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SC 304517

DEBT CONVERSION AGREEMENT

among

- (1) Cairn Energy PLC
- (2) Cairn UK Holdings Limited
- (3) Cairn India Holdings Limited, and
- (4) Cairn Energy Hydrocarbons Limited



EDINBURGH
SALTIRE COURT 20 CASTLE TERRACE
EDINBURGH EH1 2ET
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Ref: C0210.211-03/NZD/PWH

AGREEMENT

among

CAIRN ENERGY PLC, incorporated under the Companies Acts in Scotland (company number SC226712) and having its registered office at 50 Lothian Road, Edinburgh EH3 9BY (the "**Vendor**"); and

CAIRN UK HOLDINGS LIMITED, incorporated under the Companies Acts in Scotland (company number SC304517) and having its registered office at 50 Lothian Road, Edinburgh EH3 9BY (the "**First Purchaser**"); and

CAIRN INDIA HOLDINGS LIMITED, incorporated under the Companies (Jersey) Law 1991 in Jersey (company number 94164) and having its registered office at 22 Grenville Street, St Helier, Jersey JE4 8PX, Channel Islands (the "**Second Purchaser**"); and

CAIRN ENERGY HYDROCARBONS LIMITED, incorporated under the Companies Acts in Scotland (company number SC172470) and having its registered office at 50 Lothian Road, Edinburgh EH3 9BY, (the "**Debtor**").

WHEREAS

- (A) the Vendor and the Debtor have agreed (i) the UK sterling value of the Debt (as hereinafter defined) and (ii) that the Debt should be capitalised rather than being repaid to the Vendor in cash; and
- (B) the parties hereto have agreed to enter into this agreement in order to assign and forthwith capitalise the Debt (as hereinafter defined), upon the terms and conditions specified and contained in this agreement.

IT IS AGREED as follows:-

1. Definitions and Conditions

1.1 In this agreement, except so far as the context otherwise requires:-

- 1.1.1 the "**Capitalisation Shares**" means 29,780,710 ordinary shares of £1 each in the share capital of the Debtor;
- 1.1.2 "**Completion**" means the time of completion in accordance with Clause 4 of this agreement;
- 1.1.3 the "**Completion Date**" means 1 September 2006;
- 1.1.4 the "**Debt**" means the sum of £29,780,710 STERLING being the value of the US dollar (USD) denominated debt converted into UK Sterling (GBP) as at the Completion Date and owed by the Debtor to the Vendor pursuant to a loan agreement dated 30 June 2005;
- 1.1.5 the "**First Assignment**" means the assignment of the right, title and interest to the Debt by the Vendor to the First Purchaser pursuant to Clause 2.1 below;
- 1.1.6 the "**First Consideration**" means the allotment and issue of the First Consideration Shares credited as fully paid at par by the First Purchaser to the Vendor on the Completion Date;
- 1.1.7 the "**First Consideration Shares**" means 29,780,710 ordinary shares of £1 each in the share capital of the First Purchaser;

- 1.1.8 the **"Second Assignment"** means the assignation of the right, title and interest to the Debt by the First Purchaser to the Second Purchaser pursuant to Clause 2.2 below;
 - 1.1.9 the **"Second Consideration"** means the allotment and issue of the Second Consideration Shares credited as fully paid at par by the Second Purchaser to the First Purchaser on the Completion Date; and
 - 1.1.10 the **"Second Consideration Shares"** means 29,780,710 ordinary shares of £1 each in the share capital of the Second Purchaser.
- 1.2 The index and clause headings in this agreement shall not affect its interpretation.
 - 1.3 Words and expressions importing the singular shall include the plural and vice versa, words and expressions incorporating the masculine shall include the feminine and neuter and vice versa, and words and expressions importing natural persons shall include bodies corporate, unincorporated associations and partnerships.

2. Assignment, Intimation and Repayment of the Debt

- 2.1 The Vendor shall sell and the First Purchaser shall purchase the right, title and interest to the Debt with effect from Completion.
- 2.2 Immediately following the First Assignment and with effect from Completion, the First Purchaser shall sell and the Second Purchaser shall purchase the right, title and interest to the Debt.
- 2.3 By its execution of this agreement the Debtor hereby acknowledges receipt of intimation of both the First Assignment and the Second Assignment.
- 2.4 Immediately following the Second Assignment, the Debtor shall capitalise the Debt by the allotment and issue to the Second Purchaser of the Capitalisation Shares.

3. Consideration

- 3.1 The total consideration for the First Assignment shall be the First Consideration.
- 3.2 The total consideration for the Second Assignment shall be the Second Consideration.

4. Completion

- 4.1 The First Assignment, the Second Assignment and the capitalisation of the Debt shall all be completed at 50 Lothian Road, Edinburgh EH3 9BY on the Completion Date (or at such other place and/or on such other date as the parties hereto may mutually agree) when the following shall take place:-
 - 4.1.1 the parties hereto shall execute this agreement.
 - 4.1.2 the Vendor, the First Purchaser and the Second Purchaser shall subscribe for the First Consideration Shares, the Second Consideration Shares and the Capitalisation Shares respectively (the Vendor, the First Purchaser and the Second Purchaser being deemed to have delivered applications for such shares in such amount by the execution of this agreement).
 - 4.1.3 the First Purchaser shall:-

- (i) procure that a written resolution of all of its members entitled to attend and vote at a general meeting (in the form agreed between the parties hereto) is passed increasing its authorised share capital;
- (ii) procure that a meeting of its directors is held at which it will be resolved that all matters (including, but not limited to the allotment of the First Consideration Shares) which require the approval of its Board, be so approved;
- (iii) deliver to the secretary of the Vendor a properly executed share certificate for the First Consideration Shares allotted to the Vendor; and
- (iv) enter the Vendor in the register of members of the First Purchaser in respect of the First Consideration Shares.

4.1.4 the Second Purchaser shall:-

- (i) procure that a written resolution of all of its members entitled to attend and vote at a general meeting (in the form agreed between the parties hereto) is passed increasing its authorised share capital;
- (ii) procure that a meeting of its directors is held at which it will be resolved that all matters (including, but not limited to the allotment of the Second Consideration Shares) which require the approval of its Board, be so approved;
- (iii) deliver to the secretary of the First Purchaser a properly executed share certificate for the Second Consideration Shares allotted to the First Purchaser; and
- (iv) enter the First Purchaser in the register of members of the Second Purchaser in respect of the Second Consideration Shares.

4.1.5 the Debtor shall:-

- (i) procure that a written resolution of all of its members entitled to attend and vote at a general meeting (in the form agreed between the parties hereto) is passed increasing its authorised share capital;
- (ii) procure that a meeting of its directors is held at which it will be resolved that all matters (including, but not limited to the allotment of the Capitalisation Shares) which require the approval of its Board, be so approved;
- (iii) deliver to the secretary of the Second Purchaser a properly executed share certificate for the Capitalisation Shares allotted to the Second Purchaser; and
- (iv) enter the Second Purchaser in the register of members of the Debtor in respect of the Capitalisation Shares.

5. Entire Agreement

- 5.1** This agreement constitutes the entire agreement and understanding between the parties hereto with respect to all matters referred to herein. Nothing in this clause shall have effect to exclude or limit the liability of either party for fraud or fraudulent misrepresentation.
- 5.2** No variation of this agreement shall be valid unless in writing and validly signed by or on behalf of each of the parties hereto.

6. Governing Law

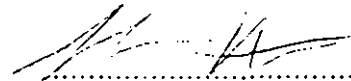
This agreement shall be governed by and construed in accordance with Scots law and the parties hereto prorogate the non-exclusive jurisdiction of the Scottish courts: IN WITNESS WHEREOF these presents typewritten on this and the three preceding pages are executed as follows:-

Executed by CAIRN ENERGY PLC

by KEVIN HART, a director
at EDINBURGH

on 1 SEPTEMBER 2006
in the presence of:

Neil Dixon (Witness)
NEIL ALAN DIXON (Full Name)
20 CASTLE TERRACE (Address)
EDINBURGH EH1 2ET

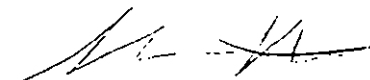

.....
Director

Executed by CAIRN UK HOLDINGS LIMITED

by KEVIN HART, a director
at EDINBURGH

on 1 SEPTEMBER 2006
in the presence of:

Neil Dixon (Witness)
NEIL ALAN DIXON (Full Name)
20 CASTLE TERRACE (Address)
EDINBURGH EH1 2ET


.....
Director

Executed by CAIRN INDIA HOLDINGS LIMITED

by KEVIN HART, a director

at EDINBURGH

on 1 SEPTEMBER 2006

in the presence of:

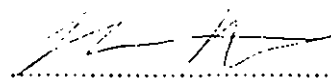
Neil Dixon (Witness)

NEIL ALAN DIXON (Full Name)

20 CASTLE TERRACE (Address)

EDINBURGH

EH1 2ET


 Director

Executed by CAIRN ENERGY
HYDROCARBONS LIMITED

by KEVIN HART, a director

at EDINBURGH

on 1 SEPTEMBER 2006

in the presence of:

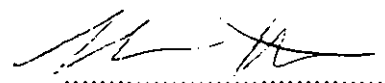
Neil Dixon (Witness)

NEIL ALAN DIXON (Full Name)

20 CASTLE TERRACE (Address)

EDINBURGH

EH1 2ET


 Director