Xcite Energy Limited

Interim consolidated financial statements

For the 3 and 6 month periods ended June 30, 2011

(Unaudited)

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Contents

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Management's Discussion and Analysis

The Management's Discussion and Analysis ("MD&A") of the operating and financial results of Xcite Energy Limited ("XEL" or the "Company") should be read in conjunction with the Company's interim unaudited consolidated financial statements and related notes thereto for the three and six month periods ended June 30, 2011, the audited consolidated financial statements and related notes thereto for the year ended December 31, 2010 and the annual MD&A of the Company. This MD&A is dated July 28, 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") of the Canadian Securities Administrators.

This MD&A includes an analysis of the XEL results from January 1, 2011 to June 30, 2011 and from January 1, 2010 to June 30, 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 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.

Overview

The Company, through its wholly owned subsidiary XER, is an oil appraisal and development company focused on the appraisal and development of heavy oil resources in the North Sea on the UK Continental Shelf. In 2003, XER was awarded its 100% working interest in the Bentley field in Block 9/3b in the UK North Sea. During 2011 XER was awarded 100% working interests in adjacent Blocks 9/3c and 9/3d.

The Company's strategy is to develop the identified heavy oil discoveries in the Bentley field and in Blocks 9/3b, 9/3c and 9/3d and also to pursue potential acquisitions and participate in future UK offshore licensing rounds to become a significant independent heavy oil producer in the North Sea by 2014. In the pre-development phase, the Company's aim is to maximise shareholder return on the funds invested until such time as production commences and operations become self-funding.

Summary of Results

The following table summarises the Group's performance for the eight most recent quarters. All of these results are unaudited. The Group has no trading revenue in these periods. The interim unaudited consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB"). The interim unaudited consolidated financial statements of the Company have also been prepared in accordance with IFRS's adopted by the European Union ("EU") and therefore they comply with Article 4 of the EU International Accounting Standards Regulation.

	Q2'11	Q1'11	Q4'10	Q3'10	Q2'10	Q1'10	Q4'09	Q3'09
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Net loss	**(294)**	(13)	(1,724)	(212)	(246)	(265)	(359)	(249)
EPS *	**(0.2p)**	(0.0p)	(1.1p)	(0.2p)	(0.2p)	(0.3p)	(0.5p)	(0.4p)
Total assets	**118,064**	99,158	102,801	54,688	48,281	48,282	24,790	23,240
Long term liabilities	**505**	505	505	505	505	505	505	-

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

The second quarter of 2011 has seen important progress in the Company's plans for the First Stage Production ("FSP") programme on the Bentley field, with the Rowan Norway harsh environment, deep water jack-up rig being delivered on time to Rowan in Singapore from the Keppel FELS construction yard. The rig will now be transported to Dundee using the OHT Hawk heavy lift vessel, where it will undergo final testing and will be crewed and equipped for its deployment onto the Bentley field.

Preparations for the final submission to the Department of Energy and Climate Change ("DECC") of a Field Development Plan for the Bentley field remain on track and are consistent with the rig deployment timing.

Financing discussions are progressing satisfactorily, with a number of different options being assessed in parallel with the submission of the Field Development Plan to DECC.

On July 26, 2011 the Company announced that a submission had been made to DECC of the Environmental Statement for the planned FSP on the Bentley field. This is a standard DECC requirement in connection with, but not simultaneous with the submission of a field development plan, which requires that a public document is made available for consultation and comment for a period of four weeks following formal publication by the Company in selected news media. Such publication is expected to be undertaken shortly. The purpose of the Environmental Statement is to provide an assessment of the potential environmental effects that may arise from the proposed operations on the Bentley field and to identify measures which will be put in place to minimise these effects.

The completion of the Reserves Assessment Report ("RAR") on the Bentley field and the announcement of its principal findings as published by the Company on May 10, 2011 and followed by the announcement of the filing of the Material Change Report on May 17, 2011 has, in management's opinion, de-risked the field significantly and greatly enhanced its value by upgrading it to reserves status.

The RAR focused on the reserves accessed from a single drill centre in the northern area of the field relating to the FSP, together with the Second Stage Production ("SSP") from the same drill centre. Together the FSP and the SSP comprise the core area of the reservoir.

The RAR assigned a NPV10 (after tax) value per barrel as approximately $14.20 for the 28 million barrels 2P reserves in the FSP, or in aggregate $396 million. The RAR assigned a NPV10 (after tax) value per barrel as approximately $11.00 for the 87 million barrels of "best" estimate contingent resources in the SSP, or in aggregate $961 million.

As no technical contingencies remain with respect to the contingent resources in the SSP, the RAR confirms that these 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, if obtained together with appropriate funding, would enable it to (i) move forward with the FSP; (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.

In spite of the market disturbances, investors should remain focused on the fact that the Reserve Assessment Report has provided independent third party validation of the value and commerciality of the Bentley field, following the excellent outcome from the successful 9/3b-6 and 6Z wells. This re-confirmed management's belief in the commercial value of Bentley and its potential as one of the largest undeveloped fields in the UK sector of the North Sea. This reserves upgrade is allowing the Company to make significant progress towards the First Stage Production and, if successful, will be a key milestone in our objective to determine full field reserves in due course and deliver significant value for shareholders.

The Company is not influenced by seasonality to any significant extent. The primary reason for quarter on quarter fluctuations in the net loss reported in the table above is due to charges under the Company's Stock Option Plan and forex gains/losses on its currency balances. In all other material respects, the three months to June 30, 2011 has been consistent with previous quarters. Operational expenditure in the quarter has remained materially consistent.

Liquidity and Capital Resources

The cash balance as at June 30, 2011was £44.3 million, compared with £36.0 million as at December 31, 2010 and £23.3 million as at June 30, 2010.The increase in cash balance during the six months ended June 30, 2011 has arisen due to the raising of gross funds of £33.5 million as a result of SEDA draw-downs offset by the settlement of the outstanding financial obligations and working capital commitments in respect of the 9/3b-6 and 9/3b-6Z wells completed at the end of December 2010.

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. On April 19, 2011 the Company announced a SEDA draw down of £6.0 million in consideration for 1,796,514 new ordinary shares. On June 29, 2011 the Company announced a SEDA draw down of £12.5 million in consideration for 10,593,220 new ordinary shares. On July 19, 2011 the Company announced a SEDA draw down of £4.2 million in consideration for 2,680,451 new ordinary shares. There remains a SEDA facility of £39.55 million at the Company's disposal at the date of this MD&A.

Of the cash balance held at June 30, 2011, the Company had $30 million in an escrow account to honour contractual commitments under the Rowan Norway rig agreement. This escrow account was funded with an additional $30 million in July 2011. These funds will remain in escrow to fund the rig day rate during the initial 240 days of the FSP, currently expected to commence in late 2011. During this time, the escrow funds will accrue interest to the Company's account.

Taking into account 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 and commitment for the initial expenditure associated with the FSP of the Bentley field. The unused SEDA facility remains available for use at the Company's discretion.

Lease and Contractual Commitments

At June 30, 2011 the Company had lease commitments relating to business premises of £487,499 (June 30, 2010: £nil). This increase in lease commitments represents two new office premises taken on by XER in Aberdeen and Guildford in anticipation of increased office requirements as the Company enters into oil production.

In preparation for further drilling activity on the Bentley field, XER has committed purchases for long-lead items at June 30, 2011 of approximately £7 million in respect of tooling and oilfield equipment (June 30, 2010: £1.7 million).

On February 14, 2011 the Company announced that XER had entered into a binding contract with British American Offshore Limited ("BAOL"), part of Rowan 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 has recently finished shipyard construction in Singapore and has been formally handed over to its owners, Rowan. The rig will now be delivered to Dundee, United Kingdom, where it will undergo final testing, be crewed and equipped and is expected to be available to XER in late 2011. The initial commitment period under this contract is 240 days, during which XER is expecting to commence the FSP on the Bentley field.

Income

Interest income earned on funds invested during the three months ended June 30, 2011 amounted to £11,930 (three months to June 30, 2010: £44,652). The interest income generated has decreased quarter on quarter due to the relatively low levels of interest being received on the escrow accounts being held in US dollars, which is subject to a lower base interest rate than Sterling balances.

Interest income earned on funds invested during the six months ended June 30, 2011 amounted to £43,921 (six months to June 30, 2010: £45,508).

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

Operations and Administrative Expenses

The Group 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.

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

During the three months ended June 30, 2011 the Group incurred total administrative expenses of £305,847 (three months to June 30, 2010: £290,342). The underlying increase in administrative charges during the current quarter compared with the comparative period in 2010 has arisen primarily due to the Group now having two office locations, several additional members of staff and due to increased annual TSX-Venture Stock Exchange fees, which are measured annually on a Company's market capitalisation. In all other material respects the Company has continued to incur operational overheads on a consistent basis.

During the six months ended June 30, 2011 the Group incurred total administrative expenses of £351,077 (six months to June 30, 2010: £556,286). The decrease of £205,209 between the two periods is predominantly explained by favourable foreign currency exchange transactions during the first quarter of 2011 on a rising US dollar exchange rate. In all other material respects, the administrative expenses for the six months ended June 30, 2011 were similar to those for the six months ended June 30, 2010.

Additions to Exploration and Evaluation ("E&E") assets during the three months ended June 30, 2011 were £4,573,756 (three months ended June 30, 2010: £928,510), comprising expenditure on the reserves assessment process, the continued work programme on the Field Development Plan, a geotechnical borehole undertaken on the Bentley Field, scheduled payments towards long-lead items for the FSP and consultancy costs for detailed FEED studies.

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

Related Party Transactions

Using a loan facility, XEL has continued to provide its wholly owned subsidiary, XER, with net cash funding of £4.74 million during the three month period to June 30, 2011 (three months to June 30, 2010: £1.28 million) to finance XER's operational requirements. The cumulative six month period funding to June 30, 2011 by XEL to XER was £4.48 million (six months to June 30, 2010: £1.79 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 June 30, 2011 was £85.26 million (as at June 30, 2010: £24.5 million).

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

	6 months ended June 30, 2011 (unaudited)	**3 months ended June 30, 2011 (unaudited)**	6 months ended June 30, 2010 (unaudited)	3 months ended June 30, 2010 (unaudited)
	£	**£**	£	£
Wages and salaries	**371,850**	**212,175**	529,350	369,675
Social security costs	**48,255**	**28,549**	66,844	46,953
Share based payments	**125,888**	**-**	193,823	-
	545,993	**240,724**	790,017	416,628

In addition to the above, during the three month period ended June 30, 2011, the Group paid to Roger Ramshaw, Gregory Moroney, Scott Cochlan and Timothy Jones in their capacity as Non-Executive Directors of the Company fees of £7,500, £5,917, £5,708 and £8,917 respectively. The comparatives for the three month period ended June 30, 2010 were £6,000, £1,500, £2,250 and £7,500 respectively. Charges in respect of share based payments for the Non-Executive Directors in the three month period to June 30, 2011 were £nil (three month period to June 30, 2010: £nil).

In the six months ended June 30, 2011 the total fees for Roger Ramshaw, Gregory Moroney, Scott Cochlan and Timothy Jones were £16,500, £8,917, £8,708 and £14,167 respectively. The comparatives for the six month period ended June 30, 2010 were £14,250, £4,500, £3,750 and £11,250 respectively. Charges in respect of share based payments for the Non-Executive Directors in the six month period to June 30, 2011 were £20,199 (six month period to June 30, 2010: £20,199).

In the normal course of business XER incurred charges totalling £6,284 during the three month period to June 30, 2011 (six months to June 30, 2011: £6,284) 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 June 30, 2011.

Share Options, Warrants and Rights

In the six month period to June 30, 2011, the Company issued no new share options under the Stock Option Plan and issued no new 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 exercise and conversion of these options and warrants.

Disclosure Controls and Procedures

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

Outstanding Share Capital

The following table sets out the ordinary shares issued during the six month period.

	Ordinary Shares
As at January 1, 2011	**158,703,998**
Issue of ordinary shares through SEDA Equity Line	16,869,724
Issue of ordinary shares through broker warrant exercise	18,225
As at June 30, 2011	**175,591,947**

As at the date of signing this MD&A, the number of shares in issue was 178,272,398, following the issue of 2,680,451 new ordinary shares in the Company on July 25, 2011 under the SEDA facility.

Risk Management

The principal risk factors facing the Group are as follows:

Exploration and development

The nature of oil exploration is such that there is no assurance that exploration activities will be successful. Industry statistics show that few properties that are explored go on to being fully developed. Operations can also be adversely affected by weather conditions and drilling rig and other operating equipment availability out of the control of the Group.

Offshore exploration

The Company faces additional risks due to its concentration on offshore activities. In particular, drilling conditions, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells.

Commodity pricing

The Group has no control over the market price of crude oil. Suitable hedging arrangements will be considered to mitigate the volatility of oil prices when the Group enters into the production phase.

Financing

Future field development will depend upon the ability of the Group to secure financing, whether this is by joint venture projects, farm down arrangements, public financing or other means.

Currency

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

Resource estimation

Oil resource estimation techniques are inherently judgemental and involve a high degree of technical interpretation and modelling techniques. Incorrect resource estimation may result in inappropriate capital investment decisions being made.

Dependence on key executives and personnel

The Company's development and future potential are dependent upon the continued services and performance of its senior management and other key personnel. The loss of the services of any of the senior management or key personnel may have an adverse impact on the Company.

Early stage of development

The Company is subject to certain risks related to the nature of its business in the acquisition, exploitation, development and production of oil resources and its early stage of development. The Company has no history of earnings and there can be no assurance that the Company's business will be successful or profitable. The Company may be subject to growth-related risks, capacity constraints and pressure on its internal systems and controls, particularly given the early stage of the Company's development. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth could have a material adverse impact on its business, operations and prospects.

Significant Accounting Judgements and Estimates

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

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

(a) Income taxes

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Fair value of share options and warrants

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

(c) Impairment of E&E assets

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

Changes in Accounting Policies

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

Financial Instruments and Other Derivatives

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

Outlook for the Remainder of 2011

On July 5, 2011 the HM Treasury in the UK announced an increase in the Ring Fenced Expenditure Supplement from 6% to 10%. The impact of this for the Company is to increase the uplift available on its appraisal and development losses carried forward for a maximum of 6 years. The increase in the supplement enhances the overall robustness of the Bentley field economics and is a welcome amendment to the UK North Sea tax regime.

As noted above, the second quarter of 2011 has seen important progress in the Company's plans for the First Stage Production ("FSP") programme on the Bentley field, with the Rowan Norway harsh environment, deep water jack-up rig being delivered on time to Rowan in Singapore from the Keppel FELS construction yard.

In parallel, the preparations for the final submission to the Department of Energy and Climate Change ("DECC") of a Field Development Plan for the Bentley field remain on track and are consistent with the rig deployment timing.

Financing discussions are progressing satisfactorily, with a number of different options being assessed in parallel with the submission of the Field Development Plan to DECC.

We expect the second half of 2011 to be as busy as the first half, with a number of key matters being addressed as we actively pursue our objective to deliver value to shareholders through the commercialisation of the Bentley field.

Consolidated Income Statement (in Pounds Sterling)

	Note	**6 month period ended June 30 2011 (unaudited) £**	**3 month period ended June 30 2011 (unaudited) £**	6 month period ended June 30 2010 (unaudited) £	3 month period ended June 30 2010 (unaudited) £
Share based payment charges		**(65,949)**	**-**	(141,983)	(21,077)
Other expenses		**(285,128)**	**(305,847)**	(414,303)	(269,265)
Administrative expenses		**(351,077)**	**(305,847)**	(556,286)	(290,342)
Operating loss	3	**(351,077)**	**(305,847)**	(556,286)	(290,342)
Finance income		**43,921**	**11,930**	45,508	44,652
Loss before tax		**(307,156)**	**(293,917)**	(510,778)	(245,690)
Tax expense	5	**-**	**-**	-	-
Loss for the period	6	**(307,156)**	**(293,917)**	(510,778)	(245,690)
Loss per share attributable to the equity holders of the parent company:					
Basic and diluted		**(0.19p)**	**(0.17p)**	(0.47p)	(0.18p)

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

Xcite Energy Limited
For the 3 and 6 month periods ended June 30, 2011

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

	6 months ended June 30 2011 (unaudited) £	**3 months ended June 30 2011 (unaudited) £**	6 months ended June 30 2010 (unaudited) £	3 months ended June 30 2010 (unaudited) £
Loss for the period	**(307,156)**	**(293,917)**	(510,778)	(245,690)
Total comprehensive income for the period	**(307,156)**	**(293,917)**	(510,778)	(245,690)
Attributable to:				
Equity holders of the parent company	**(307,156)**	**(293,917)**	(510,778)	(245,690)

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

Xcite Energy Limited
For the 3 and 6 month periods ended June 30, 2011

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 6 months to June 30, 2010	-	(510,778)	-	-	(510,778)
Total comprehensive loss for the 6 months to June 30, 2010	**-**	**(510,778)**	**-**	**-**	**(510,778)**
Transactions with owners:					
Issue of shares	23,453,438	-	-	-	23,453,438
Broker warrant issue	(431,419)	-	-	431,419	-
Transfer upon exercise of share warrants	-	97,741	-	(97,741)	-
Fair value of share warrants and options	-	-	-	358,663	358,663
At June 30, 2010	**47,222,290**	**(2,475,924)**	**218**	**2,628,007**	**47,374,591**
Loss for the 6 months to December 31, 2010	-	(1,936,220)	-	-	(1,936,220)
Total comprehensive loss for the 6 months to December 31, 2010	**-**	**(1,936,220)**	**-**	**-**	**(1,936,220)**
Transactions with owners:					
Issue of shares	29,699,600	-	-	-	29,699,600
Associated share issue costs	(536,664)	-	-	-	(536,664)
Broker warrant issue	102,136	-	-	(102,136)	-
Transfer upon exercise of share warrants	-	191,896	-	(191,896)	-
Fair value of share warrants and options	-	-	-	3,983,238	3,983,238
At December 31, 2010	**76,487,362**	**(4,220,248)**	**218**	**6,317,213**	**78,584,545**
Loss for the 6 months to June 30, 2011	-	(307,156)	-	-	(307,156)
Total comprehensive loss for the 6 months to June 30, 2011	**-**	**(307,156)**	**-**	**-**	**(307,156)**
Transactions with owners:					
Issue of shares	33,500,000	-	-	-	33,500,000
Associated share issue costs	(334,818)	-	-	-	(334,818)
Transfer upon exercise of share warrants	-	1,711	-	(1,711)	-
Fair value of share warrants and options	-	-	-	206,682	206,682
At June 30, 2011	**109,652,544**	**(4,525,693)**	**218**	**6,522,184**	**111,649,253**

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

Xcite Energy Limited
For the 3 and 6 month periods ended June 30, 2011

Consolidated Statement of Financial Position (in Pounds Sterling)

	Note	**June 30, 2011**	December 31, 2010
		(unaudited)	(audited)
	Note	**£**	£
Assets			
Non-current assets			
Intangible assets	7	**72,653,496**	65,263,377
Property, plant and equipment	8	**86,390**	30,225
Total non-current assets		**72,739,886**	65,293,602
Current assets			
Trade and other receivables	9	**989,717**	1,555,433
Cash and cash equivalents	12b	**44,335,045**	35,952,447
Total current assets		**45,324,762**	37,507,880
Total assets		**118,064,648**	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	**5,910,228**	23,711,770
Total current liabilities		**5,910,228**	23,711,770
Net assets		**111,649,253**	78,584,545
Equity			
Share capital	13	**109,652,544**	76,487,362
Retained earnings	14	**(4,525,693)**	(4,220,248)
Merger reserve	14	**218**	218
Other reserves	14	**6,522,184**	6,317,213
Total equity		**111,649,253**	78,584,545

The notes on pages 17 to 31 form part of these financial statements. These interim unaudited consolidated financial statements were approved by the Board of Directors and authorised for issue on July 28, 2011 and were signed on its behalf by:

Richard Smith
Chief Executive Officer

Rupert Cole
Chief Financial Officer

Xcite Energy Limited
For the 3 and 6 month periods ended June 30, 2011

Consolidated Statement of Cash Flows (in Pounds Sterling)

	6 months ended June 30 2011 (unaudited) £	**3 months ended June 30 2011 (unaudited) £**	6 months ended June 30 2010 (unaudited) £	3 months ended June 30 2010 (unaudited) £
Loss for the period after tax	**(307,156)**	**(293,917)**	(510,778)	(245,690)
Adjustment for share based payments	**65,949**	**-**	141,983	21,077
Adjustment for interest income	**(43,921)**	**(11,930)**	(45,508)	(44,652)
Adjustment for depreciation	**15,366**	**9,538**	8,655	4,917
Movement in working capital				
Trade and other receivables	**565,716**	**(223,083)**	(614)	10,416
Trade and other payables	**(17,801,543)**	**932,300**	190,281	(90,626)
Net cash flow from operations	**(17,505,589)**	**412,908**	(215,981)	(344,558)
Additions to exploration and evaluation assets	**(7,249,385)**	**(4,573,756)**	(1,663,266)	(928,510)
Purchase of fixed assets	**(71,531)**	**(34,104)**	(36,780)	(11,132)
Interest income	**43,921**	**11,930**	45,508	44,652
Net cash flow from investing	**(7,276,995)**	**(4,595,930)**	(1,654,538)	(894,990)
Net proceeds from issue of new shares	**33,165,182**	**18,268,288**	23,453,439	314,931
Cash flow from financing	**33,165,182**	**18,268,288**	23,453,439	314,931
Net increase/(decrease) in cash and cash equivalents	**8,382,598**	**14,085,266**	21,582,920	(924,617)
Cash and cash equivalents as at beginning of period	**35,952,447**	**30,249,779**	1,736,367	24,243,904
Cash and cash equivalents as at end of period	**44,335,045**	**44,335,045**	23,319,287	23,319,287
Cash and cash equivalents comprise:				
Short term deposits	**19,742,828**	**19,742,828**	16,135,355	16,135,355
Cash available on demand	**24,592,217**	**24,592,217**	7,183,932	7,183,932

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

Notes to the Interim Consolidated Financial Statements

1 Accounting Policies

Basis of preparation

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

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

Basis of consolidation

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

New accounting standards adopted during the period

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

New standards and interpretations not yet applied

The new standards and interpretations listed under the "Status of EU Endorsement" section below, which have been issued by the International Accounting 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.

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

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

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

Status of EU endorsement

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

- IFRS 10 'Consolidated Financial Statements';
- IFRS 11 'Joint Arrangements';
- IFRS 12 'Disclosures of Interests in Other Entities';
- IFRS 13 'Fair Value Measurement';
- IAS 27 'Separate Financial Statements';
- IAS 28 'Investments in Associates and Joint Ventures';
- IFRS 9 'Financial Instruments';
- 'Deferred tax: Recovery of underlying assets (Amendments to IAS12)';
- Amendments to IFRS 7 'Financial Instruments - Disclosures'; 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:

	6 months ended June 30, 2011 (unaudited)	**3 months ended June 30, 2011 (unaudited)**	6 months ended June 30, 2010 (unaudited)	3 months ended June 30, 2010 (unaudited)
	£	**£**	£	£
Share based payment charges	**65,949**	**-**	141,983	21,077

The Company incurred total charges in respect of share based payments in the three month period to June 30, 2011 of £nil (three months to June 30, 2010: £21,077). Of this, £nil was in respect of employees (see Note 4) (three months to June 30, 2010: £nil). In accordance with the Company accounting policy, the whole of this amount has been expensed within operating loss (three months to June 30, 2010: £21,077 expensed within operating loss).

In the six month period to June 30, 2011 the Company incurred total charges in respect of share based payments of £206,682 (six months to June 30, 2010: £358,663). Of this, £206,682 was in respect of employees and Non-Executive Directors (six months to June 30, 2010: £287,119). In accordance with the Company accounting policy, £140,733 has been capitalised within E&E assets and the balance of £65,949 expensed within operating loss (six months to June 30, 2010: £216,680 capitalised within E&E assets and the balance of £141,983 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:

	6 months ended June 30, 2011 (unaudited)	**3 months ended June 30, 2011 (unaudited)**	6 months ended June 30, 2010 (unaudited)	3 months ended June 30, 2010 (unaudited)
Technical and administration	**10**	**11**	7	7

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

	6 months ended June 30, 2011 (unaudited)	**3 months ended June 30, 2011 (unaudited)**	6 months ended June 30, 2010 (unaudited)	3 months ended June 30, 2010 (unaudited)
	£	**£**	£	£
Wages and salaries	**881,363**	**526,367**	959,850	677,675
Social security costs	**113,770**	**70,037**	120,607	85,768
Share based payments	**186,483**	**-**	287,119	-
	1,181,616	**596,404**	1,367,576	763,443

b) Executive Directors' emoluments and performance based remuneration:

	6 months ended June 30, 2011 (unaudited)	**3 months ended June 30, 2011 (unaudited)**	6 months ended June 30, 2010 (unaudited)	3 months ended June 30, 2010 (unaudited)
	£	**£**	£	£
Wages and salaries	**371,850**	**212,175**	529,350	369,675
Social security costs	**48,255**	**28,549**	66,844	46,953
Share based payments	**125,888**	**-**	193,823	-
	545,993	**240,724**	790,017	416,628

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

In addition to the above, during the three month period ended June 30, 2011, the Group paid to Roger Ramshaw, Gregory Moroney, Scott Cochlan and Tim Jones in their capacity as Non-Executive Directors of the Company fees of £7,500, £5,917, £5,708 and £8,917 respectively. The comparatives for the three month period ended June 30, 2010 were £6,000, £1,500, £2,250 and £7,500 respectively.

In the six months ended June 30, 2011 the total fees for Roger Ramshaw, Gregory Moroney, Scott Cochlan and Tim Jones were £16,500, £8,917, £8,708 and £14,167 respectively. The comparatives for the six months ended June 30, 2010 were £14,250, £4,500, £3,750 and £11,250 respectively.

Charges in respect of share based payments for the Non-Executive Directors in the three month period to June 30, 2011 were £nil (three month period to June 30, 2010: £nil). Charges in respect of share based payments for the Non-Executive Directors in the six month period to June 30, 2011 were £20,199 (six month period to June 30, 2010: £20,199).

5 Taxation

	6 months ended June 30, 2011 (unaudited)	**3 months ended June 30, 2011 (unaudited)**	6 months ended June 30, 2010 (unaudited)	3 months ended June 30, 2010 (unaudited)
	£	**£**	£	£
Overseas tax charges	**-**	**-**	-	-

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

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

6 Loss per Share

The basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The calculation of basic loss per ordinary share for the three month period ended June 30, 2011 is based on a three month period loss of £293,917 (three months to June 30, 2010: loss of £245,690) and on 168,019,234 (three months to June 30, 2010: 133,910,843), being the weighted average number of ordinary shares in issue during the period.

The calculation of basic loss per ordinary share for the six month period ended June 30, 2011 is based on a six month period loss of £307,156 (six months to June 30, 2010: loss of £510,778) and on 164,170,330 (six months to June 30, 2010: 107,356,628), being the weighted average number of ordinary shares in issue during the period.

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

7 Intangible Assets

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

	Appraisal and Exploration Costs	
	June 30 2011 (unaudited)	December 31 2010 (audited)
	£	£
Cost and carrying value:		
At January 1, 2011 / January 1, 2010	**64,471,530**	22,547,788
Additions during period	**7,390,119**	41,923,742
At June 30, 2011 / December 31, 2010	**71,861,649**	64,471,530

	Total	
	June 30 2011 (unaudited)	December 31 2010 (audited)
	£	£
Cost and carrying value:		
At January 1, 2011 / January 1, 2010	**65,263,377**	23,022,835
Additions during period	**7,390,119**	42,240,542
At June 30, 2011 / December 31, 2010	**72,653,496**	65,263,377

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

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

8 Property, Plant and Equipment

	Furniture, fittings and computing equipment
Year ended December 31, 2010	£
Opening net book amount at January 1, 2010	12,775
Additions	36,780
Depreciation charge	(19,330)
Closing net book amount at December 31, 2010	30,225
At December 31, 2010	
Cost or valuation	65,015
Accumulated depreciation	(34,790)
Net book amount	30,225
Period ended June 30, 2011	
Opening net book amount at January 1, 2011	30,225
Additions	71,531
Depreciation charge	(15,366)
Closing net book amount at June 30, 2011	**86,390**
At June 30, 2011	
Cost or valuation	136,547
Accumulated depreciation	(50,157)
Net book amount	**86,390**

9 Trade and Other Receivables

	June 30 2011 (unaudited)	December 31 2010 (audited)
	£	£
Indirect taxes receivable	**474,663**	139,485
Other receivables	**515,054**	1,415,948
	989,717	1,555,433

10 Deferred tax

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

The total deferred tax liability at June 30, 2011 comprised temporary differences arising from a Research and Development tax claim in the UK. As at June 30, 2011 the Group had pre-trading losses of £1,082,293 (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

	June 30 2011 (unaudited)	December 31 2010 (audited)
	£	£
Trade payables	**4,679,134**	23,098,455
Social security and other taxes payable	**146,416**	254,773
Accruals and other creditors	**1,084,678**	358,542
	5,910,228	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 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. 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	
	June 30 2011 (unaudited)	December 31 2010 (audited)
	£	£
Financial assets – loans and receivables		
- Cash	**44,335,045**	35,952,447
- Receivables (current)	**515,054**	1,415,949
	44,850,099	37,368,395
Financial liabilities – measured at amortised cost		
- Payables (current)	**5,763,812**	23,456,997

Included in cash balances are amounts held in escrow of £19,742,828 (December 31, 2010: £19,846,410). The balance held in escrow is currently only available for use by the Group for the purposes of meeting the remaining drilling and well management commitments under the 9/3b-6 and 9/3b-6z well programme and the rig commitment for the 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.

c) Capital disclosures

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

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

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

Market risk

d) Interest rate and foreign currency risks

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

	Interest Free Liabilities	
	June 30 2011 (unaudited)	December 31 2010 (audited)
	£	£
Sterling	**3,641,723**	13,549,166
Norwegian Kroner	**127,119**	132,211
USD$	**1,976,881**	9,767,007
CAD$	**18,089**	8,613
	5,763,812	23,456,997

	Floating rate assets	**Interest free assets**	**Total**
	June 30 2011 (unaudited)	**June 30 2011 (unaudited)**	**June 30 2011 (unaudited)**
	£	**£**	**£**
Sterling	**16,792,030**	**515,054**	**17,307,084**
CAD$	**40,139**	**-**	**40,139**
USD$	**27,502,876**	**-**	**27,502,876**
	44,335,045	**515,054**	**44,850,099**

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

Sterling floating rate assets earn interest at rates linked to the Bank of England Base Rate, with higher rates of return being achieved on deposits placed on longer maturities. The Company currently earns interest on Sterling deposits in the range of 0.1% to 0.65%. At June 30, 2011 the weighted average rate of interest being earned on Sterling deposits was 0.64%.

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

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

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

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

(e) Interest rate sensitivity analysis

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

Based on the Group's cash balances during the period, if interest rates had been 50 basis points higher and all other variables were held constant, the Group's loss for the three month period ended June 30, 2011 would decrease by £29,643 (three month period to June 30, 2010; the Group's loss would decrease by £20,717). If interest rates had been 50 basis points lower and all other variables were held constant, the Group's loss for the three month period ended June 30, 2011 would increase by £9,034 (three month period to June 30, 2010; the Group's loss would increase by £17,375).

On a similar basis, for the six months ended June 30, 2011 if interest rates had been 50 basis points higher and all other variables were held constant, the Group's loss for the six month period ended June 30, 2011 would decrease by £67,180 (six month period to June 30, 2010; the Group's loss would decrease by £22,292). If interest rates had been 50 basis points lower and all other variables were held constant, the Group's loss for the six month period ended June 30, 2011 would increase by £17,667 (six month period to June 30, 2010; the Group's loss would increase by £18,231).

13 Share Capital

	June 30 2011 (unaudited)	December 31 2010 (audited)
	Number of shares	Number of shares
Authorised		
- Ordinary shares of no par value each	**Unlimited**	Unlimited
Issued and fully paid up		
- Ordinary shares of no par value each	**175,591,947**	158,703,998

	June 30 2011 (unaudited)	December 31 2010 (audited)
	£	£
Authorised		
- Ordinary shares of no par value	**Unlimited**	Unlimited
Issued and fully paid up		
- Ordinary shares of no par value	**109,652,544**	76,487,362

Shares issued

During the six months ended June 30, 2011 the Company issued a total of 16,869,724 ordinary shares under the SEDA facility for a total consideration of £33.16 million after the deduction of transaction costs.

A total of 18,225 new ordinary shares were issued following the exercise of share warrants.

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

Stock Option Plan

An element of the Group's remuneration and reward strategy is through the implementation and use of the Stock Option Plan, the purpose of which is to provide an incentive to the Directors, officers and key employees of the Group to achieve the objectives of the Group; to give suitable recognition to the ability and industry of such persons who contribute materially to the success of the Group; and to attract and retain persons of experience and ability, by providing them with the opportunity to acquire an increased proprietary interest in the Company. The Stock Option Plan is an equity-settled plan with a current maximum five year vesting period for options granted. The Stock Option Plan is administered by the Remuneration and Nominating Committee.

During the three and six month periods ended June 30, 2011 the Company issued no new options under the Stock Option Plan (three and six month periods ended June 30, 2010: nil and 4,093,000 new share options were issued respectively).

At June 30, 2011 there were 15,473,000 total share options outstanding (December 31, 2010: 15,473,000 total share options outstanding), with exercise prices ranging from CAD$0.10 to CAD$5.95 and with a weighted average exercise price of CAD$1.99 per option. Of the total outstanding as at June 30, 2011, a total of 14,108,668 were exercisable at that date (December 31, 2010: 12,744,336 exercisable share options).

Share warrants

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

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

14 Retained earnings and other reserves

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

- Retained Earnings: Cumulative profits recognised in the Group Income Statement less cumulative losses and distributions made.
- Merger Reserve: The difference between the nominal value of the shares issued to acquire a subsidiary and the nominal value of the shares acquired.
- Other Reserves: The fair value of unexercised share based payments and warrants granted over ordinary shares in the Company at the date of grant.

15 Commitments and contingencies

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

	June 30	December 31
	2011	2010
	£	£
Amounts payable on leases which expire:		
Within one year	**44,166**	88,331
In two to five years	**443,333**	-

In preparation for the drilling of further wells on the Bentley field, XER has committed purchases for long-lead items at June 30, 2011 of approximately £7 million in respect of tooling and oilfield equipment (June 30, 2010: £1.7 million).

On February 14, 2011 the Company announced that XER had entered into a binding contract with British American Offshore Limited ("BAOL"), part of Rowan 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 has recently finished shipyard construction in Singapore and has been formally handed over to its owners, Rowan. The rig will now be delivered to Dundee, United Kingdom, where it will undergo final testing, be crewed and equipped and is then expected to be available to XER at the end of 2011. The initial commitment period under this contract is 240 days, during which XER is expecting to commence the FSP on the Bentley field.

16 Related parties

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

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

Using a loan facility, XEL has continued to provide its wholly owned subsidiary, XER, with net cash funding of £4.74 million during the three month period to June 30, 2011 (three months to June 30, 2010: £1.28 million) to finance XER's operational requirements. The cumulative six month period funding to June 30, 2011 by XEL to XER was £4.48 million (six months to June 30, 2010: £1.79 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 June 30, 2011 was £85.26 million (as at June 30, 2010: £24.5 million).

In the normal course of business XER incurred charges totalling £6,284 during the three month period to June 30, 2011 (six months to June 30, 2011: £6,284) 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 June 30, 2011.

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