Xcite Energy Limited

Interim consolidated financial statements

For the 3 month period ended March 31, 2011

(Unaudited)

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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 month period ended March 31, 2011, the audited consolidated financial statements and notes thereto for the year ended December 31, 2010 and the annual MD&A for the Company. This MD&A is dated May 24, 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 an oil issuer and disclosures pertaining to oil activities are presented in accordance with National Instrument 51-101 ("NI-51-101").

This MD&A includes an analysis of the XEL results from January 1, 2011 to March 31, 2011 and from January 1, 2010 to March 31, 2010, which include the results of the operating subsidiary Xcite Energy Resources Limited ("XER"). In this MD&A, XEL and XER are together defined as the "Group". All figures and the comparative figures contained herein are expressed in Pounds Sterling unless otherwise noted.

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

Information concerning reserves may also be deemed to be forward-looking statements as such estimates involve the implied assessment that the resources described can be profitably produced in the future. These statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, including crude oil resource estimations, crude oil prices, exchange rates, interest rates, 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.

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 IFRS's adopted by the European Union ("EU") and therefore they comply with Article 4 of the EU International Accounting Standards Regulation. The financial data contained within the following table has been prepared in accordance with accounting policies that have been applied consistently across all eight reporting periods.

	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Net loss	**(13)**	(1,724)	(212)	(246)	(265)	(359)	(249)	(145)
EPS *	**(0.0p)**	(1.1p)	(0.2p)	(0.2p)	(0.3p)	(0.5p)	(0.4p)	(0.2p)
Total assets	**99,158**	102,801	54,688	48,281	48,282	24,790	23,240	23,507
Long term liabilities	**505**	505	505	505	505	505	-	-

* Loss per share (basic and diluted) in pence

The three months ended March 31, 2011 reports a small net loss for the period. This reduced loss compared with previous periods has arisen due to foreign currency gains made in the period on currency exchange transactions entered into in the normal course of business. Taking into account the currency gains realised, the expenditure in the three months ended March 31, 2011 was materially consistent with previous periods.

The Company is not influenced by seasonality to any significant extent. The variations noted above in the net results from quarter to quarter have arisen in line with the execution of the work programme for the Bentley field, together with share-based payment charges in relation to the Company's Share Option Plan.

Liquidity and Capital Resources

The cash balance as at March 31, 2011 was £30.2 million (three months ended March 31, 2010: £24,243,904), compared with £36.0 million as at December 31, 2010. The decrease in cash balance during the three months ended March 31, 2011 has arisen due to the on-going working capital requirements, principally the settlement of outstanding 9/3b-6 and 9/3b-6Z well creditors from the year end, with a corresponding offset from raising funds of £15.0 million as a result of three SEDA draw-downs and the settlement of year end receivables.

Following a further two draw-downs during February 2011 totalling £10.0 million, through the issuance of 2,921,676 new ordinary shares, 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 a further draw-down of £5.0 million was made, through the issuance of 1,558,314 new ordinary shares. As at the date of this MD&A, there remains unused SEDA facility of £56.25 million.

Taking into account the unused SEDA facility and the Group's financial obligations, the Group has forecast that it has sufficient financial resources for working capital for the foreseeable future and to continue the planning of the initial expenditure associated with the First Stage Production ("FSP") of the Bentley field.

Lease and Contractual Commitments

At March 31, 2011 the Company had lease commitments relating to business premises of £66,248 (March 31, 2010: £593).

On February 14, 2011 the Company announced that XER had entered into a binding contract with British American Offshore Limited ("BAOL"), part of Rowan Companies, Inc. ("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 under construction and expected to be available to XER in the fourth quarter of 2011. The initial commitment period under this contract is 240 days, during which XER is expecting to commence the first stage production on the Bentley field. As part of this contract an escrow account was set up, into which USD$30 million has been deposited by the Group. A further USD$30 million will be provided for the escrow account at the time that the jack-up rig is accepted by Rowan from the construction yard.

Income

The Group has no operational revenues. This will continue until such time as commercial volumes of crude oil are extracted from the Group's oilfield assets.

Interest income received on funds invested up to March 31, 2011 amounted to £31,991 (three months ended March 31, 2010: £856). The increase in interest generated on funds invested between the two periods was as a result of a significant increase in the level of average funds on deposit during the period.

Management has maintained its policy of keeping cash deposits with banks with "AA" equivalent 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.

Operations and Administrative Expenses

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

During the three months ended March 31, 2011 the Group incurred total net administrative expenses of £45,230 (three months to March 31, 2010: £265,944). This included total foreign currency gains realised of £310,291 in the three months ended March 31, 2011 (three months to March 31, 2010: gains of £36,250). Charges taken to the Profit and Loss account under the Company's Stock Option Plan were £65,949 during the current quarter compared with £120,906 for the comparative period in 2010. In all other material respects the Company has continued to incur operational overheads on a consistent basis quarter on quarter.

Additions to Exploration and Evaluation ("E&E") assets during the three months ended March 31, 2011 were £2,807,320 (three months ended March 31, 2010: £951,436). This represents a significant increase on the comparable period last year due to a number of principal factors; planning and study work for the forthcoming FSP, consultancy and study work for the publication of the Reserves Assessment Report ("RAR") in early May 2011, preparation of the Field Development Plan for submission to DECC and high-value long-lead items. In addition, expenditure was incurred on general working capital, including staff salaries and share based payment charges under the Stock Option Plan.

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, 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

XEL has continued to provide, using a loan facility, its wholly owned subsidiary, XER, with net cash funding of £19.8 million during the three month period to March 31, 2011 (three months to March 31, 2010: £0.59 million) to finance XER's operational requirements. No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand. The total balance owing by XER to XEL at March 31, 2011 was £45.6 million (as at March 31, 2010: £23.2 million).

During the period the Executive Directors received the following remuneration:

	3 months ended March 31, 2011 (unaudited)	3 months ended March 31, 2010 (unaudited)
	£	£
Wages and salaries	**159,675**	159,675
Social security costs	**19,706**	19,891
Share based payments	**125,888**	193,823
	305,269	373,389

In addition to the above, during the three month period ended March 31, 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 £4,500, £3,000, £3,750 and £3,000 respectively. The comparatives for the three month period ended March 31, 2010 were £8,250, £3,000, £1,500 and £3,750 respectively. Charges in respect of share based payments for the Non-Executive Directors in the three month period to March 31, 2011 were £20,199 (three month period to March 31, 2010: £31,099).

Share Options, Warrants and Rights

In the period to March 31, 2011, the Company issued no new share options under the Stock Option Plan and issued no new broker warrants.

On March 14, 2011 the Company received consideration of CAD$11,300 (£7,100) in respect of the exercise of 18,225 broker warrants.

As at the date of signing this MD&A there were 15,473,000 options outstanding and 844,283 broker warrants outstanding, which would be equal to 16,317,283 further ordinary shares upon full conversion of these options and warrants.

Disclosure Controls and Procedures

In conformity 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 period. No share options were exercised during the three months to March 31, 2011.

	Ordinary Shares
As at January 1, 2011	**158,703,998**
Issue of ordinary shares through SEDA Equity Line	4,479,990
Issue of ordinary shares through broker warrant exercises	18,225
As at March 31, 2011	**163,202,213**

As at the date of signing this MD&A, the number of shares in issue was 164,998,727 following a further draw-down on the SEDA Equity Line of £6.0 million in consideration for 1,796,514 new ordinary shares in the Company on April 28, 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 Exploration and Evaluation (“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 financial statements.

Outlook for the Remainder of 2011

On May 10, 2011, Xcite Energy Limited (the "Company") announced the results of an independent evaluation of its reserves and resources. The Company, through its wholly owned subsidiary Xcite Energy Resources Limited ("XER"), holds a 100% working interest in Block 9/3b, which contains the Bentley field (the "Field") and a 100% working interest in Blocks 9/3c and 9/3d (both adjacent to the Field). These Blocks are located in the North Sea in the United Kingdom (collectively, the "Company's Assets").

The Company has recently successfully drilled and tested the 9/3b-6 and 6Z wells in the northern part of the Field, which demonstrated commercial flow rates and, on this basis, XER commissioned TRACS International Consultancy Ltd ("TRACS"), an independent qualified reserves auditor, to prepare an independent audit of reserves and resources for the Company's Assets. That audit by TRACS is set out in the Reserves Assessment Report ("RAR") dated May 9, 2011 and effective April 30, 2011, prepared using guidelines outlined in the Canadian Oil and Gas Evaluation Handbook and in accordance with National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities.*

The highlights of the RAR are as follows:

- NPV10 (after tax) of approximately $229 MM, $396 MM and $558 MM for the 1P, 2P and 3P reserves in the area constituting the First Stage Production ("FSP"), respectively, with additional NPV10 (after tax) of $661 MM, $961 MM and $1,315 MM for contingent resources for the area constituting the Second Stage Production ("SSP") on a "low estimate", "best estimate" and "high estimate" basis, respectively.

- RPS Energy, in its Competent Person's Report dated and effective February 20, 2009 (the "2009 CPR") (in which no reserves were assigned to the Company's Assets), assigned a NPV10 (after tax) valuation of $781 MM for the Company's "best estimate" contingent resources for the core structure, which is equivalent to the Core Area in the RAR. The NPV10 (after tax) valuation assigned by the RAR to the reserves in the FSP and the contingent resources in the SSP (together constituting the "Core Area"), demonstrates a material increase over the NPV10 (after tax) valuation of $781 MM in the 2009 CPR.

- Reserves of the type 1P, 2P and 3P in the FSP of approximately 22 million stock tank barrels ("MMstb"), 28 MMstb and 35 MMstb, respectively.

- Contingent resources for the SSP (which are in addition to the reserves in the FSP stated above) of approximately 73 MMstb, 87 MMstb and 101 MMstb on a "low estimate", "best estimate" and "high estimate" basis, respectively.

- As no technical contingencies remain, the RAR confirms that the contingent resources in the SSP would be converted to an equivalent volume of reserves following the Company's decision to pursue the development of the SSP and the approval by DECC of its development plan for this purpose. On this basis, the Company intends to seek approval from DECC for the FSP and SSP which, when obtained, would enable it to (i) move forward with the FSP without delay; (ii) move forward with the SSP at an appropriate time that suits its business objectives; and (iii) upgrade the SSP contingent resources to reserves status.

- The RAR assigned prospective resources for seven prospects on the Company's Assets of, in the aggregate, approximately 17.7 million barrels of oil equivalent ("MMboe") on a risked "best estimate" basis.

Management of the Company has confirmed to TRACS that it will continue to incorporate the latest modelling and latest technologies through the life of Field, including the investigation of the application of enhanced oil recovery techniques. As a result, the RAR confirms that it expects prospective resources to be upgraded to contingent resources and those contingent resources to be upgraded to reserves as the Field development matures and additional drilling is undertaken. The RAR also confirms that the combination of these factors is expected to materially improve the ultimate recovery of oil from the Company's Assets.

As a result of the increase in the aggregate NPV10 valuation, the value per barrel was materially increased from the 2009 CPR to the RAR and the Core Area was de-risked as a result of the drilling of the 9/3b-6 and 6Z wells at the end of 2010.

On a value per barrel basis:

- The RAR assigned a NPV10 (after tax) value per barrel for the 1P, 2P and 3P reserves in the FSP as approximately $10.40, $14.20 and $16.00, respectively.

- The RAR assigned a NPV10 (after tax) value per barrel for the "low", "best" and "high" estimate of contingent resources in the SSP as approximately $9.10, $11.00 and $13.00, respectively.

- Based upon the 2009 CPR, the NPV (after tax) can be calculated for the "low", "best" and "high" estimate of contingent resources as approximately $2.50, $6.40 and $9.20, respectively. If risked at the 70% chance of commercial success, as in the 2009 CPR, these values per barrel would be $1.80, $4.50, and $6.40, respectively.

Contingent resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters, or a lack of markets. There is no certainty that it will be commercially viable to produce any portion of the contingent resources.

The risks and uncertainties associated with recovery of the contingent resources for the Company's Assets which prevent them from being classified as reserves are, as set forth in the RAR, project sanction and deliverability of the SSP.

Prospective resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development. Prospective resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be sub-classified based on project maturity.

There is no certainty that any portion of the prospective resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the prospective resources.

The recent appointments of Rothschild as financial advisor, with Morgan Stanley and Oriel Securities as joint brokers is a significant step forward for the Company as we move forward with the FSP work programme.

Based on the success of the 9/3b-6 and 6Z wells at the end of 2010 and the upgrade to reserves status in the RAR for the recoverable oil in the FSP, the Company has the potential to access the debt financing markets. These opportunities are being actively pursued.

The Company is continuing to focus on the FSP in order to bring the Bentley Field into production as soon as practicable, within the required health and safety regulations, which remains the Company's first priority.

Given the drilling success of 2010 and the value uplift in the Bentley Field as a result of the RAR in 2011, the Company looks forward to the remainder of the year.

Glossary

"1P" means proved reserves.

"2P" means proved plus probable reserves.

"3P" means proved plus probable plus possible reserves. Possible reserves are those additional reserves that are less certain to be recovered than probable reserves and there is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.

"best estimate" is considered to be the best estimate of the quantity that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. If probabilistic methods are used, there should be at least a 50 percent probability (P50) that the quantities actually recovered will equal or exceed the best estimate.

"boe" means barrels of oil equivalent. Boe's, derived by converting gas to oil in the ratio of five thousand eight hundred cubic feet of gas to one barrel of oil, may be misleading, particularly if used in isolation. A boe conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

"Core Area" means FSP and SSP.

"DECC" means UK Department of Energy and Climate Change.

"FSP" means First Stage Production in the core area of the Field.

"high estimate" is considered to be an optimistic estimate of the quantity that will actually be recovered. It is unlikely that the actual remaining quantities recovered will exceed the high estimate. If probabilistic methods are used, there should be at least a 10 percent probability (P10) that the quantities actually recovered will equal or exceed the high estimate.

"low estimate" is considered to be a conservative estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. If probabilistic methods are used, there should be at least a 90 percent probability (P90) that the quantities actually recovered will equal or exceed the low estimate.

"MM" means millions.

"MMboe" means millions of barrels of oil equivalent.

"MMstb" means millions stock tank barrels.

"NPV10" means net present value in money of the day using a 10% forward discount rate, which values do not represent fair market value.

"SSP" means Second Stage Production in the core area of the Field.

"$" means US dollars.

Consolidated Income Statement (in Pounds Sterling)

	Note	**3 months ended March 31 2011 (unaudited) £**	3months ended March 31 2010 (unaudited) £
Administrative expenses		**(45,230)**	(265,944)
Operating loss	3	**(45,230)**	(265,944)
Finance income - bank interest		**31,991**	856
Loss before tax		**(13,239)**	(265,088)
Tax expense	5	**-**	-
Loss for the period		**(13,239)**	(265,088)
Loss per share:			
Basic and diluted	6	**(0.01p)**	(0.30p)

All results relate to continuing operations.

Consolidated Statement of Comprehensive Income

	3 months ended March 31 2011 (unaudited) £	3months ended March 31 2010 (unaudited) £
Loss for the period	**(13,239)**	(265,088)
Total comprehensive income for the period	**(13,239)**	(265,088)
Attributable to:		
Equity shareholders	**(13,239)**	(265,088)

The notes on pages 15 to 26 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 3 months to March 31, 2010	-	(265,088)	-	-	(265,088)
Total comprehensive loss for the period ended March 31, 2010	-	(265,088)	-	-	(265,088)
Transactions with owners:					
Issue of shares	23,138,508	-	-	-	23,138,508
Broker warrant issue	(431,419)	-	-	431,419	-
Fair value of share warrants and options	-	-	-	337,586	337,586
At March 31, 2010	**46,907,360**	**(2,327,975)**	**218**	**2,704,671**	**47,284,274**
Loss for the 9 months to December 31, 2010	-	(2,181,910)	-	-	(2,181,910)
Total comprehensive loss for the 9 months to December 31, 2010	-	(2,181,910)	-	-	(2,181,910)
Transactions with owners:					
Issue of shares	30,014,530	-	-	-	30,014,530
Associated share issue costs	(536,664)	-	-	-	(536,664)
Transfer upon exercise of share options and warrants	-	289,637	-	(289,637)	-
Fair value of share warrants and options	-	-	-	4,004,315	4,004,315
Broker warrant issue	102,136	-	-	(102,136)	-
At December 31, 2010	**76,487,362**	**(4,220,248)**	**218**	**6,317,213**	**78,584,545**
Loss for the 3 months to March 31, 2011	-	(13,239)	-	-	(13,239)
Total comprehensive loss for the period ended March 31, 2011	-	(13,239)	-	-	(13,239)
Transactions with owners:					
Issue of shares	15,007,100	-	-	-	15,007,100
Associated share issue costs	(110,206)	-	-	-	(110,206)
Transfer upon exercise of share options and warrants	-	1,711	-	(1,711)	-
Fair value of share warrants and options	-	-	-	206,682	206,682
At March 31, 2011	**91,384,256**	**(4,231,776)**	**218**	**6,522,184**	**93,674,882**

The notes on pages 15 to 26 form part of these financial statements.

Consolidated Statement of Financial Position (in Pounds Sterling)

	Note	**March 31, 2011 (unaudited) £**	December 31, 2010 (audited) £
Assets			
Non-current assets			
Intangible assets	7	**68,079,740**	65,263,377
Property, plant and equipment	8	**61,824**	30,225
Total non-current assets		**68,141,564**	65,293,602
Current assets			
Trade and other receivables	9	**766,634**	1,555,433
Cash and cash equivalents		**30,249,779**	35,952,447
Total current assets		**31,016,413**	37,507,880
Total assets		**99,157,977**	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	**4,977,928**	23,711,770
Total current liabilities		**4,977,928**	23,711,770
Net assets		**93,674,882**	78,584,545
Equity			
Share capital	13	**91,384,256**	76,487,362
Retained earnings	14	**(4,231,776)**	(4,220,248)
Merger reserve	14	**218**	218
Other reserves	14	**6,522,184**	6,317,213
Total equity		**93,674,882**	78,584,545

The notes on pages 15 to 26 form part of these financial statements. These interim unaudited consolidated financial statements were approved by the Board of Directors and authorised for issue on May 24, 2011 and were signed on its behalf by:

Richard Smith
Chief Executive Officer

Rupert Cole
Chief Financial Officer

Xcite Energy Limited
For the 3 month period ended March 31, 2011

Consolidated Statement of Cash Flows (in Pounds Sterling)

	3 months ended March 31 2011 (unaudited)	3 months ended March 31 2010 (unaudited)
	£	£
Loss for the period before tax	**(13,239)**	(265,088)
Adjustment for share based payments	**65,949**	120,906
Adjustment for interest income	**(31,991)**	(856)
Adjustment for depreciation	**5,828**	3,738
Movement in working capital		
- Trade and other receivables	**788,799**	(11,030)
- Trade and other payables	**(18,733,843)**	280,907
Net cash flow from operations	**(17,918,497)**	128,577
Additions to exploration and evaluation assets	**(2,675,629)**	(734,756)
Purchase of fixed assets	**(37,427)**	(25,648)
Interest income	**31,991**	856
Net cash flow from investing	**(2,681,065)**	(759,548)
Net proceeds from issue of new shares	**14,896,894**	23,138,508
Cash flow from financing	**14,896,894**	23,138,508
Net (decrease)/increase in cash and cash equivalents	**(5,702,668)**	22,507,537
Cash and cash equivalents as at January 1	**35,952,447**	1,736,367
Cash and cash equivalents as at March 31	**30,249,779**	24,243,904
Cash and cash equivalents comprise:		
Short term deposits	**21,086,064**	-
Cash available on demand	**9,163,715**	24,243,904

The notes on pages 15 to 26 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 months ended March 31, 2011 have been prepared in accordance with International Accounting Standards 34 Interim Financial Reporting. However, the interim unaudited consolidated financial statements for the three months ended March 31, 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 ("IFRS") following the same accounting policies and methods of computation as the audited consolidated financial statements for the financial 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 Standard 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.

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 9 'Financial Instruments';

- 'Deferred tax: Recovery of underlying assets (Amendments to IAS12)';
- Amendments to IFRS 7 'Financial Instruments - Disclosures'; and
- 'Severe hyperinflation and removal of fixed dates for first-time adopters (Amendments to IFRS1)'.

2 Segment Information

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

3 Operating Loss

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

	3 months ended March 31, 2011 (unaudited) £	3 months ended March 31, 2010 (unaudited) £
Share based payment charges	**65,949**	120,906

The Company incurred total charges in respect of share based payments in the three month period to March 31, 2011of £206,682 (three months to March 31, 2010: £337,586). Of this, £206,682 (three months to March 31, 2010: £318,218) was in respect of employees and non-executive directors (see Note 4) and a further £nil (three months to March 31, 2010: £19,368) in respect of a third party contractor. In accordance with the Company accounting policy, £140,733 (three months to March 31, 2010: £216,680) has been capitalized within Exploration and Evaluation ("E&E") assets and the balance of £65,949 (three months to March 31, 2010: £120,906) 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:

	3 months ended March 31, 2011 (unaudited)	3 months ended March 31, 2010 (unaudited)
Technical and administration	**8**	7

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

	3 months ended March 31, 2011 (unaudited)	3 months ended March 31, 2010 (unaudited)
	£	£
Wages and salaries	**354,996**	282,175
Social security costs	**43,733**	34,840
Share based payments	**186,483**	287,119
	585,212	604,134

b) Executive Directors' emoluments

	3 months ended March 31, 2011 (unaudited)	3 months ended March 31, 2010 (unaudited)
	£	£
Wages and salaries	**159,675**	159,675
Social security costs	**19,706**	19,891
Share based payments	**125,888**	193,823
	305,269	373,389

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

In addition to the above, during the three month period ended March 31, 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 £4,500, £3,000, £3,750 and £3,000 respectively. The comparatives for the three month period ended March 31, 2010 were £8,250, £3,000, £1,500 and £3,750 respectively. Charges in respect of share based payments for the Non-Executive Directors in the three month period to March 31, 2011were £20,199 (three month period to March 31, 2010: £31,099).

5 Taxation

	3 months ended March 31, 2011 (unaudited)	3 months ended March 31, 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 March 31, 2011 is based on a three month period loss of £13,239 (three months to March 31, 2010: loss of £265,088) and on 160,278,660 (three months to March 31, 2010: 80,507,366), being the weighted average number of ordinary shares in issue during the period.

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

7 Intangible Assets

	Licence Fees	
Exploration and Evaluation Assets	**March 31 2011 (unaudited) £**	December 31 2010 (audited) £
Cost and carrying value:		
At January 1, 2011 / January 1, 2010	**791,847**	475,047
Additions during period/year	**-**	316,800
At March 31, 2011 / December 31, 2010	**791,847**	791,847

	Appraisal and Exploration Costs	
	March 31 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/year	**2,816,363**	41,923,742
At March 31, 2011 / December 31, 2010	**67,287,893**	64,471,530

	Total	
	March 31 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/year	**2,816,363**	42,240,542
At March 31, 2011 / December 31, 2010	**68,079,740**	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 well on Bentley, and in view of the forecast revenue streams and cash flows of this project, management is satisfied that the carrying amount of the related intangible 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 March 31, 2011	
Opening net book amount at January 1, 2011	30,225
Additions	37,427
Depreciation charge	(5,828)
Closing net book amount at March 31, 2011	**61,824**

At March 31, 2011	
Cost or valuation	102,442
Accumulated depreciation	(40,618)
Net book amount	**61,824**

9 Trade and Other Receivables

	March 31 2011 (unaudited)	December 31 2010 (audited)
	£	£
Indirect taxes receivable	**258,762**	139,485
Other receivables	**507,872**	1,415,948
	766,634	1,555,433

10 Deferred tax

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

The total deferred tax liability at March31, 2011 comprised temporary differences arising from a Research and Development tax claim in the UK. As at March 31, 2011 the Group had pre-trading losses of £994,118 (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

	March 31 2011 (unaudited) £	December 31 2010 (audited) £
Trade payables	**2,630,142**	23,098,455
Social security and other taxes payable	**66,966**	254,773
Accruals and other creditors	**2,280,820**	358,542
	4,977,928	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 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 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	
	March 31 2011 (unaudited)	December 31 2010 (audited)
	£	£
Financial assets – loans and receivables		
- Cash	**30,249,779**	35,952,447
- Receivables (current)	**507,872**	1,415,948
	30,757,651	37,368,395
Financial liabilities – measured at amortised cost		
- Payables (current)	**4,910,962**	23,456,997

Included in cash balances are amounts held in escrow of £21,086,064 (December 31, 2010: £19,846,410). The balance held in escrow is not currently available for use by the Group but only available 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 FSP.

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

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

Market risk

c) Interest rate and foreign currency risks

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

	Interest Free Liabilities	
	March 31 2011 (unaudited)	December 31 2010 (audited)
	£	£
Sterling	**4,798,582**	13,549,166
USD$	**20,349**	9,767,007
Norwegian Kroner	**2,139**	132,211
CAD$	**75,060**	8,613
Swedish Kroner	**5,246**	-
Euro	**9,586**	-
	4,910,962	23,456,997

	Floating rate assets	**Interest free assets**	**Total**
	March 31 2011 (unaudited)	**March 31 2011 (unaudited)**	**March 31 2011 (unaudited)**
	£	**£**	**£**
Sterling	**10,767,391**	**507,872**	**11,275,263**
CAD$	**173,310**	**-**	**173,310**
USD$	**19,309,078**	**-**	**19,309,078**
	30,249,779	**507,872**	**30,757,651**

	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 0.0% to 2.5%. At March 31, 2011 the weighted average rate of interest being earned on Sterling deposits was approximately 0.9% (March 31, 2010: 0.8%).

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 March 31, 2011 the weighted average rate of interest being earned on US deposits was 0.1% (March 31, 2010: 0.1%).

Due to the currently 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 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.

(d) Interest rate sensitivity analysis

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

Based on the Group’s cash balances during the period, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group’s loss for the three month period ended March 31, 2011would decrease/increase by £6,400 (March 31, 2010; the Group’s loss would decrease/increase by £856).

13 Share Capital

	March 31 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	**163,202,213**	158,703,998

	March 31 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	**91,384,256**	76,487,362

Shares issued

During the three months ended March 31, 2011 the Company issued a total of 4,498,215 ordinary shares for a total consideration of £14.9 million after the deduction of transaction costs. The Company issued 61,972,394 new ordinary shares for a total consideration of £23.1 million during the three months ended March 31, 2010.

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.

During the three months ended March 31, 2011 the Company issued no new options under the Stock Option Plan.

The Stock Option Plan is administered by the Remuneration and Nominating Committee. At March 31, 2011 there were 15,473,000 options outstanding, with a weighted average exercise price of CAD$1.99 per option, exercise prices were in the range of CAD$0.10 to CAD$5.95. Of the total outstanding as at March 31, 2011, a total of 14,108,668 were exercisable at that date.

Share warrants

During the three months ended March 31, 2011 the Company issued no new warrants over the ordinary share capital in the Company.

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.

14 Owners' equity

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

- Retained Earnings: Cumulative profits recognised in the Group Consolidated Statement of Comprehensive Income 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 March 31, 2011 the Company had total commitments under non-cancellable operating leases expiring as follows:

	March 31 2011 £	December 31 2010 £
Within one year	**66,248**	88,331

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.

XEL provided, using a loan facility, its wholly owned subsidiary, XER, with net cash funding of £19.8 million during the three month period to March 31, 2011(three months to March 31, 2010: £0.59 million) to finance XER's operational requirements. No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand. The total balance owing by XER to XEL at March 31, 2011 was £45.6 million (as at March 31, 2010: £23.2 million).

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