Registered No: SC234510

CAIRN ENERGY EXPLORATION AND PRODUCTION COMPANY LIMITED

REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

Cairn Energy Exploration and Production Company Limited

Directors:
W B B Gammell
J M Brown
M S Thoms
S J Thomson
M J Watts

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:
50 Lothian Road
Edinburgh EH3 9BY

Registered No:
SC234510

Cairn Energy Exploration and Production Company 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 the exploration for oil and gas.

The Company had a 15% interest in block GV-ONN-97/1 in India where it was exploring for oil and gas. On 12th May 2008 the block was relinquished.

During the year the Company made a loss of $776,038 (2007: $1,351,759). No dividend has been paid or declared in respect of the year ended 31 December 2008 (2007: $nil).

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

The Company's future 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
For detail of the Company's financial risk management policy see note 13.

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

W B B Gammell
J M Brown
M S Thoms
S J Thomson
M J Watts

Charitable and Political Donations
The Company did not make any charitable or political contributions during the year (2007: $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 are agreed prior to business taking place.

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.

Cairn Energy Exploration and Production Company Limited

Directors' Report (continued)

Resolutions
The Company has passed elective resolutions to dispense with the requirements to:-

- Lay accounts before the company's shareholders in annual general meeting
- Hold annual general meetings

By Order of the Board

Duncan Wood

Secretary

50 Lothian Road
Edinburgh EH3 9BY

28 September 2009

Cairn Energy Exploration and Production Company 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 year. 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 Auditors' Report

To the members of Cairn Energy Exploration and Production Company Limited

We have audited the financial statements of Cairn Energy Exploration and Production Company Limited for the year ended 31 December 2008 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes 1 to 17. 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 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
Edinburgh
28 September 2009

Cairn Energy Exploration and Production Company Limited

Income Statement

For the year ended 31 December 2008

	Notes	2008 $	2007 $
Administration expenses		-	(7,142)
Unsuccessful exploration costs	7	**(773,054)**	(1,346,600)
Operating loss	2	**(773,054)**	(1,353,742)
Finance income	4	**191**	4,379
Finance costs	5	**(3,175)**	(2,396)
Loss before tax		**(776,038)**	(1,351,759)
Taxation	6	-	-
Loss for the year	12	**(776,038)**	(1,351,759)

Cairn Energy Exploration and Production Company Limited

Statement of Recognised Income and Expense

For the year ended 31 December 2008

	Notes	2008 $	2007 $
Loss for the year	12	**(776,038)**	(1,351,759)
Total recognised income and expense for the year		**(776,038)**	(1,351,759)

Cairn Energy Exploration and Production Company Limited

Balance Sheet

As at 31 December 2008

	Notes	2008 $	2007 $
Non-current assets			
Intangible exploration/appraisal assets	7	-	-
		-	-
Current assets			
Trade and other receivables	8	-	81,996
Cash and cash equivalents	9	**69,149**	9,881
		69,149	91,877
Total assets		**69,149**	91,877
Current liabilities			
Trade and other payables	10	**61,707**	1,538,395
Total liabilities		**61,707**	1,538,395
Net Assets/(liabilities)		**7,442**	(1,446,518)
Equity			
Called-up share capital	11	**2,647,197**	417,199
Retained earnings	12	**(2,639,755)**	(1,863,717)
Total equity attributable to the equity holders		**7,442**	(1,446,518)

Signed on behalf of the Board on 28 September 2009.

Director

Cairn Energy Exploration and Production Company Limited

Statement of Cash Flows

For the year ended 31 December 2008

	Note	2008 $	2007 $
Cash flows used in operating activities			
Loss for year		**(776,038)**	(1,351,759)
Unsuccessful exploration costs		**773,054**	1,346,600
Finance income		**(191)**	(4,379)
Finance costs		**3,175**	2,396
Interest paid		**-**	(1,315)
Trade and other receivables movement		**(25,366)**	(27,564)
Trade and other payables movement		**15,993**	-
Net cash used in operating activities		**(9,373)**	(36,021)
Cash flows used in investing activities			
Expenditure on exploration/appraisal assets		**(1,107,514)**	(559,400)
Interest received		**191**	257
Net cash used in investing activities		**(1,107,323)**	(559,143)
Cash flows from financing activities			
Bank charges		**(667)**	(1,081)
Proceeds from/(payments to) group borrowings		**(1,053,367)**	598,412
Proceeds from issue of shares	11	**2,229,998**	-
Net cash flows from financing activities		**1,175,964**	597,331
Net increase in cash and cash equivalents		**59,268**	2,167
Opening cash and cash equivalents at beginning of year		**9,881**	7,714
Closing cash and cash equivalents	9	**69,149**	9,881

Cairn Energy Exploration and Production Company Limited

Notes to the Accounts

For the year ended 31 December 2008

1 Accounting Policies

a) Basis of preparation

The financial statements of Cairn Energy Exploration and Production Company 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 is a limited company incorporated and domiciled in the United Kingdom. The registered office is located at 50 Lothian Road, Edinburgh, Scotland.

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").

Relevant new standards and interpretations issued by the IASB, but not yet effective and not applied in these financial statements are as follows:

Title	**Change to accounting policy**	**Date of adoption by Company**	**Impact on initial application**
Effective date from 1 January 2009			
Revised IAS 1 'Presentation of Financial Statements'	No changes to current accounting policy	1 Jan 2009	Presentation and disclosure requirements for certain items in the Income Statement

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 and presentation currency of the Company is US Dollars ("$"). The Company's policy on foreign currencies is detailed in note 1(h).

d) Joint Ventures

The Company participates in an unincorporated Joint Venture which involves the joint control of assets used in the Company's oil and gas exploration activities. The Company accounts for its share of assets, liabilities, income and expenditure of Joint Ventures in which the Company holds an interest, classified in the appropriate Balance Sheet and Income Statement headings. The Company's principal licence interest is a jointly controlled asset.

The company had an interest in the following unincorporated joint venture:

	Working interest
GV-ONN-97/1	15.0%

On 12 May 2008 the Company's interest in block GV-ONN-97/1 was relinquished.

e) Interest Income

Interest income is recognised using the effective interest method on an accruals basis and is recognised within 'Finance Income' in the Income Statement.

1 Accounting Policies (continued)

f) Oil and gas intangible exploration/appraisal assets and property, plant & equipment - development/producing assets

The Company follows a successful efforts based accounting policy for oil and gas assets.

Costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Income Statement.

Expenditure incurred on the acquisition of a licence interest is initially capitalised on a licence by licence basis. Costs are held, undepleted, within exploration/appraisal assets until such time as the exploration phase on the licence area is complete or commercial reserves have been discovered.

Exploration expenditure incurred in the process of determining exploration targets is capitalised initially within exploration/appraisal assets and subsequently allocated to drilling activities. Exploration/appraisal drilling costs are initially capitalised on a well by well basis until the success or otherwise of the well has been established. The success or failure of each exploration/appraisal effort is judged on a well by well basis. Drilling costs are written off on completion of a well unless the results indicate that hydrocarbon reserves exist and there is a reasonable prospect that these reserves are commercial.

Following appraisal of successful exploration wells, if commercial reserves are established and technical feasibility for extraction demonstrated, then the related capitalised exploration/appraisal costs are transferred into a single field cost centre within development/producing assets after testing for impairment (see below). Where results of exploration drilling indicate the presence of hydrocarbons that are ultimately not considered commercially viable, all related costs are written off to the Income Statement.

All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons has been demonstrated are capitalised within development/producing assets on a field by field basis. Subsequent expenditure is capitalised only where it either enhances the economic benefits of the development/producing asset or replaces part of the existing development/producing asset. Any remaining costs associated with the part replaced are expensed.

Net proceeds from any disposal of an exploration asset are initially credited against the previously capitalised costs. Any surplus proceeds are credited to the Income Statement. Net proceeds from any disposal of development/producing assets are credited against the previously capitalised cost. A gain or loss on disposal of a development/producing asset is recognised in the Income Statement to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalised costs of the asset.

Depletion

The Company depletes separately, where applicable, any significant components within development/producing assets, such as fields, processing facilities and pipelines which are significant in relation to the total cost of a development/producing asset.

The Company depletes expenditure on property, plant & equipment - development/producing assets on a unit of production basis, based on proved and probable reserves on a field by field basis. In certain circumstances, fields within a single development area may be combined for depletion purposes.

Impairment

Exploration/appraisal assets are reviewed regularly for indicators of impairment and costs are written off where circumstances indicate that the carrying value might not be recoverable. In such circumstances the exploration asset is allocated to development/producing assets within the same geographic segment and tested for impairment. Any such impairment arising is recognised in the Income Statement for the year. Where there are no development/producing assets within a geographic segment, the exploration/appraisal costs are charged immediately to the Income Statement.

Impairment reviews on development/producing assets are carried out on each cash-generating unit identified in accordance with IAS 36 "Impairment of Assets". The Company's cash-generating units are those assets which generate largely independent cash flows and are normally, but not always, single development areas.

1 Accounting Policies (continued)

f) Oil and gas intangible exploration/appraisal assets and property, plant & equipment - development/producing assets (continued)

Impairment (continued)

At each reporting date, where there are indicators of impairment, the net book value of the cash-generating unit is compared with the associated expected discounted future net cash flows. If the net book value is higher, then the difference is written off to the Income Statement as impairment.

Where there has been a charge for impairment in an earlier period that charge will be reversed in a later period where there has been a change in circumstances to the extent that the discounted future net cash flows are higher than the net book value at the time. In reversing impairment losses, the carrying amount of the asset will be increased to the lower of its original carrying value or the carrying value that would have been determined (net of depletion) had no impairment loss been recognised in prior periods.

g) 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.

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.

Cairn Energy Exploration and Production Company Limited

Notes to the Accounts (continued)
For the year ended 31 December 2008

1 Accounting Policies (continued)

g) **Financial instruments (continued)**

Borrowing costs

Borrowing costs are recognised in the Income Statement in the year in which they are incurred except for borrowing costs incurred on borrowings directly attributable to development projects which are capitalised within the development/producing asset.

h) **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.

i) **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.

j) **Taxation**

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

The current tax is based on taxable loss for the year. Taxable loss differs from net 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 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.

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.

1 Accounting Policies (continued)

k) **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	**Refer to:**
Impairment testing	1(f), 1(g)

2 Operating Loss

Auditors' remuneration

The Company's auditors' remuneration of $4,388 (2007: $6,300) has been borne by the intermediate holding company Capricorn Energy Limited.

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.

3 Directors' Emoluments

No remuneration was paid to any director for services to this Company during the year (2007: $nil).

4 Finance Income

	2008	2007
	$	$
Bank interest	**191**	257
Exchange gain	-	4,122
	191	4,379

5 Finance Costs

	2008	2007
	$	$
Loan interest payable	-	1,315
Bank charges	**667**	1,081
Exchange loss	**2,508**	-
	3,175	2,396

6 Taxation

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:

	2008	2007
	$	$
Loss on activities before taxation	**(776,038)**	(1,351,759)
Loss on activities before taxation multiplied by the standard rate of UK corporation tax of 28.5% (2007: 30%)	**(221,171)**	(405,528)
Effects of:		
Deferred tax movement not recognised	**(520,397)**	368,259
Group relief surrendered	**850**	-
Tax reliefs extinguished on relinquishment of block GV-ONN-97/1	**750,008**	-
Other	**(9,290)**	37,269
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 a deferred tax asset of $1,386 as at 31 December 2008 (2007: $521,783). The 2008 asset relates to tax losses (2007: fixed asset timing differences, pre-trading expenditure and tax losses). This asset has not been recognised as there is insufficient evidence that it will reverse in the foreseeable future. This asset will be recoverable if the company generates sufficient taxable income in the future.

7 Intangible Exploration/Appraisal Assets

	South Asia	**Total**
	$	**$**
Cost and net book value		
At 1 January 2007	754,352	**754,352**
Additions	592,248	**592,248**
Unsuccessful exploration costs	(1,346,600)	**(1,346,600)**
At 1 January 2008	-	**-**
Additions	773,054	**773,054**
Unsuccessful exploration costs	(773,054)	**(773,054)**
At 31 December 2008	-	**-**
Net book value at 31 December 2008	-	**-**
Net book value at 31 December 2007	-	-
Net book value at 1 January 2007	754,352	754,352

Cairn Energy Exploration and Production Company Limited

Notes to the Accounts (continued)

For the year ended 31 December 2008

8 Trade and Other Receivables

	2008	2007
	$	$
Joint Venture debtors and prepayments	-	81,996
	-	81,996

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

	Total	Current	< 30 days	30-60 days	60-90 days	90-120 days	>120 days
	$	**$**	**$**	**$**	**$**	**$**	**$**
2008							
As at 31 December 2008	-	-	-	-	-	-	-
2007							
Neither past due nor impaired	81,996	81,996	-	-	-	-	-
As at 31 December 2007	81,996	81,996	-	-	-	-	-

9 Cash and Cash Equivalents

	At 1 January 2008	Cash flow	**At 31 December 2008**
	$	$	**$**
Cash at bank	9,881	59,268	**69,149**
Cash and cash equivalents	**9,881**	**59,268**	**69,149**

	At 1 January 2007	Cash flow	At 31 December 2007
	$	$	$
Cash at bank	7,714	2,167	9,881
Cash and cash equivalents	7,714	2,167	9,881

10 Trade and Other Payables

	2008	2007
	$	$
Amounts owed to Group companies	**61,707**	1,121,939
Joint Venture creditors and accruals	-	416,456
	61,707	1,538,395

Cairn Energy Exploration and Production Company Limited
Notes to the Accounts (continued)
For the year ended 31 December 2008

11 Share Capital

	£1 Ordinary Number
Authorised ordinary shares	
At 31 December 2007 and 2008	**5,100,000**

	£1 Ordinary Number	£1 Ordinary $
Allotted, issued and fully paid ordinary shares		
At 1 January and 31 December 2007	**213,555**	**417,199**
Issued during the year	1,166,862	2,229,998
At 31 December 2008	**1,380,417**	**2,647,197**

On 30 May 2008 the Company issued 1,004,483 of fully paid ordinary shares of £1 each at par in settlement of a debt due to Capricorn Oil Limited. On 1 July 2008 the entire issued share capital was transferred from Capricorn Oil Limited to Capricorn Energy Limited. On 1 December 2008 the Company issued 162,379 of fully paid ordinary shares of £1 each at par in settlement of a debt due to Capricorn Energy Limited.

12 Equity

	Equity share capital $	Retained earnings $	Total $
At 1 January 2007	417,199	(511,958)	**(94,759)**
Loss for year	-	(1,351,759)	**(1,351,759)**
At 1 January 2008	417,199	(1,863,717)	**(1,446,518)**
Shares issued	2,229,998	-	**2,229,998**
Loss for year	-	(776,038)	**(776,038)**
At 31 December 2008	**2,647,197**	**(2,639,755)**	**7,442**

13 Financial Risk Management: Objectives and Policies

The main risks arising from the Company's financial instruments are liquidity risk, interest rate risk, foreign currency risk and credit risk. The Board of Cairn Energy PLC ("the Board"), the ultimate parent company, reviews and agrees policies for managing each of these risks and these are summarised below:

The Company's treasury functions are managed by the treasury functions of Cairn Energy PLC and Capricorn Oil Limited. Local operational offices are responsible for managing liquidity and credit risk relating to instruments other than receivables for their respective businesses in accordance with the policy set by their Board. This is carried out by monitoring of investment and funding requirements by using a number of techniques including daily cash flow monitoring. They 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. Credit risk relating to receivables is managed by both the parent company and local management.

The primary financial instruments comprise cash, intra-group loans and other receivables and financial liabilities held at amortised cost. The Company's finance strategy is managed as part of a wider strategy undertaken by the Board for the various companies in the group – mainly to finance its operations through a mixture of retained profits and bank borrowings. Other alternatives like equity and other forms of non investment grade debt finance are reviewed by the Board, when appropriate, to fund substantial acquisitions or oil and gas projects.

Liquidity risk

The Company, through its indirect holding company Capricorn Oil Limited, has access to the available cash balances of the Capricorn Oil Group. Subsequently, Capricorn Oil Limited has access, if so required, to the Cairn Energy PLC £30 million revolving credit facility to fund working capital, obtained on 28 March 2008. The facility is jointly provided by The Royal Bank of Scotland PLC and the Bank of Scotland PLC and expires on 31 January 2013. Interest is charged at floating rates determined by LIBOR plus an applicable margin. At 31 December 2008 £nil was drawn (2007: £nil).

In addition, the Company has access to the Capricorn Oil Limited facilities to cover the issue of bank guarantees. As at 31 December 2008 there were $35.0m (2007: $35.0m) of facilities in place to cover the issue of bank guarantees. Fixed rates of interest apply to these. $29.2m (2007: $28.8m) was unutilised at 31 December 2008.

The Board is conscious of the current environment and constantly monitors counterparty risk. Policies are in place to limit counterparty exposure. The treasury function monitors counterparties using published ratings and when investing in money market liquidity and mutual funds primarily by consideration of the funds investment policy.

Interest rate risk

Surplus funds are placed on short/medium term deposit at floating rates. It is Board's policy to deposit funds with banks or other financial institutions that offer the most competitive interest rate at time of issue. The requirement to achieve an acceptable yield is balanced against the need to minimise liquidity and counterparty risk.

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, there are no such instruments (2007: none).

Foreign currency risk

The Board manages 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. Generally the exposure has been limited given that receipts and payments have mostly been in US dollars, the functional currency.

In order to minimise the Company's exposure to foreign currency fluctuations, currency assets are matched with currency liabilities by borrowing or entering into foreign exchange contracts in the applicable currency if deemed appropriate. The loan facilities are multi-currency and allow drawings in currencies in US dollars, Sterling or such other currency as may be agreed between the lenders and the Company from time to time.

13 Financial Risk Management: Objectives and Policies (continued)

The Company reports in US dollars which, with most assets US dollar denominated, minimises the impact of foreign exchange movements on the Balance Sheet.

The Company may from time to time, opt to use derivative financial instruments to minimise its exposure to fluctuations in foreign exchange and interest rates.

Credit risk
Investments in money market liquidity funds are only made with AAA rated funds and where the investment policy is limited to liquidity instruments which excludes equity. Deposits and other investments are generally only placed with banks or financial institutions that have a Moody's or Standard & Poor's rating of AA and above.

The Board will continue to assess the Company's strategies for managing credit risks but at this time they view existing policies as satisfactory. At the year end the Company does not have any significant concentrations of bad debt risk.

The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the Balance Sheet date.

Capital Management
The objective of the Company's capital management structure is to ensure that there remains sufficient liquidity within the Company to carry out committed work programme requirements. The Board monitor the long term cash flow requirements of their businesses in order to assess the requirement for changes to the capital structure to meet that objective and to maintain flexibility.

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

No significant changes were made in the objectives, policies or processes during the year ended 31 December 2008.

As at 31 December 2008 capital and net debt were made up as follows:

	2008	2007
	£	
Amounts owed to Group companies	**61,707**	1,121,939
Joint Venture creditors and accruals	-	416,456
Less cash and cash equivalents	**(69,149)**	(9,881)
Net (funds)/debt	**(7,442)**	1,528,514
Equity	**7,442**	(1,446,518)
Capital and net debt	-	81,996
Gearing ratio	**0%**	1864%

14 Financial Instruments

The Company calculates the fair value of assets and liabilities by reference to amounts considered to be receivable or payable on the Balance Sheet date. The Company's financial assets and liabilities, together with their fair values are as follows:

Financial assets

	Carrying amount		**Fair value**	
	2008	2007	**2008**	2007
	$	$	**$**	$
Cash and cash equivalents	**69,149**	9,881	**69,149**	9,881
Joint Venture debtors	-	81,996	-	81,996
	69,149	91,877	**69,149**	91,877

All of the above financial assets are current and unimpaired. An analysis of the ageing of trade and other receivables is provided in note 8.

Financial liabilities

	Carrying amount		**Fair value**	
	2008	2007	**2008**	2007
	$	$	**$**	$
Amounts owed to group companies	**61,707**	1,121,939	**61,707**	1,121,939
Joint Venture creditors and accruals	-	416,456	-	416,456
	61,707	1,538,395	**61,707**	1,538,395

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

The following table sets out the amount, by maturity, of the Company's financial liabilities:

	Less than one year $	One to two years $	Two to three years $	Three to four years $	Four to five years $	More than five years $	**Total** **$**
2008							
Amounts owed to group companies	**34,768**	26,939	-	-	-	-	**61,707**
Joint Venture creditors and accruals	-	-	-	-	-	-	-
	34,768	26,939	-	-	-	-	**61,707**
2007							
Amounts owed to group companies	1,121,939	-	-	-	-	-	1,121,93 9
Joint Venture creditors and accruals	416,456	-	-	-	-	-	416,456
	1,538,395	-	-	-	-	-	1,538,395

15 Capital Commitments

	2008	2007
	$	$
Oil and gas expenditure:		
Intangible exploration/appraisal assets	-	828,526
Contracted for	-	828,526

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.

16 Related Party Transactions

The following table provides the total amount of transactions which have been entered into with Group companies.

	2008	2007
	$	$
Balances at 31 December		
Amounts owed to Group companies	**(61,707)**	(1,121,939)
	(61,707)	(1,121,939)

On 30 May 2008 the Company issued 1,004,483 of fully paid ordinary shares of £1 each at par in settlement of a debt due to Capricorn Oil Limited. On 1 July 2008 the entire issued share capital was transferred from Capricorn Oil Limited to Capricorn Energy Limited. On 1 December 2008 the Company issued 162,379 of fully paid ordinary shares of £1 each at par in settlement of a debt due to Capricorn Energy Limited.

Remuneration of key management personnel
No remuneration was paid to directors, who are the key management personnel of the Company, for services to this Company during the year (2007: $nil).

17 Ultimate Parent Company

The Company is a subsidiary of Capricorn Energy Limited. The Company's ultimate holding 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.