Xcite Energy Limited

Interim unaudited consolidated financial statements

For the 3 and 6 month periods ended 30 June 2016

The Company discloses that its auditors have not reviewed these interim unaudited consolidated financial statements for the three and six month periods ended 30 June 2016, which have been prepared by and are the responsibility of the Company's management.

Xcite Energy Limited

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Financial review

The financial review of Xcite Energy Limited ("XEL" or the "Company") should be read in conjunction with the Company's interim unaudited consolidated financial statements and related notes thereto for the three and six month periods ended 30 June 2016, the audited consolidated financial statements and related notes thereto and the financial review of the Company for the year ended 31 December 2015. The interim unaudited consolidated financial statements for the three and six month periods ended 30 June 2016 have been prepared in accordance with International Accounting Standards ("IAS") 34 Interim Financial Reporting. These financial statements are dated 2 August 2016. These documents and additional information about XEL are available on the Company's website at www.xcite-energy.com.

XEL is a public limited company incorporated and domiciled in the British Virgin Islands and whose registered office is at Geneva Place, Waterfront Drive, PO Box 3469 Road Town, Tortola, VG1110, British Virgin Islands. Its principal activity is as an oil appraisal and development company with current interests in the UK Northern North Sea.

The Company is subject to the regulatory requirements of the AIM Market of the London Stock Exchange plc of the United Kingdom ("AIM").

On 16 September 2015 the Company announced that it had applied for the voluntarily delisting of its ordinary share capital from the Toronto Stock Exchange, Venture Division ("TSX-V"). This delisting was accepted and became effective at close of TSX-V trading on 30 September 2015. The Company's ordinary shares continue to be actively traded on AIM. Further to the announcement on 31 March 2016, the Company ceased to be a reporting issuer as of 29 March 2016.

These interim unaudited consolidated financial statements includes an analysis of the XEL results from 1 January 2016 to 30 June 2016 and from 1 January 2015 to 30 June 2015, which include the results of the wholly owned operating subsidiary Xcite Energy Resources plc ("XER"). In these interim unaudited consolidated financial statements, XEL and XER are together defined as the "Group". All figures and the comparative figures contained herein are expressed in US Dollars ($) unless otherwise noted.

Certain statements in this financial review may be regarded as "forward-looking statements" including outlook on oil prices, estimates of future production, estimated completion dates of construction and development projects, business plans for drilling and exploration, estimated amount and timing of capital expenditures and anticipated future debt levels. Forward-looking statements often, but not always, are identified by the use of words such as "seek", "anticipate", "believe", "plan", "estimate", "expect", "targeting" and "intend" and statements that an event or result "may", "will", "should", "could" or "might" occur or be achieved and other similar expressions.

Information concerning reserves and resources may also be deemed to be forward-looking statements, as such estimates involve the implied assessment that the reserves and resources described can be profitably produced in the future. These statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, including crude oil reserves and resource estimations, crude oil prices, exchange rates, interest rates, and prevailing rates of taxation (see "Risk Management" section below), which could cause actual results to differ from those anticipated by the Group. The reader should not place undue importance on forward-looking statements and should not rely upon this information as of any other date. While the Company may elect to, it is under no obligation and does not undertake to update this information at any particular time, unless required by applicable securities law or regulation.

Summary of Results

The following table summarises the Group's performance for the five most recent quarters. All of these results are unaudited. The interim unaudited consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB"). The interim unaudited consolidated financial statements of the Company have also been prepared in accordance with IFRS adopted by the European Union. The financial data contained within the following table has been prepared in accordance with accounting policies that have been applied consistently across all reporting periods.

All values in $'000s	**Q2'16**	Q1'16	Q4'15	Q3'15	Q2'15
Net (loss)/profit	**(578)**	(317)	1,950	(307)	(380)
Basic (LPS)/EPS *	**(0.2)**	(0.1)	0.6	(0.1)	(0.1)
Total assets	**495,092**	492,215	489,843	488,561	485,354
Total liabilities	**144,258**	140,803	138,114	138,782	135,268

***** Basic earnings/(loss) per share in cents

On 21 March 2016, the Company announced the results of an updated Reserves and Resources Assessment Report ("RAR"), prepared by AGR TRACS International Limited. This RAR, with an effective date of 31 December 2015, confirmed 2P Reserves for the Bentley field of 267 million stock tank barrels ("MMstb"), an increase of 2 MMstb since the previous RAR dated 29 April 2015. Additionally, the after-tax net present value of the Bentley field cash flows (discounted at 10%) was confirmed to be approximately $2.5 billion. A further 9 MMstb of P50 Contingent Resources were assigned to the Bentley field, representing the additional economic production that could be achieved after an expected initial 35 year facilities life cut-off had been applied to the development plan.

The three month period ended 30 June 2016 reports a net loss for the quarter of $0.58 million, arising from underlying expenditure of $0.50 million and realised net losses on foreign currency revaluations of $0.07 million on the Group's Sterling, Euro and Norwegian Krone cash balances held.

The Group is not influenced by seasonality to any significant extent, and its financial results are predominantly event-driven. The variations noted above in the net results between each quarter have generally arisen in line with the project execution of the Bentley field appraisal and development programme, which has given rise to one-off revenues and associated charges, together with foreign currency gains and losses.

Income

Interest Income

Interest income received on funds invested in the three month period ended 30 June 2016 amounted to $3k (three month period ended 30 June 2015: $10k). Interest income received on funds invested in the six month period ended 30 June 2016 amounted to $8k (six month period ended 30 June 2015: $23k). Interest income continues to remain low during the current period of sustained historical lows on Federal and UK base rates. Furthermore, a decreasing capital balance of cash held within the Group is likely to result in declining future interest income levels.

The Group policy is to ensure that all cash balances earn a market rate of interest and that interest rate exposures are regularly reviewed and managed. The Group's treasury policy will be kept under review in light of existing market conditions.

Operations and Administrative Expenses

The Group operates in a single business and geographical segment. The Group's single line of business is the appraisal and development of oil and gas reserves and the geographical segment in which it currently operates is the North Sea. The Group's current sole operational focus is the development of the Bentley field, but it will continue to pursue other commercial opportunities as and when they arise, subject to available management and financial resources.

During the six month period ended 30 June 2016, the Group incurred net administrative expenses of $0.90 million comparable to that of the six month period ended 30 June 2015 of $0.85 million.

A total of $0.04 million of net foreign currency exchange ("forex") losses were recognised in the six month period ended 30 June 2016, compared with net gains of $0.02 million for the six month period ended 30 June 2015, principally attributable to the movement of US Dollar against Sterling, Euro, Canadian Dollar and Norwegian Krone during the period, requiring the Group's currency cash and creditor balances to be revalued as at the date of the Consolidated Statement of Financial Position.

With no share options or share warrants vesting during the three or six month periods, there were no charges taken to the Income Statement under the Company's Share Option Plan in either of the three or six month periods ended 30 June 2016 and 30 June 2015.

Additions to E&E assets during the three month period ended 30 June 2016 were $9.71 million (three month period ended 30 June 2015: $9.56 million). Additions to E&E assets during the six month period ended 30 June 2016 were $18.74 million (six month period ended 30 June 2015: $19.43 million). The additions in the six month period ended 30 June 2016 are lower compared to that of the six month period ended 30 June 2015, reflecting a programme of cost reduction measures implemented and reduced project spend by the Company in the current industry climate.

All such E&E costs have been capitalised in accordance with the Group's accounting policies and will be amortised against the revenue from production from the Bentley field once the full field development is commenced. The Group has not incurred any additional material research and development costs or deferred development costs over and above those costs capitalised as E&E assets.

There were no material additions to Property, Plant and Equipment in the three and six month periods ended 30 June 2016.

Liquidity and Capital Resources

The cash balance as at 30 June 2016 was $7.36 million, compared with $20.78 million as at 31 December 2015 and $34.39 million as at 30 June 2015. The decrease in cash balance during the three and six month periods ended 30 June 2016 has arisen due to servicing of the Group's Bond liabilities, in addition to continued, but reduced, investment by the Group into the Bentley field development in order to further advance the project towards Field Development Plan ("FDP") consent by the Oil and Gas Authority ("OGA"). Additions to E&E assets in the six month period ended 30 June 2016 totalled $18.74 million, which includes capitalised interest costs in respect of the Bonds of $10.43 million, together with amortisation on Bond fees of $4.02 million, professional and advisory fees of $1.73 million and capitalised staff and contractor costs of $1.80 million.

As at 30 June 2016, the balance held in escrow was $nil, following settlement of the Bond coupon interest to the original Bond maturity date of 30 June 2016. As at 30 June 2015 and 31 December 2015 the balances held in escrow were $16.69 million and $8.34 million respectively, representing ring-fenced coupon interest for the servicing of the Bond interest under the original terms of the Bonds.

Pending approval of an FDP by the OGA, the accumulated costs to date in appraising the Bentley field remain within E&E assets. It is anticipated that once a FDP has been approved by the OGA, and the Group has decided to commit to commercial production, the Group will undertake an impairment review prior to transferring the E&E asset carrying value within intangible assets into tangible Production Assets.

As at the date of this financial review there remains unused Equity Line Facility (“ELF”) capacity of £30.84 million ($41.29 million), available until July 2017, to provide the Group with additional sources of capital to be used at its sole discretion.

On 30 June 2016 the Group’s Bondholders agreed to certain amendments to the Bond agreement dated 27 June 204, whereby an extension to the maturity date on the Group’s senior secured bonds from 30 June 2016 to 30 September 2016 was granted, in order that the Group and the Bondholders may continue negotiations with respect to a potential restructuring of the Bonds. Whilst the negotiations to date have been constructive, no terms have yet been agreed. However, should agreement on the terms of a restructuring be reached, it is considered likely that such a restructuring will involve a reduction in the Bond liability for an equity stake in the Company.

Since the beginning of the year the Group has been implementing a series of significant cost reduction measures in order to preserve and prolong liquidity within the Group. Taking into account the forecasted financial commitments of the Group, together with a potential restructuring of the Bonds, management have concluded that the Group’s working capital balances are sufficient to meet the actual and anticipated liabilities of the Group as they fall due, which currently include trade supplier and debt interest servicing liabilities in the normal course of business. Future debt interest servicing obligations through to the extended Bonds maturity date of 30 September 2016 are likely to be settled by payment-in-kind, whereby the Group will issue new senior secured bonds in full settlement of the interest otherwise due at that date.

Going Concern and Basis of Preparation

The Bonds were issued by XER in June 2014 and fell due for repayment on 30 June 2016. The Group met all of its covenants and paid in full all interest falling due under the Bonds to the original maturity date. On 30 June 2016 the Group’s Bondholders agreed to an extension to the maturity of the Bonds to 30 September 2016.

The Group’s current and forecast cash position is insufficient to repay the Bond capital in full by the extended maturity date of 30 September 2016 and, accordingly, it continues its discussions with Bondholders with respect to a potential restructuring of the Bonds.

Whilst the Bondholders agreed to a short-term extension to the maturity of the Bonds, it should be noted that there is no certainty that these efforts will result in funding being secured by the Group or, if funding is secured, the terms or timing of such funding and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

These circumstances continue to indicate the existence of material uncertainty in relation to the Group's ability to continue as a going concern. This is dependent on the Group's ability to renegotiate the key terms of the Group's Bonds which now fall due for settlement on 30 September 2016. However, having regard to the legal and financial advice received by the Board of Directors and having carefully considered the current liquidity position of the Group and the financing initiatives being pursued, the Board of Directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. On this basis, the Group continues to adopt the going concern basis of accounting in preparing these interim unaudited consolidated financial statements and they do not include the adjustments that would result if the Group was unable to secure its long-term funding and to continue as a going concern.

Lease and Contractual Commitments

At 30 June 2016, the Company had remaining lease commitments relating to business premises of $0.06 million (30 June 2015: $0.15 million). The decrease in commitments is in line with the remaining lease commitment on its office premises. The lease on the Aberdeen office property at 2 Queen's Gardens expired in accordance with its terms in May 2016 and the Company has relocated to new leased office premises in Aberdeen.

Off-Balance Sheet Arrangements

The Group has no current and no anticipated off-balance sheet arrangements.

Related Party Transactions

Using a loan facility, XEL has continued to provide its wholly owned subsidiary, XER, with net cash funding. During the three month period ended 30 June 2016, XER received funding of $2.11 million (three month period ended 30 June 2015: funding of $2.35 million) in financing XER's operational requirements. For the six month period ended 30 June 2016, XER received funding of $4.44 million (six month period ended 30 June 2015, funding of $5.24 million). No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand. The total balance owing by XER to XEL at 30 June 2016 was $107.00 million (as at 30 June 2015: $97.54 million).

During the three and six month periods ended 30 June 2016, each of Rupert E. Cole, Andrew J. Fairclough and Stephen A. Kew were executive directors of XEL (the "Executive Directors"). The Executive Directors have received remuneration, details of which are given below:

	6 months ended 30 June 2016 (unaudited) $'000s	**3 months ended 30 June 2016 (unaudited) $'000s**	6 months ended 30 June 2015 (unaudited) $'000s	3 months ended 30 June 2015 (unaudited) $'000s
Wages and salaries	**450**	**223**	576	286
Social security costs	**60**	**30**	77	38
	510	**253**	653	324

In addition to the above, during the three month period ended 30 June 2016, the Group paid to Timothy Jones, Gregory Moroney, Scott Cochlan and Henry Wilson in their capacity as Non-Executive Directors of the Company fees of £20,000, £11,250, £11,250 £11,250 respectively ($28,683, $16,332, $16,027 and

$16,148 respectively). The comparatives in respect of Timothy Jones , Gregory Moroney, Scott Cochlan and Henry Wilson for the three month period ended 30 June 2015 were £20,000, £11,250, £11,250 and £11,250 respectively ($30,591, $17,009, $16,866 and $17,009 respectively).

In the six month period ended 30 June 2016, the total fees for Timothy Jones, Gregory Moroney, Scott Cochlan and Henry Wilson were £40,000, £22,500, £22,500 and £22,500 respectively (USD$57,789, $32,432, $32,241 and $32,175 respectively). The comparatives for the six month period ended 30 June 2015 paid to Timothy Jones, Gregory Moroney, Scott Cochlan and Henry Wilson were £40,000, £22,500, £22,500, and £22,500 respectively ($61,035, $34,230, $33,942 and $33,875 respectively).

There were no charges in respect of share-based payments for the Non-Executive Directors in either of the three and six month periods ended 30 June 2016 and 30 June 2015.

In the normal course of business XER incurred no charges during the three and six month periods ended 30 June 2016 (three and six month periods ended 30 June 2015: $9,191 and $18,753 respectively) for property rentals from Seaburome Limited, a company in which Rupert E. Cole is a Director.

Share Options, Warrants and Rights

During the three and six month periods ended 30 June 2016 and 30 June 2015 no new share options, warrants or rights were issued and no share options, warrants or rights expired.

As at the date of signing this MD&A there were 30,162,000 share options outstanding, with a weighted average exercise price of £1.02 ($1.37), and 1,000,000 share warrants outstanding, with a weighted average exercise price of £0.98 ($1.31).

Outstanding Share Capital

There were no new ordinary shares issued during the three and six month periods ended 30 June 2016.

As at the date of signing this financial review, the number of shares of the Company in issue was 309,930,421.

Risk Management

The principal risk factors facing the Group are as follows:

Exploration and development

The nature of oil exploration is such that there is no assurance that exploration activities will be successful. Industry statistics show that few properties that are explored go on to being fully developed. Operations can also be adversely affected by weather conditions and drilling rig and other operating equipment availability outside the control of the Group. Exploration and development risk is mitigated by a process of detailed subsurface technical analysis using industry professionals to help identify those prospects with the highest chance of success. Detailed project planning, concept and design engineering and effective cost control all help to mitigate the downside risk of not delivering a project safely, on specification, on time, and on budget.

Licensing

The Group is dependent on the good standing of its oil field asset licences, all of which are administered by the OGA in the United Kingdom, in order to conduct offshore exploration, appraisal, development and production activities. Each licence has its own terms and conditions, with defined licence periods, and maintenance of these licences is critical to the ability of the Group to continue to conduct its core business. In addition to the licences, the Group requires specific field development consent from the OGA in order to conduct any offshore operations, including drilling and production. The Group maintains regular and constructive dialogue with the OGA, not only for licensing and field development consents, but also for UK oil and gas regulatory matters.

Fiscal and political regime

The decision making process in the oil and gas industry is focused on long-term field economics, which rely heavily upon a stable fiscal and political regime to provide the necessary confidence in proceeding, or otherwise, with project sanction. Prevailing rates of taxation and the availability of field allowances can change, which may then change previous oil field sanction decisions. Whilst it is not possible to forecast such changes or the impact these may have, membership of various industry associations ensures that the Group keeps up to date with industry consensus and has the ability to participate in relevant representations.

Offshore exploration and development

The Group faces additional risks due to its concentration on offshore activities. In particular, drilling conditions, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. The Group has a comprehensive Safety, Health, Environment and Quality management system in place which provides suitable mitigation to the manageable risks presented by offshore activity, and this management system is independently verified to be operating effectively on a periodic basis. The Group also maintains a comprehensive offshore insurance policy to help mitigate operational and environmental risk.

Commodity pricing

The Group has no control over the market price of crude oil. Accordingly, suitable hedging programmes will be used to mitigate the volatility of oil prices, and in particular to protect the downside risk, as and when the Group approaches the production phase.

Financing

Future field development will depend upon the ability of the Group to secure financing, whether this is by joint venture projects, farm down arrangements, public financing, asset financing or other means. By using appropriate financial management and cash forecasting, the Group monitors its projected cash requirements on a regular basis. The Group has delivered capital and debt market transactions, often during difficult market conditions, in order to provide the necessary financing for field development projects.

The Group’s senior secured Bonds fell due for repayment on 30 June 2016 and the maturity date was extended out to 30 September 2016. The Group’s current cash balance is insufficient to meet the capital repayment requirement in full and, as noted under the Going Concern accounting judgement, new or restructured financing arrangements will be required prior to the extended maturity date of the Bonds on 30 September 2016.

Currency

The Group's reporting and functional currency is US Dollars, the same as the market for crude oil. However, certain Group expenditure is denominated in Pounds Sterling and other currencies. The Group does not currently engage in active hedging to minimise exchange rate risk, although this will remain under review as the Group approaches the production phase.

Resource estimation

Oil resource estimation techniques are inherently judgemental and involve a high degree of technical interpretation and modelling techniques. Incorrect resource estimation may result in inappropriate capital investment decisions being made. To mitigate this risk, Group resources are independently assessed on an annual basis to provide additional assurance over the accuracy of internal estimates.

Dependence on key executives and personnel

The Group's development and future potential are dependent upon the continued services and performance of its senior management and other key personnel. The loss of the services of any of the senior management or key personnel may have an adverse impact on the Group. Executive reward structures are reviewed annually to ensure that there is an appropriate balance of executive reward and retention risk mitigation.

Early stage of development

The Group is subject to certain risks related to the nature of its business in the acquisition, exploitation, development and production of oil reserves and resources and its early stage of development. The Group has no previous history of earnings from commercial production and there can be no assurance that the Group's business will be successful or profitable. The development of the field into a proven reserve, as demonstrated by the Reserves and Resources Assessment Report, has, however, materially mitigated this risk. The Group may be subject to growth-related risks, capacity constraints and pressure on its internal systems and controls, particularly given the early stage of the Group's development. The ability of the Group to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Group to deal with this growth could have a material adverse impact on its business, operations and prospects.

Critical Accounting Estimates and Judgements

Accounting estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Directors make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual costs. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial period are discussed below.

(a) Taxation

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax and deferred tax provisions in the period in which such determination is made. The recognition of a material deferred tax asset, due to tax losses arising in the UK, is based upon management's view of future taxable profits against which these losses can be utilised. The estimate of future taxable profits is based on a number of key underlying estimates and assumptions, including, but not limited to FDP approval for the Group's key oilfield assets, the availability of sufficient development funding, future crude oil price forecasts and budgeted development spend.

(b) Fair value of share options and warrants

The Company has valued the fair value of outstanding share options and warrants over the Company's shares using the Black-Scholes valuation methodology. The Company uses judgement to derive such valuation model assumptions that are mainly based on market conditions existing at the option issue date.

(c) Impairment of E&E assets

A review is performed at the end of each financial period for any indication that the value of the Group's E&E assets may be subject to impairment. In the event of any such indication, an impairment test is carried out and, if necessary, an impairment charge is made representing the surplus of capitalised cost over estimated recoverable value of the related commercial oil and gas reserves. Estimated recoverable value is based upon anticipated discounted pre-tax and pre-financing net cash flows attributable to such oil and gas reserves.

(d) Fair value of Bonds' call option

The Bonds are callable at the option of XER at any time at a price comprising the present value of the Bonds on the relevant record date of 106.5% of par value (plus any accrued interest on redeemed Bonds). Call options have nominal value at inception and there remains no current indicator to suggest that the Bond call option has any material value and, therefore, no financial asset has been recognised in respect of the call option. In the absence of a current liquid market in the Bonds, the management considers the carrying value of the Bonds to not be materially different from their fair value.

(e) Going concern and basis of preparation

The Bonds were issued by XER in June 2014 and fell due for repayment on 30 June 2016. The Group met all of its covenants and paid in full all interest falling due under the Bonds to the original maturity date. On 30 June 2016 the Group's Bondholders agreed to an extension to the maturity of the Bonds to 30 September 2016.

The Group's current and forecast cash position is insufficient to repay the Bond capital in full by the extended maturity date of 30 September 2016 and, accordingly, it continues its discussions with the Bondholders with respect to a potential restructuring of the Bonds.

Whilst the Bondholders agreed to a short-term extension to the maturity of the Bonds, it should be noted that there is no certainty that these efforts will result in funding being secured by the Group or, if funding is secured, the terms or timing of such funding and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

These circumstances continue to indicate the existence of material uncertainty in relation to the Group's ability to continue as a going concern. This is dependent on the Group's ability to renegotiate the key terms of the Group's Bonds which now fall due for settlement on 30 September 2016. However, having regard to the legal and financial advice received by the Board of Directors and having carefully considered the current liquidity position of the Group and the financing initiatives being pursued, the Board of Directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. On this basis, the Group continues to adopt the going concern basis of accounting in preparing these interim unaudited consolidated financial statements and they do not include the adjustments that would result if the Group was unable to secure its long-term funding and to continue as a going concern.

Changes in Accounting Policies

Certain new standards, amendments and interpretations endorsed by the IASB and the IFRIC were effective for accounting periods beginning on or after 1 January 2016. The Group has reviewed and considered all available new standards, amendments and interpretations and the adoption of these had no material impact on the previously reported results or financial position of the Group.

Financial Instruments and Other Derivatives

Details regarding the Group's policies in respect of financial instruments are disclosed in Notes 1 and 13 to these interim unaudited consolidated financial statements.

Outlook

The past year has been extremely challenging across the oil and gas industry as was highlighted in our full year results, but we have continued to focus on our efforts to develop the funding required to take the Bentley field into development. Not only have we continued to engage with potential partners, but we have also worked hard to try to ensure that the Bentley development remains positioned as an attractive project in a highly capital constrained environment.

The Reserves Assessment Report for the year ended 31 December 2015 (the "RAR"), which was released on 17 March 2016, set out the benefits of intensive interaction with suppliers and shipyards to deliver valid quotes and cost estimates which further drove down the full field lifecycle cost per barrel for the Bentley field to a highly competitive $30 per barrel.

We have also found the Oil and Gas Authority ("OGA") to be supportive, having identified Quad 9, including the Bentley field, as a strategic priority, and during 2015 we successfully completed a detailed technical review with the OGA of the first phase of the Bentley development. This was an extensive process, which took several months to complete and was an important achievement for the Company, as we believe it further reduced the risk and uncertainty of the first phase development concept for us and for any potential development and funding partners. In February 2016, we received an extension to the Bentley licence until 30 June 2017.

Despite the continuing low oil price environment, we have continued to engage with potential partners and have undertaken several due diligence processes during the past year. Whilst 'traditional' sources of funding for major offshore projects are continuing to stay away from the UK North Sea, we have spent a significant amount of time looking for alternative and innovative funding sources. We recently announced that we had agreed principal commercial terms for development funding proposals for the first phase of the Bentley project. Whilst we are not able to expand on the details of this proposal until it is secured, the structure does require a partner to join XER in the development, to either guarantee the full funding package or to provide any balance of funding required. This support from providers of development capital is important in attracting a guarantor partner, but this will still be challenging in the current environment. We are fully committed to this process and concluding funding on this scale would be a major achievement in the UK North Sea.

While we have been developing these funding options, we have also remained focused over the last year on optimising our project execution strategy. We have been running a tender process, as highlighted in our 2015 full year results, with shipyards for the Engineering, Procurement, Construction, Installation and Commissioning contract for the mobile offshore production unit and floating storage and offtake facility. This has attracted significant interest, enabling us to utilise preliminary quotes in this year's RAR, and we are now evaluating a short-list of yards.

The construction of the jack up drilling rig continues in Singapore. However as with all our potential contracts, we monitor the market and engage with suppliers where opportunities arise to further reduce costs or improve terms, and we shall continue to do so while the current market environment offers such opportunities.

Costs have been removed from the business throughout the year as we have limited the project scope to critical activities, lowered personnel costs, released contractors and reduced general operating overheads as part of the restructuring process.

The Company has been in discussions with its principal Bondholders with respect to a potential restructuring of the Bonds, ahead of their maturity on 30 June 2016, and while those negotiations have been constructive, no terms have yet been agreed. Whilst we are not able to make any further comment on the potential outcome of these negotiations until they are concluded, should agreement on the terms of a restructuring be reached, we believe it is likely that these will involve a reduction to the balance of the Bonds in return for an equity stake in the Company. On 16 June 2016, we requested a short-term extension to the maturity date of the Bonds until 30 September 2016, in order to continue negotiations with Bondholders and allow us to resolve terms for restructuring the Bonds. The Bondholders granted the extension to the maturity date at a Bondholders' Meeting on 30 June 2016.

Xcite Energy Limited
For the 3 and 6 month periods ended 30 June 2016

Consolidated Income Statement

	Note	**6 months ended 30 June 2016 (unaudited) $'000s**	**3 months ended 30 June 2016 (unaudited) $'000s**	6 months ended 30 June 2015 (unaudited) $'000s	3 months ended 30 June 2015 (unaudited) $000s
Foreign exchange (losses)/gains		**(42)**	**(72)**	19	(7)
Other expenses		**(861)**	**(509)**	(873)	(383)
Net administrative expenses		**(903)**	**(581)**	(854)	(390)
Operating loss	3	**(903)**	**(581)**	(854)	(390)
Finance income – bank interest		**8**	**3**	23	10
Loss before taxation		**(895)**	**(578)**	(831)	(380)
Tax expense	5	**-**	**-**	-	-
Loss for the period attributable to equity holders of the parent company		**(895)**	**(578)**	(831)	(380)
Loss per share attributable to equity holders of the parent company					
- Basic and diluted (in cents)	6	**(0.29)**	**(0.19)**	(0.27)	(0.12)

All results relate to continuing operations. The notes on pages 17 to 31 form part of these financial statements.

Consolidated Statement of Comprehensive Income

	6 months ended 30 June 2016 (unaudited) $'000s	**3 months ended 30 June 2016 (unaudited) $'000s**	6 months ended 30 June 2015 (unaudited) $'000s	3 months ended 30 June 2015 (unaudited) $'000s
Loss for the period	**(895)**	**(578)**	(831)	(380)
Total comprehensive loss for the period	**(895)**	**(578)**	(831)	(380)
Attributable to:				
Equity holders of the parent company	**(895)**	**(578)**	(831)	(380)

The notes on pages 17 to 31 form part of these financial statements.

Xcite Energy Limited
For the 3 and 6 month periods ended 30 June 2016

Consolidated Condensed Statement of Changes in Equity

	Share Capital	Retained Earnings	Other Reserves	Translation Reserve	Total
	$'000s	$'000s	$'000s	$'000s	$'000s
At 1 January 2015	**330,128**	**6,667**	**20,018**	**(5,896)**	**350,917**
Loss for the 6 months ended 30 June 2015	-	(831)	-	-	(831)
Total comprehensive loss for the 6 months ended 30 June 2015	**-**	**(831)**	**-**	**-**	**(831)**
At 30 June 2015	**330,128**	**5,836**	**20,018**	**(5,896)**	**350,086**
Profit for the 6 months ended 31 December 2015	-	1,643	-	-	1,643
Total comprehensive profit for the 6 months ended 31 December 2015	**-**	**1,643**	**-**	**-**	**1,643**
Transactions with owners:					
Transfer upon expiry of share options	-	4,528	(4,528)	-	-
At 31 December 2015	**330,128**	**12,007**	**15,490**	**(5,896)**	**351,729**
Loss for the 6 months ended 30 June 2016	-	(895)	-	-	(895)
Total comprehensive loss for the 6 months ended 30 June 2016	**-**	**(895)**	**-**	**-**	**(895)**
At 30 June 2016 (unaudited)	**330,128**	**11,112**	**15,490**	**(5,896)**	**350,834**

The notes on pages 17 to 31 form part of these financial statements.

Xcite Energy Limited

For the 3 and 6 month periods ended 30 June 2016

Consolidated Statement of Financial Position

	Note	**30 June 2016**	31 December 2015
		(unaudited)	(audited)
		$'000s	$'000s
Assets			
Non-current assets			
Intangible assets	7	**479,073**	460,332
Property, plant and equipment	8	**8,514**	8,523
Total non-current assets		**487,587**	468,855
Current assets			
Trade and other receivables	9	**149**	205
Cash and cash equivalents	13b	**7,356**	12,440
Restricted cash and cash equivalents	13b	**-**	8,343
Total current assets		**7,505**	20,988
Total assets		**495,092**	489,843
Liabilities			
Current liabilities			
Trade and other payables	10	**1,036**	994
Interest on Bonds	11	**-**	2,086
Bonds	11	**143,222**	135,034
Total current liabilities		**144,258**	138,114
Net assets		**350,834**	351,729
Equity			-
Share capital	14	**330,128**	330,128
Retained earnings	15	**11,112**	12,007
Translation reserve	15	**(5,896)**	(5,896)
Other reserves	15	**15,490**	15,490
Total equity		**350,834**	351,729

The notes on pages 17 to 31 form part of these financial statements. These interim unaudited consolidated financial statements were approved by the Board of Directors and authorised for issue on 2 August 2016 and were signed on its behalf by:

Rupert Cole
Chief Executive Officer

Andrew Fairclough
Chief Financial Officer

Xcite Energy Limited
For the 3 and 6 month periods ended 30 June 2016

Consolidated Statement of Cash Flows

	6 months ended 30 June 2016 (unaudited)	**3 months ended 30 June 2016 (unaudited)**	6 months ended 30 June 2015 (unaudited and restated)	3 months ended 30 June 2015 (unaudited and restated)
	$'000s	**$'000s**	$'000s	$'000s
Loss for the period before tax	**(895)**	**(578)**	(831)	(380)
Adjustment for interest income	**(8)**	**(3)**	(23)	(10)
Adjustment for foreign exchange	**42**	**72**	(19)	7
Adjustment for disposal of licences	**-**	**-**	91	-
Movement in working capital:				
- Trade and other receivables	**55**	**56**	202	107
- Trade and other payables	**42**	**232**	(2,576)	(558)
Net cash flow from operations	**(764)**	**(221)**	(3,156)	(834)
Additions to exploration and evaluation assets	**(4,281)**	**(2,310)**	(4,856)	(1,938)
Purchase of fixed assets	**(5)**	**(2)**	-	-
Interest income	**8**	**3**	23	10
Net cash flow from investing	**(4,278)**	**(2,309)**	(4,833)	(1,928)
Interest Paid	**(8,343)**	**(4,172)**	(8,100)	(4,050)
Net transfer from restricted cash	**8,343**	**4,172**	-	-
Cash flow from financing	**-**	**-**	(8,100)	(4,050)
Net decrease in cash and cash equivalents	**(5,042)**	**(2,530)**	(16,089)	(6,812)
Cash and cash equivalents as at beginning of period	**12,440**	**9,958**	50,427	41,063
Effect of foreign exchange rate changes	**(42)**	**(72)**	48	135
Cash and cash equivalents as at end of period	**7,356**	**7,356**	34,386	34,386
Short term deposits	**-**	**-**	16,686	16,686
Cash available on demand	**7,356**	**7,356**	17,700	17,700

The notes on pages 17 to 31 form part of these financial statements.

Notes to the Interim Consolidated Financial Statements

1 Accounting Policies

Basis of preparation and going concern

The interim unaudited consolidated financial statements for the three and six month periods ended 30 June 2016 have been prepared in accordance with IAS 34 Interim Financial Reporting. However, the interim unaudited consolidated financial statements for the three and six month periods ended 30 June 2016 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 IFRS following the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended 31 December 2015. 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 Company's annual report for the year ended 31 December 2015.

The interim unaudited consolidated financial statements have been prepared on a going concern basis, which takes into account the going concern and basis of preparation risk identified under "Critical accounting estimates and judgements" on page 8 of these interim unaudited consolidated financial statements. This is dependent on the Group's ability to renegotiate the key terms of the Group's senior secured bond liabilities (the "Bonds") which fall due for settlement on 30 September 2016.

On the assumption the Group successfully concludes its renegotiations with Bondholders with respect to a potential restructuring of the Bonds, the Group currently has sufficient cash resources to fund its working capital and the committed work programme for at least the next 12 months.

The $139.05 million of senior secured bonds, issued by XER in June 2014, fell due for repayment by the end of June 2016 but a short term extension was provided to the Bonds' maturity date until 30 September 2016 to enable negotiations with the Bondholders to continue with respect to a potential restructuring of the Bonds. In order to fulfil the financial capability requirements of the FDP approval process for the Bentley field development, the Group intends to secure a financing package which meets its long-term funding requirements, including re-financing of the Balance Sheet where appropriate. There is, however, no guarantee of this future long-term funding being available. The Group continues to adopt the going concern basis of accounting in preparing the consolidated financial statements and these consolidated financial statements do not include the adjustments that would result if the Group was unable to secure its long-term funding and to continue as a going concern.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, 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

Certain new standards, amendments and interpretations endorsed by the IASB and the IFRIC were effective for accounting periods beginning on or after 1 January 2016. The Group has reviewed and considered all available new standards, amendments and interpretations and the adoption of these had no material impact on the previously reported results or financial position of the Group.

New standards and interpretations not yet applied

Certain new standards and interpretations issued and endorsed by the IASB and the IFRIC during the three and six month periods ended 30 June 2016 are effective for future periods and for which the Group has not early adopted. None of these is expected to have a material effect on the reported results or financial position of the Group.

New standards and interpretations which have been issued by the IASB and the IFRIC but have yet to be endorsed by the European Union have not been adopted in these interim unaudited consolidated financial statements. None is expected to have a material effect on the reported results or financial position of the Group.

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 development of oil and gas reserves and the geographical segment in which it currently operates is the North Sea.

Financial information is presented to management in accordance with the measurement principles of IFRS. There are no adjustments or eliminations made in preparing the Group's financial statements from the reportable segment revenues, profit or loss, asset and liabilities.

3 Operating Loss

The operating loss on ordinary activities is stated after (crediting) the following:

	6 months ended 30 June 2016 (unaudited) \$'000s	**3 months ended 30 June 2016 (unaudited) \$'000s**	6 months ended 30 June 2015 (unaudited) \$'000s	3 months ended 30 June 2015 (unaudited) \$'000s
Foreign exchange (losses)/gains	**(42)**	**(72)**	19	(7)

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:

	6 months ended 30 June 2016 (unaudited)	**3 months ended 30 June 2016 (unaudited)**	6 months ended 30 June 2015 (unaudited)	3 months ended 30 June 2015 (unaudited)
Technical and administration	**17**	**17**	17	17

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

	6 months ended 30 June 2016 (unaudited) $'000s	**3 months ended 30 June 2016 (unaudited) $'000s**	6 months ended 30 June 2015 (unaudited) $'000s	3 months ended 30 June 2015 (unaudited) $'000s
Wages and salaries	**1,621**	**802**	1,839	912
Social security costs	**211**	**105**	239	119
	1,832	**907**	2,078	1,031

b) Executive Directors' emoluments and performance based remuneration:

	6 months ended 30 June 2016 (unaudited) $'000s	**3 months ended 30 June 2016 (unaudited) $'000s**	6 months ended 30 June 2015 (unaudited) $'000s	3 months ended 30 June 2015 (unaudited) $'000s
Wages and salaries	**450**	**223**	576	286
Social security costs	**60**	**30**	77	38
	510	**253**	653	324

During the three and six month periods ended 30 June 2016 and 30 June 2015, each of Rupert E. Cole, Andrew J. Fairclough and Stephen A. Kew were executive directors of XEL (the "Executive Directors"). The Executive Directors comprise the key management personnel of the Group. On 1 July 2016 Stephen Kew resigned as an Executive Director of Xcite Energy Resources plc and of the Company and took on the position of a Non-Executive Director of the Company at that date.

In addition to the table values above, during the three month period ended 30 June 2016, the Group paid to Timothy Jones, Gregory Moroney, Scott Cochlan and Henry Wilson (the "Non-Executive Directors") in their capacity as Non-Executive Directors of the Company fees of £20,000, £11,250, £11,250 and £11,250 respectively ($28,683, $16,332, $16,027 and $16,148 respectively). The comparatives for the three month period ended 30 June 2015 were for Timothy Jones, Gregory Moroney, Scott Cochlan and Henry Wilson were £20,000, £11,250, £11,250 and £11,250 respectively ($30,591, $17,009, $16,866 and $17,009 respectively).

In the six month period ended 30 June 2016, the total fees for Timothy Jones, Gregory Moroney, Scott Cochlan and Henry Wilson were £40,000, £22,500, £22,500 and £22,500 respectively (USD$57,789, $32,432, $32,241 and $32,175 respectively). The comparatives for the six month period ended 30 June 2015 paid to Timothy Jones, Gregory Moroney, Scott Cochlan and Henry Wilson were £40,000, £22,500, £22,500, and £22,500 respectively ($61,035, $34,230, $33,942 and $33,875 respectively).

There were no charges in respect of share-based payments for the Non-Executive Directors in each of the three and six month periods ended 30 June 2016 and 30 June 2015.

On 30 June 2016 Gregory Moroney, Henry Wilson and Scott Cochlan resigned from their posts as Non-Executive Directors of the Company with Stephen Kew changing from an executive director to a non-executive director role on the same date. The Board of Directors now comprises Rupert Cole and Andrew Fairclough as Executive Directors and Timothy Jones and Stephen Kew as Non-Executive Directors.

5 Taxation

	6 months ended 30 June 2016 (unaudited) $'000s	**3 months ended 30 June 2016 (unaudited) $'000s**	6 months ended 30 June 2015 (unaudited) $'000s	3 months ended 30 June 2015 (unaudited) $'000s
Deferred tax charges	**-**	**-**	-	-

XER is considered to be a company which profits from oil extraction and oil rights in the UK and the UK Continental Shelf and is, therefore, subject to corporation tax on taxable profits at a rate of 30% or 19% where the profits fall within the limit of the small companies rate. With the application of the UK supplementary charge, which reduced from 20% to 10% from 1 January 2016, the combined rate of corporation tax for ring-fenced trading profits for UK North Sea producing oil companies is now 40%.

6 Loss per Share

The basic loss per share ("LPS") is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The diluted LPS is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of potentially outstanding ordinary shares, which takes into account issued ordinary shares in addition to all outstanding share options and share warrants that may yet be converted into ordinary shares in the Company in the future. Details of potentially dilutive financial instruments are given in Note 14 to these financial statements. When a loss for the period is presented the diluted LPS is not calculated as this would be anti-dilutive.

The calculation of the basic and diluted earnings per share for the current periods and their comparatives is based on the following values:

	6 months ended 30 June 2016 (unaudited)	**3 months ended 30 June 2016 (unaudited)**	6 months ended 30 June 2015 (unaudited)	3 months ended 30 June 2015 (unaudited)
Loss in period ($'000s)	**(895)**	**(578)**	(831)	(380)
Weighted average number of shares in issue:				
Basic	**309,930,421**	**309,930,421**	309,930,421	309,930,421
Fully diluted	**341,092,421**	**341,092,421**	353,342,421	353,342,421

	6 months ended 30 June 2016 (unaudited)	**3 months ended 30 June 2016 (unaudited)**	6 months ended 30 June 2015 (unaudited)	3 months ended 30 June 2015 (unaudited)
Earnings per share:				
Basic EPS (in US cents)	**(0.29)**	**(0.19)**	(0.27)	(0.12)
Diluted EPS (in US cents)	**(0.29)**	**(0.19)**	(0.27)	(0.12)

7 Intangible Assets

	Licence Fees	
Exploration and Evaluation Assets	**30 June 2016 (unaudited) $'000s**	31 December 2015 (audited) $'000s
Cost and carrying value:		
At 1 January 2016 /1 January 2015	**5,824**	4,876
Additions during period	**63**	1,039
Disposals during period	**-**	(91)
At 30 June 2016 / 31 December 2015	**5,887**	5,824

	Appraisal and Exploration Costs	
	30 June 2016 (unaudited) $'000s	31 December 2015 (audited) $'000s
Cost and carrying value:		
At 1 January 2016 /1 January 2015	**454,508**	417,931
Net additions during period	**18,678**	36,577
At 30 June 2016 / 31 December 2015	**473,186**	454,508

	Total	
	30 June 2016 (unaudited) $'000s	31 December 2015 (audited) $'000s
Cost and carrying value:		
At 1 January 2016 /1 January 2015	**460,332**	422,807
Net additions during period	**18,741**	37,616
Disposals during period	**-**	(91)
At 30 June 2016 / 31 December 2015	**479,073**	460,332

The costs associated with the appraisal of the Bentley field have been capitalised in accordance with the Group's accounting policy. Appraisal and Exploration Costs net additions in the six month period ended 30 June 2016 include an amount of $10.43 million in respect of capitalised interest costs (six month period ended 30 June 2015: $10.13 million) and a further $4.02 million in respect of the amortization of Bond fees (six month period ended 30 June 2015: $3.84 million).

The charge in respect of disposals in the year ended 31 December 2015 represents the write-off on previously capitalised licence costs in respect of Blocks 9/3c and 9/3d, the licences for which were relinquished in January 2015.

Based on the Group's success in drilling and testing its appraisal wells on the Bentley field, 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 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

	Oilfield equipment	Furniture, fittings and computing equipment	Total
Year ended 31 December 2015 (audited)	$'000s	$'000s	$'000s
Opening net book amount at 1 January 2015	8,483	140	8,623
Depreciation charge	-	(100)	(100)
Closing net book amount at 31 December 2015	8,483	40	8,523
At 31 December 2015 (audited)			
Cost or valuation	8,483	1,056	9,539
Accumulated depreciation	-	(1,016)	(1,016)
Net book amount	8,483	40	8,523
Period ended 30 June 2016 (unaudited)			
Opening net book amount at 1 January 2016	**8,483**	**40**	**8,523**
Additions	**-**	**5**	**5**
Depreciation charge	**-**	**(14)**	**(14)**
Closing net book amount at 30 June 2016	**8,483**	**31**	**8,514**
At 30 June 2016 (unaudited)			
Cost or valuation	**8,483**	**1,062**	**9,545**
Accumulated depreciation	**-**	**(1,031)**	**(1,031)**
Net book amount	**8,483**	**31**	**8,514**

In accordance with the Group's accounting policy, oilfield equipment assets, capitalised but not yet available for use, are not depreciated, but are held at the lower of cost and net realisable value.

9 Trade and Other Receivables

	30 June 2016 (unaudited) $'000s	31 December 2015 (audited) $'000s
Indirect taxes receivable	**56**	59
Other receivables	**93**	146
	149	205

10 Trade and Other Payables

	30 June 2016 (unaudited) $'000s	31 December 2015 (audited) $'000s
Trade payables	**147**	291
Social security and other taxes payable	**129**	160
Accruals and other creditors	**760**	543
	1,036	994

11 Senior Secured Bonds

	30 June 2016 (unaudited) $'000s	31 December 2015 (audited) $'000s
Current liabilities:		
Bond interest accrual	**-**	2,086
Bond capital less unamortized issue costs	**143,222**	135,034
12.0% Senior Secured US$ Bonds 2014/2016	**143,222**	137,120

On 30 June 2014, the Group issued senior secured bonds ("Bonds") with a capital value of $135.00 million, a 10% initial issue discount and a term of two years, and carry a cash interest coupon of 12% per annum, payable quarterly in arrears, together with an annual payment-in-kind interest coupon of 3% (payable either in cash or in the issue of additional Bonds at the discretion of the Group). The Bonds are listed on the Nordic ABM Stock Exchange. The Bonds have certain financial covenants attached, which included the maintenance of a minimum Group cash balance of not less than $6.00 million and a minimum Book Equity Ratio (Group Equity to Total Assets) of not less than 30% on a consolidated basis during the term of the Bonds. All financial covenants in place have been met in the three and six month period ended 30 June 2016. At 30 June 2016, the Book Equity Ratio was 71%. In the absence of a current liquid market in the Bonds, management considers that the carrying value of the Bonds is not materially different from their fair value. The Bonds are secured by a charge over the assets of XER.

The Bonds are callable at the option of XER at any time with a call option premium comprising 106.5% of par value and any accrued interest on the redeemed Bonds. Call options have nominal value at inception and there remains no current indicator to suggest that the Bond call option has any material value, and, therefore, no financial asset has been recognised in respect of the call option. In the absence of a current liquid market in the Bonds, the management consider that the carrying value of the Bonds is not materially different from their fair value.

On 30 June 2015, the Group elected to issue an additional $4.05 million of senior secured bonds in settlement of the annual payment-in-kind interest coupon of 3% in respect of the period 30 June 2014 to 30 June 2015.

On 30 June 2016, the Bondholders agreed to certain amendments to the Bond Agreement. These amendments included a short-term extension to the maturity of the Bonds until 30 September 2016 in addition to certain changes to the financial covenants during the extension period. In consideration for these amendments to the Bond Agreement as a consent fee, the Company issued new senior secured Bonds to the value of $1.43 million (1% of the principal outstanding amount) to the existing Bondholders. On 30 June 2016 the Company elected to issue additional $4.17 million of senior secured bonds in settlement of the annual payment-in-kind interest coupon of 3% in respect of the period 30 June 2015 to 30 June 2016.

In the three and six month periods ending 30 June 2016 the carrying value of the Bonds has increased by payment in kind interest of $1.04 million and $2.09 million respectively and $2.18 million and $4.02 million respectively of amortisation of issue costs. These items have been capitalised within the E&E asset in line with the Group's accounting policy, but represent non-cash transactions.

12 Deferred tax

	30 June 2016 (unaudited) $'000s	31 December 2015 (audited) $'000s
At 1 January 2016 / 1 January 2015	-	2,502
Profit and loss credit	-	(2,502)
At 30 June 2016 / 31 December 2015	-	-

13 Financial Instruments

The Group's principal financial instruments are other receivables, trade and other payables, loan notes 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

Group management has a responsibility to minimise the risk of default on credit advanced to customers and on deposits held by suppliers. The Group currently has no trade receivables balance. Deposits held by suppliers comprise an office rent deposit recorded as receivables and, as such, it is regarded as low risk. On this basis, Group management is satisfied that any credit risk has been minimised.

Credit risk also arises from cash and cash equivalents and deposits held by banks and financial institutions. To minimise the credit risk on banks and financial institution deposits, only independently rated parties with a minimum credit rating of "A-" equivalent or better are used by the Group to hold such deposits.

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. The Group's objective is to ensure that sufficient liquid resources are available to meet its obligations on time. Liquidity risk is managed on a consolidated basis by forecasting operational requirements and financial commitments. It operates according to the policies and guidelines established by the Board. Cash management is carried out centrally.

		Carrying Amount	
		30 June 2016 (unaudited) $'000s	31 December 2015 (audited) $'000s
Financial assets – loans and receivables			
-	Cash and cash equivalents	**7,356**	12,440
-	Restricted cash and cash equivalents	**-**	8,343
-	Receivables (current)	**93**	146
		7,449	20,929
Financial liabilities – measured at amortised cost			
-	Senior Secured Bonds (current)	**143,222**	137,120
-	Payables (current)	**907**	834
		144,129	137,954

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

c) Capital disclosures

The Company considers its capital to comprise its ordinary share capital and accumulated retained earnings.

In managing its capital, the Company's primary objective is to ensure preservation of capital and ultimately capital growth for its equity shareholders. In order to achieve this objective, the Company seeks to balance risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Company to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, the Company considers not only its short-term position but also its long-term operational and strategic objectives.

There have been no other significant changes to the Company's capital management objectives, policies and processes in the year nor has there been any change in what the Company considers to be its capital.

Market risk

d) Interest rate and foreign currency risks

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

		As at 30 June 2016 (unaudited)	
	Floating rate assets	**Interest free assets**	**Total**
	$'000s	**$'000s**	**$'000s**
Sterling	**1,446**	**93**	**1,539**
Euro	**203**	**-**	**203**
Norwegian Krone	**7**	**-**	**7**
Canadian Dollar	**19**	**-**	**19**
US Dollar	**5,680**	**1**	**5,681**
	7,355	**94**	**7,449**

		As at 31 December 2015 (audited)	
	Floating rate assets	Interest free assets	Total
	$'000s	$'000s	$'000s
Sterling	1,819	146	1,965
Euro	199	1	200
Norwegian Krone	13	-	13
Canadian Dollar	22	-	22
US Dollar	18,728	-	18,728
Singapore Dollar	-	1	1
	20,781	148	20,929

	Fixed Rate Liabilities		Interest Free Liabilities	
	30 June 2016 (unaudited) $'000s	31 December 2015 (audited) $'000s	**30 June 2016 (unaudited) $'000s**	31 December 2015 (audited) $'000s
Sterling	**-**	-	**838**	828
Canadian Dollar	**-**	-	**-**	1
Norwegian Krone	**-**	-	**24**	-
US Dollar	**143,222**	137,120	**45**	5
	143,222	137,120	**907**	834

Sterling floating rate assets earn interest at rates linked to the Bank of England Base Rate, with higher rates of return being achieved on deposits placed on longer maturities. The Company currently earns interest on Sterling deposits in the range of 0.0% to 0.40%. At 30 June 2016 the weighted average rate of interest being earned on Sterling deposits was 0.37% (30 June 2015: 0.24%; 31 December 2015: 0.36%).

US Dollar floating rate assets earn interest within the range of rates of 0.0% to 0.18%, depending upon the liquidity of the deposit placed. At 30 June 2016 the weighted average rate of interest being earned on US Dollar deposits was 0.11% (30 June 2015: 0.07%; 31 December 2015: 0.08%).

The Company also maintains working capital balances of Euros, Norwegian Krone and Canadian Dollars. These all earn nominal rates of interest. Cash deposits are only kept with banks with "A-" 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 US Dollars (transactional risk) and where non-US Dollar financial derivatives are held at the date of the Consolidated Statement of Financial Position (translational risk). The Group is exposed to exchange rate movements in Pounds Sterling and, to a lesser extent, the Canadian Dollar, the Euro and the Norwegian Krone. During well drilling programmes the Group aligns its expected future foreign expenditure with the necessary foreign currency cash balances, in effect creating a natural hedge. 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.

(e) Foreign exchange rate sensitivity analysis

Foreign exchange rate sensitivity analysis has been determined based on the exposure to financial instruments denominated in currencies ("transactional currencies") other than the reporting currency of US Dollars (the "base currency") as at the date of the Consolidated Statement of Financial Position.

Based on the Group's financial instruments at the date of the Consolidated Statement of Financial Position, had the base currency been stronger than the transactional currencies by 2% then the Group would have reported an additional net unrealised foreign exchange loss in the Income Statement of $30,922 (three months ended 30 June 2015; the Group would have reported an additional unrealised exchange loss of $1,625). Had the base currency been weaker than the transactional currencies by 2% then the Group would have reported an additional unrealised exchange gain in the Income Statement of $32,184 (three months ended 30 June 2015; the Group would have reported an additional unrealised exchange gain of $1,691).

(f) 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 and all other variables were held constant, the Group's loss for the three month period ended 30 June 2016 would decrease by $9,145 (three month period ended 30 June 2015; the Group's loss would decrease by $56,019). If interest rates had been 50 basis points lower and all other variables were held constant, the Group's loss for the three month period ended 30 June 2016 would increase by $3,369 (three month period ended 30 June 2015; the Group's loss would increase by $6,981).

14 Share Capital

	30 June 2016 (unaudited)	31 December 2015 (audited)
	Number of shares	Number of shares
Authorised		
- Ordinary shares of no par value each	**Unlimited**	Unlimited
Issued and fully paid up		
- Ordinary shares of no par value each	**309,930,421**	309,930,421

	30 June 2016 (unaudited)	31 December 2015 (audited)
	Value of shares	Value of shares
	$'000s	$'000s
Authorised		
- Ordinary shares of no par value	**Unlimited**	Unlimited
Issued and fully paid up		
- Ordinary shares of no par value	**330,128**	330,128

Shares issued

There were no new ordinary shares issued in either of the three and six month periods ended 30 June 2016 and 30 June 2015.

All new ordinary share issues during the period rank *pari passu* with the existing ordinary shares in the Company.

Share Option Plan

An element of the Group's remuneration and reward strategy is through the implementation and use of the Share Option Plan, the purpose of which is to provide an incentive to the Directors, officers and key employees and contractors 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 opportunity to acquire an increased proprietary interest in the Company. The Share Option Plan is an equity-settled plan with a current maximum five year vesting period for options granted. The Share Option Plan is administered by the Remuneration and Nominating Committee.

During the three and six month periods ended 30 June 2016 the Company issued no new share options under the Share Option Plan (three and six month periods ended 30 June 2015: nil).

At 30 June 2016 there were 30,162,000 total share options outstanding (31 December 2015; 30,162,000 total share options outstanding), with a weighted average exercise price £1.02 ($1.37) per option (31 December 2015: £1.02 ($1.51) per option). Of the total outstanding at 30 June 2016, 30,162,000 were exercisable at that date (31 December 2015: 30,162,000 exercisable share options).

Share warrants

During the three and six month periods ended 30 June 2016 no share warrants were issued, expired or exercised.

15 Retained earnings and other reserves

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.

- Translation Reserves: represents the cumulative exchange differences arising on translation of functional to presentation currency.

- Other Reserves: Includes the Share-Based Payments Reserve, which represents the fair value of unexercised share-based payments and warrants granted over ordinary shares in the Company at the date of grant, and the Merger Reserve, which represents the difference between the nominal value of the shares issued to acquire a subsidiary and the nominal value of the shares acquired.

16 Commitments and contingencies

At 30 June 2016 and 31 December 2015 the Company had minimum lease commitments under non-cancellable operating leases as follows:

	30 June 2016 (unaudited)	31 December 2015 (audited)
	$’000s	$’000s
Amounts payable on leases which expire:		
Within one year	**63**	214
In two to five years	**-**	-

17 Related parties

XEL is a company incorporated in the British Virgin Islands and whose registered office is at Geneva Place, Waterfront Drive, PO Box 3469 Road Town, Tortola, VG1110, British Virgin Islands. The Group defines related parties as:

- The Group’s Executive and Non-Executive Directors;
- The Company’s subsidiary XER;
- The Company’s key management; and
- Companies in which the Executive Directors exercise significant influence.

Using a loan facility, XEL has continued to provide its wholly owned subsidiary, XER, with net cash funding. During the three month period ended 30 June 2016, XER received funding of $2.11 million (three month period ended 30 June 2015: funding of $2.35 million) to finance XER’s operational requirements. For the six month period ended 30 June 2016, XER received funding of $4.44 million (six month period ended 30 June 2015, funding of $5.24 million). No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand. The total balance owing by XER to XEL at 30 June 2016 was $107.00 million (as at 30 June 2015: $97.54 million).

In the normal course of business XER incurred no charges during the three month period ended 30 June 2016 (three month period ended 30 June 2015: $9,191) and no charges for the six month period ended 30 June 2016 (six month period ended 30 June 2015: $18,753) for property rentals from Seaburome Limited, a company in which Rupert E. Cole is a Director. There was no outstanding balance payable by XER at 30 June 2016 (30 June 2015: $nil).