



Xcite Energy Limited

Interim unaudited consolidated financial statements

For the 3 month period ended 31 March 2013

# Xcite Energy Limited

## Interim unaudited consolidated financial statements for the 3 month period ended 31 March 2013

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# **Xcite Energy Limited**

## **For the 3 month period ended 31 March 2013**

### **Management's Discussion and Analysis**

The Management's Discussion and Analysis ("MD&A") of the operating and financial results 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 month period ended 31 March 2013, the audited consolidated financial statements and related notes thereto for the year ended 31 December 2012 and the annual MD&A of the Company. This MD&A is dated 17 May 2013. These documents and additional information about XEL, including its annual information form dated 26 October 2010, are available on SEDAR at [www.sedar.com](http://www.sedar.com).

XEL is an oil issuer and disclosures pertaining to oil activities are presented in accordance with National Instrument 51-101 ("NI-51-101").

This MD&A includes an analysis of the XEL results from 1 January 2013 to 31 March 2013 and from 1 January 2012 to 31 March 2012, which include the results of the operating subsidiary Xcite Energy Resources Limited ("XER"). In this MD&A, XEL and XER are together defined as the "Group". All figures and the comparative figures contained herein are expressed in Pounds Sterling unless otherwise noted.

Certain statements in this MD&A may be regarded as "forward-looking statements", including outlook on oil prices, estimates of future production, estimated completion dates of constructions 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 may also be deemed to be forward-looking statements as such estimates involve the implied assessment that the 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 resource estimations, crude oil prices, exchange rates, interest rates, 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.

#### **Overview**

The Company, through its wholly owned subsidiary XER, is an oil appraisal and development company focused on heavy oil resources in the North Sea on the UK Continental Shelf. In 2003, XER was awarded its 100% working interest in the Bentley field in Block 9/3b in the UK North Sea. During 2011 XER was awarded 100% working interests in adjacent Blocks 9/3c and 9/3d. In 2013 the Company was awarded 100% working interests for licences in Blocks 9/4a, 9/8b and 9/9h to further enhance the XER portfolio and create a wider Bentley development area. The Group now has four offshore licences in a total of six Blocks, all of which are held at 100% ownership.

The Group's strategy is to develop the identified heavy oil discoveries in the Bentley field and its adjacent Blocks, explore and appraise the identified prospects in its other existing Blocks, to pursue potential acquisitions and participate in future UK offshore licensing rounds to become a significant independent

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heavy oil producer in the North Sea. In the pre-development phase, the Group's aim is to maximise shareholder return on the funds invested until such time as production commences and operations become self-funding.

### Summary of Results

The following table summarises the Group's performance for the eight 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's adopted by the European Union ("EU"). The financial data contained within the following table has been prepared in accordance with accounting policies that have been applied consistently across all eight reporting periods.

	Q1'13	Q4'12	Q3'12	Q2'12	Q1'12	Q4'11	Q3'11	Q2'11
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Revenue	-	-	13,289	-	-	-	-	-
Net (loss)/profit	(1,700)	(884)	(568)	(223)	(46)	1,099	(662)	(294)
Basic EPS *	(0.6p)	(0.4p)	(0.2p)	(0.1p)	(0.0p)	0.6p	(0.4p)	(0.2p)
Total assets	250,424	251,841	260,704	237,556	192,634	152,771	130,219	118,064
Long term liabilities	505	505	505	505	505	505	505	505

\* Basic earnings/(loss) per share in pence

During the first quarter of 2013, the Group experienced an exceptionally busy period following the conclusion to the Bentley pre-production well test in September 2012. The Group's focus during this period has been on the finalising a Reserves Assessment Report ("RAR"), the results of which were published on 8 April 2013 with an effective date of 31 December 2012, and which was the culmination of many months of work interpreting the well data collected from the pre-production well test. The increase in the Bentley field's Proven and Probable ("2P") Reserves from 116 million stock tank barrels of oil ("MMstb"), as previously reported in the RAR of February 2012, to 250 MMstb of 2P Reserves from the April 2013 update, reflects a greatly enhanced Bentley field development plan, resulting from the success of the pre-production well test and an improved understanding of the Bentley field reservoir structure and extent, gained through the interpretation of new 3D seismic data acquired in 2012.

The three months ended 31 March 2013 reports a net loss for the quarter, arising principally from unrealised (non-cash) foreign exchange losses from the retranslation of US dollar assets and liabilities at the Balance Sheet date. With the US dollar balance on the Group's loan note liabilities exceeding the balance on the Group's US dollar cash balances, the devaluation of the British Pound Sterling ("GBP") reporting currency against the US dollar in the first quarter of 2013 has resulted in an overall net unrealised loss in the quarter. As the Group continues to hold material balances of assets and liabilities in currencies other than GBP, it will remain subject to Income Statement fluctuations arising from unrealised foreign exchange gains and losses. Underlying working capital expenditure has generally remained consistent with previous quarters.

Until such time as the Department of Energy and Climate Change ("DECC") approves the Group's Field Development Plan ("FDP") for Bentley, the accumulated costs to date in appraising the Bentley field remain within Exploration and Evaluation ("E&E") assets. It is anticipated that upon approval by DECC of the FDP and the Group's decision to proceed with 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 under the successful efforts standard accounting treatment for oil and gas development assets.

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### **For the 3 month period ended 31 March 2013**

The Group is not influenced by seasonality to any significant extent, and its financial results are predominantly project-driven. The variations noted above in the net results between each quarter have 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 and from share-based payment charges in relation to the Company's Share Option Plan.

#### **Liquidity and Capital Resources**

The cash balance as at 31 March 2013 was £20.4 million, compared with £25.6 million as at 31 December 2012 and £78.9 million as at 31 March 2012. The decrease in cash balance during the three months ended 31 March 2013 has arisen due to final project and working capital commitments in respect of the Phase 1A work programme on Bentley, in addition to underlying expenditure on overheads and financing charges.

Of the cash balance held at 31 March 2013, the Group held £11.6 million (\$17.55 million) in an escrow account in respect of contractual commitments under the Rowan Norway rig agreement, pending identification and finalisation of any further costs. Of this escrow balance, a total of £10.9 million (\$16.55 million) has now been returned to the Group.

The Group held a further £0.7 million in a separate escrow account in respect of commitments placed under the well management contract for the drilling programme under Phase 1A of the Bentley field development. With all costs having been identified and finalised with respect to this well management contract, this escrow account has now been closed and the surplus returned to the Group.

In May 2013, the Group entered into a binding Sale and Purchase Agreement relating to the sale of certain well data for a sum of \$15 million.

As at the date of this MD&A there remains unused Equity Line Facility ("ELF") capacity of £30.84 million.

Taking into account the ELF, the Group's current cash balances and the Group's financial obligations, the Group has forecast that it has sufficient financial resources for working capital for the foreseeable future.

#### **Lease and Contractual Commitments**

At 31 March 2013 the Group had lease commitments relating to business premises of £407,394 (31 March 2012: £470,748). The decrease in commitments when comparing March 2013 with March 2012 is in line with the remaining lease commitment on XER's existing Aberdeen business premises.

As noted above, at 31 March 2013 the Group held a total of £12.3 million in two escrow accounts to meet remaining contractor commitments under the drilling and management contracts for Phase 1A of the Bentley field development programme (as at 31 March 2012 and 31 December 2012 the Company held a total of £73.9 million and £14.8 million respectively in these two escrow accounts).

In preparation for the next phase in the development on the Bentley field, XER has placed commitments for long-lead items of oilfield equipment, including power generators. The commitments at the balance sheet date for such items were £1.1 million.

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## **For the 3 month period ended 31 March 2013**

### **Income**

#### *Interest Income*

Interest income received on funds invested in the three months ended 31 March 2013 amounted to £5,124 (three months ended 31 March 2012: £38,680). The decrease in interest generated on funds invested in the two periods was as a result of lower average cash balances held by the Group between the comparable periods.

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 current 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 three months ended 31 March 2013 the Group incurred total net administrative expenses of £1,704,863 (three months ended 31 March 2012: £84,954). This included total unrealised foreign currency losses of £1,388,396 in the three months ended 31 March 2013 (three months ended 31 March 2012: gains of £296,562). Charges taken to the Profit and Loss account under the Company's Stock Option Plan were £8,979 during the three months ended 31 March 2013 compared with £8,243 for the comparative period in 2012. In all other material respects the Company has continued to incur operational overheads on a consistent basis.

Additions to E&E assets during the three months ended 31 March 2013 were £4,115,001 (three months ended 31 March 2012: £25,070,637). Expenditure in the three months ended 31 March 2013 reflects completion of the Phase 1A Bentley field pre-production well test and the work performed in the preparation of the Reserves Assessment Report, as announced by the Group on 8 April 2013. The work to optimise the Bentley FDP continues, including reservoir simulation studies and laboratory work in connection with enhanced oil recovery techniques.

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 stage 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.

### **Related Party Transactions**

Using a loan facility, XEL has continued to provide its wholly owned subsidiary, XER, with net cash funding of £2.4 million during the three month period to 31 March 2013 (three months to 31 March 2012: £20.5 million) to finance XER's operational requirements. 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 31 March 2013 was £116.9 million (as at 31 March 2012: £85.3 million).

## **Xcite Energy Limited**

### **For the 3 month period ended 31 March 2013**

The Executive Directors have received remuneration, details of which are given below:

	<b>3 months ended 31 March 2013 (unaudited)</b>	3 months ended 31 March 2012 (unaudited)
	£	£
Wages and salaries	<b>140,875</b>	159,675
Social security costs	<b>18,924</b>	21,302
Share-based payments	-	15,736
	<b>159,799</b>	196,713

In addition to the above, during the three month period ended 31 March 2013, 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 £20,000, £11,250, £10,625 and £11,250 respectively. The comparatives for the three month period ended 31 March 2012 were £15,000, £8,750, £8,125 and £8,750 respectively.

Charges in respect of share-based payments for the Non-Executive Directors in the three month period ended 31 March 2013 were £nil (three month period ended 31 March 2012: £2,525).

In the normal course of business XER incurred charges totalling £4,999 during the three month period ended 31 March 2013 (three month ended 31 March 2012: £4,994) 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 31 March 2013 (31 March 2012: £nil).

#### **Share Options, Warrants and Rights**

During the three month period ended 31 March 2013 the Company issued no new options to the XER management team under the Stock Option Plan (three month period ended 31 March 2012: none). A total of 690,000 share options expired unexercised during the three months ended 31 March 2013. No share options were issued to XEL Directors during this period (three month period ended 31 March 2012: none).

A total of 931,000 share options were exercised during the three months ended 31 March 2013, providing total proceeds of £405,966.

As at the date of signing this MD&A there were 16,252,000 share options outstanding and 16,250,000 share warrants outstanding.

#### **Disclosure Controls and Procedures**

In conformance with the Canadian Securities Administrators National Instrument 52-109, the Company has filed certificates signed by the Chief Executive Officer and the Chief Financial Officer that, amongst other things, deal with the matter of disclosure controls and procedures.

#### **Outstanding Share Capital**

The following table sets out the ordinary shares issued during the three month period ended 31 March 2013.

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## **For the 3 month period ended 31 March 2013**

	<b>Ordinary Shares</b>
<b>As at 1 January 2013</b>	<b>290,880,000</b>
Issue of ordinary shares through share option exercise	931,000
<b>As at 31 March 2013</b>	<b>291,811,000</b>

As at the date of signing this MD&A, the number of ordinary shares in issue was 291,811,000.

### **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 out of the control of the Group.

#### ***Offshore exploration***

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.

#### ***Commodity pricing***

The Group has no control over the market price of crude oil. Suitable hedging arrangements are entered into to mitigate the volatility of oil prices when the Group are in production phases.

#### ***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 or other means.

#### ***Currency***

The Group's reporting and functional currency is Pounds Sterling. However, the market for crude oil is in US Dollars. The Group does not currently engage in active foreign exchange 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.

#### ***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.

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## **For the 3 month period ended 31 March 2013**

### *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 resources and its early stage of development. The Group has no history of earnings and there can be no assurance that the Group's business will be successful or profitable. 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.

### **Significant Accounting Judgements and Estimates**

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) Income taxes

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 income tax and deferred tax provisions in the period in which such determination is made.

#### (b) Fair value of share options and warrants

The Group has valued the fair value of outstanding share options and warrants over the Company's shares using the Black-Scholes valuation methodology. The Group 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 reserves. Estimated recoverable value is based upon anticipated discounted net cash flows attributable to such oil reserves.

### **Changes in Accounting Policies**

A number of new standards, interpretations and amendments issued by the International Accounting Standard Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") became effective 1 January 2013 and were adopted by the Group.

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### **For the 3 month period ended 31 March 2013**

- Amendments to IFRS 7 and IAS 32 ‘Financial Instruments: Disclosures and Presentation – Offsetting Financial Assets and Financial Liabilities’;
- Amendments to IAS 12 ‘Income Taxes – Deferred Tax: Recovery of Underlying Assets’.
- IFRIC Interpretation 20 ‘Stripping Costs in the Production Phase of a Surface Mine’
- IFRS 10 ‘Consolidated Financial Statements’;
- IFRS 11 ‘Joint Arrangements’;
- IFRS 12 ‘Disclosure of Interests in Other Entities’;
- IFRS 13 ‘Fair Value Measurement’
- IAS 27 ‘Separate Financial Statements’; and
- IAS 28 ‘Investments in Associates and Joint Ventures’.

The adoption of these new standards, interpretations and amendments did not have a material effect on the 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 the interim unaudited consolidated financial statements.

#### **Outlook for the Remainder of 2013**

On 8 April 2013 the Group was pleased to announce the results from a revised RAR, prepared by AGR TRACS International Limited. These highlights included confirmation of 2P Reserves for the Bentley field of 250 MMstb, an increase of 116% since the previous RAR dated 17 February 2012. Additionally, the after-tax net present value (discounted at 10%) of the Bentley field cash flows was confirmed to be in excess of \$2.2 billion. A further 46 MMstb of P50 Contingent Resources were assigned to the Bentley field, representing the additional economic production that could be achieved after an initial 35 year facilities life cut-off had been applied to the development plan. In addition to the Reserves and Contingent Resources assigned in the RAR, there is the potential for upside from the application of enhanced oil recovery (“EOR”) techniques and further field optimisation.

The summarised highlights confirm, in management’s view, that the Bentley field is now a strategic asset, being one of the largest, proven, undeveloped oilfields in the UK North Sea. Technical and operational attention will now focus on the field optimisation review and the potential for EOR upside to culminate in a further update to the RAR in due course. Additionally, preparations will continue for the execution of the next steps in the First Phase Development (“FPD”) of the Bentley field, including front-end engineering design and key contracts tendering. Against this backdrop, an update to the Field Development Plan will be submitted in due course to the DECC to reflect the outstanding results from the pre-production well test and the updated and improved First Phase Development for Bentley.

With the updated RAR now complete, corporate attention has turned to the potential farm-out of the Bentley asset to industry participants. The RAR has provided the Group with a sound platform on which to commence these discussions.

Furthermore, in light of the significantly increase in both the aggregate 2P Reserves assigned to the Bentley field and also the Reserves attributable to the FPD, there is scope for discussion with the existing participants, and potentially new participants, in the US\$155 million Reserves Based Lending facility, for a significantly increased borrowing capacity to be used as part of the FPD funding requirements.

**Xcite Energy Limited**  
**For the 3 month period ended 31 March 2013**

**Consolidated Income Statement** (in Pounds Sterling)

		<b>3 months ended 31 March 2013</b>	3 months ended 31 March 2012
	<b>Note</b>	<b>(unaudited) £</b>	<b>(unaudited) £</b>
Share-based payment charges		<b>(8,979)</b>	(8,243)
Foreign exchange (losses)/gains		<b>(1,388,396)</b>	296,562
Other expenses		<b>(307,488)</b>	(373,273)
Net administrative expenses		<b>(1,704,863)</b>	(84,954)
<b>Operating loss</b>	3	<b>(1,704,863)</b>	(84,954)
Finance income – bank interest		<b>5,124</b>	38,680
<b>Loss before taxation</b>		<b>(1,699,739)</b>	(46,274)
Tax expense	5	-	-
<b>Loss for the period attributable to equity holders of the parent company</b>		<b>(1,699,739)</b>	(46,274)
Basic and diluted	6	<b>(0.6p)</b>	(0.1p)

All results relate to continuing operations. The notes on pages 16 to 30 form part of these financial statements.

**Xcite Energy Limited**  
**For the 3 month period ended 31 March 2013**

**Consolidated Statement of Comprehensive Income** (in Pounds Sterling)

	<b>3 months ended 31 March 2013 (unaudited) £</b>	<b>3 months ended 31 March 2012 (unaudited) £</b>
Loss for the period	<b>(1,699,739)</b>	(46,274)
<b>Total comprehensive loss for the period</b>	<b>(1,699,739)</b>	(46,274)
Attributable to:		
Equity holders of the parent company	<b>(1,699,739)</b>	(46,274)

The notes on pages 16 to 30 form part of these financial statements.

**Xcite Energy Limited**  
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**Consolidated Condensed Statement of Changes in Equity** (in Pounds Sterling)

	Share Capital £	Retained Earnings £	Merger Reserve £	Other Reserves £	Total £
At 1 January 2012	137,059,997	(4,045,415)	218	9,750,508	142,765,308
Loss for the 3 months ended 31 March 2012	-	(46,274)	-	-	(46,274)
<b>Total comprehensive loss for the 3 months ended 31 March 2012</b>	-	<b>(46,274)</b>	-	-	<b>(46,274)</b>
Transactions with owners:					
Issue of shares	37,437,320	-	-	-	37,437,320
Associated share issue costs	(1,022,610)	-	-	-	(1,022,610)
Share warrant issue	(1,196,267)	-	-	1,196,267	-
Transfer upon exercise of share warrants	-	2,847	-	(2,847)	-
Fair value of share warrants and options	-	-	-	25,835	25,835
<b>At 31 March 2012</b>	<b>172,278,440</b>	<b>(4,088,842)</b>	<b>218</b>	<b>10,969,763</b>	<b>179,159,579</b>
Loss for the 9 months ended 31 December 2012	-	(1,674,633)	-	-	(1,674,633)
<b>Total comprehensive loss for the 9 months ended 31 December 2012</b>	-	<b>(1,674,633)</b>	-	-	<b>(1,674,633)</b>
Transactions with owners:					
Issue of shares	27,593,046	-	-	-	27,593,046
Associated share issue costs	(589,305)	-	-	-	(589,305)
Share warrant issue	(2,835,573)	-	-	2,835,573	-
Transfer upon exercise of share warrants	-	3,520,619	-	(3,520,619)	-
Fair value of share warrants and options	-	-	-	1,291,561	1,291,561
<b>At 31 December 2012</b>	<b>196,446,608</b>	<b>(2,242,857)</b>	<b>218</b>	<b>11,576,279</b>	<b>205,780,248</b>
Loss for the 3 months ended 31 March 2013	-	(1,699,739)	-	-	(1,699,739)
<b>Total comprehensive loss for the 3 months ended 31 March 2013</b>	-	<b>(1,699,739)</b>	-	-	<b>(1,699,739)</b>
Transactions with owners:					
Issue of shares	405,966	-	-	-	405,966
Transfer upon exercise of share warrants	-	147,425	-	(147,425)	-
Fair value of share warrants and options	-	-	-	29,561	29,561
<b>At 31 March 2013</b>	<b>196,852,574</b>	<b>(3,795,171)</b>	<b>218</b>	<b>11,458,415</b>	<b>204,516,036</b>

The notes on pages 16 to 30 form part of these financial statements.

**Xcite Energy Limited**  
**For the 3 month period ended 31 March 2013**

**Consolidated Statement of Financial Position** (in Pounds Sterling)

		31 March 2013	31 December 2012
		(unaudited)	(audited)
	Note	£	£
<b>Assets</b>			
<i>Non-current assets</i>			
Intangible assets	7	220,852,344	216,737,343
Property, plant and equipment	8	311,504	222,347
<b>Total non-current assets</b>		<b>221,163,848</b>	216,959,690
<i>Current assets</i>			
Trade and other receivables	9	8,821,970	9,288,916
Cash and cash equivalents	13b	20,438,308	25,592,215
<b>Total current assets</b>		<b>29,260,278</b>	34,881,131
<b>Total assets</b>		<b>250,424,126</b>	251,840,821
<b>Liabilities</b>			
<i>Current liabilities</i>			
Trade and other payables	10	2,657,596	5,284,605
Short term loans	11	42,745,327	40,270,801
<b>Total current liabilities</b>		<b>45,402,923</b>	45,555,406
<i>Non-current liabilities</i>			
Deferred tax	12	505,167	505,167
<b>Total non-current liabilities</b>		<b>505,167</b>	505,167
<b>Net assets</b>		<b>204,516,036</b>	205,780,248
<b>Equity</b>			
Share capital	14	196,852,574	196,446,608
Retained earnings	15	(3,795,171)	(2,242,857)
Merger reserve	15	218	218
Other reserves	15	11,458,415	11,576,279
<b>Total equity</b>		<b>204,516,036</b>	205,780,248

The notes on pages 16 to 30 form part of these financial statements. These interim unaudited consolidated financial statements were approved by the Board of Directors and authorised for issue on 17 May 2013 and were signed on its behalf by:

Stephen Kew  
Chief Operating Officer

Rupert Cole  
Chief Executive Officer

**Xcite Energy Limited**  
**For the 3 month period ended 31 March 2013**

**Consolidated Statement of Cash Flows (in Pounds Sterling)**

	<b>3 months ended 31 March 2013 (unaudited) £</b>	3 months ended 31 March 2012 (unaudited) £
Loss for the period after tax	<b>(1,699,739)</b>	(46,274)
Adjustment for share-based payments	<b>8,979</b>	8,243
Adjustment for interest income	<b>(5,124)</b>	(38,680)
Adjustment for depreciation	<b>47,240</b>	25,160
Trade and other receivables	<b>466,946</b>	76,132
Trade and other payables	<b>(152,483)</b>	3,468,848
<b>Net cash flow from operations</b>	<b>(1,334,181)</b>	3,493,429
Additions to exploration and evaluation assets	<b>(4,094,419)</b>	(25,053,045)
Purchase of fixed assets	<b>(136,397)</b>	(71,598)
Interest income	<b>5,124</b>	38,680
<b>Net cash flow from investing</b>	<b>(4,225,692)</b>	(25,085,963)
Net proceeds from issue of new shares	<b>405,966</b>	36,414,711
<b>Cash flow from financing</b>	<b>405,966</b>	36,414,711
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(5,153,907)</b>	14,822,177
Cash and cash equivalents as at beginning of period	<b>25,592,215</b>	64,123,406
<b>Cash and cash equivalents as at end of period</b>	<b>20,438,308</b>	78,945,583
<b>Cash and cash equivalents comprise:</b>		
Short term deposits	<b>12,258,722</b>	73,883,099
Cash available on demand	<b>8,179,586</b>	5,062,484

The notes on pages 16 to 30 form part of these financial statements.

# **Xcite Energy Limited**

## **For the 3 month period ended 31 March 2013**

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

#### **1 Accounting Policies**

##### *Basis of preparation*

The interim unaudited consolidated financial statements for the three months ended 31 March 2013 have been prepared in accordance with International Accounting Standards (“IAS”) 34 Interim Financial Reporting. However, the interim unaudited consolidated financial statements for the three months ended 31 March 2013 have not been reviewed or audited by the Group’s auditors.

These interim unaudited consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) following the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended 31 December 2012. 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 31 December 2012.

The interim unaudited consolidated financial statements have been prepared on a going concern basis, taking into account the 2013 Outlook in the Management Discussion and Analysis on page 10 of these interim unaudited consolidated financial statements. The Group currently has sufficient cash resources to fund its working capital requirements and its committed work programme. The US\$60m Loan Note facility with West Face Capital Inc. falls due for repayment by 31 December 2013, extendable by mutual agreement to 31 March 2014, and in order to finance this repayment the Directors are considering a number of options that would secure longer term funding in respect of the first phase development of the Bentley field.

##### *Basis of consolidation*

The interim unaudited 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*

Certain new standards, amendments and interpretations were endorsed by the International Accounting Standard Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”) in December 2012 but were effective for accounting periods beginning on or after 1 January 2013. These include:

- Amendments to IFRS 7 and IAS 32 ‘Financial Instruments: Disclosures and Presentation – Offsetting Financial Assets and Financial Liabilities’;
- Amendments to IAS12 ‘Income Taxes – Deferred Tax: Recovery of Underlying Assets’.
- IFRIC Interpretation 20 ‘Stripping Costs in the Production Phase of a Surface Mine’
- IFRS10 ‘Consolidated Financial Statements’;
- IFRS11 ‘Joint Arrangements’;
- IFRS12 ‘Disclosure of Interests in Other Entities’;
- IFRS 13 ‘Fair Value Measurement’

# **Xcite Energy Limited**

## **For the 3 month period ended 31 March 2013**

- IAS27 ‘Separate Financial Statements’; and
- IAS28 ‘Investments in Associates and Joint Ventures’.

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

Certain new standards and interpretations issued and endorsed by the IASB and the IFRIC during the three months ended 31 March 2013 are effective for future periods and for which the Group has not early adopted. These are listed below, none of which are expected to have a material effect on the reported results or financial position of the Group.

- Amendments to IFRS 1 ‘First Time Adoption of International Financial Reporting Standards – Government Loans’;
- Annual Improvements to IFRSs 2009-2011 Cycle; and
- Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12).

The new standards and interpretations listed under the “Status of EU Endorsement” section below, which have been issued by the IASB and the IFRIC, have yet to be endorsed by the European Union and thus have not been adopted in these interim unaudited consolidated financial statements. None are expected to have a material effect on the reported results or financial position of the Group.

### *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. The following had not yet been endorsed by the European Union at the date these interim unaudited consolidated financial statements were authorised for issue:

- IFRS 9 ‘Financial Instruments’; and
- Amendments to IFRS 10, IFRS 12 and IFRS 27 ‘Investment Entities’.

## **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.

# Xcite Energy Limited

## For the 3 month period ended 31 March 2013

### 3 Operating Loss

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

	<b>3 months ended 31 March 2013 (unaudited)</b>	3 months ended 31 March 2012 (unaudited)
	£	£
Share-based payment charges	<b>8,979</b>	8,243

The Group incurred total charges in respect of share-based payments in the three month period to 31 March 2013 of £29,561 (three months to 31 March 2012: £1,222,102). Of this, £29,561 (three months to 31 March 2012: £23,310) was in respect of employees (see Note 4). In accordance with the Group's accounting policy, £20,582 (three months to 31 March 2012: £17,592) has been capitalised within E&E assets and £8,979 (three months to 31 March 2012: £8,243) has been expensed within operating loss, with the balance of £nil (three months to 31 March 2012: £1,196,267) being charged to the share capital account in accordance with the Group's accounting policy.

### 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 31 March 2013 (unaudited)</b>	3 months ended 31 March 2012 (unaudited)
Technical and administration	<b>18</b>	15

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

	<b>3 months ended 31 March 2013 (unaudited)</b>	3 months ended 31 March 2012 (unaudited)
	£	£
Wages and salaries	<b>595,024</b>	491,214
Social security costs	<b>77,357</b>	64,088
Share-based payments	<b>29,561</b>	23,310
	<b>701,943</b>	578,612

## **Xcite Energy Limited**

### **For the 3 month period ended 31 March 2013**

b) Executive Directors' emoluments and performance based remuneration:

	<b>3 months ended 31 March 2013 (unaudited)</b>	3 months ended 31 March 2012 (unaudited)
	£	£
Wages and salaries	<b>140,875</b>	159,675
Social security costs	<b>18,924</b>	21,302
Share-based payments	-	15,736
	<b>159,799</b>	196,713

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

In addition to the above, during the three month period ended 31 March 2013, the Company paid to Roger Ramshaw, Gregory Moroney, Scott Cochlan and Tim Jones in their capacity as Non-Executive Directors of the Company fees of £20,000, £11,250, £10,625 and £11,250 respectively. The comparatives for the three month period ended 31 March 2012 were £15,000, £8,750, £8,125 and £8,750 respectively.

Charges in respect of share-based payments for the Non-Executive Directors in the three month period to 31 March 2013 were £nil (three month period to 31 March 2012: £2,525).

## **5 Taxation**

	<b>3 months ended 31 March 2013 (unaudited)</b>	3 months ended 31 March 2012 (unaudited)
	£	£
Overseas 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 supplementary charge remaining at 32%, the combined corporation tax rate for ring-fenced trading profits for UK North Sea producing oil companies remains at 62%.

On 26 March 2012 changes in the main (non-ring fenced) rate of UK Corporation Tax were substantively enacted, resulting in reductions from 26% to 24% (effective from 1 April 2012), reducing further to 23% (from 1 April 2013). As the Group forecasts not to be paying corporation tax or supplementary charges in the immediate future due to the availability of brought forward losses and heavy oil field allowances, the impact of this reduction to 23% does not have a current impact on the reported results of the Group.

In addition to the changes in rates of Corporation tax disclosed above, further changes to the non-ring fence UK Corporation tax system were announced in the Autumn Statement 2012. This includes a further reduction

## **Xcite Energy Limited**

### **For the 3 month period ended 31 March 2013**

to the main rate to reduce the rate to 21% from 1 April 2014. This change had not been substantively enacted at the balance sheet date and, therefore, is not included in these financial statements.

With effect from 21 March 2012, there is a reduction to the rate of relief for decommissioning costs from 62% to 50%. Given the distant timings on potential Bentley field decommissioning activities, the impact of this reduction has a negligible financial impact on the Group at present.

#### **6 Earnings per Share**

The basic earnings per share ("EPS") is calculated by dividing the profit/loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The diluted EPS is calculated by dividing the profit/(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.

The basic EPS for the three month period ended 31 March 2013 is based on a three month period loss of £1,699,739 (three months to 31 March 2012: period loss of £46,274) and on ordinary shares of 291,521,356.

Details of potentially dilutive financial instruments are given in Note 13 to these financial statements.

#### **7 Intangible Assets**

	<b>Licence Fees</b>	
	<b>31 March 2013 (unaudited)</b>	31 December 2012 (audited)
<i>Exploration and Evaluation Assets</i>	£	£
<hr/>		
Cost and carrying value:		
At 1 January 2013 / 1 January 2012	<b>2,036,476</b>	1,215,387
Additions during period	<b>11,700</b>	821,089
At 31 March 2013 / 31 December 2012	<b>2,048,176</b>	2,036,476

	<b>Appraisal and Exploration Costs</b>	
	<b>31 March 2013 (unaudited)</b>	31 December 2012 (audited)
	£	£
<hr/>		
Cost and carrying value:		
At 1 January 2013 / 1 January 2012	<b>214,700,867</b>	86,865,223
Additions during period	<b>4,103,301</b>	127,835,644
At 31 March 2013 / 31 December 2012	<b>218,804,168</b>	214,700,867

**Xcite Energy Limited**  
**For the 3 month period ended 31 March 2013**

	<b>Total</b>	
	<b>31 March 2013 (unaudited)</b>	31 December 2012 (audited)
	<b>£</b>	<b>£</b>
<hr/>		
Cost and carrying value:		
At 1 January 2013 / 1 January 2012	<b>216,737,343</b>	88,080,610
Additions during period	<b>4,115,001</b>	128,656,733
<hr/>		
At 31 March 2013 / 31 December 2012	<b>220,852,344</b>	216,737,343
<hr/>		

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

Based on the Group's success in drilling its pre-production and appraisal wells 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 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.

**Xcite Energy Limited**  
**For the 3 month period ended 31 March 2013**

**8 Property, Plant and Equipment**

	Furniture, fittings and computing equipment
	£
<b>Year ended 31 December 2012</b>	
Opening net book amount at 1 January 2012	186,545
Additions	168,722
Depreciation charge	(132,920)
Closing net book amount at 31 December 2012	222,347
<b>At 31 December 2012</b>	
Cost or valuation	431,077
Accumulated depreciation	(208,730)
Net book amount	222,347
<b>Period ended 31 March 2013</b>	
Opening net book amount at 1 January 2013	222,347
Additions	136,397
Depreciation charge	(47,239)
Closing net book amount at 31 March 2013	311,504
<b>At 31 March 2013</b>	
Cost or valuation	567,473
Accumulated depreciation	(255,969)
Net book amount	311,504

**Xcite Energy Limited**  
**For the 3 month period ended 31 March 2013**

**9 Trade and Other Receivables**

	<b>31 March 2013 (unaudited)</b>	31 December 2012 (audited)
	£	£
Trade receivable	-	816,750
Indirect taxes receivable	<b>278,567</b>	178,771
Prepayments	<b>8,472,403</b>	8,222,395
Other receivables	<b>71,000</b>	71,000
	<b>8,821,970</b>	9,288,916

**10 Trade and Other Payables**

	<b>31 March 2013 (unaudited)</b>	31 December 2012 (audited)
	£	£
Trade payables	<b>671,174</b>	2,000,374
Social security and other taxes payable	<b>102,133</b>	472,377
Accruals and other creditors	<b>1,884,289</b>	2,811,854
	<b>2,657,596</b>	5,284,605

**11 Short Term Loans**

	<b>31 March 2013 (unaudited)</b>	31 December 2012 (audited)
	£	£
Loan notes	<b>38,862,387</b>	36,589,341
Interest accrual	<b>3,882,940</b>	3,681,460
Aggregate loan notes	<b>42,745,327</b>	40,270,801

On 5 April 2012, the Group announced that it had issued USD\$50 million of unsecured loan notes bearing interest at 14%, payable in arrears, and with a maturity of 360 days. These loan notes have now been amended to expire on 31 December 2013, with a term of 275 days. On 8 August 2012, the Group announced that it had issued a further USD\$10 million of unsecured loan notes bearing interest at 14%, and with a maturity of 236 days. These loan notes have also now been amended to expire on 31 December 2013, with a term of 275 days. Interest can be rolled up into the principal amount of the loan notes or paid at the Group's discretion.

Given their short term nature, the book value of the loan notes is considered to be materially representative of their fair value.

**Xcite Energy Limited**  
**For the 3 month period ended 31 March 2013**

**12 Deferred tax**

	<b>31 March 2013 (unaudited)</b>	31 December 2012 (audited)
	£	£
At 1 January 2013 / 1 January 2012	<b>505,167</b>	505,167
Profit and loss charge	-	-
At 31 March 2013 / 31 December 2012	<b>505,167</b>	505,167

The total deferred tax liability at 31 March 2013 comprised temporary differences arising from a Research and Development tax claim in the UK. The Group no longer has pre-trading losses within XER as it is now trading following the decision to proceed with the development of the Bentley field. No deferred tax asset has been recognised on these losses until such time as the Group is expected to have sufficient taxable profits in future periods against which the asset can be relieved.

**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 on-going 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. 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.

**Xcite Energy Limited**  
**For the 3 month period ended 31 March 2013**

	<b>Carrying Amount</b>	
	<b>31 March 2013 (unaudited)</b>	31 December 2012 (audited)
	£	£
<b>Financial assets – loans and receivables</b>		
- Cash	<b>20,438,308</b>	25,592,215
- Receivables (current)	<b>71,000</b>	887,750
- Prepayments	<b>8,472,403</b>	8,222,395
	<b>28,981,711</b>	34,702,360
<b>Financial liabilities – measured at amortised cost</b>		
- Loans	<b>42,745,327</b>	40,270,801
- Payables (current)	<b>2,555,463</b>	4,812,228
	<b>45,300,790</b>	45,083,029

Included in cash balances as at 31 March 2013 were amounts held in escrow of £12.3 million (31 December 2012: £14.8 million). Of this balance, £11.6 million (\$17.55 million) is held in an escrow account in respect of contractual commitments under the Rowan Norway rig agreement, pending identification and finalisation of any further costs. The remaining £0.7 million as at 31 March 2013 was held in a separate escrow account in respect of commitments placed under the well management contract for the drilling programme under Phase 1A of the Bentley field development. With all costs having been identified and finalised with respect to this well management contract, this escrow account has now been closed.

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 medium and 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.

**Xcite Energy Limited**  
**For the 3 month period ended 31 March 2013**

**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:

	<b>Fixed Rate Liabilities</b>		<b>Interest Free Liabilities</b>	
	<b>31 March 2013 (unaudited)</b>	<b>31 December 2012 (audited)</b>	<b>31 March 2013 (unaudited)</b>	<b>31 December 2012 (audited)</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Sterling	-	-	<b>2,541,614</b>	4,306,985
USD\$	<b>42,745,327</b>	40,270,801	<b>18</b>	20,678
CAD\$	-	-	<b>12,484</b>	(5,649)
EUR	-	-	<b>1,347</b>	-
Norwegian Kroner	-	-	-	478,916
	<b>42,745,327</b>	40,270,801	<b>2,555,463</b>	4,812,228

	<b>Floating rate assets</b>	<b>Interest free assets</b>	<b>Total</b>
	<b>31 March 2013 (unaudited)</b>	<b>31 March 2013 (unaudited)</b>	<b>31 March 2013 (unaudited)</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Sterling	<b>3,839,893</b>	<b>8,543,447</b>	<b>12,383,340</b>
CAD\$	<b>10,084</b>	-	<b>10,084</b>
Euro	<b>5,011</b>	<b>270</b>	<b>5,281</b>
Norwegian Kroner	<b>7,412</b>	<b>39</b>	<b>7,451</b>
USD\$	<b>16,575,518</b>	<b>37</b>	<b>16,575,555</b>
	<b>20,437,918</b>	<b>8,543,793</b>	<b>28,981,711</b>

**Xcite Energy Limited**  
**For the 3 month period ended 31 March 2013**

	Floating rate assets	Interest free assets	Total
	31 December 2012 (audited)	31 December 2012 (audited)	31 December 2012 (audited)
	£	£	£
Sterling	5,614,860	8,294,751	13,909,611
Euro	3,488	262	3,750
Norwegian Kroner	1,011	39	1,050
CAD\$	24,761	-	24,761
US\$	19,947,394	815,794	20,763,188
	25,591,514	9,110,846	34,702,360

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 0.65%. At 31 March 2013 the weighted average rate of interest being earned on Sterling deposits was 0.29% (31 March 2012: 0.64%; 31 December 2012: 0.56%).

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 31 March 2013 the weighted average rate of interest being earned on US Dollar deposits was 0.04% (31 March 2012: 0.05%; 31 December 2012: 0.11%).

The Company also maintains working capital balances of Euros, Norwegian Kroner 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 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, the Euro and the Norwegian Kroner. 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 Pounds Sterling (the “base currency”) as at the Balance Sheet date.

Based on the Group’s financial instruments at the Balance Sheet date, had the base currency been stronger than the transactional currencies by 2% then the Group would have reported an additional unrealised exchange loss in the Income Statement of £325,187 (three months to 31 March 2012; an additional unrealised

## **Xcite Energy Limited**

### **For the 3 month period ended 31 March 2013**

exchange loss of £846,937). 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 £338,478 (three months to 31 March 2012; an additional unrealised exchange gain of £813,754).

#### *(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 31 March 2013 would decrease by £18,182 (three month period to 31 March 2012; the Group's loss would decrease by £82,857). 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 31 March would increase by £5,119 (three month period to 31 March 2012; the Group's loss would increase by £36,239).

#### **14 Share Capital**

	<b>31 March 2013 (unaudited)</b>	31 December 2012 (audited)
	Number of shares	Number of shares
<hr/>		
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>291,811,000</b>	290,880,000
<hr/>		

	<b>31 March 2013 (unaudited)</b>	31 December 2012 (audited)
	£	£
<hr/>		
Authorised		
- Ordinary shares of no par value	<b>Unlimited</b>	Unlimited
Issued and fully paid up		
- Ordinary shares of no par value	<b>196,852,574</b>	196,446,608
<hr/>		

#### *Shares issued*

During the three months ended 31 March 2013 the Company issued a total of 931,000 new ordinary shares pursuant to the exercise of share options. The total proceeds received from the issue of these 931,000 new ordinary shares was CAD\$639,080 (£405,966).

# **Xcite Energy Limited**

## **For the 3 month period ended 31 March 2013**

### ***Stock Option Plan***

One element of the Group's remuneration and reward strategy is enacted through the implementation and use 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 opportunity to acquire an increased proprietary interest in the Company. The Stock Option Plan is an equity-settled plan with a current maximum five year vesting period for options granted. The Stock Option Plan is administered by the Remuneration and Nominating Committee.

During the three month period ended 31 March 2013, the Company issued no new options under the Stock Option Plan. However, a total of 931,000 share options were exercised at a weighted average price of £0.436 and a total of 690,000 share options expired unexercised. As a result, as at 31 March 2013 there was a total of 16,252,000 share options outstanding (31 December 2012: 17,873,000 total share options outstanding), with exercise prices ranging from CAD\$0.10 to CAD\$5.95 and with a weighted average exercise price of CAD\$1.81 per option.

### ***Share warrants***

In the three month period ended 31 March 2013, the Company issued no share warrants (three months ended 31 March 2012: 6,676,519 share warrants issued).

## **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.
- **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 unexercised share-based payments and warrants granted over ordinary shares in the Company at the date of grant.

## **16 Commitments and contingencies**

At 31 March 2013 the Company had minimum lease commitments under non-cancellable operating leases as follows:

	<b>31 March</b>	31 December
	<b>2013</b>	2012
	<b>£</b>	£
<hr/>		
Amounts payable on leases which expire:		
Within one year	<b>110,063</b>	7,950
In two to five years	<b>297,330</b>	320,742
<hr/>		

## **Xcite Energy Limited**

### **For the 3 month period ended 31 March 2013**

In preparation for the Phase 1B on the Bentley field, XER has committed purchases for long-lead items at 31 March 2013 of approximately £1.1 million in respect of power generation equipment (31 March 2012: approximately £4.7 million).

#### **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 of £2.4 million during the three month period to 31 March 2013 (three months to 31 March 2012: £20.5 million) to finance XER's operational requirements. 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 31 March 2013 was £116.9 million (as at 31 March 2012: £85.3 million).

In the normal course of business XER incurred charges totalling £4,999 during the three month period to 31 March 2013 (three month to 31 March 2012: £4,994) 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 31 March 2013 (31 March 2012: £nil).

The Executive Directors have received remuneration, details of which are given in Note 4 to these interim unaudited consolidated financial statements.