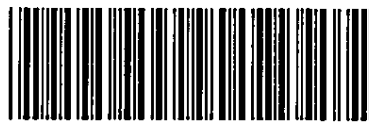


BANCHORY EXPLORATION LIMITED
REPORT & FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

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COMPANIES HOUSE

BANCHORY EXPLORATION LIMITED

Directors:

M J Watts
S J Thomson
J M Brown

Secretary:

D A Wood

Auditors:

Ernst & Young LLP
Blenheim House
Fountainhall Road
Aberdeen AB15 4DT

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:

5503163

BANCHORY EXPLORATION LIMITED

Directors' Report

The directors present their report and financial statements for the year ended 31 December 2008.

Principal Activities and Business Review

The Company's principal activity is that of a holding company.

On 1 January 2008 the Company changed its presentation currency from Pounds Sterling (£) to US Dollars (\$). During the year the Company did not trade, and as such made neither profits nor losses (2007: loss of \$130,065). There were no movements in cash and cash equivalents during the year, or prior 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 2008 (2007: \$nil).

Principal Risks and Uncertainties

The principal risks and uncertainties facing the Company derive from holding an investment, where the value of its investment is ultimately dependent on the performance of its associate.

Directors

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

J M Brown

S J Thomson

M J Watts

J D Bain (resigned 8 February 2008)

M H Evans (resigned 18 January 2008)

Charitable and Political Donations

The Company did not make any charitable or political contributions during the year (2007: nil).

Disclosure of Information to Auditors

The directors of the Company who held office at 31 December 2008 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

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

28 September 2009

BANCHORY EXPLORATION LIMITED

Directors' Responsibility Statement

The directors are responsible for preparing the Directors' Report and the Company financial statements in accordance with applicable United Kingdom law and those IFRSs as adopted by the EU.

The directors are required to prepare the Company financial statements for each financial year which present fairly the financial position of the Company and the financial performance and cash flows of the Company for that period. In preparing the Company financial statements, the directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirement in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- state that the Company have complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Company's financial statements comply with the Companies Act. 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 BANCHORY EXPLORATION LIMITED

We have audited the financial statements of Banchory Exploration Limited for the year ended 31 December 2008 which comprise the Income Statement, the Balance Sheet, the Statement of Recognised Income and Expense and the related notes 1 to 8. 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 Directors' Responsibility Statement.

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

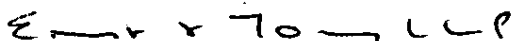
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 2008;
- 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
Edinburgh

28 September 2009

BANCHORY EXPLORATION LIMITED**Income Statement**

For the year ended 31 December 2008

		12 months to 31 December 2008	17 months to 31 December 2007
Continuing Operations	Notes	\$	\$
Impairment of Investment		-	(130,065)
Operating loss	2	-	(130,065)
Loss before taxation		-	(130,065)
Taxation expense on loss	3	-	-
Loss for the year	6	-	(130,065)

BANCHORY EXPLORATION LIMITED**Statement of Recognised Income and Expense**

For the year ended 31 December 2008

		12 months to 31 December 2008	17 months to 31 December 2007
	Notes	\$	\$
Income and expense recognised directly in equity			
Currency translation differences	6	-	1,040
Loss for the year	6	-	(130,065)
Total recognised expense for the year	6	-	(129,025)

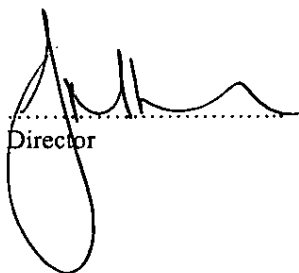
BANCHORY EXPLORATION LIMITED

Balance Sheet

As at 31 December 2008

	Notes	2008 \$	2007 \$
Non-current assets			
Investments	4	-	-
Total assets		-	-
Net assets		-	-
Called-up share capital	5	129,025	129,025
Foreign currency translation reserve	6	1,040	1,040
Retained earnings	6	(130,065)	(130,065)
Total equity		-	-

Signed on behalf of the Board on 28 September 2009



Director

BANCHORY EXPLORATION LIMITED

Notes to the Accounts

1 Accounting Policies

a) Basis of preparation

The financial statements of Banchory Exploration Limited ("the Company") for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the directors on 28 September 2009. The Company's ultimate parent company, Cairn Energy PLC, has confirmed it will make available sufficient funds to allow the Company to meet its liabilities as they fall due for the next twelve months. Hence these accounts have been prepared on a going concern basis. The Company is incorporated in England and Wales under the Companies Act 1985 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").

There are not considered to be any relevant new IFRS issued and adopted by the EU but not yet effective that are expected to have an impact on the Company's financial statements.

c) Presentation currency

The functional currency of the Company is Pounds Sterling (£). On 1 January 2008 the Company changed its presentation currency from Pounds Sterling (£) to US Dollars (\$). The Company translated its balance sheet at 31 December 2007 at the balance sheet rate of £1 = \$1.985, and translated its profit and loss account at the average rate ruling for the seventeen month period to 31 December 2007 of £1 = \$2.001. The Company's policy on foreign currencies is detailed in note 1(g).

d) Investments

The Company's investment in its associates is 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 associate.

Discounted future net cash flows for IAS 36 purposes are calculated using an estimated short term oil price of \$50/bbl and a long term oil price of \$65/bbl (2007: short and long term of \$60/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% (2007: 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 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.

BANCHORY EXPLORATION LIMITED

Notes to the Accounts (continued)

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.

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.

Item

Impairment testing

Refer to:

1(d)

2 Operating Loss

a) Operating loss is stated after charging:

	12 months to 31 December 2008	17 months to 31 December 2007
	\$	\$
Impairment of investment	-	130,065

The Company's auditors' remuneration of \$4,388 (2007: \$4,002) has been borne by the intermediate parent 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.

BANCHORY EXPLORATION LIMITED

Notes to the Accounts (continued)

3 Taxation on Loss

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 income tax rate is as follows:

	2008 \$	2007 \$
Loss before taxation	-	(130,065)
Tax at the standard rate of UK corporation tax of 28.5% (2007: 30%)	-	(39,020)
Effects of:		
Permanent differences	-	39,020
Total tax charge	-	-

Finance Act 2007 reduced the UK main rate of tax from 30% to 28%. This reduction took effect from 1 April 2008 onwards, resulting in an averaged main rate of corporation tax of 28.5% for the period from 1 January to 31 December 2008, as shown.

There is no deferred tax asset or liability as at 31 December 2008 (2007: \$nil).

4 Investments

	Total \$
Cost and net book value	
At 31 July 2006	130,065
Impairment	(130,065)
At 1 January and 31 December 2008	-

Details of the primary investments in which the Company held 20% or more of the nominal value of any class of share capital are as follows:

	Principal activity	Country of incorporation	Country of operation	Proportion of voting rights and ordinary shares
Plectrum Oil Limited	Exploration	England and Wales	Scotland	49.9%

In 2007 the Directors reviewed the investment for indicators of impairment and determined that the investment in Plectrum Oil had no recoverable value. Accordingly, a full provision was made for impairment of the investment.

5 Share Capital

	Ordinary shares of £1 each
Authorised ordinary shares	
At 31 December 2007 and 2008	65,000

	31 December 2008		31 December 2007	
	Number of shares	\$	Number of shares	\$
Allotted, issued and fully paid ordinary shares				
Ordinary shares of £1 each	65,000	129,025	65,000	129,025

BANCHORY EXPLORATION LIMITED

Notes to the Accounts (continued)

6 Equity

	Equity Share Capital \$	Retained earnings \$	Foreign currency translation reserve \$	Total Equity \$
At 1 August 2006	129,025	-	-	129,025
Currency translation differences	-	-	1,040	1,040
Loss for the year	-	(130,065)	-	(130,065)
At 1 January 2008	129,025	(130,065)	1,040	-
Currency translation differences	-	-	-	-
Loss for the year	-	-	-	-
At 31 December 2008	129,025	(130,065)	1,040	-

7 Related Party Transactions

The Company's principal subsidiary is listed in note 4. The Company did not make any transactions in the ordinary course of business with an entity under common control (2007: \$nil).

8 Ultimate Parent Company

The Company is a subsidiary of Plectrum Oil and Gas 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.