Registered No 5503163

BANCHORY EXPLORATION LIMITED

REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

BANCHORY EXPLORATION 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

5503163

BANCHORY EXPLORATION LIMITED

Directors' Report

The directors present their report and financial statements for the year ended 31 December 2009

Principal Activities and Business Review
The Company's principal activity is that of a holding company

During the year the Company did not trade, and as such made neither profits nor losses (2008 $nil) 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 2009 (2008 $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

Charitable and Political Donations
The Company did not make any charitable or political contributions during the year (2008 $nil)

Disclosure of Information to Auditors
The directors of the Company who held office at 31 December 2009 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

19 July 2010

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 confirm that they have complied with the above requirements in preparing the financial statements

Each of the directors, whose names are listed on page 2 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 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 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 BANCHORY EXPLORATION LIMITED (Registered No 5503163)
We have audited the financial statements of Banchory Exploration Limited for the year ended 31 December 2009 which comprise the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 7 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 auditor's 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 and 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

Opinion on the 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 2009
- 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
20 July 2010

BANCHORY EXPLORATION LIMITED

Balance Sheet

As at 31 December 2009

	Notes	2009 $	2008 $
Non-current assets			
Investments	4	-	-
Total assets		-	-
Net assets		-	-
Called-up share capital	5	**129,025**	129,025
Foreign currency translation reserve		**1,040**	1,040
Retained earnings		**(130,065)**	(130,065)
Total equity		-	-

Signed on behalf of the Board on 19 July 2010

Jann Brown
Director

BANCHORY EXPLORATION LIMITED

Statement of Changes in Equity

For the year ended 31 December 2009

	Equity Share Capital $	Retained Earnings $	Foreign Currency Translation Reserve $	**Total Equity $**
At 1 January 2008	129,025	(130,065)	1,040	-
Result for the year	-	-	-	-
At 1 January 2009	129,025	(130,065)	1,040	-
Result for the year	-	-	-	-
At 31 December 2009	**129,025**	**(130,065)**	**1,040**	**-**

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 2009 were authorised for issue in accordance with a resolution of the directors on 19 July 2010 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 is presented in the financial statements and supporting notes

Although the Company does not hold any assets as at 31 December 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 and domiciled in the United Kingdom The registered office is located at 5th Floor, Condor House, 10 St Paul's Churchyard, London EC4M 8AL

The Company prepares its accounts on a historical cost basis Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the relevant accounting policy

b) Accounting standards

The Company prepares its accounts in accordance with applicable International Financial Reporting Standards ('IFRS') as adopted by the EU The Company's financial statements are also consistent with IFRS as issued by the International Accounting Standards Board ('IASB')

For the year ending 31 December 2009, the Company has adopted the following standards and interpretations

Title	Change to accounting policy	Impact on initial application
IAS 1 'Presentation of Financial Statements (revised)'	Terminology changes and changes to the format and content of the Company's primary statements	The Company now presents the Statement of Changes in Equity as a primary statement

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

- IFRS 2 'Share-based Payments (revised)',
- IFRS 7 'Financial Instruments Disclosures (amendments)',
- IAS 23 'Borrowing costs (revised)',
- IAS 27 'Consolidated and Separate Financial Statements (amendments)',
- IFRIC 9 'Reassessment of Embedded Derivatives and IAS 39 'Financial Instruments Recognition and Measurement (amendments)',
- IAS 32 'Financial Instruments Presentation (amendments)' and IAS 1 'Puttable Financial Instruments and Obligations Arising on Liquidation (amendments)',
- IFRIC 13 'Customer Loyalty Programmes',
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation', and
- IFRIC 19 'Extinguishing Liabilities with Equity Instruments'

No other IFRS as issued by the IASB which are not yet effective are expected to have an impact on the Company's financial statements

c) Presentation currency

The functional currency of the Company is Pounds Sterling (£) The company presents its 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 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 and long-term oil price of $65/bbl (2008 short-term of $50/bbl, long-term 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 10% (2008 3% and 10% respectively) Forecast production profiles are determined on an asset by asset basis, using appropriate petroleum engineering techniques

1 Accounting Policies (continued)

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

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

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 Auditor's Remuneration

The Company's auditor's remuneration of $4,698 (2008 $4,388) has been borne by the intermediate parent company Capricorn Energy Limited Auditor's 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 Taxation

The company is a UK tax resident There is no current or deffered taxation in the year because the Company has had no transactions (2008 $nil)

4 Investments

	Total $
Cost	
At 1 January 2008, 1 January 2009 and 31 December 2009	130,065
Impairment	
At 1 January 2008, 1 January 2009 and 31 December 2009	(130,065)
Net book value at 31 December 2008 and 2009	-

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%

5 Share Capital

	Ordinary shares of £1 each
Authorised ordinary shares	
At 31 December 2008 and 2009	65,000

	2009		2008	
	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

6 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 (2008 $nil)

7 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