working capital	(1,850,201)	(1,261,779)
Increase in receivables	(5,140,716)	(285,139)
(Decrease)/increase in payables	(140,327)	57,580
Cash generated by operations	(5,281,043)	(227,559)
Net cash used in operating activities	**(7,131,244)**	**(1,489,338)**

18. Related party transactions

The following table provides the total balances outstanding with group companies

Loans to/from related parties	2007 £	2006 £
Balance as at 31 December		
Amounts owed from group companies	4,975,724	503,635
Amounts owed to group companies	(146,963)	(219,690)
	4,828,761	283,945

19. Remuneration of key management personnel

The remuneration of directors, who are the key management personnel of the Company, is set below in aggregate Further information on the highest paid director is provided in note 5

	2007 £	2006 £
Short-term employee benefits	55,139	58,125
Remuneration	1,089,493	54,000
Share based payments	1,001,300	-
	2,145,932	112,125

During the year, 11,745,492 nil paid shares held by the directors vested Further details are provided in note 4 The directors realised a gain of £174,963 when these shares vested

20. Ultimate controlling party

Following an acquisition on 10 October 2007, the Company's immediate parent undertaking at 31 December 2007 was Capricorn Oil and Gas Limited, a wholly owned subsidiary of Cairn Energy PLC The results of the Company are consolidated with those of Cairn Energy PLC, registered in Scotland, whose principal place of business is at 50 Lothian Road, Edinburgh, EH3 9BY

21. Explanation of transition to IFRS

Plectrum Petroleum Limited is presenting its results under IFRS for the first time in these financial statements, with a date of transition of 1 January 2007

There has been no impact to the financial position, financial performance or cash flows as a result of the adoption, for either the current or prior year as at the date of transition

22. Post Balance Sheet Events

On 29 July 2008, the Company completed the transfer of its licence interests in Western Australia to Arcadia Petroleum Limited and Enovation Resources Limited for nil consideration