BANCHORY EXPLORATION LIMITED

REPORT & FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2007

5503163

Banchory Exploration Limited

Directors:

M J Watts
J M Brown
S J Thomson

Secretary:

D A Wood

Auditors:

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

Solicitors:

Shepherd+ Wedderburn LLP
1 Exchange Crescent
Conference Square
Edinburgh EH3 8UL

Registered Office:

10 St Paul's Churchyard
London EC8M 4AL

Registered No:

05503163

Banchory Exploration Limited

Report of the Directors

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

Principal Activities and Business Review

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

The Company did not trade during the period The Company has no cash or cash equivalents so a Statement of Cash Flows is not presented No dividend has been paid or declared in respect of the period ended 31 December 2007 (2006 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

Events After the Balance Sheet Date

The Company has an investment in Plectrum Oil Limited of 65,000 £1 ordinary shares at £100 each, of which 1% was called and 99% remains uncalled The remaining shares were only callable under the placing agreement if a) Plectrum Oil Limited was successful in the 24th UK Seaward Licensing Round and b) Plectrum Oil Limited and the Company mutually agreed to drill an exploration well The directors have subsequently decided that these conditions will not be met In addition the investment in Plectrum Oil Limited has no recoverable value Accordingly the Company's investment has been fully impaired at the balance sheet date

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)

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

By Order of the Board

Duncan Wood

Duncan A Wood
Secretary

50 Lothian Road
Edinburgh EH3 9BY

24 October 2008

Banchory Exploration Limited

Directors' Responsibility Statement

The directors are responsible for preparing the Company financial statements in accordance with applicable laws and regulations

UK company law requires the directors to prepare Company financial statements for each financial period Under such law the directors are required to prepare the Company financial statements in accordance with IFRS (as adopted by the EU)

The Company financial statements are required by law and IFRS (as adopted by the EU) to present fairly the financial position and performance of the Company, the Companies Act provides in relation to such financial statements that references in the relevant part of the Companies Act to financial statements giving a true and fair view, are references to their achieving a fair presentation

In preparing the Company financial statements, the directors are required to

- select suitable accounting policies and apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRS (as adopted by the EU), and
- prepare the financial statements on the going concern basis unless it is inappropriate to assume that the Company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

The directors confirm that, to the best of their knowledge and belief

- the financial statements have been prepared in accordance with the standards summarised above, give a true and fair view of the assets, liabilities and financial position of the Company's affairs as at 31 December 2007 and of its loss for the period then ended, and
- the Directors Report includes a fair review of the development and performance of the Company's business and a description of the principal risks and uncertainties that it faces

Independent Auditors' Report
To the members of Banchory Exploration Limited

We have audited the financial statements of Banchory Exploration Limited for the period ended 31 December 2007 which comprise the Income Statement, the Balance Sheet, the Statement of Recognised Income and Expense and the related notes 1 to 9 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 period 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

Ernst & Young LLP
Registered Auditor
Aberdeen

24 October 2008

Banchory Exploration Limited
Income Statement
For the period ended 31 December 2007

Continuing operations	Notes	17 months to 31 December 2007 £	12 months to 31 July 2006 £
Impairment of investment	3	(65,000)	-
Operating loss	2	**(65,000)**	-
Loss before taxation		**(65,000)**	-
Taxation	6	-	-
Loss for the period attributable to the equity holders	5	**(65,000)**	-

Banchory Exploration Limited
Statement of Recognised Income and Expense
For the period ended 31 December 2007

	Note	17 months to 31 December 2007 £	12 months to 31 July 2006 £
Loss for the period	5	**(65,000)**	-
Total recognised expense for the period		**(65,000)**	-

Banchory Exploration Limited
Balance Sheet
As at 31 December 2007

	Notes	As at 31 December 2007 £	As at 31 July 2006 £
Non-current assets			
Investments	3	-	65,000
Total assets		-	65,000
Net assets		-	65,000
Equity			
Share capital	4	**65,000**	65,000
Retained earnings	5	**(65,000)**	-
Total equity attributable to the equity holders		-	65,000

Signed on behalf of the Board on 24 October 2008

Director

Banchory Exploration Limited

Notes to the Accounts

For the period ended 31 December 2007

1 Accounting Policies

a) Basis of preparation

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's ultimate holding company, Cairn Energy PLC, has confirmed it will make available sufficient funds to allow the Company to pay its liabilities as they fall due for the next twelve months Hence these accounts have been prepared on a going concern basis

b) Accounting standards

The Company prepares its accounts in accordance with applicable International Financial Reporting Standards (IFRS) as adopted by the EU These are the first financial statements of the Company to have been prepared under IFRS and the disclosures required by IFRS 1 "First time adoption of IFRS" concerning the transition from UK GAAP to IFRS are given in note 9

There are no IFRS issued by the IASB but not yet effective that are expected to have an impact on the Company's financial statements

c) Presentational currency

The functional and presentational currency of Banchory Exploration Limited is Pounds Sterling ("£") The Company's policy on foreign currencies is detailed in note 1(e)

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 oil price 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% Forecasted production profiles are determined on an asset by asset basis, using appropriate petroleum engineering techniques

e) Foreign currencies

Cairn translates foreign currency transactions into the functional currency, sterling ("£"), 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

f) 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

g) Taxation

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

The current tax is based on taxable profit/ (loss) for the period 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 periods 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)

1 Accounting Policies

g) Taxation (continued)

Deferred income tax liabilities are recognised for all taxable temporary differences except in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in Joint Ventures where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future A deferred income tax liability is not recognised if a temporary difference arises on initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, carry forward of unused tax assets and unused tax losses can be utilised, except where the deferred income tax asset relating to the deductible temporary timing difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in Joint Ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised

The carrying amount of deferred income tax assets are reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be utilised

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods in which the asset is realised or the liability is settled, based on tax rates and laws enacted or substantively enacted at the Balance Sheet date

Deferred tax assets and liabilities are only offset where they arise within the same tax jurisdiction and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously

2 Operating Loss

Operating loss is stated after charging

	2007	2006
	£	£
Impairment of investment	**65,000**	-

Auditors' remuneration

The Company's auditors' remuneration for the current period of £2,000 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 company

Banchory Exploration Limited
Notes to the Accounts
For the period ended 31 December 2007

3 Investments

Cost and net book value	**£**
At 1 August 2005 and 31 July 2006	**65,000**
Provision for impairment	**(65,000)**
At 31 December 2007	**-**

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

Name	**Country of Incorporation**	**Holding**	**Percentage Shares Held**	**Nature of Business**
Plectrum Oil Limited	England & Wales	Ordinary shares	49 9%	Exploration

The directors have reviewed investments for indications of impairment and have determined that the investments in Plectrum Oil Limited have no recoverable value Accordingly, full provision has been made for impairment of investments See note 8 below

4 Share Capital

	£1 Ordinary Number	£1 Ordinary £
Authorised issued and fully paid ordinary shares		
As at 1 August 2005, 31 July 2006 and 31 December 2007	65,000	**65,000**

5 Equity

	Equity share capital £	Retained Earnings £	**Total £**
At 31 July 2006	65,000	-	**65,000**
Loss for period	-	(65,000)	**(65,000)**
At 31 December 2007	**65,000**	**(65,000)**	**-**

Banchory Exploration Limited
Notes to the Accounts
For the period ended 31 December 2007

6 Taxation

A reconciliation of the income tax expense applicable to the profit or 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 before taxation	**65,000**	-
Tax at the UK corporation tax rate of 30% (2006 30%)	**(19,500)**	-
Effects of		
Permanent differences	**19,500**	-
Tax expense	-	-

There is no deferred tax asset or liability as at 31 December 2007 (2006 £0)

7 Ultimate Parent Company

On 10 October 2007 the Company's ultimate parent undertaking, Plectrum Petroleum PLC was acquired by Capricorn Oil and Gas Limited, a subsidiary of Cairn Energy PLC From that date to 31 December 2007 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

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

8 Events After the Balance Sheet Date

The Company has an investment in Plectrum Oil limited of 65,000 £1 ordinary shares at £100 each, of which 1% was called and 99% remains uncalled The remaining shares were only callable under the placing agreement if a) Plectrum Oil Limited was successful in the 24th UK Seaward Licensing Round and b) Plectrum Oil Limited and the Company mutually agreed to drill an exploration well The directors have subsequently decided that these conditions will not be met In addition the investment in Plectrum Oil Limited has no recoverable value Accordingly the Company's investment has been fully impaired at the balance sheet date

9 Explanation of transition to IFRS

The Company is presenting its results under IFRS for the first time in these financial statements, with a date of transition of 1 August 2005

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