

CAIRN ENERGY EXPLORATION AND PRODUCTION COMPANY LIMITED
REPORT & FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009



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
Ten George Street
Edinburgh EH2 2DZ

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 2009.

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 \$3,001 mainly due to administrative costs (2008: \$776,038). No dividend has been paid or declared in respect of the year ended 31 December 2009 (2008: \$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 11.

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 (2008: \$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 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.

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 an annual general meeting
- Hold annual general meetings

By Order of the Board



Secretary

50 Lothian Road
Edinburgh EH3 9BY

27 May 2010

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

Each of the directors, whose names are listed on page 1, 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 Auditors' Report

To the members of Cairn Energy Exploration and Production Company Limited (registered number SC234510)

We have audited the financial statements of Cairn Exploration (No.1) Limited for the year ended 31 December 2009 which comprise the Income Statement, the Balance Sheet, the Statement of Cash Flows, the Statement of Comprehensive Income, the Statement of Changes in Equity and the related notes 1 to 14. 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 5, 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 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 and of its loss for the year then ended;
- 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
27 May 2010

Cairn Energy Exploration and Production Company Limited

Income Statement

For the year ended 31 December 2009

	Notes	2009 \$	2008 \$
Unsuccessful exploration costs	7	1,328	(773,054)
Administration expenses		(2,394)	-
Operating loss	2	(1,066)	(773,054)
Finance income	4	-	191
Finance costs	5	(1,935)	(3,175)
Loss before tax		(3,001)	(776,038)
Taxation	6	-	-
Loss for the year		(3,001)	(776,038)

Cairn Energy Exploration and Production Company Limited

Statement of Comprehensive Income

For the year ended 31 December 2009

	2009	2008
	\$	\$
Loss for the year	(3,001)	(776,038)
Total comprehensive income for the year	(3,001)	(776,038)

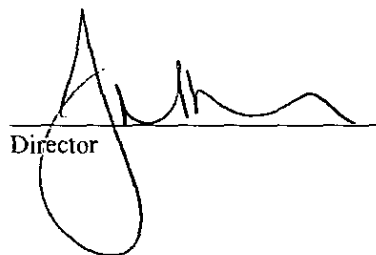
Cairn Energy Exploration and Production Company Limited

Balance Sheet

As at 31 December 2009

	Notes	2009 \$	2008 \$
Non-current assets			
Intangible exploration/appraisal assets	7	-	-
		-	-
Current assets			
Cash and cash equivalents	8	13,065	69,149
		13,065	69,149
Total assets		13,065	69,149
Current liabilities			
Trade and other payables	9	8,624	61,707
Total liabilities		8,624	61,707
Net assets		4,441	7,442
Equity			
Called-up share capital	10	2,647,197	2,647,197
Retained earnings		(2,642,756)	(2,639,755)
Total equity		4,441	7,442

Signed on behalf of the Board on 27 May 2010.


 Director

Cairn Energy Exploration and Production Company Limited

Statement of Cash Flows

For the year ended 31 December 2009

	Note	2009 \$	2008 \$
Cash flows used in operating activities			
Loss for year		(3,001)	(776,038)
Unsuccessful exploration costs		(1,328)	773,054
Finance income		-	(191)
Finance costs		1,935	3,175
Trade and other receivables movement		-	(25,366)
Trade and other payables movement		-	15,993
Net cash used in operating activities		(2,394)	(9,373)
Cash flows used in investing activities			
Expenditure on exploration/appraisal assets		1,328	(1,107,514)
Interest received		-	191
Net cash from/(used in) investing activities		1,328	(1,107,323)
Cash flows from financing activities			
Bank charges		-	(667)
Proceeds from group borrowings		(55,018)	(1,053,367)
Proceeds from issue of shares		-	2,229,998
Net cash flows (used in)/from financing activities		(55,018)	1,175,964
Net (decrease)/increase in cash and cash equivalents		(56,084)	59,268
Opening cash and cash equivalents at beginning of year		69,149	9,881
Closing cash and cash equivalents	8	13,065	69,149

Cairn Energy Exploration and Production Company Limited

Statement of Changes in Equity

For the year ended 31 December 2009

	Equity share capital \$	Retained earnings \$	Total \$
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 1 January 2009	2,647,197	(2,639,755)	7,442
Loss for year	-	(3,001)	(3,001)
At 31 December 2009	2,647,197	(2,642,756)	4,441

Cairn Energy Exploration and Production Company Limited

Notes to the Accounts

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 2009 were authorised for issue in accordance with a resolution of the Directors on 27 May 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, its cash flows, liquidity position and borrowing facilities are presented in the financial statements and supporting notes. In addition, note 11 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Company has sufficient financial resources with which the directors believe that the company is well placed to manage its business risks successfully, despite the current uncertain economic outlook. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The Company is incorporated in Scotland 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").

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
IFRS 7 'Financial Instruments: Disclosures (amendments)'	Increased disclosures on fair value measurement and liquidity risk.	Liquidity risk disclosures in note 11 are not significantly impacted.
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 a Statement of Comprehensive Income, presented in two linked statements and 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)';
- 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'.

Cairn Energy Exploration and Production Company Limited

Notes to the Accounts (continued)

1 Accounting Policies (continued)

Accounting standards (continued)

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

e) Presentation currency

The functional and presentation currency of the Company is US Dollars ("US\$"). 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

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 intangible 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 oil and gas exploration targets is capitalised initially within intangible 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 property, plant and equipment - 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 property, plant and equipment - 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.

Cairn Energy Exploration and Production Company Limited

Notes to the Accounts (continued)

1 Accounting Policies (continued)

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

Net proceeds from any disposal of an intangible exploration/appraisal 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 property, plant and equipment - 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 and 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

Intangible exploration/appraisal assets are reviewed regularly for indicators of impairment following the guidance in IFRS 6 'Exploration for and Evaluation of Mineral Resources' and tested for impairment where such indicators exist. In such circumstances the exploration/appraisal asset is allocated to property, plant and equipment - development/producing assets within the same operating segment and tested for impairment. Any impairment arising is recognised in the Income Statement for the year. Where there are no development/producing assets within an operating segment, the exploration/appraisal costs are charged immediately to the Income Statement.

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

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. 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 and 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.

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.

Cairn Energy Exploration and Production Company Limited

Notes to the Accounts (continued)

1 Accounting Policies (continued)

g) Financial instruments (continued)

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.

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.

Cairn Energy Exploration and Production Company Limited

Notes to the Accounts (continued)

1 Accounting Policies (continued)

j) 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.

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.

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 notes 1(f), 1(g) for further details.

2 Operating Loss

Auditors' remuneration

The Company's auditors' remuneration of \$4,697 (2008: \$4,388) 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 (2008: \$nil).

4 Finance Income

	2009	2008
	\$	\$
Bank interest	-	191
	-	191

Cairn Energy Exploration and Production Company Limited

Notes to the Accounts (continued)

5 Finance Costs

	2009 \$	2008 \$
Bank charges	-	667
Exchange loss	1,935	2,508
	1,935	3,175

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:

	2009 \$	2008 \$
Loss on activities before taxation	(3,001)	(776,038)
Loss before taxation multiplied by the standard rate of UK corporation tax of 28% (2008: 28.5%)	(840)	(221,171)
Effects of:		
Deferred tax movement not recognised	671	(520,397)
Group relief surrendered	542	850
Tax reliefs extinguished on relinquishment of block GV-ONN-97/1	-	750,008
Other	(373)	(9,290)
Total tax charge	-	-

Finance Act 2008 reduced the UK main rate of tax from 30% to 28%. This reduction took effect from 1 April 2008 onwards, resulting in a rate of corporation tax of 28% for the year ended 31 December 2009, and an averaged rate of 28.5% for the year ended 31 December 2008, as shown above.

There is a deferred tax asset of \$ 2,057 as at 31 December 2009 (2008: \$1,386) in relation to accelerated capital allowances and pre-trading expenditure. 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.

Cairn Energy Exploration and Production Company Limited

Notes to the Accounts (continued)

7 Intangible Exploration/Appraisal Assets

	South Asia \$	Total \$
Cost and net book value		
At 1 January 2008	-	-
Additions	773,054	773,054
Unsuccessful exploration costs	(773,054)	(773,054)
At 1 January 2009	-	-
Additions	(1,328)	(1,328)
Unsuccessful exploration costs	1,328	1,328
At 31 December 2009	-	-
Net book value at 31 December 2009	-	-
Net book value at 31 December 2008	-	-
Net book value at 1 January 2008	-	-

8 Cash and Cash Equivalents

	At 1 January 2009 \$	Cash flow \$	At 31 December 2009 \$
Cash at bank	69,149	(56,084)	13,065
Cash and cash equivalents	69,149	(56,084)	13,065
	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

9 Trade and Other Payables

	2009 \$	2008 \$
Amounts owed to group companies	8,624	61,707
	8,624	61,707

Cairn Energy Exploration and Production Company Limited

Notes to the Accounts (continued)

10 Share Capital

	£1	
	Ordinary	Number
Authorised ordinary shares		
At 31 December 2008 and 2009		5,100,000
	£1	£1
	Ordinary	Ordinary
	Number	\$
Allotted, issued and fully paid ordinary shares		
At 1 January 2008	213,555	417,199
Issued during the year	1,166,862	2,229,998
At 31 December 2008 and 2009	1,380,417	2,647,197

11 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, commodity price risk and credit risk. The Board of the Company's ultimate parent, Cairn Energy PLC, review and agree policies for managing each of these risks and these are summarised below:

The Group's treasury functions at Cairn Energy PLC and local operational offices are responsible for these risks, other than credit risk relating to trade receivables for their respective businesses, in accordance with the policy set by their Board. Management of these risks is carried out by monitoring of cash flows, investment and funding requirements using a variety of techniques. These potential exposures are managed whilst ensuring that the companies and the Group have adequate liquidity at all times in order to meet their immediate cash requirements. Trade receivable credit risk is managed by the local operational management teams.

The primary financial instruments comprise bank loans, cash, short and medium term deposits, money market liquidity and mutual funds, intra-group loans, forward contracts, foreign exchange options, and other receivables and financial liabilities held at amortised cost. The Group's strategy has been to finance its operations through a mixture of retained profits and bank borrowings. Other alternatives such as equity and other forms of non investment-grade debt finance are reviewed by the respective Boards, when appropriate, to fund substantial acquisitions or oil and gas projects.

Liquidity risk

On 28 March 2008, the Company's ultimate parent undertaking, Cairn Energy PLC, entered into a £30.0m revolving credit facility to fund its working capital. The facility was jointly provided by The Royal Bank of Scotland PLC and HBOS PLC and was to expire on 31 January 2013. Interest was charged at floating rates determined by LIBOR plus an applicable margin. No sums were drawn at 31 December 2009 (2008: £nil). The facility was cancelled on 20 January 2010.

In addition, as at 31 December 2009 the Cairn Energy PLC Group has \$66.2m (2008: \$80.0m) of facilities in place to cover the issue of bank guarantees. Fixed rates of interest apply to these. \$47.6m (2008: \$49.0m) was unutilised at 31 December 2009.

The Cairn Energy PLC Group currently has surplus cash which it has placed in a combination of money market liquidity funds, fixed term deposits and mutual funds with a number of International banks and financial institutions, ensuring sufficient liquidity to enable the Group to meet its short/medium-term expenditure requirements.

The Group is conscious of the current environment and constantly monitors counterparty risk. Policies are in place to limit counterparty exposure. The Group monitors counterparties using published ratings and other measures where appropriate.

Cairn Energy Exploration and Production Company Limited

Notes to the Accounts (continued)

11 Financial Risk Management: Objectives and Policies

Interest rate risk

Surplus funds are placed on short/medium-term deposits at floating rates. It is Cairn'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 functions may from time to time opt to manage a proportion of the interest costs by using derivative financial instruments like interest rate swaps. At this time, however, there are no such instruments (2008: none).

Foreign currency risk

The Company manages exposures that arise from non-functional currency receipts and payments 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 of the Company.

Where residual net exposures do exist and they are considered significant 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

Credit risk from investments with banks and other financial institutions is managed by the Treasury functions in accordance with the Board approved policies of Cairn Energy PLC. Investments of surplus funds are only made with approved counterparties who meet the appropriate rating and/or other criteria, and are only made within approved limits. The Board continually re-assess the Group's policy and update as required. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through counterparty failure.

Investments by the Group in money market liquidity funds are only made with AAA rated funds and where the investment policy is limited to money market instruments.

PLC and Capricorn Group limit the placing of deposits and other investments to banks or financial institutions that have at least 2 AA- or above ratings from Moody's, Standard & Poor's or Fitch unless a Sovereign Guarantee is available from a AAA rated Government. The counterparty limit is \$100m and a maximum of 5% of a fund.

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 2009.

Cairn Energy Exploration and Production Company Limited

Notes to the Accounts (continued)

11 Financial Risk Management: Objectives and Policies (continued)

Capital management (continued)

The Company capital and net debt were made up as follows:

	2009	2008
	\$	
Trade and other payable	8,624	61,707
Less cash and cash equivalents	(13,065)	(69,149)
Net funds	(4,441)	(7,442)
Equity	4,441	7,442
Capital and net debt	-	-
Gearing ratio	0%	0%

12 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	
	2009 \$	2008 \$	2009 \$	2008 \$
Cash and cash equivalents	13,065	69,149	13,065	69,149
	13,065	69,149	13,065	69,149

All of the above financial assets are current and unimpaired.

Financial liabilities	Carrying amount		Fair value	
	2009 \$	2008 \$	2009 \$	2008 \$
Amounts owed to group companies	8,624	61,707	8,624	61,707
	8,624	61,707	8,624	61,707

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

Cairn Energy Exploration and Production Company Limited

Notes to the Accounts (continued)

12 Financial Instruments (continued)

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

	Total	Less than one year	One to two years	Two to three years	Three to four years	Four to five years	More than five years
	\$	\$	\$	\$	\$	\$	\$
2009							
Amounts owed to group companies	8,624	8,624	-	-	-	-	-
	8,624	8,624	-	-	-	-	-
2008							
Amounts owed to group companies	61,707	34,768	26,939	-	-	-	-
	61,707	34,768	26,939	-	-	-	-

13 Related Party Transactions

The following table provides the balances which are outstanding with group companies at the balance sheet date.

	2009	2008
	\$	\$
Balances at 31 December		
Amounts owed to group companies	8,624	61,707
	8,624	61,707

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 (2008: \$nil).

14 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.