Registered No: SC329619

CAPRICORN PETROLEUM LIMITED

REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

CAPRICORN PETROLEUM LIMITED

Directors:

M J Watts
S J Thomson
J M Brown

Secretary:

D A Wood

Auditors:

Ernst & Young LLP
Ten George Street
Edinburgh
EH2 2DZ

Solicitors:

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

Registered Office:

50 Lothian Road
Edinburgh EH3 9BY

Registered No:

SC329619

CAPRICORN PETROLEUM LIMITED

Directors' Report

The directors present their report and financial statements for the year ended 31 December 2010.

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

Consolidated accounts are not produced for the company and its wholly owned subsidiaries (detailed in note 7 to the accounts) as provided under the exemption in section 400(1) of the Company's Act 2006. The results of the Company and its subsidiaries are included within the consolidated accounts of the ultimate parent undertaking, Cairn Energy PLC.

At the year end the Company carried out an impairment review of investments and $2.0m was impaired during the year. The impairment was recognised on the basis of valuation of Capricorn Oil & Gas Tunisia Gmbh (100% Subsidiary) following the disposal of Nabeul block by the subsidiary during the year. For more details refer to note 7.

During the year the Company made a loss of $1.2m (2009: $110.3m) mainly due to impairment of investments mentioned above and foreign exchange gains. No dividend has been paid or declared in respect of the year ended 31 December 2010 (2009: $nil). The Company did not hold any cash and cash equivalents during the year; therefore a Statement of Cash Flows has not been presented.

During 2009, 15% of working licences in subsidiaries, medOil plc and Capricorn Oil & Gas Tunisia Gmbh were sold.

Principal Risks and Uncertainties
The principal risks and uncertainties facing the Company derive from holding investments, where the value of its investments is ultimately dependent on the performance of its subsidiaries, and from holding cash and channelling cash to subsidiaries as set out in the financial risk management objectives and policies detailed in note 11.

Financial Instruments
For detail of the Company's financial risk management policy see note 11.

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

J M Brown

S J Thomson

M J Watts

Charitable and Political Donations
The Company did not make any charitable or political contributions during the year (2009: $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 2010 confirm, as far as they are aware, there is no relevant audit information of which the Company's auditors are unaware. In making this confirmation, the directors have taken appropriate steps to make themselves aware of the relevant audit information and that the Company's auditors are aware of this information.

By Order of the Board

Duncan Wood

Duncan Wood
Secretary
50 Lothian Road
Edinburgh EH3 9BY

31 May 2011

CAPRICORN PETROLEUM LIMITED

Directors' Responsibility Statement

The directors are responsible for preparing the Annual Report and the Company financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

Under Company Law the directors must not approve the Company financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Company for that period. In preparing the Company financial statements the directors are required to:

- Select suitable accounting policies in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements 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 has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

Each of the directors, whose names are listed in the Board of Directors 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CAPRICORN PETROLEUM LIMITED (Registered No: SC329619)

We have audited the financial statements of Capricorn Petroleum Limited for the year ended 31 December 2010 which comprises the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, 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 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

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK & 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. In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatement or inconsistencies, we consider the implications for our report.

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 2010 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

31 May 2011

CAPRICORN PETROLEUM LIMITED

Income Statement

For the year ended 31 December 2010

Continuing operations	Notes	2010 $	2009 $
Exceptional impairment of investment		**(2,000,000)**	(107,974,119)
Operating loss	2	**(2,000,000)**	(107,974,119)
Finance income	4	**837,612**	-
Finance costs	5	-	(2,313,994)
Loss before taxation		**(1,162,388)**	(110,288,113)
Taxation	6	-	-
Loss for the year		**(1,162,388)**	(110,288,113)

Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 $	2009 $
Loss for the year	**(1,162,388)**	(110,288,113)
Other comprehensive income for the year	-	-
Total comprehensive income for the year	**(1,162,388)**	(110,288,113)

CAPRICORN PETROLEUM LIMITED
Balance Sheet
As at 31 December 2010

	Notes	2010 $	2009 $
Non-current assets			
Investments	7	-	2,000,000
		-	2,000,000
Current assets			
Trade and other receivables	8	**12,159,468**	5,249,752
		12,159,468	5,249,752
Total assets		**12,159,468**	7,249,752
Current liabilities			
Trade and other payables	9	**111,385,533**	105,313,429
Total liabilities		**111,385,533**	105,313,429
Net liabilities		**(99,226,065)**	(98,063,677)
Equity			
Called-up share capital	10	**3,420,921**	3,420,921
Retained earnings		**(102,646,986)**	(101,484,598)
Total equity		**(99,226,065)**	(98,063,677)

Signed on behalf of the Board on 31 May 2011

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Jann Brown
Director

CAPRICORN PETROLEUM LIMITED

Statement of Changes in Equity

For the year ended 31 December 2010

	Equity Share Capital $	Retained Earnings $	Total Equity $
At 1 January 2009	3,420,921	8,803,515	**12,224,436**
Loss for the year	-	(110,288,113)	**(110,288,113)**
Total comprehensive income for the year	-	(110,288,113)	**(110,288,113)**
At 1 January 2010	3,420,921	(101,484,598)	**(98,063,677)**
Loss for the year	-	(1,162,388)	**(1,162,388)**
Total comprehensive income for the year	-	(1,162,388)	**(1,162,388)**
At 31 December 2010	**3,420,921**	**(102,646,986)**	**(99,226,065)**

1 Accounting Policies

a) Basis of preparation

The financial statements of Capricorn Petroleum Limited ("the Company") for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the directors on 31 May 2011. The Company is incorporated in Scotland under the Companies Act 2006 and domiciled in the United Kingdom. The registered office is located at 50 Lothian Road, Edinburgh, Scotland.

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 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 its exposures to credit risk and liquidity risk.

Although the Company holds net liabilities as at 31 December 2010, the Company's ultimate parent company, Cairn Energy PLC, has confirmed it will make available sufficient funds to allow the Company to meet its liabilities as they fall due for the next twelve months. Hence these accounts have been prepared on a going concern basis.

The Company prepares its accounts on a historical cost basis. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the relevant accounting policy. The Company did not hold any cash and cash equivalents during the year, therefore a Statement of Cash Flows has not been presented.

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 2010, the Company has adopted the following standards and interpretations:

Title	Change to accounting policy	Impact on initial application
IFRS 3 'Business Combinations (revised)'	Significant changes to accounting for business combinations including the non-capitalisation of acquisition costs, recognition of contingent liabilities at fair values and re-measurement of deferred consideration at subsequent reporting dates.	Changes in accounting policy are prospective and therefore there is no impact on the financial position or performance of the Company.
IAS 7 'Statement of Cash Flows'	Explicitly states that only expenditure that results in a recognised asset can be classified as investing activities.	No impact on the financial position or performance of the Company.

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:

- Amendment to IFRS 2 'Group-Settled Share-based Payment Arrangements';
- IFRS 5 'Non-current assets held-for-sale and Discontinued operations';
- IFRS 8 'Operating Segments';
- IAS 1 'Presentation of Financial Statements';
- IAS 17 'Leases';
- IAS 18 'Revenue;
- IAS 27 'Consolidated and Separate Financial Statements (amended)';
- IAS 36 'Impairment of assets'
- IAS 38 'Intangible assets';
- Amendment to IAS 39 'Financial Instruments: Recognition and Measurement';
- IFRIC 12 'Service Concession Arrangements';
- IFRIC 15 'Agreements for the Construction of Real Estate';
- IFRIC 17 'Distributions of Non-cash Assets to Owners'; and
- IFRIC 18 'Transfers of Assets from Customers'

1 Accounting Policies (continued)

b) Accounting standards (continued)

The following new standards and interpretations, which are not yet effective and which are not expected to impact the Company's financial position or performance, have been issued by the IASB:

- Improvements to IFRS 7 'Transfers of financial assets';
- IFRS 9 'Financial Instruments: Classification and Measurement';
- IFRS 10 'Consolidation';
- IFRS 11 'Joint Arrangements';
- IFRS 12 'Disclosure of Interests in Other Entities';
- IFRS 13 'Fair Value Measurement';
- Amendment to IAS 12 'Deferred tax: Recovery of underlying assets';
- IAS 24 (Revised) 'Related Party Disclosures';
- Amendment to IAS 32 'Classification of rights issues'; and
- IFRIC 19 'Extinguishment of financial liabilities with equity instruments'

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) Investments
The Company's investments in subsidiaries are carried at cost less provisions resulting from impairment. The recoverable value of investments is the higher of its fair value less costs to sell and value in use. Value in use is based on the discounted future net cash flows of the oil and gas assets held by the subsidiary.

Discounted future net cash flows for IAS 36 purposes are calculated using an estimated short and long-term oil price of $75/bbl (2009: short and long-term oil price 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 7% (2009: 3% and 10% respectively). Forecast production profiles are determined on an asset-by-asset basis, using appropriate petroleum engineering techniques.

e) 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 entity.

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 either available for sale financial assets or loans and receivables, with the exception of derivative financial instruments which are held at fair value through profit or loss.

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, with the exception of derivative financial instruments which are held at fair value through profit or loss.

Financial instruments are generally recognised as soon as the Company becomes party to the contractual regulations of the financial instrument.

Trade payables and other non derivative financial liabilities
Trade payables and other creditors are non-interest bearing and are measured at cost.

f) Equity
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs, allocated between share capital and share premium.

1 Accounting Policies (continued)

g) Taxation

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

The current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Balance Sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

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

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

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

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

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

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) 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(d), and 1(e) for further details.

2 Operating Loss

Auditor's remuneration
The Company's auditors' remuneration of $4,638 (2009: $4,698) has been borne by the intermediate holding company Capricorn Energy Limited. Auditors' remuneration for other services is disclosed in the financial statements of Cairn Energy PLC, the ultimate parent undertaking.

The Company has a policy in place for the award of non-audit work to the auditors which, in certain circumstances, requires approval by the Audit Committee of Cairn Energy PLC, the ultimate parent undertaking.

3 Director's emoluments

The directors of the Company are also directors of the ultimate parent company, Cairn Energy PLC. The directors received remuneration for the year of $3.1m (2009: $2.9m) and pension contributions of $0.3m (2009: $0.3m), all of which was paid by its ultimate parent company. The directors do not believe that it is practicable to apportion this amount between their services as directors of the Company and their services as directors of Cairn Energy PLC and fellow subsidiary companies.

4 Finance Income

	2010 $	2009 $
Exchange gain	**837,612**	-
	837,612	-

5 Finance Costs

	2010 $	2009 $
Exchange loss	-	2,313,994
	-	2,313,994

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 income tax rate is as follows:

	2010 $	2009 $
Loss before taxation	**(1,162,388)**	(110,288,113)
Tax at the standard rate of UK corporation tax of 28% (2009: 28%)	**(325,469)**	(30,880,672)
Effects of:		
Disallowed impairment of Investments	**560,000**	30,232,753
Group relief (claimed)/surrendered	**(234,531)**	647,919
Total tax charge	-	-

There was no deferred tax asset or liability as at 31 December 2010 (2009: $nil).

7 Investments

	Subsidiary undertakings $	Total $
Cost		
At 1 January 2009	109,974,119	**109,974,119**
Acquisitions during the period	-	-
At 31 December 2009 and 2010	**109,974,119**	**109,974,119**
Impairment		
At 1 January 2009	-	-
Impairment during the year	107,974,119	**107,974,119**
At 1 January 2010	107,974,119	**107,974,119**
Impairment during the year	2,000,000	**2,000,000**
At 31 December 2010	**109,974,119**	**109,974,119**
Net book value at 31 December 2010	-	-
Net book value at 31 December 2009	2,000,000	2,000,000
Net book value at 1January 2009	109,974,119	109,974,119

Indicators of impairment were identified in relation to Capricorn Oil and Gas Tunisia Gmbh in relation to the Nabeul block which was sold by the subsidiary in 2010. Consequently, an impairment charge of $2.0m(2009: $8.0m) was charged to the Income Statement.

On 30 November 2009, Cairn Energy PLC announced the acquisition of the 9.99% minority interest held by Dyas in Capricorn Oil Limited. As part of this deal, 15% of Capricorn's working interests in its Tunisian and Albanian licences were transferred to Dyas. The total investment write down recognised in the year is $108.0m which is explained in the following paragraphs:

Prior to the transfer, the fair value of the Tunisian and Albanian assets, less costs to sell, were used as part of an impairment exercise. The revised carrying value of the assets resulted in a total impairment charge of $90.0m, of which $64.5m related to medOil plc and $25.5m related to Capricorn Oil and Gas Tunisia GmbH, subsidiaries of Capricorn Petroleum Limited.

It was announced in April 2010 that medOil plc (100% subsidiary) completed an exploration well offshore Tunisia in the Louza block. Although minor evidence of light oil was observed, the expected target reservoir was not developed in the well. The well has therefore been plugged and abandoned without testing. As a result, all costs incurred to date were charged to unsuccessful exploration costs in the subsidiary company. Consequently, the full investment held in medOil plc was written down in 2009 financial statements with an additional $10.0m charge recognised through the Income Statement.

The Company's subsidiaries as at the Balance Sheet date are set out below:-

	Principal activity	Country of incorporation	Country of operation	Proportion of voting rights and ordinary shares
Direct holdings				
medOil plc	Exploration	England and Wales	Tunisia	100%
Capricorn Oil and Gas Tunisia GmbH	Exploration	Switzerland	Tunisia	100%
Plectrum Oil and Gas Limited	Holding Company	England and Wales	Scotland	100%
Indirect Holdings				
medOil Resources Limited	Exploration	England and Wales	Scotland	100%
Banchory Exploration Limited	Holding Company	England and Wales	Scotland	100%
Plectrum Oil Limited	Exploration	England and Wales	Scotland	100%

8 Trade and Other Receivables

	31 December 2010 $	31 December 2009 $
Amounts owed by group companies	**12,159,468**	5,249,752
	12,159,468	5,249,752

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 $
2010							
Neither past due nor impaired	**12,159,468**	12,159,468	-	-	-	-	-
As at 31 December 2010	**12,159,468**	**12,159,468**	**-**	**-**	**-**	**-**	**-**

	Total $	Current $	< 30 days $	30-60 days $	60-90 days $	90-120 days $	>120 days $
2009							
Neither past due nor impaired	5,249,752	5,249,752	-	-	-	-	-
As at 31 December 2009	5,249,752	5,249,752	-	-	-	-	-

9 Trade and Other Payables

	31 December 2010 $	31 December 2009 $
Amounts owed to group companies	**111,385,533**	105,313,429
	111,385,533	105,313,429

10 Share Capital

Authorised ordinary shares	**Ordinary shares of £1 Number of shares**
At 31 December 2009 and 2010	5,000,000

Allotted, issued and fully paid ordinary shares	**£1 Ordinary shares Number of shares**	**£1 Ordinary shares $**
At 31 December 2009 and 2010	**2,221,954**	**3,420,921**

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, and credit risk. The Board of Cairn Energy PLC, the parent company reviews and agrees policies for managing each of these risks and these are summarised below.

The Group's treasury functions at Cairn Energy PLC, ultimate parent undertaking and local operational offices are responsible for these risks for their respective businesses, in accordance with the policy set by the 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.

There are no significant concentrations of risks unless otherwise stated.

The primary financial instruments comprise bank loans, cash, short and medium term deposits, certificates of deposit, money market liquidity and mutual funds, intra-group loans, forward contracts, swaps, 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 Board, when appropriate, to fund substantial acquisitions or oil and gas projects.

Liquidity risk
On 28 March 2008 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 the Bank of Scotland and was to expire on 31 January 2013. Interest was charged at floating rates determined by LIBOR plus an applicable margin. The facility was cancelled on 20 January 2010. No sums were drawn at 31 December 2009.

On 15 September 2010 Cairn Energy PLC entered into a £200m revolving credit facility to fund its working capital. The facility was provided by Standard Chartered Bank Plc and was to expire on 30 September 2011. Interest was charged at floating rates determined by LIBOR plus an applicable margin.

On 15 December 2010 the above facility was refinanced. Cairn Energy PLC entered into a stand-by secured revolving credit of $900m to extend the working capital available, to enable commitments to be made for the 2011 Greenland drilling campaign and for other general corporate purposes. The facility is provided by Standard Chartered Bank, Bank of Scotland Plc, Crédit Agricole Corporate and Investment Bank, HSBC Bank PLC and Société Générale and expires on 30 September 2012. Security, in the form of a pledge over a number of shares in Cairn UK Holdings Limited, would be provided prior to first drawdown. Interest is charged at floating rates determined by LIBOR plus an applicable margin. No sums were drawn at 31 December 2010.

In addition, Cairn Energy PLC and the Capricorn Group have $35m of facilities (2009: $35m) in place to cover the issue of performance guarantees. Fixed rates of bank commission and charges apply to these. $0.7m was utilised as at 31 December 2010 (2009: $5.9m).

The 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 and Indian 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.

Interest rate risk
Surplus funds are placed on short/medium-term deposits at floating rates. It is Group 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 (2009: none).

11 Financial Risk Management: Objectives and Policies (continued)

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
Investment credit risk for investments with banks and other financial institutions is managed by the Treasury function 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 respective Boards 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.

Cairn Energy PLC and Capricorn Group limit the placing of deposits, certificates of deposit 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. Investments in international money market liquidity funds are only made with AAA rated funds and where the investment policy is limited to money market instruments.

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 Group's capital management structure is to ensure that there remains sufficient liquidity within the Group to carry out committed work programme requirements. The Group monitors 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 2010.

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

	31 December 2010 $	31 December 2009 $
Trade and other payables	**111,385,533**	105,313,429
Net debt	**111,385,533**	105,313,429
Equity	**(99,226,065)**	(98,063,677)
Capital and net debt	**12,159,468**	7,249,752
Gearing ratio	**916%**	1,453%

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	
	31 December 2010 $	31 December 2009 $	**31 December 2010 $**	31 December 2009 $
Trade and other receivables	**12,159,468**	5,249,752	**12,159,468**	5,249,752
	12,159,468	5,249,752	**12,159,468**	5,249,752

An analysis of the ageing of trade and other receivables is provided in note 8.

Financial liabilities	Carrying amount		Fair value	
	31 December 2010 $	31 December 2009 $	**31 December 2010 $**	31 December 2009 $
Amounts owed to group companies	**111,385,533**	105,313,429	**111,385,533**	105,313,429
	111,385,533	105,313,429	**111,385,533**	105,313,429

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:

At 31 December 2010

	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 $
Amounts owed to group companies	**111,385,533**	111,385,533	-	-	-	-	-
	111,385,533	**111,385,533**	-	-	-	-	-

At 31 December 2009

	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 $
Amounts owed to group companies	105,313,429	105,313,429	-	-	-	-	-
	105,313,429	105,313,429	-	-	-	-	-

13 Related Party Transactions

The following table provides the balances which are outstanding with group companies at the Balance Sheet date:

	31 December 2010 $	31 December 2009 $
Amounts owed by group companies	**12,159,468**	5,249,752
Amounts owed to group companies	**(111,385,533)**	(105,313,429)
	(99,226,065)	(100,063,677)

The amounts outstanding are unsecured, repayable on demand and will be settled in cash.

Remuneration of key management personnel and directors
The remuneration of directors, who are the key management personnel of the Company, is set out in Note 3. Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report included in the ultimate parent company's annual accounts on pages 76 to 83.

14 Ultimate Parent Company

The Company is a wholly-owned subsidiary of Capricorn Energy Limited. The Company's ultimate holding company is Cairn Energy PLC, registered in Scotland, whose principal place of business is at 50 Lothian Road, Edinburgh, EH3 9BY. Copies of Cairn Energy PLC's financial statements are available to the public and may be obtained from the above mentioned address.