Xcite Energy Limited

Interim unaudited consolidated financial statements

For the 3 and 6 month periods ended 30 June 2014

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these interim unaudited consolidated financial statements for the three and six month periods ended 30 June 2014, which have been prepared by and are the responsibility of the Company's management.

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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 six month periods ended 30 June 2014, the audited consolidated financial statements and related notes thereto for the year ended 31 December 2013 and the annual MD&A of the Company. The interim unaudited consolidated financial statements for the three and six months ended 30 June 2014 have been prepared in accordance with International Accounting Standards ("IAS") 34 Interim Financial Reporting. This MD&A is dated 13 August 2014. These documents and additional information about XEL are available on SEDAR at www.sedar.com and on the Company's website at www.xcite-energy.com.

XEL is an oil issuer and disclosures pertaining to 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 the XEL results from 1 January 2014 to 30 June 2014 and from 1 January 2013 to 30 June 2013, which include the results of the operating subsidiary Xcite Energy Resources plc ("XER", formerly Xcite Energy Resources Limited). 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 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 or regulation.

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. In 2011 XER was awarded 100% working interests in licences in adjacent Blocks 9/3c and 9/3d. In 2013 XER was awarded 100% working interests in licences in other adjacent Blocks 9/4a, 9/8b and 9/9h to enhance the XER portfolio and create a wider Bentley development area. The Group now has four offshore licences comprising a total of six blocks, all of which are held at 100% owned and operated.

The Group's strategy is to focus on achieving approval for the field development plan ("FDP") for the development of the Bentley field to become a significant independent oil producer in the North Sea, and then to explore and appraise identified prospects in its adjacent blocks. In addition, the Group intends to pursue potential acquisitions and participate in future UK offshore licensing rounds.

In February 2014, the Group was pleased to announce the results of an updated Reserves Assessment Report ("RAR"), prepared by AGR TRACS International Limited. This RAR, with an effective date of 31 December 2013, confirmed 2P Reserves for the Bentley field of 257 million stock tank barrels ("MMstb"), an increase of 7 MMstb since the previous RAR dated 8 April 2013. The after-tax net present value of the Bentley field cash flows (discounted at 10%) in the RAR was confirmed to be approximately US$2.1 billion. A further 48 MMstb of P50 Contingent Resources were assigned to the Bentley field, representing the additional economic production that could still 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 further upside from the application of enhanced oil recovery techniques and further development optimisation.

At the end of March 2014, the Group received confirmation from DECC of a material extension to the P.1078 Bentley oil field licence to 31 December 2016. Management believes that this was a notable achievement, which supported the Group's strategy to engage with industry service providers as development partners, as previous extensions had been only for one year.

During April 2014, the Company announced that XER had entered into a Memorandum of Understanding ("MOU") with Amec Group Limited ("AMEC") and Ove Arup & Partners Limited ("Arup") for co-operation for the design and development of Arup's self-installing, steel ACE platform, and an MOU with Teekay Shipping Norway AS for co-operation for the supply of a bridge-linked Sevan FSO facility. In July 2014 the Company further announced the addition of Aibel AS ("Aibel") to the development group with the signing of an MOU for the engineering, procurement and construction of the ACE platform. These service companies are expected to become key partners, once contracts are finalised, in a development group which has the skills, experience and incentive to support the Company to attain FDP approval and deliver the Bentley field into production. Discussions continue with additional partners to complement the development group.

In May 2014, the Company announced that XER had entered into a collaboration agreement with Statoil (UK) Limited and Shell UK Limited, which allows all the parties to make available and share field-specific technical and operational information for the evaluation of potential synergies and collaboration between the Bentley and neighbouring Bressay fields.

In June 2014, the Company announced the successful issuance of senior secured bonds (the "Bonds"), which raised new funding of US$135 million from institutional investors, to refinance the outstanding US$80 million loan notes and to provide additional working capital for the Group as it continues towards the submission of a Bentley FDP for approval. Subscribers for the Bonds also subscribed for 11,616,875 ordinary shares in the Company.

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.

	Q2'14	Q1'14	Q4'13	Q3'13	Q2'13	Q1'13	Q4'12	Q3'12
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Revenue	**-**	-	-	-	-	-	-	13,289
Net profit/(loss)	**509**	(41)	(2,623)	905	10,000	(1,700)	(884)	(568)
Basic EPS *	**0.2p**	(0.0p)	(0.8p)	0.3p	3.4p	(0.6p)	(0.4p)	(0.2p)
Total assets	**301,911**	268,764	269,478	263,919	265,444	250,424	251,841	260,704
Long term liabilities	**72,684**	3,457	3,457	852	852	505	505	505

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

The three months ended 30 June 2014 reports a net profit for the quarter of £0.5 million, arising from underlying expenditure of £0.3 million offset by unrealised net gains on foreign currency revaluations of £0.8 million on the Group's US dollar net borrowings, during a period of a weakening US dollar against the Group's functional currency of Sterling. With the current currency composition of the Group's balance sheet, including a net liability of US Dollars, a weakening US Dollar is currently contributing to large foreign exchange gains. Should the US Dollar begin to strengthen against Sterling, a reversal of the trend seen in the last year, the Group is likely to incur large foreign exchange losses. The Group has continued to incur operating overheads on a level consistent with previous quarters, reflecting consistent headcount and office overheads.

Until such time as the Department of Energy and Climate Change ("DECC") approves the Group's 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 commit to commercial production, the Group will undertake an impairment review prior to transferring the E&E assets carrying value within intangible assets into tangible Production Assets under the successful efforts standard accounting treatment for oil and gas development assets.

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/ losses and share-based payment charges in relation to the Company's Stock Option Plan.

Liquidity and Capital Resources

The cash balance as at 30 June 2014 was £41.5 million, compared with £21.9 million as at 31 December 2013 and £24.9 million as at 30 June 2013. The increase in cash balance during the six months ended 30 June 2014 has arisen as a result of the issue of senior secured bonds and a private placement of new ordinary shares in the Company to new institutional investors, further details of which are given below. This was offset by continued investment by the Group into the Bentley field development, with additions to E&E assets, and the settlement of the US$80 million 12.5% loan notes together with the accrued interest and fees.

On 16 June 2014, the Company announced the raising of US$140 million through the placing of the Bonds by XER and a private placement of ordinary shares in the Company. On 30 June 2014, the Group issued the Bonds with a capital value of US$135 million and a 10% initial issue discount. The Bonds have a term of two years, carry a cash interest coupon of 12% per annum, payable quarterly in arrears, together with an annual payment-in-kind interest coupon of 3%. The Bonds are listed on the Nordic ABM Stock Exchange.

Subscribers for the Bonds also subscribed 11,616,875 ordinary shares in the Company at a share price of 68.5 pence per share, to raise a gross total of £8.02 million. In addition to this, one of the subscribers for the Bonds subscribed a further 4,302,546 ordinary shares in the Company at a share price of 68.5 pence per share, to raise gross proceeds of £2.97 million.

Of the £41.5 million cash balance held at 30 June 2014, £15.4 million (US$26.2 million) is held in escrow accounts and therefore has been classified as restricted cash with a designated purpose. Whilst title remains with the Group, funds are held under the control of the Bond Trustee. As at 30 June 2013 and 31 December 2013, the Group held no cash balances in escrow accounts.

The RBL Facility agreement was terminated on 25 June 2014 and accumulated fees of £5.9 million since its inception have now been capitalised to E&E assets in accordance with the Group's accounting policy. It is anticipated that this value will be written off against life-of-field production revenues in due course in accordance with the Statement of Recommended Practice for Oil & Gas Accounting.

As at the date of this MD&A there remains unused Equity Line Facility ("ELF") capacity of £30.8 million, the facility life of which was recently extended to July 2017 to provide the Group with additional sources of capital, if required, to be used at its sole discretion.

The Group's working capital balances are required to be sufficient to meet the actual and anticipated liabilities of the Group as they fall due, which currently include trade supplier and debt interest servicing liabilities in the normal course of business.

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 30 June 2014 the Company had lease commitments relating to business premises of £299,480 (30 June 2013: £350,990). The decrease in commitments when comparing June 2014 with June 2013 is in line with the remaining lease commitment on XER's Aberdeen office premises.

On 15 July 2014, XER committed to new serviced office premises at 1 Farnham Road, Guildford, Surrey, from September 2014, to allow for the expected increase in operational and corporate activity in the lead up to the approval of the Bentley FDP and beyond.

Income

Interest Income

Interest income received on funds invested in the three months ended 30 June 2014 amounted to £4,673 (three months ended 30 June 2013: £2,965). Interest income received on funds invested in the six months ended 30 June 2014 amounted to £13,293 (six months ended 30 June 2013: £8,090). Interest income remains low during the current period of sustained historical lows on Federal and UK base rates. 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 six months ended 30 June 2014 the Group incurred total net administrative expenses of £1,495,516 (six months ended 30 June 2013: net expenses of £438,571). When removing the effect of foreign exchange ("forex"), the net administrative expenses in the six months to 30 June 2014 were £679,301 compared with £1,534,610 for the comparable period in 2013. The decrease in net administrative expenses for the comparable period is reflected by no share-based payment charges to the Income Statement during the six months ended 30 June 2014, as a result of there being no issue of share options or share warrants in the six month period to 30 June 2014, and due to a reduction in professional fees, including lower public relations, stock exchange and Registrar charges.

The influence of forex fluctuations between the comparable six month periods ended 30 June 2014 and 30 June 2013 were significant. A total of £1,134,212 net forex gains were recognised in the six months ended 30 June 2014, compared with net forex losses of £1,264,049 for the six months ended 30 June 2013. These differences were principally attributable to the movement of US Dollar against Sterling during the period, requiring the Group's US Dollar Bond liabilities and US Dollar cash balances to be revalued as at the date of the Consolidated Statement of Financial Position. Given a recent weakening of US Dollar against the reporting currency of Sterling, the Group has reported a forex gain of £608,868 arising from the settlement of US Dollar loan note liabilities and £866,050 arising from the revaluation of Bond capital liability as at 30 June 2014. Similarly, a forex loss of £641,422 has been reported within administration expenses, reflecting the forex loss on the Group's US Dollar cash balances held as at 30 June 2014. With respect to the comparable six month period ended 30 June 2013, Sterling weakened against the US Dollar, causing forex losses on the Group's US Dollar liabilities, partially offset by forex gains on the Group's US Dollar cash balances. Whilst the Group continues to hold US Dollar Bond liabilities and US Dollar cash balances, it will be exposed to currency gains and losses as the US Dollar weakens and strengthens in relation to Sterling.

Charges taken to the Income Statement under the Company's Stock Option Plan were £nil during the current quarter compared with £763,949 for the comparative period in 2013, reflecting no share options vesting during the three or six month periods ended 30 June 2014.

In all other material respects the Company has continued to incur operational overheads on a consistent basis quarter on quarter.

Additions to E&E assets during the three months ended 30 June 2014 were £14,115,947 (three months ended 30 June 2013: £7,337,502). Additions to E&E assets during the six months ended 30 June 2014 were £17,686,806 million (six months ended 30 June 2013: £11,452,503 million). Following the conclusion of the

Bentley extended well test in October 2012, the Company continues to have no current offshore drilling activity. The expenditure in the six months ended 30 June 2014 is significantly higher compared to that of the six months ended 30 June 2013, due to the capitalisation of finance charges in relation to the RBL Facility and the now fully repaid US Dollar loan notes.

The RBL facility fees had been classified as a Prepayment, capitalised and held until the RBL facility was to be drawn down. However, on 25th June 2014, the RBL Facility agreement was terminated, and accumulated fees were capitalised to E&E assets.

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

Additions to Property, Plant and Equipment in the three and six month periods ended 30 June 2014 of £8,092 comprise computer software and hardware purchases.

Off-Balance Sheet Arrangements

The Group continues to have no current and no anticipated off-balance sheet arrangements.

Related Party Transactions

Using a loan facility, XEL has continued to provide its wholly owned subsidiary, XER, with net cash funding. During the six month period to 30 June 2014, XER repaid £49.8 million (six months ended 30 June 2013: repayment of £16.3 million) of the cumulative funding received to date in financing 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 30 June 2014 was £50.7 million (as at 30 June 2013: £100.5 million).

During the six months ended 30 June 2014, each of Rupert E. Cole, Andrew J. Fairclough (from 3 February 2014) and Stephen A. Kew were executive directors of XEL (the "Executive Directors"). The Executive Directors have received remuneration, details of which are given below:

	6 months ended 30 June 2014 (unaudited) £	**3 months ended 30 June 2014 (unaudited) £**	6 months ended 30 June 2013 (unaudited) £	3 months ended 30 June 2013 (unaudited) £
Wages and salaries	**361,958**	**189,000**	281,750	140,875
Social security costs	**48,417**	**25,259**	37,834	18,910
Share-based payment charges	**-**	**-**	1,232,507	1,232,507
	410,375	**214,259**	1,552,091	1,392,292

On 8 May 2014 the Company announced that Timothy Jones was appointed Chairman of the Company, with Roger Ramshaw retiring from his role and Henry Wilson was appointed to the Board as a Non-Executive Director, effective as of 7 May 2014.

During the three month period ended 30 June 2014, the Group paid to Gregory Moroney, Scott Cochlan and Timothy Jones in their capacity as Non-Executive Directors of the Company fees of £11,250, £11,875, and £16,636 respectively. In addition, Henry Wilson was paid a Non-Executive Director fee of £6,774, representing a pro-rata entitlement to 30 June 2014. Roger Ramshaw received a pro-rata fee of £7,835 for the period 1 April 2014 to 8 May 2014.

In the six months ended 30 June 2014, the total fees for Roger Ramshaw, Gregory Moroney, Scott Cochlan, Tim Jones and Henry Wilson were £27,835, £22,500, £22,500, £27,886 and £6,774 respectively.

The comparative fees paid to Roger Ramshaw, Gregory Moroney, Scott Cochlan and Timothy Jones for the three month period ended 30 June 2013 were £20,000, £11,250, £10,625 and £11,250 respectively. The comparatives for the six months ended 30 June 2013 paid to Roger Ramshaw, Gregory Moroney, Scott Cochlan and Timothy Jones were £40,000, £22,500, £21,250 and £22,500 respectively. There are no prior period comparatives for Henry Wilson.

Charges in respect of share-based payments for the Non-Executive Directors in the three month period to 30 June 2014 were £nil (three month period to 30 June 2013: £275,692). Charges in respect of share-based payments for the Non-Executive Directors in the six month period to 30 June 2014 were £nil (six month period to 30 June 2013: £275,692).

In the normal course of business XER incurred charges totalling £5,997 during the three month period ended 30 June 2014 and £11,996 for the six months to 30 June 2014 (three and six months to 30 June 2013: £5,059 and £10,058 respectively) for property rentals from Seaburome Limited, a company in which Rupert E. Cole is a Director. There was no outstanding balance payable by XER at 30 June 2014 (30 June 2013: £nil).

Share Options, Warrants and Rights

During the three and six month period ended 30 June 2014 no new share options were issued. During the three and six month periods ended 30 June 2013 the Company issued a total of 9,850,000 new options with an exercise price of CAD$1.62 (£1.01) and a life of five years to the Board of Directors, XER staff and management team and key contractors under the Stock Option Plan.

During the six month period ended 30 June 2014 no share options expired. During the three month period ended 30 June 2013 a total of 450,000 share options expired with an average exercise price of CAD$1.60 and during the six month period ended 30 June 2013 a total of 1,140,000 share options expired unexercised with a weighted average exercise price of CAD$2.51 (£1.55).

No share options were exercised in the three and six month periods ended 30 June 2014. During the three and six month periods ended 30 June 2013, a total of 931,000 share options were exercised with a weighted average price of CAD$0.69 (£0.44), providing total proceeds of £405,966. As at the date of signing this MD&A there were 24,112,000 share options outstanding, all but 250,000 of which are exercisable. 17,250,000 share warrants remain outstanding.

Since 30 June 2014, a total of 640,000 share options expired unexercised with an exercise price ranging from CAD$1.62 to CAD$5.95 and with a weighted average exercise price of CAD$2.54 per option, and a total of 1,050,000 share options were exercised at a weighted average price of CAD$0.30.

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 six month period ended 30 June 2014.

	Ordinary Shares
As at 1 January 2014	**292,811,000**
Issue of ordinary shares	15,919,421
As at 30 June 2014	**308,730,421**

As at the date of signing this MD&A, the number of shares in issue was 309,780,421, following the issue of 1,050,000 new ordinary shares pursuant to the exercise of 200,000 share options on 4 July 2014 and a further 850,000 share options on 11 July 2014.

Risk Management

The principal risk factors facing the Group are summarised 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 outwith the control of the Group. Exploration and development risk is mitigated by a process of detailed subsurface technical analysis using industry professionals, to help identify those prospects with the highest chance of success. Detailed project planning, concept and design engineering and effective cost control all help to mitigate the downside risk of not delivering a project safely, on specification, on time, and on budget.

Licensing

The Group is dependent upon its licences, all of which currently are administered by the Department of Energy and Climate Change ("DECC") in the United Kingdom, in order to conduct offshore exploration, appraisal and development activity. Each licence has certain conditions and expiries attached. Maintenance of these licences is critical to the ability of the Group to continue to conduct its core business. The Group maintains regular and constructive dialogue with the DECC, not only for licensing, but also for oil and gas regulatory matters.

Fiscal and political regime

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

Offshore exploration and development

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

Commodity pricing

The Group has no control over the market price of crude oil. Accordingly, suitable hedging programmes will be used to mitigate the volatility of oil prices, and in particular to protect the downside risk, as and when the Group approaches 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. By using appropriate financial management and cash forecasting, the Group monitors its projected cash requirements on a regular basis. The Group has delivered capital and debt market transactions, often during difficult market conditions, in order to provide the necessary financing for field development projects.

Currency

The Group’s reporting and functional currency is 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. To minimise this risk, Group resources are independently assessed on an annual basis to provide additional assurance over the accuracy of internal estimates.

Dependence on key executives and personnel

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

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 previous 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 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

Certain new standards, amendments and interpretations endorsed by the International Accounting Standard Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") were effective for accounting periods beginning on or after 1 January 2014. These accounting standards were adopted during the period and include:

- Amendments to IFRS 1 'First Time Adoption of International Financial Reporting Standards – Government Loans';
- Annual Improvements to IFRSs 2009-2011 Cycle;
- Amendments to IFRS 10, IFRS 12 and IFRS 27 'Investment Entities';
- Amendments to IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets';
- Amendments to IAS 39 'Novation of Derivatives and Continuation of Hedge Accounting';
- Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12); and
- IFRIC Interpretation 21 'Levies'.

The adoption of these new accounting standards had no material impact on the previously reported results or financial position of the Group.

Financial Instruments and Other Derivatives

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

Outlook

Pre-FEED/assurance engineering, project planning and contract negotiations with existing development partners are underway. The Company continues its discussions with additional development partners to complement the Bentley development group, including drilling contractors and services companies, as part of its rig tender process and overall well strategy. Xcite Energy will shortly be mobilising a survey vessel to undertake the pre-FEED geotechnical site investigation for the Arup designed ACE platform.

The benefits from working with its development partners at this early stage are becoming evident, as the development group is able to identify and address the key design, engineering, execution and integration issues that will affect the core development assets and the overall development cost and schedule. In addition, there are potential opportunities to realise purchasing and logistical synergies for the benefit of the project as a whole.

The Company continues to have discussions with other potential partners as part of its funding strategy, as set out in its full year results published on 27 March 2014. The Company's aim remains focused on reducing the front-end cash requirements of the project by exploring the potential use of asset financing for the ACE platform, leasing of certain key assets (such as the FSO and drilling rig) and some financial participation by its existing development partners. By reducing the initial funding requirement, the Company intends to widen the scope of companies with whom it can engage.

The recent Bond financing and the repayment of the unsecured loan notes has provided a stable financial footing during a key period for the Company as it continues to bring together a technically and financially compliant field development plan for the Bentley field with its development partners.

Xcite Energy Limited
For the 3 and 6 month periods ended 30 June 2014

Consolidated Income Statement (in Sterling)

	Note	**6 month period ended 30 June 2014 (unaudited) £**	**3 month period ended 30 June 2014 (unaudited) £**	6 month period ended 30 June 2013 (unaudited) £	3 month period ended 30 June 2013 (unaudited) £
Share-based payment charges		**-**	**-**	(763,949)	(754,970)
Foreign exchange (losses)/gains		**(816,215)**	**(649,796)**	1,096,040	41,596
Other expenses		**(679,301)**	**(320,427)**	(770,662)	(463,174)
Net administrative expenses		**(1,495,516)**	**(970,223)**	(438,571)	(1,176,548)
Operating loss	3	**(1,495,516)**	**(970,223)**	(438,571)	(1,176,548)
Other income		**-**	**-**	11,437,056	11,437,056
Finance income – bank interest		**13,293**	**4,673**	8,090	2,965
Foreign exchange (losses)/gains – loan notes		**1,084,377**	**608,868**	(2,360,089)	82,752
Foreign exchange gains – bonds		**866,050**	**866,050**	-	-
Profit before taxation		**468,204**	**509,368**	8,646,486	10,346,225
Tax expense	5	**-**	-	(346,526)	(346,526)
Profit for the period attributable to equity holders of the parent company		**468,204**	**509,368**	8,299,960	9,999,699
Earnings per share attributable to the equity holders of the parent company:					
- Basic	6	**0.16p**	**0.17p**	2.85p	3.43p
- Diluted	6	**0.14p**	**0.15p**	2.56p	3.07p

All results relate to continuing operations. The notes on pages 18 to 32 form part of these financial statements.

Consolidated Statement of Comprehensive Income (in Sterling)

	6 months ended 30 June 2014 (unaudited) £	**3 months ended 30 June 2014 (unaudited) £**	6 months ended 30 June 2013 (unaudited) £	3 months ended 30 June 2013 (unaudited) £
Profit for the period	**468,204**	**509,368**	8,299,960	9,999,699
Total comprehensive income for the period	**468,204**	**509,368**	8,299,960	9,999,669
Attributable to:				
Equity holders of the parent company	**468,204**	**509,368**	8,299,960	9,999,669

The notes on pages 18 to 32 form part of these financial statements.

Xcite Energy Limited
For the 3 and 6 month periods ended 30 June 2014

Consolidated Condensed Statement of Changes in Equity (in Sterling)

	Share Capital	Retained Earnings	Merger Reserve	Other Reserves	Total
	£	£	£	£	£
At 1 January 2013	**196,446,608**	**(2,242,857)**	**218**	**11,576,279**	**205,780,248**
Profit for the 6 months ended 30 June 2013	-	8,299,960	-	-	8,299,960
Total comprehensive profit for the 6 months ended 30 June 2013	**-**	**8,299,960**	**-**	**-**	**8,299,960**
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	-	-	-	3,194,788	3,194,788
At 30 June 2013	**196,852,574**	**6,204,528**	**218**	**14,623,642**	**217,680,962**
Loss for the 6 months ended 31 December 2013	-	(1,717,789)	-	-	(1,717,789)
Total comprehensive loss for the 6 months ended 31 December 2013	**-**	**(1,717,789)**	**-**	**-**	**(1,717,789)**
Transactions with owners:					
Issue of shares	994,530	-	-	-	994,530
Associated share issue costs	(81,789)	-	-	-	(81,789)
Share warrant issue	(218,793)	-	-	218,793	-
Fair value of share warrants and options	-	-	-	118,244	118,244
At 31 December 2013 (audited)	**197,546,522**	**4,486,739**	**218**	**14,960,679**	**216,994,158**
Profit for the 6 months ended 30 June 2014	-	468,204	-	-	468,204
Total comprehensive profit for the 6 months ended 30 June 2014	**-**	**468,204**	**-**	**-**	**468,204**
Transactions with owners:					
Issue of shares	10,983,139	-	-	-	10,983,139
Associated share issue costs	(247,120)	-	-	-	(247,120)
At 30 June 2014 (unaudited)	**208,282,541**	**4,954,943**	**218**	**14,960,679**	**228,198,381**

The notes on pages 18 to 32 form part of these financial statements.

Xcite Energy Limited
For the 3 and 6 month periods ended 30 June 2014

Consolidated Statement of Financial Position (in Sterling)

	Note	30 June 2014 (unaudited) £	31 December 2013 (audited) £
Assets			
Non-current assets			
Intangible assets	7	**254,482,819**	236,796,014
Property, plant and equipment	8	**5,588,499**	5,671,133
Total non-current assets		**260,071,318**	242,467,147
Current assets			
Trade and other receivables	9	**287,029**	5,079,314
Cash and cash equivalents	13b	**41,552,869**	21,931,159
Total current assets		**41,839,898**	27,010,473
Total assets		**301,911,216**	269,477,620
Liabilities			
Current liabilities			
Trade and other payables	10	**1,028,991**	1,974,928
Short term loans	11a	**-**	47,051,802
Total current liabilities		**1,028,991**	49,026,730
Non-current liabilities			
Bonds	11b	**69,227,112**	-
Deferred tax	12	**3,456,732**	3,456,732
Total non-current liabilities		**72,683,844**	3,456,732
Net assets		**228,198,381**	216,994,158
Equity			
Share capital	14	**208,282,541**	197,546,522
Retained earnings	15	**4,954,943**	4,486,739
Merger reserve	15	**218**	218
Other reserves	15	**14,960,679**	14,960,679
Total equity		**228,198,381**	216,994,158

The notes on pages 18 to 32 form part of these financial statements. These interim unaudited consolidated financial statements were approved by the Board of Directors and authorised for issue on 13 August 2014 and were signed on its behalf by:

Rupert Cole
Chief Executive Officer

Andrew Fairclough
Chief Financial Officer

Xcite Energy Limited
For the 3 and 6 month periods ended 30 June 2014

Consolidated Statement of Cash Flows (in Sterling)

	6 months ended 30 June 2014 (unaudited) £	**3 months ended 30 June 2014 (unaudited) £**	6 months ended 30 June 2013 (unaudited) £	3 months ended 30 June 2013 (unaudited) £
Profit for the period before tax	**468,204**	**509,368**	8,646,486	10,346,225
Adjustment for share-based payments	**-**	**-**	763,949	754,970
Adjustment for interest income	**(13,293)**	**(4,673)**	(8,090)	(2,965)
Adjustment for depreciation	**90,727**	**41,472**	102,991	55,752
Movement in working capital:				
- Trade and other receivables	**(461,974)**	**(139,911)**	2,669,555	2,202,610
- Trade and other payables	**4,432,872**	**5,105,717**	1,297,128	1,449,611
Net cash flow from operations	**4,516,536**	**5,511,973**	13,472,019	14,806,203
Additions to exploration and evaluation assets	**(12,432,546)**	**(8,861,688)**	(8,962,542)	(4,868,123)
Purchase of fixed assets	**(8,093)**	**(8,093)**	(5,638,375)	(5,501,980)
Interest income	**13,293**	**4,673**	8,090	2,965
Net cash flow from investing	**(12,427,346)**	**(8,865,108)**	(14,592,827)	(10,367,138)
Net proceeds from issue of new shares	**10,736,018**	**10,736,018**	405,966	-
Settlement of loan notes	**(53,355,629)**	**(53,355,629)**	-	-
Net proceeds from Bonds issue	**70,152,130**	**70,152,130**	-	-
Cash flow from financing	**27,532,519**	**27,532,519**	405,966	-
Net decrease in cash and cash equivalents	**19,621,709**	**24,179,384**	(714,842)	4,439,065
Cash and cash equivalents as at beginning of period	**21,931,160**	**17,373,485**	25,592,215	20,438,308
Cash and cash equivalents as at end of period	**41,552,869**	**41,552,869**	24,877,373	24,877,373
Short term deposits	**15,405,347**	**15,405,347**	-	-
Cash available on demand	**26,147,522**	**26,147,522**	24,877,373	24,877,373

The notes on pages 18 to 32 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 six months ended 30 June 2014 have been prepared in accordance with International Accounting Standards ("IAS") 34 Interim Financial Reporting. However, the interim, unaudited, consolidated financial statements for the three and six months ended 30 June 2014 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 ("IFRS") following the same accounting policies and methods of computation as the unaudited, consolidated financial statements for the period ended 30 June 2014. 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 2013.

Basis of consolidation

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

Bond liabilities

The Group's Senior Secured Bonds are measured at amortized cost, taking into account any initial discount, fees or costs directly associated with the issuance of the Bonds which are capitalised at inception and amortized over the term of the Bonds on a straight-line basis. Interest liabilities accruing under the Bonds are classified as current liabilities.

The Bonds are callable at the option of XER at any time with a call option premium during the first year after the settlement date, comprising the present value on the relevant record date of 106.5% of par value; plus the present value of the remaining coupon payments (less any accrued interest) for the first year after the settlement date and accrued interest on the redeemed Bonds. During the second year after the settlement date, the call option premium comprises 106.5% of par value and any accrued interest on the redeemed Bonds. Call Options have nominal value at inception and no financial asset has been recognised in respect of Call Options.

Foreign currency

The functional currency of the Company is Sterling. Transactions entered into by the Company in a currency other than the functional currency are recorded at the Company's internal transaction rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the date of the Statement of Financial Position. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the Income Statement.

New accounting standards adopted during the period

Certain new standards, amendments and interpretations endorsed by the International Accounting Standard Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") were effective for accounting periods beginning on or after 1 January 2014. These accounting standards were adopted during the period and include:

- Amendments to IFRS 1 'First Time Adoption of International Financial Reporting Standards – Government Loans';
- Annual Improvements to IFRSs 2009-2011 Cycle;
- Amendments to IFRS 10, IFRS 12 and IFRS 27 'Investment Entities';
- Amendments to IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets';
- Amendments to IAS 39 'Novation of Derivatives and Continuation of Hedge Accounting';
- Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12); and
- IFRIC Interpretation 21 'Levies'.

The adoption of these new accounting standards had no material impact on the previously reported results or financial position of the Group.

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 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';
- IFRS 14 'Regulatory Deferral Accounts';
- IFRS 15 'Revenue From Contracts With Customers';
- Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation';
- Amendments to IAS 16 and IAS 41 'Bearer Plants';
- Amendments to IAS 19 'Defined Benefit Plans: Employee Contributions';
- Amendments to IFRS 11 'Accounting for Acquisitions of Interests in Joint Operations';
- Annual Improvements to IFRSs 2010-2012 Cycle; and
- Annual Improvements to IFRSs 2011-2013 Cycle.

2 Segment Information

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

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

3 Operating Loss

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

	6 months ended 30 June 2014 (unaudited) £	**3 months ended 30 June 2014 (unaudited) £**	6 months ended 30 June 2013 (unaudited) £	3 months ended 30 June 2013 (unaudited) £
Share-based payment	**-**	**-**	763,949	754,970

The Company incurred total charges in respect of share-based payments in the three and six months ended 30 June 2014 of £nil (three and six months ended 30 June 2013 respectively: £3,224,349 and £3,253,910).

4 Staff Costs and Directors' Emoluments

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

	6 months ended 30 June 2014 (unaudited)	**3 months ended 30 June 2014 (unaudited)**	3 months ended 30 June 2013 (unaudited)	3 months ended 30 June 2013 (unaudited)
Technical and administration	**18**	**18**	18	18

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

	6 months ended 30 June 2014 (unaudited) £	**3 months ended 30 June 2014 (unaudited) £**	6 months ended 30 June 2013 (unaudited) £	3 months ended 30 June 2013 (unaudited) £
Wages and salaries	**1,216,500**	**608,250**	1,433,533	838,509
Social security costs	**158,156**	**78,998**	188,228	110,870
Share-based payment charges	**-**	**-**	2,848,480	2,818,919
	1,374,656	**687,248**	4,470,241	3,768,298

b) Executive Directors' emoluments and performance based remuneration:

	6 months ended 30 June 2014 (unaudited) £	**3 months ended 30 June 2014 (unaudited) £**	6 months ended 30 June 2013 (unaudited) £	3 months ended 30 June 2013 (unaudited) £
Wages and salaries	**361,958**	**189,000**	281,750	140,875
Social security costs	**48,417**	**25,259**	37,834	18,910
Share-based payment charges	**-**	**-**	1,232,507	1,232,507
	410,375	**214,259**	1,552,091	1,392,292

During the three and six months ended 30 June 2014, each of Rupert E. Cole, Andrew J. Fairclough (from 3 February 2014) and Stephen A. Kew were executive directors of XEL (the "Executive Directors"). For the three and six months ended 30 June 2013 the Executive Directors were Rupert E. Cole and Stephen A. Kew. The Executive Directors comprise the key management personnel of the Group.

In addition to the above, during the three months ended 30 June 2014, the Group paid to Roger Ramshaw, Gregory Moroney, Scott Cochlan, Timothy Jones and Henry Wilson (the "Non-Executive Directors") in their capacity as Non-Executive Directors of the Company fees of £7,835, £11,250, £11,875, £16,636 and £6,774 respectively. The comparatives for the three months ended 30 June 2013 paid to Roger Ramshaw, Gregory Moroney, Scott Cochlan and Timothy Jones were £20,000, £11,250, £10,625 and £11,250 respectively.

In the six months ended 30 June 2014 the total fees for Roger Ramshaw, Gregory Moroney, Scott Cochlan, Tim Jones and Henry Wilson were £27,835, £22,500, £22,500, £27,886 and £6,774 respectively. The comparatives for the six months ended 30 June 2013 for Roger Ramshaw, Gregory Moroney, Scott Cochlan and Tim Jones were £40,000, £22,500, £21,250 and £22,500 respectively.

There were no charges in respect of share-based payments for the Non-Executive Directors in the three and six month periods ended 30 June 2014 (three and six month period to 30 June 2013: £275,692).

On 8 May 2014 the Company announced that Timothy Jones was appointed Chairman of the Company, with Roger Ramshaw retiring from his role with immediate effect. Henry Wilson was appointed to the Board as a Non-Executive Director on 7 May 2014.

5 Taxation

	6 months ended 30 June 2014 (unaudited) £	**3 months ended 30 June 2014 (unaudited) £**	6 months ended 30 June 2013 (unaudited) £	3 months ended 30 June 2013 (unaudited) £
Deferred tax charges	**-**	**-**	-	-

XER is considered to be a company which profits from oil extraction and oil rights in the UK and the UK Continental Shelf and is, therefore, subject to corporation tax on taxable profits at a rate of 30% or 19% where the profits fall within the limit of the small companies rate. With the 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%.

Changes to the non-ring fence UK corporation tax system were enacted as part of the Finance Bill 2013 on 2 July 2013. These include reductions to the main rate of corporation tax to reduce the rate to 21% from 1 April 2014 and to 20% from 1 April 2015. 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 reductions does not have a current impact on the reported results of the Group.

6 Earnings per Share

The basic earnings per share ("EPS") is calculated by dividing the profit 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 attributable to ordinary shareholders by the weighted average number of potentially outstanding ordinary shares, which takes into account issued ordinary shares in addition to all outstanding share options and share warrants that may yet be converted into ordinary shares in the Company in the future. Details of potentially dilutive financial instruments are given in Note 14 to these financial statements.

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

	6 months ended 30 June 2014 (unaudited)	**3 months ended 30 June 2014 (unaudited)**	6 months ended 30 June 2013 (unaudited)	3 months ended 30 June 2013 (unaudited)
Profit in period	**£468,204**	**£509,368**	£8,299,960	£9,999,699
Weighted average number of shares in issue:				
Basic	**293,426,668**	**292,966,891**	291,666,978	291,811,000
Fully diluted	**336,328,668**	**330,559,571**	324,873,287	333,713,000
Earnings per share in pence:				
Basic EPS	**0.16p**	**0.17p**	2.85p	3.43p
Diluted EPS	**0.14p**	**0.15p**	2.56p	3.08p

7 Intangible Assets

Exploration and Evaluation Assets	Licence Fees **30 June 2014 (unaudited)** **£**	 31 December 2013 (audited) £
Cost and carrying value:		
At 1 January 2014 /1 January 2013	**2,388,957**	1,733,967
Additions during period	**53,070**	654,990
At 30 June 2014 / 31 December 2013	**2,442,027**	2,388,957

	Appraisal and Exploration Costs **30 June 2014 (unaudited)** **£**	 31 December 2013 (audited) £
Cost and carrying value:		
At 1 January 2014 /1 January 2013	**234,407,057**	215,003,376
Net additions during period	**17,633,735**	19,403,681
At 30 June 2014 / 31 December 2013	**252,040,792**	234,407,057

	Total **30 June 2014 (unaudited)** **£**	 31 December 2013 (audited) £
Cost and carrying value:		
At 1 January 2014 /1 January 2013	**236,796,014**	216,737,343
Net additions during period	**17,686,805**	20,058,671
At 31 June 2014 / 31 December 2013	**254,482,819**	236,796,014

The costs associated with the appraisal of the Bentley field have been capitalised in accordance with the Group's accounting policy. Appraisal and Exploration Costs net additions in the six month period ended June 2014 include an amount of £5.9 million in respect of capitalised RBL Facility fees and £5.9 million of interest costs in respect of the US Dollar loan notes (six month period ended 30 June 2013: £2.9 million of US Dollar loan note interest).

Based on the Group's success in drilling and testing its appraisal wells on the Bentley field, and in view of the forecast revenue streams and cash flows of this project, management is satisfied that the carrying amount of the related intangible assets as disclosed above will be recovered in full and that there is no need for any impairment provision. The situation will be monitored by management and adjustments made in future periods if future events indicate that such adjustments are appropriate.

8 Property, Plant and Equipment

	Oilfield equipment	Furniture, fittings and computing equipment	Total
Year ended 31 December 2013 (audited)	£	£	£
Opening net book amount at 1 January 2013	-	222,347	222,347
Additions	5,460,733	204,775	5,665,508
Depreciation charge	-	(216,722)	(216,722)
Closing net book amount at 31 December 2013	5,460,733	210,400	5,671,133
At 31 December 2013 (audited)			
Cost or valuation	5,460,733	635,852	6,096,585
Accumulated depreciation	-	(425,452)	(425,452)
Net book amount	5,460,733	210,400	5,671,133
Period ended 30 June 2014 (unaudited)			
Opening net book amount at 1 January 2014	**5,460,733**	**210,400**	**5,671,133**
Additions	**-**	**8,092**	**8,092**
Depreciation charge	**-**	**(90,727)**	**(90,727)**
Closing net book amount at 30 June 2014	**5,460,733**	**127,765**	**5,588,498**
At 30 June 2014 (unaudited)			
Cost or valuation	**5,460,733**	**643,944**	**6,104,677**
Accumulated depreciation	**-**	**(516,179)**	**(516,179)**
Net book amount	**5,460,733**	**127,765**	**5,588,498**

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

9 Trade and Other Receivables

	30 June 2014 (unaudited) £	31 December 2013 (audited) £
Indirect taxes receivable	**63,031**	35,250
Prepayments	**-**	4,963,838
Other receivables	**223,998**	80,226
	287,029	5,079,314

10 Trade and Other Payables

	30 June 2014 (unaudited) £	31 December 2013 (audited) £
Trade payables	**655,501**	708,941
Social security and other taxes payable	**107,767**	104,303
Accruals and other creditors	**265,723**	1,161,684
	1,028,991	1,974,928

11 Short Term Loans and Bonds

a) Short Term Loans

	30 June 2014 (unaudited) £	31 December 2013 (audited) £
Loan notes	**-**	47,018,093
Interest accrual	**-**	33,709
Interest-bearing loan notes	**-**	47,051,802

On 30 December 2013, the Group issued US$80 million of unsecured loan notes bearing interest at 12.5%, payable in arrears, and with a maturity of 360 days. On 30 June 2014, the unsecured loan notes, together with accrued fees and interest, were repaid in full.

b) Bonds

	30 June 2014 (unaudited) £	31 December 2013 (audited) £
12.0% Senior Secured USD Bonds 2014/2016	**69,227,112**	-

On 30 June 2014, the Group issued senior secured bonds (“Bonds”) with a capital value of US$135 million and a 10% initial issue discount. The Bonds have a term of two years, carry a cash interest coupon of 12% per annum, payable quarterly in arrears, together with an annual payment-in-kind interest coupon of 3%. The Bonds are listed on the Nordic ABM Stock Exchange. The Bonds have certain financial covenants attached, which includes the maintenance of a minimum Group cash balance of no less than US$6 million and a minimum Book Equity Ratio (Group Equity to Total Assets) of not less than 30% on a consolidated basis during the term of the Bonds.

12 Deferred tax

	30 June 2014 (unaudited) £	31 December 2013 (audited) £
At 1 January 2014 / 1 January 2013	**3,456,732**	505,167
Profit and loss charge	**-**	2,951,565
At 30 June 2014 / 31 December 2013	**3,456,732**	3,456,732

There is a deferred tax liability comprising temporary differences arising from tax relief claimed for fixed asset expenditure in the UK. The deferred tax liability has been reduced by a deferred tax asset arising on UK tax losses.

13 Financial Instruments

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

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

Non-market risk

a) Credit risk

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

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

b) Liquidity risk

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

	Carrying Amount	
	30 June 2014 (unaudited) £	31 December 2013 (audited) £
Financial assets – loans and receivables		
- Cash	**41,552,869**	21,931,159
- Receivables (current)	**223,998**	80,226
	41,776,867	22,011,385
Financial liabilities – measured at amortised cost		
- Senior Secured Bonds	**69,227,112**	-
- USD Loan Notes	**-**	47,051,802
- Payables (current)	**921,224**	1,870,625
	70,148,336	48,922,427

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

c) Capital disclosures

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

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

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

Market risk

d) Interest rate and foreign currency risks

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

	Floating rate assets	**Interest free assets**	**Total**
	30 June 2014 (unaudited) £	**30 June 2014 (unaudited) £**	**30 June 2014 (unaudited) £**
Sterling	**459,870**	**79,605**	**539,475**
Euro	**159,458**	**417**	**159,875**
Norwegian Kroner	**5,493**	**22**	**5,515**
CAD$	**24,033**	**-**	**24,033**
US$	**40,903,284**	**86**	**40,903,370**
	41,552,138	**80,130**	**41,632,268**

	Floating rate assets	Interest free assets	Total
	31 December 2013 (audited) £	31 December 2013 (audited) £	31 December 2013 (audited) £
Sterling	483,370	79,611	562,981
Euro	177,163	272	177,435
Norwegian Kroner	5,665	23	5,688
CAD$	19,578	826	20,404
US$	21,244,788	89	21,244,877
	21,930,564	80,821	22,011,385

	Fixed Rate Liabilities		**Interest Free Liabilities**	
	30 June 2014 (unaudited) £	31 December 2013 (audited) £	**30 June 2014 (unaudited) £**	31 December 2013 (audited) £
Sterling	-	-	**596,980**	1,550,981
CAD$	-	-	**14,313**	-
US$	**69,227,112**	47,051,802	**309,930**	319,644

	Fixed Rate Liabilities		**Interest Free Liabilities**	
	30 June 2014 (unaudited) £	31 December 2013 (audited) £	**30 June 2014 (unaudited) £**	31 December 2013 (audited) £
	69,227,112	47,051,802	**921,223**	1,870,625

Sterling floating rate assets earn interest at rates linked to the Bank of England Base Rate, with higher rates of return being achieved on deposits placed on longer maturities. The Company currently earns interest on Sterling deposits in the range of 0.0% to 0.40%. At 30 June 2014 the weighted average rate of interest being earned on Sterling deposits was 0.32% (30 June 2013: 0.22%; 31 December 2013: 0.31%).

US Dollar floating rate assets earn interest within the range of rates of 0.0% to 0.18%, depending upon the liquidity of the deposit placed. At 30 June 2014 the weighted average rate of interest being earned on US Dollar deposits was 0.11% (30 June 2013: 0.17%; 31 December 2013: 0.17%).

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 date of the Consolidated Statement of Financial Position (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 Sterling (the “base currency”) as at the date of the Consolidated Statement of Financial Position.

Based on the Group’s financial instruments at the date of the Consolidated Statement of Financial Position, had the base currency been stronger than the transactional currencies by 2% then the Group would have reported an additional unrealised exchange gain in the Income Statement of £750,287 (three months ended 30 June 2013; the Group would have reported an additional unrealised exchange loss of £469,205). Had the base currency been weaker than the transactional currencies by 2% then the Group would have reported an additional unrealised exchange loss in the Income Statement of £780,911 (three months ended 30 June 2013; the Group would have reported an additional unrealised exchange gain of 496,906).

(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 profit for the three month period ended 30 June 2014 would increase by £23,678 (three month period ended 30 June 2013; the Group's profit would increase by £13,567). If interest rates had been 50 basis points lower and all other variables were held constant, the Group's profit for the three month period ended 30 June 2014 would decrease by £13,293 (three month period ended 30 June 2013; the Group's profit would decrease by £8,695).

On a similar basis, if interest rates had been 50 basis points higher and all other variables were held constant, the Group's profit for the six month period ended 30 June 2014 would increase by £36,551 (six month period ended 30 June 2013; the Group's profit would increase by £31,750). If interest rates had been 50 basis points lower and all other variables were held constant, the Group's profit for the six month period ended 30 June 2013 would decrease by £13,293 (six month period ended 30 June 2013; the Group's profit would decrease by £8,695).

14 Share Capital

	30 June 2014 (unaudited)	31 December 2013 (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	**308,730,421**	292,811,000

	30 June 2014 (unaudited)	31 December 2013 (audited)
	£	£
Authorised		
- Ordinary shares of no par value	**Unlimited**	Unlimited
Issued and fully paid up		
- Ordinary shares of no par value	**208,282,541**	197,546,522

Shares issued

During the six months ended 30 June 2014 the Company issued a total of 15,919,421 new ordinary shares. This comprised a total of 4,302,546 new ordinary shares for a consideration of $5.0 million (£2.95 million) and a further 11,616,875 new ordinary shares for a consideration of $13.5 million (£7.96 million) as announced by the Company on 16 June 2014 as part of the successful issuance of the Senior Secured Bonds.

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 and contractors of the Group to achieve the objectives of the Group; to give suitable recognition to the ability and industry of such persons who contribute materially to the success of the Group; and to attract and retain persons of experience and ability, by providing them with the opportunity to acquire an increased proprietary interest in the Company. The 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 six months ended 30 June 2014 the Company issued no new share options to the XER management team under the Stock Option Plan (three and six months ended 30 June 2013: 9,850,000 new options with an exercise price of CAD$1.62 (£1.01) and a life of five years to the Board of Directors, XER staff and management team and key contractors under the Stock Option Plan).

During the three and six months ended 30 June 2014 no share options expired (three and six months ended 30 June 2013 a total of 450,000 share options expired unexercised with an exercise price of CAD$1.60 and a total of 1,140,000 share options expired unexercised with a weighted average exercise price of CAD$2.51 respectively).

At 30 June 2014 there were 25,652,000 total share options outstanding (31 December 2013 25,652,000 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$1.74 per option. Of the total outstanding at 30 June 2014, 25,402,000 were exercisable at that date (31 December 2013: 25,402,000 exercisable share options).

Share warrants

During the three and six month period ended 30 June 2014 no share warrants were issued, expired or exercised.

15 Retained earnings and other reserves

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

- Retained Earnings: Cumulative profits recognised in the Group Income Statement less cumulative losses and distributions made.
- 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 30 June 2014 and 31 December 2013 the Company had minimum lease commitments under non-cancellable operating leases as follows:

	30 June 2014 £	31 December 2013 £
Amounts payable on leases which expire:		
Within one year	**120,770**	50,634
In two to five years	**178,710**	225,794

17 Related parties

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

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

Using a loan facility, XEL has continued to provide its wholly owned subsidiary, XER, with net cash funding. During the three months ended 30 June 2014, XER repaid £52.2 million (three months ended 30 June 2013: net amount repaid of £16.3 million) to finance XER's operational requirements. For the six month period to 30 June 2014, XER repaid £49.8 million (six months to 30 June 2013: net amount repaid of £13.9 million). No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand. The total balance owing by XER to XEL at 30 June 2014 was £50.7 million (as at 30 June 2013: £100.5 million).

In the normal course of business XER incurred charges totalling £5,997 during the three months ended 30 June 2014 and £11,996 for the six months to 30 June 2014 (three and six months to 30 June 2013: £5,059 and £10,058 respectively) for property rentals from Seaburome Limited, a company in which Rupert E. Cole is a Director. There was no outstanding balance payable by XER at 30 June 2014 (30 June 2013: £nil).

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

18 Subsequent event

On 25 July 2014, following its US Dollar Bond issued on 30 June 2014, Xcite Energy Resources Limited re-registered as a public company and is henceforth referred to as Xcite Energy Resources plc. As part of this re-registration, a capital reorganisation increased the authorised share capital from 1,000 ordinary shares of £1 each to 50,000 ordinary shares of £1 each Following this capital reorganisation, XEL subscribed an additional 49,782 shares in XER of £1 each fully paid, which will increase the carrying value of the Merger Reserve in the Statement of Consolidated Financial Position. In all material respects, this reorganisation has had no impact on the financial presentation of the Group.