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Dear Sara

Farm-in with Kosmos Energy

Thank you very much for your letter to Simon Thomson.

Regarding Cairn Energy's proposed farm-in with Kosmos Energy and the Moroccan National Oil Company (ONHYM) for a 20% non-operated interest in an offshore exploration block, the proposed farm-in agreement, is pending Government approval, and as such has not yet been finalised.

Cairn believes that exploration offshore Western Sahara, which is a UN designated non-self-governing territory, is consistent with international law. The UN Legal Opinion views Morocco as the territory's de facto administering power and as such, can issue licences for resource exploration.

We are working very closely with Kosmos, who from the beginning of their involvement in the region, have spent time and considerable resource to develop a thorough understanding of the complex and nuanced situation.

Cairn also believes that responsible resource development has the potential to create significant social and economic benefits for the region and its people. The credentials and commitment of both Cairn and Kosmos to creating sustainable economic development and local community consultation is strong and both companies have proven track records in the regions where they operate.

As you may be aware, Cairn's recent historical focus has been on South Asia where we operated for 20 years in India and Bangladesh. During this time, we made more than 40 discoveries and in particular, made a major discovery in Rajasthan in the north west of India at the beginning of 2004 where more than 25 discoveries have been subsequently made with the potential to provide more than 30% of India's domestic crude oil production. This development involved significant investment in development wells, treatment and storage facilities in a remote area of Rajasthan and the installation of a ~700 kilometre heated pipeline to the coast.

For more than a decade, Cairn has adopted and implemented its business in accordance with international standards and 'best practice', and these commitments have been laid out in our Business Principles (see <http://www.cairnenergy.com/index.asp?pageid=282>). In 2005 we committed to conducting our business in accordance with the International Finance Corporation (IFC) Performance Standards and the 'rights aware' approach developed by the UK Business Leader

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M.J. Sheppard
K.G. Lough





Initiative on Human Rights (BLIHR). Our approach to dealing with the many HSE, community, human rights and other societal issues in Rajasthan was endorsed by IFC when they agreed to providing project funding and led a consortium of 12 international banks.

This included working very closely with IFC and the Indian authorities to ensure a positive working relationship with the local population.

In 2012 we further strengthened our commitment to operating with integrity by becoming a signatory to the UN Global Compact and in September 2013, became a participating Company to the Extractive Industry Transparency Initiative (EITI), a coalition of governments, companies and civil society, who have adopted a multi-stakeholder approach to applying the EITI global standard promoting transparency of payments in the oil, gas and mining sectors. It is widely recognised that Western Sahara remains economically underdeveloped and the exploration of potential resources and an improved understanding of the hydrocarbon potential of the region may lead to greater private sector investment and job creation. Current activities are focused on exploration and do not involve the removal of resources. Much more work will be required to determine whether hydrocarbon resources, sufficient to justify development are present. If exploration efforts are successful over the medium term then this could lead to significant investment in the region.

Whilst the UN Security Council is seeking a lasting and mutually acceptable political situation which will provide for self-determination of the people of Western Sahara, both Kosmos and Cairn believe that exploration drilling can be pursued. The partners are committed to transparency and benefits sharing should exploration be successful. If there is a commercial discovery offshore Western Sahara, it would be developed in a manner that reflects international best practice in terms of resource management and consistent with international law.

Through ONHYM, Kosmos as the operator, support the Moroccan Economic, Social and Environmental Council (CESE) in the design of a new socio-economic development model for the territory. This process entails extensive consultations with stakeholders and is expected to address natural resources and the subject of potential revenues. On this point, I would like to draw your attention to a position statement recently published by Kosmos to this effect along with a joint Declaration of Principles published by ONHYM.

<http://www.kosmosenergy.com/pdfs/PositionStatement-WesternSahara-English.pdf>

<http://www.kosmosenergy.com/pdfs/ONHYM-Kosmos-Joint-Declaration-of-Principles-English.pdf>

As a responsible company, Cairn's priority is to maintain transparency around all our activities and to comply with all international laws and regulations.

Yours sincerely

A handwritten signature in black ink, appearing to read "David Nisbet", is written over the typed name and title.

David Nisbet
Director of Corporate Affairs