Xcite Energy Limited

Interim consolidated financial statements

For the 3 and 9 month periods ended September 30, 2011

(Unaudited)

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Contents

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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 and nine month periods ended September 30, 2011, the audited consolidated financial statements and related notes thereto for the year ended December 31, 2010 and the annual MD&A of the Company. This MD&A is dated November 14, 2011. These documents and additional information about XEL, including its annual information form dated October 26, 2010, are available on SEDAR at www.sedar.com.

XEL is a developer of heavy oil and disclosures pertaining to its oil activities are presented in accordance with National Instrument 51-101 ("NI-51-101") of the Canadian Securities Administrators.

This MD&A includes an analysis of XEL's results from January 1, 2011 to September 30, 2011 and from January 1, 2010 to September 30, 2010, which include the results of XEL's 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 resources 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 management's 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, 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.

Overview

The Company, through its wholly owned subsidiary XER, is an oil appraisal and development company focused on the appraisal and development of 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.

The Company's strategy is to develop the identified heavy oil discoveries in the Bentley field and in Blocks 9/3b, 9/3c and 9/3d and also to pursue potential acquisitions and participate in future UK offshore licensing rounds to become a significant independent heavy oil producer in the North Sea by 2014. In the pre-development phase, the Company'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 Group has no trading revenue in these periods. 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 IFRSs adopted by the European Union ("EU") and therefore they comply with Article 4 of the EU International Accounting Standards Regulation.

	Q3'11	Q2'11	Q1'11	Q4'10	Q3'10	Q2'10	Q1'10	Q4'09
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Net loss	**(662)**	(294)	(13)	(1,724)	(212)	(246)	(265)	(359)
EPS *	**(0.4p)**	(0.2p)	(0.0p)	(1.1p)	(0.2p)	(0.2p)	(0.3p)	(0.5p)
Total assets	**130,219**	118,064	99,158	102,801	54,688	48,281	48,282	24,790
Long term liabilities	**505**	505	505	505	505	505	505	505

***** Loss per share (basic and diluted) in pence

The third quarter of 2011 continues to see progress in the Company's plans for the First Phase Development ("FPD") programme on the Bentley field, with the Rowan Norway harsh environment, deep water jack-up rig having now arrived into Dundee for final preparations by the owners Rowan Companies, Inc. ("Rowan"), and subsequent Health, Safety & Environment ("HSE") and Department of Energy and Climate Change ("DECC") approvals, prior to being handed over to XER for deployment to the Bentley field.

The Company is continuing to make good progress and remains on track with the submission of and approval by DECC of a Field Development Plan for the Bentley field, to be consistent with the rig deployment timing.

The Company is not influenced by seasonality to any significant extent, rather by status on any given project that the Company may be undertaking at any given time. The primary reason for quarter-on-quarter fluctuations in the net loss reported in the table above is due to charges under the Company's Stock Option Plan following the issuance of new share options in August 2011 and due to foreign exchange gains and losses on its currency balances.

In all other material respects, results for the three months to September 30, 2011 have been consistent with previous quarters. Operational expenditure in the quarter has remained materially consistent.

Liquidity and Capital Resources

The cash balance as at September 30, 2011 was £50.8 million, compared with £36.0 million as at December 31, 2010 and £27.8 million as at September 30, 2010.The increase in cash balance during the nine months ended September 30, 2011 has arisen due to the draw down on the Standby Equity Distribution Agreement ("SEDA") facility of gross funds of £44.6 million, offset by the settlement of the outstanding financial obligations and working capital commitments in respect of the 9/3b-6 and 9/3b-6Z wells completed at the end of December 2010, and expenditure towards study work and long-lead equipment items for the upcoming FPD work programme on the Bentley field.

Following a further two draw downs during February 2011 totalling £10.0 million, through the issuance of 2,921,676 new ordinary shares at a weighted average price of £3.42 per new ordinary share, the SEDA facility was increased on March 18, 2011 by an additional £40 million, bringing the total facility to £100 million. On March 28, 2011 the Company announced a further draw down of £5.0 million in consideration for 1,558,314 new ordinary shares at a price of £3.21 per new ordinary share. On April 19, 2011 the Company announced a SEDA draw down of £6.0 million in consideration for 1,796,514 new ordinary shares at a price of £3.34 per new ordinary share. On June 29, 2011 the Company announced a draw down of £12.5 million in consideration for 10,593,220 new ordinary shares at a price of £1.18 per new ordinary share. On July 19, 2011 the Company announced a draw down of £4.2 million in consideration for 2,680,451 new ordinary shares at a price of £1.57 per new ordinary share. On September 13, 2011 the Company announced a draw down of £6.9 million in consideration for 5,383,894 new ordinary shares at a price of £1.28 per new ordinary share. On October 10, 2011 the SEDA facility was increased by an additional £50.0 million, bring the total facility to £150 million. On October 25, 2011 the Company announced a draw down of £3.2 million in consideration for 2,707,504 new ordinary shares at a price of £1.18 per new ordinary share. On November 11, 2011 the Company announced a draw down of £2.5 million in consideration for 2,168,257 new ordinary shares at a price of £1.15 per new ordinary share.

There remains undrawn SEDA facility of £76.95 million at the Company's disposal at the date of this MD&A.

Of the cash balance held at September 30, 2011, the Company holds $60 million in an escrow account in respect of contractual commitments under the Rowan Norway rig agreement. These funds will remain in escrow to fund the rig day rate owed during the initial 240 days of the FPD, currently expected to commence in late 2011. During this time, the escrow funds will accrue interest to the Company's account. As at September 30, 2011 a total of £38.3 million was held in escrow, including the $60 million noted above.

Taking into account the Group's financial obligations, management has forecast that it has sufficient financial resources for working capital for the foreseeable future and to continue the planning of and commitment for the initial expenditure associated with the FPD of the Bentley field. The unused SEDA facility remains available for use at the Company's discretion in accordance with its terms.

Lease and Contractual Commitments

At September 30, 2011 the Company had lease commitments relating to business premises of £487,499 (September 30, 2010: £nil). This increase in lease commitments represents two new office premises leased by XER in Aberdeen and Guildford.

In preparation for the FPD drilling programme on the Bentley field, XER has committed purchases for long-lead items at September 30, 2011 of approximately £4.5 million in respect of tooling and oilfield equipment (September 30, 2010: £7.3 million).

On February 14, 2011 the Company announced that XER had entered into a binding contract with British American Offshore Limited ("BAOL"), part of Rowan, for the Rowan Norway, a harsh environment deep water jack-up rig, designed and built for simultaneous drilling and production. The Rowan Norway is currently in Dundee, where it is undergoing final testing and crew training prior to being handed over to XER at which point the charter hire commences. Until such time as the Rowan Norway has received all the necessary regulatory approvals, the rig remains under the control of Rowan. The initial commitment period under this contract is 240 days, during which XER is expecting to commence the FPD of the Bentley field.

Income

Interest income earned on funds invested during the three months ended September 30, 2011 amounted to £39,084 (three months to September 30, 2010: £43,039). The interest income generated has decreased quarter-on-quarter due to a higher average balance of cash held within dollar-denominated escrow accounts, which typically attract relatively low interest rates.

Interest income earned on funds invested during the nine months ended September 30, 2011 amounted to £83,005 (nine months to September 30, 2010: £88,547).

In the three months ended September 30, 2011 the Company received one-off non-taxable other income of £21,119 in relation to an HM Revenue & Customs VAT Repayment Supplement.

Management has maintained its policy of keeping cash deposits with banks with "AA" rating or better. The policy of the Group is to ensure that all cash balances earn a market rate of interest where possible and that interest rate exposures are regularly reviewed and managed. As interest base rates remain at a historical low, the expectation is that returns will remain low, but the Company's focus remains balanced on minimising credit risk whilst pursuing negotiated enhanced rates of interest with specific financial institutions.

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 evaluation of oil and gas reserves in the North Sea. The Group's sole operational focus is the development of the Bentley field, but it will continue to pursue other commercial opportunities as and when they arise.

In recognition of the significant work programme ahead of the Group in the planning and execution of the FPD of the Bentley Field, the decision was made in May 2011 to expand XER's operational office space. The result of this was a move from shared service offices in Banchory, Aberdeenshire, into dedicated offices in Aberdeen city centre. This office relocation has enabled XER to provide facilities for an increasing headcount and places it nearer to key contractors and service providers. This move, together with the new XER corporate offices opened in Guildford, Surrey in February 2011, provides the Group with improved overall facilities as it moves towards commencement of the FPD programme.

During the three months ended September 30, 2011 the Group incurred total administrative expenses of £721,752 (three months to September 30, 2010: £255,215). The underlying increase in administrative charges during the current quarter compared with the comparative period in 2010 has arisen primarily due to the share-based payment charges, which have increased by £324,169 from the comparative period in 2010. Aside from this, the increase in underlying overheads being expensed to administrative charges has arisen due to the Group now having two office locations, several additional members of staff and increased annual TSX-Venture Exchange fees, which are measured annually on a Company's market capitalisation. In all other material respects the Company has continued to incur operational overheads on a consistent basis.

During the nine months ended September 30, 2011 the Group incurred total administrative expenses of £1,072,829 (nine months to September 30, 2010: £811,501). The increase between the two periods is explained by higher fair value charges in respect of share options under the Company Stock Option Plan, which were partially offset by favourable foreign currency exchange transactions during the first quarter of 2011 on a rising US dollar exchange rate. Additionally, general overhead levels have increased in line with rising staff numbers and expanding office premises, as outlined in the preceeding paragraph. In all other material respects, the administrative expenses for the nine months ended September 30, 2011 were similar to those for the nine months ended September 30, 2010.

Additions to Exploration and Evaluation ("E&E") assets during the three months ended September 30, 2011 were £5,651,586 (three months ended September 30, 2010: £1,499,865), comprising on-going expenditure towards the work programme on the Field Development Plan, scheduled payments towards long-lead items for the FPD, the payment in respect of the annual licence fee to DECC for the Bentley field and consultancy costs for detailed Front End Engineering and Design ("FEED") studies. Of these additions to E&E, a total of £749,596 was in respect of fair value charges for the Stock Option Plan (three months ended September 30, 2010: £20,659).

Additions to E&E assets during the nine months ended September 30, 2011 were £13,041,705 (nine months ended September 30, 2010: £3,359,152), of which £890,329 was in respect of share-based payment charges (nine months ended September 30, 2010: £216,680).

These costs have been capitalised in accordance with the Group's accounting policies and will be amortised against the revenue from production, if any, from the Bentley field. 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 £18.9 million during the three month period to September 30, 2011 (three months to September 30, 2010: £0.61 million) to finance XER's operational requirements. The cumulative nine month period funding to September 30, 2011 by XEL to XER was £39.2 million (nine months to September 30, 2010: £2.4 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 September 30, 2011 was £64.99 million (as at September 30, 2010: £25.0 million).

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

	9 months ended September 30, 2011 (unaudited)	**3 months ended September 30, 2011 (unaudited)**	9 months ended September 30, 2010 (unaudited)	3 months ended September 30, 2010 (unaudited)
	£	**£**	£	£
Wages and salaries	**531,525**	**159,675**	689,025	159,675
Social security costs	**69,558**	**21,303**	86,734	19,890
Share-based payments	**236,040**	**110,152**	193,823	-
	837,123	**291,130**	969,582	179,565

In addition to the above, during the three month period ended September 30, 2011, the Group paid to Roger Ramshaw, Gregory Moroney, Scott Cochlan and Timothy Jones in their capacity as Non-Executive Directors of the Company fees of £15,000, £8,750, £8,124 and £8,750 respectively. The comparatives for the three month period ended September 30, 2010 were £6,000, £6,000, £1,500 and £5,250 respectively. Charges in respect of share-based payments for the Non-Executive Directors in the three month period to September 30, 2011 were £17,673 (three month period to September 30, 2010: £nil).

In the nine months ended September 30, 2011 the total fees for Roger Ramshaw, Gregory Moroney, Scott Cochlan and Timothy Jones were £36,500, £17,667, £18,332 and £22,916 respectively. The comparatives for the nine month period ended September 30, 2010 were £20,250, £10,500, £5,250 and £16,500 respectively. Charges in respect of share-based payments for the Non-Executive Directors in the nine month period to September 30, 2011 were £37,872 (nine month period to September 30, 2010: £31,099).

In the normal course of business XER incurred charges totalling £4,825 during the three month period to September 30, 2011 (nine months to September 30, 2011: £11,109) 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 September 30, 2011.

Share Options, Warrants and Rights

In the nine month period to September 30, 2011, the Company issued 1,850,000 new share options under the Stock Option Plan.

As at the date of signing this MD&A there were 17,223,000 options outstanding and 380,325 broker warrants outstanding, which would require the issuance of 17,603,325 further ordinary shares upon full exercise and conversion of these options and warrants.

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 nine month period.

	Ordinary Shares
As at January 1, 2011	**158,703,998**
Issue of ordinary shares from SEDA draw down	24,934,069
Issue of ordinary shares through broker warrant exercise	18,225
As at September 30, 2011	**183,656,292**

As at the date of signing this MD&A, the number of shares in issue was 186,827,754, following the issue of 463,958 new ordinary shares in the Company on October 19, 2011 in respect of the exercise of further broker warrants and the issue of a further 2,707,504 new ordinary shares under the SEDA facility on November 1, 2011.

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 Company 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 will be considered to mitigate the volatility of oil prices when the Group enters into 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 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 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 Company'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 Company.

Early stage of development

The Company 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 Company has no history of earnings and there can be no assurance that the Company's business will be successful or profitable. The Company may be subject to growth-related risks, capacity constraints and pressure on its internal systems and controls, particularly given the early stage of the Company's development. The ability of the Company 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 Company 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 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 reserves. Estimated recoverable value is based upon anticipated discounted net cash flows attributable to such oil reserves.

Changes in Accounting Policies

During the period the Group has adopted 'Improvements to IFRSs (2010)'. Improvements relevant to the Company as a result of this endorsement will include IFRS 7 Financial Instruments, IAS 1 and IAS 34 amendments. The adoption of these standards has had no material effect on the treatment of amounts contained within the Company's financial statements.

Financial Instruments and Other Derivatives

Details regarding the Group's policies in respect of financial instruments are disclosed in Notes 1 and 12 to the interim unaudited consolidated financial statements.

Outlook for the Remainder of 2011

The third quarter of 2011 and to date has seen continued progress in the Company's technical and operational plans for the First Phase Development ("FPD") of the Bentley field, with the Rowan Norway harsh environment, deep water jack-up rig arriving in Dundee and currently undergoing final equipment testing and crew training, before being equipped for its deployment onto the Bentley field.

The Company continues its good progress with the approval process by the Department of Energy and Climate Change ("DECC") of a Field Development Plan for the Bentley field, to be consistent with the rig deployment timing.

Financing discussions are progressing satisfactorily on a number of initiatives, again with the objective of concluding these to be consistent with approval by DECC of a Field Development Plan for the Bentley field and the rig deployment.

A final Environmental Statement for the planned FPD on the Bentley field has now been submitted in line with usual practice. As reported in the results of the three month period ended June 30, 2011, this is a requirement in connection with, but not simultaneous with the submission of a Field Development Plan.

Xcite Energy Limited
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Consolidated Income Statement (in Pounds Sterling)

	Note	**9 month period ended September 30 2011 (unaudited) £**	**3 month period ended September 30 2011 (unaudited) £**	9 month period ended September 30 2010 (unaudited) £	3 month period ended September 30 2010 (unaudited) £
Share-based payment charges		**(410,777)**	**(344,828)**	(162,642)	(20,659)
Other expenses		**(662,052)**	**(376,924)**	(648,859)	(234,556)
Administrative expenses		**(1,072,829)**	**(721,752)**	(811,501)	(255,215)
Operating loss	3	**(1,072,829)**	**(721,752)**	(811,501)	(255,215)
Finance income – bank interest		**83,005**	**39,084**	88,547	43,039
Other income		**21,119**	**21,119**	-	-
Loss before tax		**(968,705)**	**(661,549)**	(722,954)	(212,176)
Tax expense	5	**-**	**-**	-	-
Loss for the period		**(968,705)**	**(661,549)**	(722,954)	(212,176)
Loss per share attributable to the equity holders of the parent company:					
Basic and diluted	6	**(0.6p)**	**(0.4p)**	(0.6p)	(0.2p)

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

Xcite Energy Limited
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Consolidated Statement of Comprehensive Income (in Pounds Sterling)

	9 months ended September 30 2011 (unaudited) £	**3 months ended September 30 2011 (unaudited) £**	9 months ended September 30 2010 (unaudited) £	3 months ended September 30 2010 (unaudited) £
Loss for the period	**(968,705)**	**(661,549)**	(722,954)	(212,176)
Total comprehensive income for the period	**(968,705)**	**(661,549)**	(722,954)	(212,176)
Attributable to:				
Equity holders of the parent company	**(968,705)**	**(661,549)**	(722,954)	(212,176)

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

Consolidated Condensed Statement of Changes in Equity (in Pounds Sterling)

	Share Capital	Retained Earnings	Merger Reserve	Other Reserves	Total
	£	£	£	£	£
At January 1, 2010	24,200,271	(2,062,887)	218	1,935,666	24,073,268
Loss for the 12 months to December 31, 2010	-	(2,446,998)	-	-	(2,446,998)
Total comprehensive loss for the 12 months to December 31, 2010	**-**	**(2,446,998)**	**-**	**-**	**(2,446,998)**
Transactions with owners:					
Issue of shares	53,153,038	-	-	-	53,153,038
Associated share issue costs	(536,664)	-	-	-	(536,664)
Broker warrant issue	(329,283)	-	-	329,283	-
Transfer upon exercise of share warrants	-	289,637	-	(289,637)	-
Fair value of share warrants and options	-	-	-	4,341,901	4,341,901
At January 1 , 2011	**76,487,362**	**(4,220,248)**	**218**	**6,317,213**	**78,584,545**
Loss for the 9 months to September 30, 2011	-	(968,705)	-	-	(968,705)
Total comprehensive loss for the period September 30, 2011	**-**	**(968,705)**	**-**	**-**	**(968,705)**
Transactions with owners:					-
Issue of shares	44,607,100	-	-	-	44,607,100
Associated share issue costs	(822,018)	-	-	-	(822,018)
Broker warrant issue	-	-	-	-	-
Transfer upon exercise of share warrants	-	1,711	-	(1,711)	-
Fair value of share warrants and options	-	-	-	1,301,106	1,301,106
At September 30, 2011	**120,272,444**	**(5,187,242)**	**218**	**7,616,608**	**122,702,028**

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

Xcite Energy Limited
For the 3 and 9 month periods ended September 30, 2011

Consolidated Statement of Financial Position (in Pounds Sterling)

	Note	**September 30, 2011**	December 31, 2010
		(unaudited)	(audited)
	Note	**£**	£
Assets			
Non-current assets			
Intangible assets	7	**78,305,082**	65,263,377
Property, plant and equipment	8	**124,756**	30,225
Total non-current assets		**78,429,838**	65,293,602
Current assets			
Trade and other receivables	9	**1,006,678**	1,555,433
Cash and cash equivalents	12b	**50,782,867**	35,952,447
Total current assets		**51,789,545**	37,507,880
Total assets		**130,219,383**	102,801,482
Liabilities			
Non-current liabilities			
Deferred tax	10	**505,167**	505,167
Total non-current liabilities		**505,167**	505,167
Current liabilities			
Trade and other payables	11	**7,012,188**	23,711,770
Total current liabilities		**7,012,188**	23,711,770
Net assets		**122,702,028**	78,584,545
Equity			
Share capital	13	**120,272,444**	76,487,362
Retained earnings	14	**(5,187,242)**	(4,220,248)
Merger reserve	14	**218**	218
Other reserves	14	**7,616,608**	6,317,213
Total equity		**122,702,028**	78,584,545

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 November 14, 2011 and were signed on its behalf by:

Richard Smith
Chief Executive Officer

Rupert Cole
Chief Financial Officer

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Consolidated Statement of Cash Flows (in Pounds Sterling)

	9 months ended September 30 2011 (unaudited) £	**3 months ended September 30 2011 (unaudited) £**	9 months ended September 30 2010 (unaudited) £	3 months ended September 30 2010 (unaudited) £
Loss for the period after tax	**(968,705)**	**(661,549)**	(722,954)	(212,176)
Adjustment for share based payments	**410,777**	**344,828**	162,642	20,659
Adjustment for interest income	**(83,005)**	**(39,084)**	(88,547)	(43,039)
Adjustment for depreciation	**25,484**	**10,118**	13,771	5,116
Movement in working capital				
Trade and other receivables	**548,755**	**(16,961)**	(450,213)	(449,599)
Trade and other payables	**(16,699,582)**	**1,101,961**	1,065,017	874,736
Net cash flow from operations	**(16,766,276)**	**739,313**	(20,284)	195,697
Additions to exploration and evaluation assets	**(12,151,376)**	**(4,901,991)**	(3,142,472)	(1,479,206)
Purchase of fixed assets	**(120,015)**	**(48,484)**	(36,780)	-
Interest income	**83,005**	**39,084**	88,547	43,039
Net cash flow from investing	**(12,188,386)**	**(4,911,391)**	(3,090,705)	(1,436,167)
Net proceeds from issue of new shares	**43,785,082**	**10,619,900**	29,177,359	5,723,920
Cash flow from financing	**43,785,082**	**10,619,900**	29,177,359	5,723,920
Net increase in cash and cash equivalents	**14,830,420**	**6,447,822**	26,066,370	4,483,450
Cash and cash equivalents as at beginning of period	**35,952,447**	**44,335,045**	1,736,367	23,319,287
Cash and cash equivalents as at end of period	**50,782,867**	**50,782,867**	27,802,737	27,802,737
Cash and cash equivalents comprise:				
Short term deposits (< 1 year)	**38,256,498**	**38,256,498**	17,221,030	17,221,030
Cash available on demand	**12,526,369**	**12,526,369**	10,581,707	10,581,707

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

The interim unaudited consolidated financial statements for the three and nine months ended September 30, 2011 have been prepared in accordance with IAS 34 Interim Financial Reporting. However, the interim unaudited consolidated financial statements for the three and nine months ended September 30, 2011 have not been reviewed or audited by the Company's auditors.

These interim unaudited consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards following the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended December 31, 2010. These interim unaudited consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Xcite Energy Limited ("XEL" or "the Company") annual report for the year ended December 31, 2010.

Basis of consolidation

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

New accounting standards adopted during the period

During the period the Group has adopted 'Improvements to IFRSs (2010)'. Improvements relevant to the Company as a result of this endorsement will include IFRS 7 Financial Instruments, IAS 1 and IAS 34 amendments.

New standards and interpretations not yet applied

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

An exposure draft addressing IFRS 10 'Consolidated Financial Statements' was issued in May 2011 and seeks to deliver a single IFRS on consolidation to replace IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities.

IFRS 13 'Fair Value Measurement' was issued in May 2011 and sets out a single framework for measuring fair value and provides comprehensive guidance on how to measure the fair value of both financial and non-financial assets and liabilities.

In May 2011 the IASB issued IFRS 11 ‘Joint Arrangements’. IFRS 11 supersedes IAS 31 and SIC-13 ‘Jointly Controlled Entities—Non-Monetary Contributions’ by Venturers and it is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted so long as IFRS 10, IFRS 12, IAS 27(2011) and IAS 28 (2011) are adopted at the same time.

In June 2011 the IASB issued Amendments to IAS 19 ‘Employee Benefits’ , the key points of which are focussed on defined benefit pension plans. The proposals contained within this Amendment are considered to have no impact on the Group.

In June 2011, the IASB issued Amendments to IAS 1 ‘Presentation of Items of Other Comprehensive Income’, which become effective from 1 July 2012. The Amendments require separate presentation of items of other comprehensive income that are reclassified subsequently to profit or loss (recyclable) and those that are not reclassified to profit or loss (non-recyclable).

Status of EU endorsement

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

- IFRS 10 ‘Consolidated Financial Statements’;
- IFRS 11 ‘Joint Arrangements’;
- IFRS 12 ‘Disclosures of Interests in Other Entities’;
- IFRS 13 ‘Fair Value Measurement’;
- IAS 27 ‘Separate Financial Statements’;
- IAS 28 ‘Investments in Associates and Joint Ventures’;
- IFRS 9 ‘Financial Instruments’;
- ‘Deferred tax: Recovery of underlying assets (Amendments to IAS12)’;
- Amendments to IFRS 7 ‘Financial Instruments - Disclosures’;
- Presentation of Items of Other Comprehensive Income (Amendments to IAS1);
- Amendments to IAS19 ‘Employee Benefits’; and
- ‘Severe hyperinflation and removal of fixed dates for first-time adopters (Amendments to IFRS1)’.

2 Segment Information

The Group operates in a single business and geographical segment. The Group’s single line of business is the appraisal and evaluation of oil and gas reserves in the North Sea.

3 Operating Loss

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

	9 months ended September 30, 2011 (unaudited)	**3 months ended September 30, 2011 (unaudited)**	9 months ended September 30, 2010 (unaudited)	3 months ended September 30, 2010 (unaudited)
	£	**£**	£	£
Share-based payment charges	**410,777**	**344,828**	162,642	20,659

The Company incurred total charges in respect of share-based payments in the three month period to September 30, 2011of £1,094,424 (three months to September 30, 2010: £20,659). Of this, £180,847 was in respect of employees (see Note 4) and Non-Executive Directors (three months to September 30, 2010: £nil). In accordance with the Company's accounting policy, £749,596 has been capitalised within Exploration and Evaluation ("E&E") assets, and the balance of £344,828 has been expensed within operating loss (three months to September 30, 2010: £20,659 expensed within operating loss).

In the nine month period to September 30, 2011 the Company incurred total charges in respect of share-based payments of £1,301,106 (nine months to September 30, 2010: £379,322). Of this, £387,529 was in respect of employees and Non-Executive Directors (nine months to September 30, 2010: £318,218). In accordance with the Company accounting policy, £890,329 has been capitalised within E&E assets and the balance of £410,777 expensed within operating loss (nine months to September 30, 2010: £216,680 capitalised within E&E assets and the balance of £162,642 expensed within operating loss).

4 Staff Costs and Directors' Emoluments

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

	9 months ended September 30, 2011 (unaudited)	**3 months ended September 30, 2011 (unaudited)**	9 months ended September 30, 2010 (unaudited)	3 months ended September 30, 2010 (unaudited)
Technical and administration	**11**	**14**	7	7

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

	9 months ended September 30, 2011 (unaudited)	**3 months ended September 30, 2011 (unaudited)**	9 months ended September 30, 2010 (unaudited)	3 months ended September 30, 2010 (unaudited)
	£	**£**	£	£
Wages and salaries	**1,338,260**	**456,897**	1,275,275	315,425
Social security costs	**173,574**	**59,804**	159,641	39,034
Share-based payments	**349,657**	**163,174**	287,119	-
	1,861,491	**679,875**	1,722,035	354,459

b) Executive Directors' emoluments and performance based remuneration:

	9 months ended September 30, 2011 (unaudited)	**3 months ended September 30, 2011 (unaudited)**	9 months ended September 30, 2010 (unaudited)	3 months ended September 30, 2010 (unaudited)
	£	**£**	£	£
Wages and salaries	**531,525**	**159,675**	689,025	159,675
Social security costs	**69,558**	**21,303**	86,734	19,890
Share-based payments	**236,040**	**110,152**	193,823	-
	837,123	**291,130**	969,582	179,565

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

In addition to the above, during the three month period ended September 30, 2011, 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 £15,000, £8,750, £8,124 and £8,750 respectively. The comparatives for the three month period ended September 30, 2010 were £6,000, £6,000, £1,500 and £5,250 respectively.

In the nine months ended September 30, 2011 the total fees for Roger Ramshaw, Gregory Moroney, Scott Cochlan and Tim Jones were £36,500, £17,667, £18,332 and £22,916 respectively. The comparatives for the nine months ended September 30, 2010 were £20,250, £10,500, £5,250 and £16,500 respectively.

Charges in respect of share-based payments for the Non-Executive Directors in the three month period to September 30, 2011were £17,673 (three month period to September 30, 2010: £nil). Charges in respect of share-based payments for the Non-Executive Directors in the nine month period to September 30, 2011 were £37,872 (nine month period to September 30, 2010: £31,099).

5 Taxation

	9 months ended September 30, 2011 (unaudited)	**3 months ended September 30, 2011 (unaudited)**	9 months ended September 30, 2010 (unaudited)	3 months ended September 30, 2010 (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.

On March 23, 2011 the UK Government announced changes to the UK Oil and Gas Tax Regime. The most significant change was an increase in the supplementary corporation tax charge for UK North Sea producing oil companies from 20% to 32%, with a mechanism to reduce this increase should oil prices fall below a certain level. Subject to enactment as proposed, this increase is effective from March 24, 2011.

6 Loss per Share

The basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The calculation of basic loss per ordinary share for the three month period ended September 30, 2011 is based on a three month period loss of £661,549 (three months to September 30, 2010: loss of £212,176) and on 178,713,677 (three months to September 30, 2010: 138,181,434), being the weighted average number of ordinary shares in issue during the period.

The calculation of basic loss per ordinary share for the nine month period ended September 30, 2011 is based on a nine month period loss of £968,705 (nine months to September 30, 2010: loss of £722,954) and on 169,071,384 (nine months to September 30, 2010: 117,744,475), being the weighted average number of ordinary shares in issue during the period.

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

7 Intangible Assets

Exploration and Evaluation Assets	Licence Fees	
	September 30 2011 (unaudited) £	December 31 2010 (audited) £
Cost and carrying value:		
At January 1, 2011 / January 1, 2010	**791,847**	475,047
Additions during period	**411,840**	316,800
At September 30, 2011 / December 31, 2010	**1,203,687**	791,847

	Appraisal and Exploration Costs	
	September 30 2011 (unaudited) £	December 31 2010 (audited) £
Cost and carrying value:		
At January 1, 2011 / January 1, 2010	**64,471,530**	22,547,788
Additions during period	**12,629,865**	41,923,742
At September 30, 2011 / December 31, 2010	**77,101,395**	64,471,530

	Total	
	September 30 2011 (unaudited) £	December 31 2010 (audited) £
Cost and carrying value:		
At January 1, 2011 / January 1, 2010	**65,263,377**	23,022,835
Additions during period	**13,041,705**	42,240,542
At September 30, 2011 / December 31, 2010	**78,305,082**	65,263,377

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

Based on the Group's success in drilling its appraisal 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.

8 Property, Plant and Equipment

	Furniture, fittings and computing equipment
Year ended December 31, 2010	£
Opening net book amount at January 1, 2010	12,775
Additions	36,780
Depreciation charge	(19,330)
Closing net book amount at December 31, 2010	30,225
At December 31, 2010	
Cost or valuation	65,015
Accumulated depreciation	(34,790)
Net book amount	30,225
Period ended September 30, 2011	
Opening net book amount at January 1, 2011	30,225
Additions	120,015
Depreciation charge	(25,484)
Closing net book amount at September 30, 2011	**124,756**
At September 30, 2011	
Cost or valuation	185,031
Accumulated depreciation	(60,275)
Net book amount	**124,756**

9 Trade and Other Receivables

	September 30 2011 (unaudited)	December 31 2010 (audited)
	£	£
Indirect taxes receivable	**699,530**	139,485
Other receivables	**307,148**	1,415,948
	1,006,678	1,555,433

10 Deferred Tax

	September 30 2011 (unaudited)	December 31 2010 (audited)
	£	£
At January 1, 2011 / January 1, 2010	**505,167**	505,167
Profit and loss charge	**-**	-
At September 30, 2011 / December 31, 2010	**505,167**	505,167

The total deferred tax liability at September 30, 2011 comprised temporary differences arising from a Research and Development tax claim in the UK. As at September 30, 2011 the Group had pre-trading losses of £1,177,309 (December 31, 2010: £1,009,931). 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.

11 Trade and Other Payables

	September 30 2011 (unaudited)	December 31 2010 (audited)
	£	£
Trade payables	**5,406,502**	23,098,455
Social security and other taxes payable	**78,348**	254,773
Accruals and other creditors	**1,527,338**	358,542
	7,012,188	23,711,770

12 Financial Instruments

The Group's principal financial instruments are other receivables, trade and other payables and cash, which are denominated in various currencies. The main purpose of these financial instruments is to finance the Group's 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. At present the Group has no customers and therefore advances no credit. Deposits held by suppliers comprise an office rent deposits 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 rating of "AA" 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	
	September 30 2011 (unaudited)	December 31 2010 (audited)
	£	£
Financial assets – loans and receivables		
- Cash	**50,782,867**	35,952,447
- Receivables (current)	**307,148**	1,415,949
	51,090,015	37,368,395
Financial liabilities – measured at amortised cost		
- Payables (current)	**6,933,840**	23,456,997

Included in cash balances are amounts held in escrow of £38,256,497 (December 31, 2010: £19,846,410). The balance held in escrow is currently only available for use by the Group for the purposes of meeting the remaining drilling and well management commitments under the 9/3b-6 and 9/3b-6z well programme and the rig commitment for the forthcoming FPD.

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

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

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:

	Interest Free Liabilities	
	September 30 2011 (unaudited)	December 31 2010 (audited)
	£	£
Sterling	**6,658,519**	13,549,166
Norwegian Kroner	**43,377**	132,211
USD$	**217,080**	9,767,007
CAD$	**14,864**	8,613
	6,933,840	23,456,997

	Floating rate assets	**Interest free assets**	**Total**
	September 30 2011 (unaudited)	**September 30 2011 (unaudited)**	**September 30 2011 (unaudited) £**
Sterling	**10,625,651**	**307,148**	**10,932,799**
CAD$	**48,104**	**-**	**48,104**
USD$	**40,109,112**	**-**	**40,109,112**
	50,782,867	**307,148**	**51,090,015**

	Floating rate assets	Interest free assets	Total
	December 31 2010 (audited)	December 31 2010 (audited)	December 31 2010 (audited)
	£	£	£
Sterling	25,255,783	557,142	25,812,925
CAD$	256,592	-	256,592
USD$	10,440,072	858,806	11,298,878
	35,952,447	1,415,948	37,368,395

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 0.1% to 0.65%. At September 30, 2011 the weighted average rate of interest being earned on Sterling deposits was 0.25%.

US Dollar floating rate assets earn interest at up to 0.18%, depending upon the liquidity of the deposit placed. At September 30, 2011 the weighted average rate of interest being earned on US deposits was 0.11%.

Due to the low level of Canadian overnight rates, Canadian Dollar floating rate assets earn a nominal rate of interest. Cash deposits are only kept with banks with “AA” rating or better. The policy of the Group is to ensure that all cash balances earn a market rate of interest and that interest rate exposures are regularly reviewed and managed.

Foreign currency risk arises where purchase transactions are undertaken in a currency other than Sterling (transactional risk) and where non-Sterling financial derivatives are held at the Balance Sheet date (translational risk). The Group is exposed to exchange rate movements in the US Dollar and, to a lesser extent, the Canadian Dollar, Norwegian Kroner and the Euro. In light of the forthcoming FPD, for which the rig day rate will be paid for in US Dollars, the Company feels that it has a sufficient natural hedge in place against the US Dollar. Aside from the FPD, considering the infrequency and relative small value of non-Sterling denominated transactions, the Group considers that at present its foreign currency risk is not material. The Group will continue to monitor its exposure to such foreign currency risks and will manage future risks using derivative financial instruments as considered appropriate.

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

(e) 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 September 30, 2011 would decrease by £60,499 (three month period to September 30, 2010; the Group's loss would decrease by £29,003). 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 September 30, 2011 would increase by £17,894 (three month period to September 30, 2010; the Group's loss would increase by £271).

On a similar basis, for the nine months ended September 30, 2011 if interest rates had been 50 basis points higher and all other variables were held constant, the Group's loss for the nine month period ended September 30, 2011 would decrease by £142,806 (nine month period to September 30, 2010; the Group's loss would decrease by £51,295). If interest rates had been 50 basis points lower and all other variables were held constant, the Group's loss for the nine month period ended September 30, 2011 would increase by £61,179 (nine month period to September 30, 2010; the Group's loss would increase by £40,770).

13 Share Capital

	September 30 2011 (unaudited)	December 31 2010 (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	**183,656,292**	158,703,998

	September 30 2011 (unaudited)	December 31 2010 (audited)
	£	£
Authorised		
- Ordinary shares of no par value	**Unlimited**	Unlimited
Issued and fully paid up		
- Ordinary shares of no par value	**120,272,444**	76,487,362

Shares issued

During the nine months ended September 30, 2011 the Company issued a total of 24,9534,069 ordinary shares under the SEDA facility for a total consideration of £43,785,082 million after the deduction of transaction costs.

A total of 18,225 new ordinary shares were issued following the exercise of share warrants during the nine months to September 30, 2011.

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

Stock Option Plan

An element of the Group's remuneration and reward strategy is 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 and nine month periods ended September 30, 2011 the Company issued 1,850,000 new options under the Stock Option Plan (three and nine month periods ended September 30, 2010: 50,000 and 4,093,000 new share options were issued respectively) and a total of 100,000 of these share options were subsequently cancelled in October 2011.

At September 30, 2011 there were 17,223,000 total share options outstanding (December 31, 2010: 15,473,000 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$2.02 per option. Of the total outstanding as at September 30, 2011, a total of 15,858,668 were exercisable at that date (December 31, 2010: 12,744,336 exercisable share options).

Share warrants

In the nine month period to September 30, 2011, the Company issued no new warrants (nine months to September 30, 2010: 3,270,168 warrants issued to its brokers in respect of fund raising programmes). There were no new warrants issued in the three month period to September 30, 2011 (three months to September 30, 2010: nil warrants issued).

On March 14, 2011 Canaccord Financial Limited exercised 18,225 broker warrants at an exercise price of CAD$0.62 for a total consideration of CAD$11,300.

At September 30, 2011 there were 844,283 total broker warrants outstanding (December 31, 2010: 862,508 total broker warrants outstanding), with exercise prices ranging from CAD$0.62 to CAD$5.83 and with a weighted average exercise price of CAD$2.09 per warrant. Of the total outstanding as at September 30, 2011, all warrants were exercisable at that date (December 31, 2010: all 862,508 were exercisable warrants).

14 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.

15 Commitments and Contingencies

At September 30, 2011 the Company had minimum lease commitments under non-cancellable operating leases as follows:

	September 30 2011 £	December 31 2010 £
Amounts payable on leases which expire:		
Within one year	**22,083**	88,331
In two to five years	**443,333**	-

In preparation for the drilling of further wells on the Bentley field, XER has committed purchases for long-lead items at September 30, 2011 of approximately £4.5 million in respect of tooling and oilfield equipment (September 30, 2010: £1.7 million).

On February 14, 2011 the Company announced that XER had entered into a binding contract with British American Offshore Limited ("BAOL"), part of Rowan, for the Rowan Norway, a harsh environment deep water jack-up rig, designed and built for simultaneous drilling and production. The Rowan Norway is currently in Dundee, where it is undergoing final testing and crew training prior to being handed over to XER at which point the charter-hire commences. Until such time as the Rowan Norway has received all the necessary regulatory approvals, the rig remains under the control of Rowan. The initial commitment period under this contract is 240 days, during which XER is expecting to commence the FPD of the Bentley field.

16 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 £18.9 million during the three month period to September 30, 2011 (three months to September 30, 2010: £0.61 million) to finance XER's operational requirements. The cumulative nine month period funding to September 30, 2011 by XEL to XER was £39.2 million (nine months to September 30, 2010: £2.4 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 September 30, 2011 was £64.99 million (as at September 30, 2010: £25.0 million).

In the normal course of business XER incurred charges totalling £4,825 during the three month period to September 30, 2011(nine months to September 30, 2011: £11,109) 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 September 30, 2011.

The Executive Directors have received performance based remuneration, details of which are given in Note 4 to these financial statements. The Executive and Non-Executive Directors have also been granted certain share options over the ordinary share capital of the Company, details of which are given in these interim unaudited financial statements.