



Xcite Energy Limited

Interim consolidated financial statements

For the 3 month period ended March 31, 2009

(Unaudited)

Xcite Energy Limited  
Interim consolidated financial statements  
for the 3 month period ended March 31, 2009

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**Xcite Energy Limited**  
**For the 3 month period ended March 31, 2009**

**Consolidated Income Statement**

	Note	3 months ended March 31 2009 (unaudited) £	3 months ended March 31 2008 (unaudited) £
Administrative expenses		(131,369)	(163,272)
<b>Operating loss</b>	3	<b>(131,369)</b>	(163,272)
Finance income - bank interest		4,410	185,516
<b>(Loss)/profit before tax</b>		<b>(126,959)</b>	22,244
Tax expense	5	-	-
<b>(Loss)/profit for the period</b>	13	<b>(126,959)</b>	22,244
 (Loss)/earnings per share:			
Basic and diluted	6	<b>(0.2p)</b>	0.0p

All results relate to continuing operations.

**Consolidated Statement of Recognised Income and Expense**

	3 months ended March 31 2009 (unaudited) £	3 months ended March 31 2008 (unaudited) £
(Loss)/profit for the period	(126,959)	22,244
<b>Total recognised income and expense for the period</b>	<b>(126,959)</b>	22,244
 Attributable to:		
Equity shareholders	(126,959)	22,244

The notes on pages 6 to 19 form part of these financial statements.

**Xcite Energy Limited**  
**For the 3 month period ended March 31, 2009**

**Consolidated Balance Sheet**

		<b>March 31 2009</b>	December 31 2008
		<b>(unaudited)</b>	(audited)
	<b>Note</b>	<b>£</b>	<b>£</b>
<b>Assets</b>			
<i>Non-current assets</i>			
Intangible assets	7	<b>22,460,203</b>	21,996,871
Property, plant and equipment	8	<b>19,026</b>	21,317
<b>Total non-current assets</b>		<b>22,479,229</b>	22,018,188
<i>Current assets</i>			
Trade and other receivables	9	<b>19,951</b>	14,098
Cash and cash equivalents		<b>1,279,412</b>	1,828,183
<b>Total current assets</b>		<b>1,299,363</b>	1,842,281
<b>Total assets</b>		<b>23,778,592</b>	23,860,469
<b>Liabilities</b>			
<i>Current liabilities</i>			
Trade and other payables	10	<b>1,150,949</b>	1,110,611
<b>Total current liabilities</b>		<b>1,150,949</b>	1,110,611
<b>Net assets</b>		<b>22,627,643</b>	22,749,858
<b>Equity</b>			
Share capital	12	<b>22,252,625</b>	22,252,625
Retained earnings	13	<b>(1,309,628)</b>	(1,182,669)
Merger reserve	13	<b>218</b>	218
Other reserves	13	<b>1,684,428</b>	1,679,684
<b>Total equity</b>		<b>22,627,643</b>	22,749,858

The notes on pages 6 to 19 form part of these financial statements.

These interim unaudited consolidated financial statements were approved by the Board of Directors and authorised for issue on April 22, 2009 and were signed on its behalf by:

Richard Smith  
Chief Executive Officer

Rupert Cole  
Chief Financial Officer

**Xcite Energy Limited**  
**For the 3 month period ended March 31, 2009**

**Consolidated Cash Flow Statement**

	<b>3 months ended March 31 2009 (unaudited) £</b>	3 months ended March 31 2008 (unaudited) £
(Loss)/profit for the period after tax	(126,959)	22,244
Adjustment for share based payments	4,744	-
Adjustment for interest income	(4,410)	(185,516)
Adjustment for depreciation	2,291	-
<b>Movement in working capital</b>		
- Trade and other receivables	(5,853)	(61,788)
- Trade and other payables	40,338	(445,452)
<b>Net cash flow from operations</b>	<b>(89,849)</b>	<b>(670,512)</b>
Additions to exploration and evaluation assets	(463,332)	(12,498,864)
Interest income	4,410	185,516
<b>Net cash flow from investing</b>	<b>(458,922)</b>	<b>(12,313,348)</b>
Net proceeds from issue of new shares	-	478,475
<b>Cash flow from financing</b>	<b>-</b>	<b>478,475</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(548,771)</b>	<b>(12,505,385)</b>
Cash and cash equivalents as at January 1	1,828,183	21,067,134
<b>Cash and cash equivalents as at March 31</b>	<b>1,279,412</b>	<b>8,561,749</b>
<b>Cash and cash equivalents comprise:</b>		
Cash available on demand	1,279,412	8,561,749

The notes on pages 6 to 19 form part of these financial statements.

# **Xcite Energy Limited**

## **For the 3 month period ended March 31, 2009**

### **Notes to the Interim Consolidated Financial Statements**

#### **1 Accounting Policies**

##### ***Basis of preparation***

The interim unaudited consolidated financial statements for the three months ended March 31, 2009 have been prepared in accordance with IAS 34 Interim Financial Reporting. However, the interim unaudited consolidated financial statements for the three months ended March 31, 2009 have not been reviewed or audited by the Company's auditors.

These interim unaudited consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards following the same accounting policies and methods of computation as the audited consolidated financial statements for the financial period ended December 31, 2008. These interim unaudited consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Xcite Energy Limited ("XEL" or "the Company") annual report for the year ended December 31, 2008.

##### ***Basis of consolidation***

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Xcite Energy Resources Limited ("XER"). XEL and XER together comprise the "Group". All inter-company balances and transactions have been eliminated upon consolidation.

##### ***New accounting standards adopted during the period***

During the period the Group has adopted no new standards for the first time.

##### ***New standards and interpretations not yet applied***

The following new standards and interpretations, which have been issued by the IASB and the IFRIC, have yet to be endorsed by the European Union and/or are effective for future periods and thus have not been adopted in these interim unaudited consolidated financial statements. A description of these standards and interpretations, together with (where applicable) an indication of the effect of adopting them, is set out below. None are expected to have a material effect on the reported results or financial position of the Group.

The IASB issued a revised IAS 1 'Presentation of Financial Statements' in September 2007 effective for accounting periods beginning on or after January 1, 2009.

The IASB published revisions to IAS 32 'Financial Instruments: Presentation' and consequential revisions to other standards in February 2008 to improve the accounting for and disclosure of puttable financial instruments. The revisions are effective for accounting periods beginning on or after January 1, 2009, but together they may be adopted earlier.

The IASB published amendments to IFRS 1 and IAS 27 "Cost of an Investment in a Subsidiary, Jointly-Controlled Entity or Associate" in May 2008. A first-time adopter now may use as deemed cost of an investment in a subsidiary, jointly-controller entity or associate either the fair value at the entity's transition to IFRS or the previous GAAP carrying amount at that date. Investors no longer need to determine whether dividends received

## **Xcite Energy Limited**

### **For the 3 month period ended March 31, 2009**

have been paid from pre or post-acquisition profits, all such dividends now being treated as income in the income statement. The amendments also clarify how to determine the cost of an investment in accordance with IAS 27 when a parent reorganises the operating structure of its group by establishing a new entity as its parent and this new parent obtains control of the original parent by issuing equity instruments in exchange for existing equity instruments of the original parent. Entities are required to apply these amendments for annual periods beginning on or after January 1, 2009, and earlier adoption is permitted.

The IASB issued in May 2008 as part of its Annual Improvements Project an Exposure Draft discussing proposed improvements to existing IFRSs. The Annual Improvements Project has the intention of dealing with a relatively high number of small amendments to existing standards. Most amendments will be effective January 1, 2009.

The IASB published a revised IFRS 3 'Business Combinations' and related revisions to IAS 27 'Consolidated and Separate Financial Statements' following the completion in January 2008 of its project on the acquisition and disposal of subsidiaries. The standards improve convergence with US GAAP and provide new guidance on accounting for changes in interests in subsidiaries. The cost of an acquisition will comprise only consideration paid to vendors for equity; other costs will be expensed immediately. Groups will only account for goodwill on acquisition of a subsidiary; subsequent changes in interest will be recognised in equity and only on a loss of control will there be a profit or loss on disposal to be recognised in income. The changes are effective for accounting periods beginning on or after July 1, 2009, but both standards may be adopted together for accounting periods beginning on or after July 1, 2007.

The Exposure Draft "Proposed Amendments to IFRS 2 - Vesting Conditions and Cancellations" was issued in February 2006, with the final standard being issued in January 2008. The amendment requires that vesting conditions be restricted to service conditions and non-market performance conditions. Cancellations by parties other than the entity will be accounted for in the same way as cancellations by the entity. The amendments will be applied retrospectively in annual periods beginning on or after January 1, 2009.

Amendment to IAS 23 'Borrowing Costs' was issued in May 2007 and is effective for accounting periods beginning on or after January 1, 2009. The amendment requires borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset to be added to the cost of that asset.

IFRIC 12 'Service Concession Arrangements' was issued in November 2006 and is effective for annual periods beginning on or after January 1, 2008. IFRIC 12 prohibits private sector operators from recognising as their own those infrastructure assets which are owned by the grantor.

IFRIC 13 'Customer Loyalty Programmes' was issued in June 2007 and is effective for annual periods beginning on or after July 1, 2008. IFRIC 13 requires the fair value of revenue relating to customer loyalty rewards to be deferred until all related obligations to the customer have been fulfilled.

IFRIC 14 'IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' was issued in June 2007 and is effective for annual periods beginning on or after January 1, 2008. IFRIC 14 clarifies how any asset to be recognised should be determined, in particular where a minimum funding requirement exists.

IFRIC 15 'Agreements for the Construction of Real Estate' and IFRIC 16 'Hedges of a Net Investment in a Foreign Operation' were both issued in July 2008 but their impact are not considered of relevance to XEL.

IFRS 8 'Operating Segments' was issued in November 2006 and is effective for annual periods beginning on or after January 1, 2009. It requires reportable operating segments to be based on the entity's own internal reporting

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## **For the 3 month period ended March 31, 2009**

structure. It also extends the scope and disclosure requirements of IAS 14 Segmental Reporting, the standard which it is replacing. IFRS 8 will require the publication of segment reports, which will, as a minimum, disclose net result and total assets on a segment by segment basis based on management's own internal accounting information.

The IASB published amendments to IAS 39 'Financial Instruments: Recognition and Measurement: Eligible Hedged items' in July 2008 to clarify when inflation can be designated as a hedged item in a financial instrument under the hedge accounting provisions of IAS 39 and how hedge accounting can be applied to hedges when a hedging instrument is an option contract.

### ***Status of EU endorsement***

Entities in EU Member States which report in accordance with EU-endorsed IFRS can only apply IFRSs and IFRICs where the endorsement process has been completed at the date of approval of their financial statements. Of the standards and interpretations listed above, the following had not yet been endorsed by the European Union at the date these interim consolidated financial statements were authorised for issue:

- IFRIC 12 'Service Concession Arrangements';
- IFRIC 13 'Customer Loyalty Programmes';
- IFRIC 14 'IAS 19 - The limit on a defined benefit asset';
- IFRIC 15 'Agreements for the Construction of Real Estate';
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation';
- IFRS 3 'Business Combinations (revised)';
- Amendment to IAS 23 'Borrowing Costs';
- Amendments to IAS 1 'Presentation of Financial Statements: A Revised Presentation';
- Amendments to IAS 27 'Consolidated and Separate Financial Statements';
- Amendment to IFRS 2 'Share-Based Payment: Vesting Conditions and Cancellations';
- Amendments to IAS 32 and IAS 1 'Puttable Financial Instruments and Obligations Arising on Liquidation';
- Improvements to IFRS;
- Amendments to IFRS 1 and IAS 27 'Cost of an investment in a subsidiary, jointly-controlled entity or associate'; and
- Amendments to IFRS 39 'Financial Instruments: Recognition and Measurement: Eligible Hedged Items'.

## **2 Segment Information**

The Group only operates in a single business and geographical segment. The Group's single line of business is the appraisal and evaluation of oil and gas reserves and the geographical segment in which it currently operates is the North Sea.

## **3 Operating Loss**

The operating loss on ordinary activities is stated after charging the following:

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**For the 3 month period ended March 31, 2009**

	<b>3 months ended March 31, 2009 (unaudited)</b>	3 months ended March 31, 2008 (unaudited)
	£	£
Share based payment charges	<b>140</b>	-

The Company incurred total charges in respect of share based payments in the three month period to March 31, 2009 of £4,744 (three months to March 31, 2008: £nil). Of this, £3,628 was in respect of employees (see Note 4) and a further £1,116 in respect of a third party contractor. In accordance with the Company accounting policy, £4,604 has been capitalized within E&E assets and the balance of £140 expensed within operating loss.

**4 Staff Costs and Directors' Emoluments**

- a) The average number of persons employed by the Group (including Executive Directors) during the period was as follows:

	<b>3 months ended March 31, 2009 (unaudited)</b>	3 months ended March 31, 2008 (unaudited)
Technical and administration	<b>8</b>	5

The aggregate payroll costs of staff and Executive Directors were as follows:

	<b>3 months ended March 31, 2009 (unaudited)</b>	3 months ended March 31, 2008 (unaudited)
	£	£
Wages and salaries	<b>287,635</b>	205,556
Social security costs	<b>35,428</b>	25,420
Share based payments	<b>3,628</b>	-
	<b>326,691</b>	230,976

- b) Executive Directors' emoluments

	<b>3 months ended March 31, 2009 (unaudited)</b>	3 months ended March 31, 2008 (unaudited)
	£	£
Wages and salaries	<b>159,675</b>	159,675
Social security costs	<b>19,919</b>	19,937
	<b>179,594</b>	179,612

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## **For the 3 month period ended March 31, 2009**

The Executive Directors comprise the key management personnel of the Group.

In addition to the above, during the three month period ended March 31, 2009, the Group paid to Roger Ramshaw, Gregory Moroney, Scott Cochlan and Tim Jones in their capacity as Non-Executive Directors of the Company fees of £7,500, £3,000, £1,500 and £4,500 respectively. The comparatives for the three month period ended March 31, 2008 were £11,250, £3,000, £3,000 and £nil respectively.

### **5 Taxation**

	<b>3 months ended March 31, 2009 (unaudited)</b>	3 months ended March 31, 2008 (unaudited)
	<b>£</b>	<b>£</b>
Overseas tax charges	-	-

Current tax is calculated at the rates prevailing in the respective jurisdictions. XEL is incorporated in the British Virgin Islands, a jurisdiction subject to a tax exemption. XER is incorporated in the UK, is considered a company which profits from oil extraction and oil rights, and is therefore subject to current tax on taxable profits at a rate of 30% (March 31, 2008: 30%).

### **6 (Loss)/earnings per Share**

The basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The calculation of basic (loss)/earnings per ordinary share for the three month period ended March 31, 2009 is based on a three month period loss of £126,959 (three months to March 31, 2008: profit of £22,244) and on 61,413,800 (three months to March 31, 2008: 61,108,316), being the weighted average number of ordinary shares in issue during the period.

Details of potentially dilutive financial instruments are given in Note 12 to these financial statements.

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**For the 3 month period ended March 31, 2009**

**7 Intangible Assets**

	<b>Licence Fees</b>	
	<b>March 31 2009 (unaudited)</b>	December 31 2008 (audited)
<i>Exploration and Evaluation Assets</i>	£	£
Cost and carrying value:		
At January 1, 2009 / January 1, 2008	253,287	126,567
Additions during period	-	126,720
At March 31, 2009 / December 31, 2008	<b>253,287</b>	253,287

	<b>Appraisal and Exploration Costs</b>	
	<b>March 31 2009 (unaudited)</b>	December 31 2008 (audited)
	£	£
Cost and carrying value:		
At January 1, 2009 / January 1, 2008	21,743,584	6,455,609
Additions during period	463,332	15,287,975
At March 31, 2009 / December 31, 2008	<b>22,206,916</b>	21,743,584

	<b>Total</b>	
	<b>March 31 2009 (unaudited)</b>	December 31 2008 (audited)
	£	£
Cost and carrying value:		
At January 1, 2009 / January 1, 2008	21,996,871	6,582,176
Additions during period	463,332	15,414,695
At March 31, 2009 / December 31, 2008	<b>22,460,203</b>	21,996,871

The costs associated with the appraisal of the Bentley field have been capitalised in accordance with the Group's accounting policy in Note 1.

Based on the Group's success in drilling its appraisal well on Bentley, and in view of the forecast revenue streams and cash flows of this project, management is satisfied that the carrying amount of the related intangible

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**For the 3 month period ended March 31, 2009**

assets as disclosed above will be recovered in full and that there is no need for any impairment provision. The situation will be monitored by management and adjustments made in future periods if future events indicate that such adjustments are appropriate.

**8 Property, Plant and Equipment**

<b>At January 1, 2008 (audited)</b>	<b>Furniture, fittings and computing equipment</b>
	<b>£</b>
Cost and net book amount	-
<hr/>	
<b>Year ended December 31, 2008 (audited)</b>	
Opening net book amount	-
Additions	27,490
Depreciation charge	6,173
<b>Closing net book amount at December 31</b>	<b>21,317</b>
<hr/>	
<b>At December 31, 2008 (audited)</b>	
Cost and net book amount	<b>21,317</b>
<hr/>	
<b>Period ending March 31, 2009 (unaudited)</b>	
Opening net book amount	21,317
Additions	-
Depreciation charge	2,291
<b>Closing net book amount</b>	<b>19,026</b>
<hr/>	
<b>At March 31, 2009 (unaudited)</b>	
Cost or valuation	27,490
Accumulated depreciation	8,464
<b>Net book amount</b>	<b>19,026</b>

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**For the 3 month period ended March 31, 2009**

**9 Trade and Other Receivables**

	<b>March 31 2009 (unaudited)</b>	December 31 2008 (audited)
	<b>£</b>	<b>£</b>
Indirect taxes receivable	<b>16,026</b>	10,173
Other receivables	<b>3,925</b>	3,925
	<b>19,951</b>	14,098

**10 Trade and Other Payables**

	<b>March 31 2009 (unaudited)</b>	December 31 2008 (audited)
	<b>£</b>	<b>£</b>
Trade payables	<b>231,809</b>	150,092
Social security and other taxes payable	<b>46,746</b>	47,318
Accruals and other creditors	<b>872,394</b>	913,201
	<b>1,150,949</b>	1,110,611

**11 Financial Instruments**

The Group's principal financial instruments are other receivables, trade and other payables and cash, which are denominated in various currencies. The main purpose of these financial instruments is to finance the Group's ongoing operational requirements.

The Group does not currently trade in derivative financial instruments. The principal financial risks faced by the Group are credit risk, liquidity and foreign currency risk. Policies for the management of these risks, which have been consistently applied throughout the period, are shown below.

**Non-market risk**

*a) Credit risk*

Receivables relate to an office rent deposit. As such, it is regarded as low risk. Credit risk also arises from cash and cash equivalents and deposits held by banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of "AA" or better are accepted.

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**For the 3 month period ended March 31, 2009**

*b) Liquidity risk*

Group management has responsibility for reducing exposure to liquidity risk and for ensuring that adequate funds are available to meet anticipated requirements. It operates according to the policies and guidelines established by the Board. Cash management is carried out centrally.

	Carrying Amount	
	March 31 2009 (unaudited) £	December 31 2008 (audited) £
<b>Financial assets – loans and receivables</b>		
- Cash	1,279,412	1,828,183
- Receivables (current)	3,925	3,925
	<b>1,283,337</b>	<b>1,832,108</b>
<b>Financial liabilities – measured at amortised cost</b>		
- Payables (current)	1,104,203	1,063,293

The management believes that as all financial instruments are short term, the fair values for all such items equate to their carrying amount.

The accounting policies for financial assets and financial liabilities are disclosed in Note 1.

**Market risk**

*c) Interest rate and foreign currency risks*

The currency and interest profile of the Group's financial assets and liabilities are as follows:

	Interest Free Liabilities	
	March 31 2009 (unaudited) £	December 31 2008 (audited) £
Sterling	1,099,673	1,063,293
CAD\$	4,530	-
	<b>1,104,203</b>	<b>1,063,293</b>

**Xcite Energy Limited**  
**For the 3 month period ended March 31, 2009**

	Floating rate assets	Interest free assets	Total
	March 31 2009 (unaudited)	March 31 2009 (unaudited)	March 31 2009 (unaudited)
	£	£	£
Sterling	1,248,378	3,675	1,252,053
CAD\$	29,293	250	29,543
USD\$	1,741	-	1,741
	<b>1,279,412</b>	<b>3,925</b>	<b>1,283,337</b>

	Floating rate assets	Interest free assets	Total
	December 31 2008 (audited)	December 31 2008 (audited)	December 31 2008 (audited)
	£	£	£
Sterling	1,788,298	3,675	1,791,973
CAD\$	34,833	250	35,083
USD\$	5,052	-	5,052
	<b>1,828,183</b>	<b>3,925</b>	<b>1,832,108</b>

Sterling floating rate assets earn interest at circa 25 basis points below the Bank of England Base Rate per annum. US\$ floating rate assets earn interest at circa 25 basis points below the Federal Reserve Rate per annum. CAD\$ floating rate assets earn interest at circa 25 basis points below the Canadian Overnight Rate per annum. Cash deposits are only kept with banks with “AA” rating or better. The policy of the Group is to ensure that all cash balances earn a market rate of interest and that interest rate exposures are regularly reviewed and managed.

Foreign currency risk arises where purchase transactions are undertaken in a currency other than Sterling (transactional risk) and where non-Sterling financial derivatives are held at the Balance Sheet date (translational risk). The Group is exposed to exchange rate movements in the US Dollar and, to a lesser extent, the Canadian Dollar and the Euro. In light of the infrequency and relative small value of such non-Sterling denominated transactions and balances, the Group considers that at present its foreign currency risk is not material. The Group will continue to monitor its exposure to such foreign currency risks and will manage future risks using derivative financial instruments as considered appropriate.

As the Company is at the development stage, it is not yet subject to significant exposure to the Sterling/US Dollar exchange rate fluctuations.

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## For the 3 month period ended March 31, 2009

### *(d) Interest rate sensitivity analysis*

Interest rate sensitivity analysis has been determined based on the exposure to interest rates for financial instruments during the financial period.

Based on the Group's cash balances during the period, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the three month period ended March 31, 2009 would decrease/increase by £2,358 (March 31, 2008; the Group's profit would increase/decrease by £12,877).

### 12 Share Capital

	<b>March 31 2009 (unaudited)</b>	December 31 2008 (audited)
	Number of shares	Number of shares
Authorised		
- Ordinary shares of no par value each	<b>Unlimited</b>	Unlimited
Issued and fully paid up		
- Ordinary shares of no par value each	<b>61,413,800</b>	61,413,800

	<b>March 31 2009 (unaudited)</b>	December 31 2008 (audited)
	£	£
Authorised		
- Ordinary shares of no par value	<b>Unlimited</b>	Unlimited
Issued and fully paid up		
- Ordinary shares of no par value	<b>22,252,625</b>	22,252,625

### *Shares issued*

The Company issued no new ordinary shares during the three months ended March 31, 2009. During the three months ended March 31, 2008 the Company issued a total of 863,800 ordinary shares for a total consideration of £478,475 following the exercise of certain warrants.

### *Stock Option Plan*

An element of the Group's reward strategy is the implementation of the Stock Option Plan, the purpose of which is to provide an incentive to the Directors, officers and key employees of the Group to achieve the objectives of the Group; to give suitable recognition to the ability and industry of such persons who contribute materially to the success of the Group; and to attract and retain persons of experience and ability, by providing them with the

## **Xcite Energy Limited**

### **For the 3 month period ended March 31, 2009**

opportunity to acquire an increased proprietary interest in the Company. The Stock Option Plan is administered by the Remuneration and Nominating Committee.

On January 8, 2009 the Company issued 650,000 share options over the Company's ordinary share capital to four members of the XER management team. All such options vested immediately with an exercise price of CAD\$0.10 (£0.06) and a term of five years. The Company issued on the same date a further 200,000 share options over the Company's ordinary share capital to a contractor in recognition of its contribution to the development of the Bentley field.

The following assumptions were used in the share option pricing model for the grant of options during the financial period at the following dates:

Grant Date	January 8, 2009
Share bid price	CAD\$0.04
Exercise price	CAD\$0.10
Expected volatility	55%
Expected life	5 years
Expected dividends	0.0%
Risk-free interest rate	1.83%

At March 31, 2009 there were 5,200,000 options outstanding (December 31, 2008: 4,350,000).

#### ***Share warrants***

The Company had the following outstanding warrants over the ordinary share capital of the Company at March 31, 2009:

<b>Security</b>	<b>Holder</b>	<b>Number of ordinary shares</b>	<b>Exercise price</b>	<b>Market price at grant date</b>	<b>Expiry date</b>
Shareholder Warrants <sup>(1)</sup>	Shareholders of the company	9,948,700	US\$1.50	US\$1.00	May 7, 2009
PP Broker warrants <sup>(2)</sup>	Thomas Weisel Partners (UK) Limited	700,000	US\$1.00	US\$1.00	June 26, 2009
IPO Broker warrants <sup>(3)</sup>	Various	1,012,500	CAD\$1.60	CAD\$1.60	Nov 15, 2009
Warrants <sup>(4)</sup>	Ammonite	163,500	US\$1.00	US\$1.00	Nov 15, 2009

## Xcite Energy Limited

### For the 3 month period ended March 31, 2009

- (1) On June 26, 2007, pursuant to the Private Placement, XEL issued 20,000,000 units consisting of ordinary shares and 20,000,000 half-warrants at US\$1.00 per unit. Each whole warrant entitles the holder to purchase one ordinary share in XEL at an exercise price of US\$1.50 per share at any time until May 7, 2009. On February 15, 2008 the Company received consideration of US\$75,000 in respect of the exercise of 50,000 of such warrants and on March 12, 2008 the Company received consideration of US\$1,950 in respect of the exercise of 1,300 of such warrants.
- (2) Pursuant to the Private Placement, the Company issued to Thomas Weisel Partners (UK) Limited (formerly Westwind Partners (UK) Limited) 1,400,000 broker warrants to purchase 1,400,000 ordinary shares at an exercise price of US\$1.00 at any time until June 26, 2009. On January 31, 2008 Thomas Weisel Partners (UK) Limited exercised a total of 700,000 of these warrants for a consideration of US\$700,000.
- (3) Pursuant to the Initial Public Offering, XEL issued a total of 1,125,000 broker warrants to the following institutions: Thomas Weisel Partners (UK) Limited 843,750 (75%); Mirabaud Securities Limited 112,500 (10%); Wellington West Capital Markets Inc. 112,500 (10%); and MGI Securities 56,250 (5%), with each warrant entitling the holder to purchase one ordinary share in XEL at an exercise price of CAD\$1.60 at any time until November 15, 2009. On February 7, 2008, Wellington West Capital Markets Inc. exercised a total of 112,500 of these warrants for a consideration of CAD\$180,000.
- (4) XER entered into an agreement with Ammonite Capital Partners L.P. (“Ammonite”) in January 2007 in connection with its proposed funding activities. The agreement contained provisions for XER to award Ammonite warrants over ordinary shares in XER under certain circumstances. XEL assumed responsibility for this agreement at the time that XEL acquired XER. The agreement provided for Ammonite to receive a total of 163,500 warrants, each over one ordinary share in XEL (the “Ammonite Warrants”), with each warrant entitling the holder to purchase one ordinary share in XEL at an exercise price of US\$1.00 at any time until November 15, 2009.

### 13 Retained earnings and other reserves

	Retained Earnings	Merger Reserve	Other Reserves	Total
	£	£	£	£
At January 1, 2008	(730,422)	218	1,645,481	915,277
Loss for the year to December 31, 2008	(554,021)	-	-	(554,021)
Transfer upon exercise of share warrants	101,774	-	(101,774)	-
Fair value of share warrants and options	-	-	135,977	135,977
<b>At January 1, 2009 (audited)</b>	<b>(1,182,669)</b>	<b>218</b>	<b>1,679,684</b>	<b>497,233</b>
Fair value of share warrants and options	-	-	4,744	4,744
Loss for the period to March 31, 2009	(126,959)	-	-	(126,959)
<b>At March 31, 2009 (unaudited)</b>	<b>(1,309,628)</b>	<b>218</b>	<b>1,684,428</b>	<b>375,018</b>

## **Xcite Energy Limited**

### **For the 3 month period ended March 31, 2009**

The following explains the nature and purpose of each reserve within owners' equity:

- **Retained Earnings:** Cumulative profits recognised in the Group Income Statement less cumulative losses and distributions made.
- **Merger Reserve:** The difference between the nominal value of the shares issued to acquire a subsidiary and the nominal value of the shares acquired.
- **Other Reserves:** The fair value of share based payments and warrants granted over ordinary shares in the Company at the date of grant.

#### **14 Commitments and contingencies**

The Group had no commitments or contingencies as at March 31, 2009 other than as accounted for in these interim unaudited consolidated financial statements.