Xcite Energy Limited

Annual Report and Financial Statements

for the year ended 31 December 2013

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Board of Directors

Roger S. Ramshaw is the Chairman and a Non-Executive Director of the Company and is a member of the Remuneration and Nominating Committee. From 2002 until his retirement in 2003, Mr. Ramshaw was Chairman and Managing Director of ConocoPhillips (UK) Ltd, where he led the company's exploration, development and production business on the UK Continental Shelf. From 1999 to 2002, he was President of Conoco Venezuela Ltd. Mr. Ramshaw has over 40 years of domestic and international experience in operations, project and commercial activity in the petroleum industry. He is also a Non-Executive Director of Talisman Sinopec Energy UK Ltd and a governor of the Robert Gordon University, Aberdeen. He holds an MA degree in Chemical Engineering from the University of Cambridge and an MS in Management from the Massachusetts Institute of Technology.

Rupert E. Cole is Chief Executive Officer and Director of XER and the Company. From 2002 until joining XER in 2003, Mr. Cole was Programme Management Business Adviser at Granherne, a company within the Halliburton group of companies, providing strategic, commercial and financial advice to upstream oil and gas services providers. From 1990 to 1996, Mr. Cole was Finance Director at Harpur, an international downstream service provider to major oil companies. Mr. Cole is a Chartered Accountant and has over 25 years of experience in corporate finance.

Stephen A. Kew is Chief Operating Officer of XER and the Company. After leaving Conoco in 1999 after 25 years, he provided petroleum engineering consulting in the upstream oil and gas industry for a wide range of clients before joining XER in 2003. Mr. Kew is a Petroleum Engineer and has over 35 years of development engineering and project management experience in the oil and gas industry, including previous experience in respect of the Bentley field while at Conoco. He is an associate of the Institution of Chemical Engineers and a member of the Society of Petroleum Engineers.

Andrew J. Fairclough is Chief Financial Officer and Director of XER and the Company. Mr. Fairclough joined XER as Director of Corporate Affairs in August 2012 and took up the position of CFO in February 2014. He has over 17 years of investment banking experience. After leaving the Army in 1995, he joined Flemings' corporate finance department, working both in London and New York, then subsequently moved to Rothschild in 1998, where he worked on a wide range of transactions, latterly with a focus on private equity. In 2004, he joined the corporate broking team at Merrill Lynch, where he advised mid and large cap clients. On leaving Merrill Lynch in 2009, he has focused on the mid cap advisory arena, latterly with Espirito Santo Investment Bank, before joining the Company.

Gregory J. Moroney is a Non-Executive Director of the Company and Chairman of the Remuneration and Nominating Committee. Mr. Moroney is the Founding and Managing Member of Energy Capital Advisors LLC of Jupiter, Florida, which he founded in 2003 to assist independent energy companies and energy fund managers in North America in their fund-raising activities. Mr. Moroney is also a director of BreitBurn Energy Partners, L.P., an oil and gas limited partnership listed on NASDAQ. From 1993 to 2002, he was head of the Structured Finance Group for the Energy and Natural Resource Sector - Western Hemisphere at Deutsche Bank Securities in New York. Mr. Moroney has over 25 years of experience as an energy finance specialist.

Scott R. Cochlan is a Non-Executive Director of the Company and is a member of the Remuneration and Nominating Committee. Mr. Cochlan is a partner at the law firm of Torys LLP in the Corporate and Capital Markets group. Mr. Cochlan has represented senior and junior public issuers in numerous aspects of general corporate law and securities regulatory matters including corporate governance, continuous disclosure, regulatory compliance and transaction negotiation and completion. Mr. Cochlan also has extensive experience in representing both issuers and underwriters in a wide variety of complex private and public financing matters (equity and debt), including cross-border financings, mergers, acquisitions and other business reorganizations and restructurings. Mr. Cochlan holds a law degree from the University of Calgary and a B.A. from the University of Western Ontario. Mr. Cochlan has received a number of recognitions as a leading lawyer in his field.

Timothy S. Jones is a Non-Executive Director of the Company and also Chairman of the Audit Committee. Mr. Jones is a Chartered Accountant with over 20 years of experience in professional practice covering a number of industries including oil and gas. Following major public company roles, he formed his own accountancy and consulting practice to focus on the oil and gas sector, where he specialises in providing advice to AIM listed companies.

Xcite Energy Limited
For the year ended 31 December 2013

Chairman's Review

2013 was another successful year for Xcite Energy, with steady progress towards development of the Bentley field. It may not have had the overt excitement generated by the pre-production extended well test ("EWT") completed in 2012, but it represented another milestone for the Company, as the analysis and evaluation of the information gathered during the EWT led to material upgrade of 2P reserves from 116 MMstb to 250 MMstb, early in the second quarter of the year and subsequently to 257 MMstb in early 2014.

If I put Bentley into some context, the average UKCS discovery size over the past ten years has been 25 million barrels of oil equivalent and 90% of current fields in production on the UKCS are producing less than 15,000 barrels of oil equivalent per day[1]. At ten times the average size of a UKCS discovery, Bentley is currently expected to have an economic field life of 50 years and modelled to produce approximately 15,000 barrels of oil per day after 17 years of production and approximately 8,500 barrels per day after 35 years of production. As such, Xcite Energy believes Bentley is a major development-ready asset of significant importance to the UK North Sea.

Offshore heavy oil remains a relatively new development concept in the North Sea and, as an independent company, we need to focus on being able to deliver a cost effective and robust development plan. The main purpose of the EWT was to achieve the key technical and commercial objectives, which would provide us greater certainty around that plan and enable us to materially reduce the overall project risk. Following the successful EWT, we can now demonstrate that the reservoir can be drilled and completed successfully, that water production is predictable and manageable and that the oil will flow to surface at sustainable commercial rates. We have proven the methodology to dehydrate the oil to export quality on a floating storage vessel which, together with an effective in-field blending strategy, will allow the Bentley crude to be exported directly to the market. The EWT data also allows us to continue optimisation of the development plan and undertake further enhanced oil recovery ("EOR") work programmes. This greatly increased knowledge was also important to help address a changing industry environment, which has seen a shift in the allocation of development budgets and a tightening of available human resources, both of which have had a clear impact on major new development projects.

A changing environment in the UK North Sea

As we engaged with potential development partners from the middle of 2013, we have confirmed the value of the EWT and validated our understanding of the Bentley field. We believe the EWT was a well-planned and thorough project, which produced high quality data and supported an efficient development plan. The reservoir successfully withstood technical diligence and the phased development plan, we believe, remains the most appropriate approach to develop the field. Overall, the EWT supported management's belief that Bentley is a substantial oil field, with a long field life and a high quality reservoir; there are few such opportunities available in the North Sea.

During the course of this past year we have seen a reduction in resource allocation in the North Sea, as many major oil companies have come under pressure to restrict their development spend. This, combined with escalating costs, has recently led to delays to a number of major projects. Human resources, as already noted, has continued to be a constraint in the basin, with many oil companies having full project pipelines and limited spare capacity to manage new projects. Furthermore, both existing participants and new entrants to the

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[1] Source: Wood Mackenzie submission to the Wood Review, September 2013

North Sea appear to be seeking existing production or developing fields through existing infrastructure, rather than making new capital commitments to large, standalone developments.

Against this market backdrop, it was important to provide potential development partners with as much data and information as possible and to pursue a range of potential funding routes in order to be able to continue moving Bentley towards development. These included discussions beyond oil companies to major industry service providers, for whom the size, long field life and predictability of Bentley offer the opportunity to participate in material, long term contracts.

Progress through innovation

Discussions with industry service partners are progressing and, while a number of farm-out discussions continue, progress is slow, and our emphasis is now moving in favour of a development partner solution which we can influence and direct. This approach would engage key industry service providers to help fund and supply key resources for the development plan, such as the floating storage and offtake vessel, project management, drilling rig and drilling management services, in return for incentivised contracts which would potentially deliver enhanced returns based on agreed performance targets. In the current market, we believe that this approach enables us to progress Bentley without compromising any farm-out discussion.

We remain focused on monetising the inherent value of Bentley and nothing we have learned has undermined our confidence in the field or in our development plan. Our conviction remains that we have a viable, cost effective and efficient approach to developing Bentley in the current environment and we shall maintain our flexibility and innovative approach to progress the field development plan.

In 2013, your management team worked hard to develop a range of options and to create a strategy that accommodates all our potential development partners. We look forward to evolving this strategy and will update the market as we show material progress.

Roger Ramshaw
Chairman
26 March 2014

Chief Executive's Review of 2013

Overview of 2013

2013 saw further progress for Xcite Energy as we expanded our resource base, secured an extension for the Bentley licence into 2014, substantially increased reserves, advanced the development plan of the Bentley field, provided short term financial stability and progressed the longer term financing options for the Company. 2014 has commenced with real purpose, with confirmation of our existing reserves and field economics despite an increasing cost base and reduction in the near term future oil price assumptions. We have also received confirmation of a material licence extension on Bentley until the end of 2016.

In March 2013, we were formally awarded licences over blocks 9/4a, 9/8b and 9/9h, through the 27th Licensing Round. These prospects lie to the east and south of Bentley and are a deeper oil play in the Lower Palaeocene, Maureen Sandstone which we believe may contain a lighter crude. In the event that these prospects prove to be commercial discoveries, they are close enough to be tied back into Bentley and would support Xcite Energy's current strategy to use the Bentley infrastructure as a hub to develop the surrounding prospects in a cost effective manner during the phased development programme. This lighter crude could be used as a diluent for the Bentley crude during production. That same month, we also received an extension over the Bentley licence until 30 September 2014. We have worked closely with the Department of Energy and Climate Change ("DECC") in recent months, and have received confirmation of a material extension to the Bentley licence until 31 December 2016, in order to facilitate the continued progress of the Bentley field towards production.

April 2013 saw the release of our independent reserves assessment report ("RAR") after the successful EWT, effective as of 31 December 2013, which upgraded our 2P reserves from 116 MMstb to 250 MMstb over a 35 year facilities life, with an additional 46 MMstb mean contingent resources assigned to production beyond the first 35 years, and mean unrisked aggregate prospective resources of 97 MMstb in our nearby prospects. This was recently updated in our independent RAR dated 25 February 2014, with a small increase in 2P reserves to 257 MMstb and mean contingent resources to 48 MMstb. These increases arose from preliminary optimisation to increase offshore fluid handling capacity, offset by costs being inflated by approximately 3.5% and the forward assumed oil price decline of approximately 2%, to deliver an NPV10 (after tax) value for 2P oil reserves of approximately US$2.1 billion. Prospective resources remained unchanged in the current RAR.

Over the year we have been optimising the field development solution, with a view to maximise economic recovery and reduce the risks associated with the development plan. This work continues and covers all technical and commercial aspects of the project development; from the reservoir, focusing on optimal spacing and positioning of wells, up to the pump where capacity and multi-lateral well configuration will have an impact on flow rates, then on to the platform where fluid handling and processing equipment will influence production, and finally to the floating storage and offtake vessel ("FSO") where dehydration, diluent and market offtake requirements were demonstrated by the EWT. Early results from the initial enhanced oil recovery ("EOR") laboratory studies have been encouraging and have supported the potential for EOR to play an important role in the ultimate recovery from the Bentley field. An EOR pilot programme has been included in the First Phase Development plan to further assess and quantify the EOR opportunity.

The success of the Bentley EWT enabled the sale of the associated data in May 2013 for US$15 million. The value of this data was further highlighted when Statoil referred to its interpretation of the EWT data from Bentley in its decision to re-evaluate the development concept for the Bressay field, the neighbouring analogue to the north of Bentley, and to delay its field development decision. Statoil stated that the data had given positive indications that there was potential to simplify the concept and investigate alternative development solutions. We continue to work with them to support analysis of the data and its application to Bressay, as we believe that there are significant potential benefits from collaboration in any future wider area development.

In June 2013, we signed a memorandum of understanding ("MoU") with AMEC, setting out commercial principles for future cooperation to support the development of Bentley. AMEC's expertise and track record in delivering major UKCS offshore and heavy oil projects will, we believe, complement Xcite Energy's own skillset to deliver a best-in-class development solution.

During the summer, we submitted an Environmental Statement ("ES") to DECC for public consultation. The feedback received will be addressed in due course, but we do not consider that it will have a material impact on the current development concept. The ES is one of the key components of the overall Bentley field development plan ("FDP") and will be finalised prior to the final submission of the formal FDP for approval, which will include a demonstration of the technical capability and financial capacity of the development partners.

Towards the end of 2013, we concluded a re-financing of the outstanding loan notes, replacing them with US$80 million unsecured 12.5% loan notes, with a term of 360 days.

We have also been working with existing and new banks on an increased reserves based lending ("RBL") facility, founded on the 2013 development plan and increased reserves base to replace the existing facility, which was based on the 2012, pre-EWT development plan and reserves base. We do not currently intend to enter into a new facility agreement until we have progressed the farm-out and development partner discussions, which would enable us to more accurately assess the overall financing required.

The commercial development model

A substantial part of this past year has been devoted to preparing Xcite Energy and the Bentley field for the process to find a development partner, as explained in the accompanying Chairman's Review. We were diligent and thorough in our preparation of the information to be used and maintaining flexibility and generating viable options were key priorities. We have also been conscious of the clear and significant changes in the market environment and have sought to adapt to those as we progressed.

With the promoting of Bentley within our control, and external market forces outside of it, we saw benefit in extending our discussions beyond conventional oil companies into the major industry service providers. A number of these organisations have expressed an interest to work with us, based on a risk/reward based commercial structure, with the catalyst from our perspective being the successful EWT outcome. We believe that combining the current development-ready status of Bentley, with the potential returns driven by the size and longevity of the field and the limited number of major development opportunities available in the North Sea, has encouraged a number of the major industry service providers to actively engage with us.

As these discussions have matured, we have identified what we believe to be a flexible and cost effective commercial operating structure, in which these potential development partners would provide their respective assets and services in return for long term contracts with Xcite Energy, and the opportunity to participate in performance related upside. The costs of key components of the project such as the FSO, platform and topsides, project management, drilling rig and drilling management services, could potentially be phased to align with the cashflows generated by the first phase development. Importantly, we believe this structure remains compatible with any future farm-out of Bentley and, as we continue to define and reduce the front-end cash requirements, may enable us to re-engage with parties who currently have material capital constraints.

Outlook

Over the coming months, we plan to select our key preferred development partners and commence engineering programmes to more accurately define the development concept with a view to signing binding contracts with them for the project execution phase following approval of the FDP. In addition, we shall continue to work to clarify the funding requirement for the Bentley development, taking into account the relevant contributions from each partner in the development group, and evaluate the available financing options to take advantage of the cash flows generated during the First Phase Development, with the emphasis on debt finance.

At each step in the appraisal of Bentley since 2007, we have faced market disruption and economic challenges. In spite of this, we have delivered Bentley as a strategic, de-risked, development-ready North Sea asset with 257MMstb of 2P reserves. It is clear to us that innovation has always been core to our business, our team and our success, and we intend to continue this approach with a view to securing a funded development plan for Bentley.

I would like to add my thanks to the entire Xcite Energy team, who have once again demonstrated outstanding commitment and skills in the last twelve months.

Rupert Cole
Chief Executive Officer
26 March 2014

Management Discussion and Analysis

The Management 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 audited consolidated financial statements and related notes for the year ended 31 December 2013. This MD&A is dated 26 March 2014. These documents and additional information about XEL 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 for the year ended 31 December 2013, which include the results of the operating subsidiary Xcite Energy Resources Limited ("XER") for the year ended 31 December 2013. The comparative results for both companies comprise the year ended 31 December 2012 and in this MD&A, XEL and XER are together defined as the "Group". All figures and the comparatives figures contained herein are expressed in Sterling unless otherwise noted.

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

Information concerning reserves may also be deemed to be forward-looking statements as such estimates involve the implied assessment that the resources described can be profitably produced in the future. These statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, including crude oil resource estimations, crude oil prices, exchange rates, interest rates, prevailing rates of taxation (see "Risk Management" section below), which could cause actual results to differ from those anticipated by the Group. The reader should not place undue importance on forward-looking statements and should not rely upon this information as of any other date. While the Company may elect to, it is under no obligation and does not undertake to update this information at any particular time, unless required by applicable securities law.

Summary of Results

The following table summarises the Group's performance in the year ended 31 December 2013 and the comparatives for the year ended 31 December 2012 and the year ended 31 December 2011. The 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 consolidated financial statements of the Group have also been prepared in accordance with IFRSs adopted by the European Union ("EU").

	Year ended 31 December	Year ended 31 December	Year ended 31 December
	2013	2012	2011
	£	£	£
Revenue	**-**	13,288,989	-
Net profit/(loss)	**6,582,171**	(1,720,907)	129,563
Basic earnings/(loss) per share in pence	**2.3p**	(0.7p)	0.1p
Diluted earnings/(loss) per share in pence	**2.0p**	(0.7p)	0.1p
Total assets	**269,477,620**	251,840,821	152,771,290
Long term liabilities (deferred tax)	**3,456,732**	505,167	505,167

The year ended 31 December 2013 was a very important year for the Xcite Energy Group. Whilst 2012 was characterised by the extended well test on the Bentley field and high project expenditure, 2013 was a year of commercial focus, engineering and technical studies, with the emphasis on targeting a development partner, or partners, to bring the Bentley field into production. On this basis, the expenditure on Exploration & Evaluation ("E&E") assets was comparatively low during 2013.

The Group has been correct in retaining a 100% working interest in the Bentley field to date, but with the significant reserves upgrade in April 2013 to 250 MMbbls of 2P reserves assigned, the time is now right to seek partners to take the Bentley field into production. The significant time and effort devoted to the farm-out process during the later stages of 2013 has started to yield returns, with continuing efforts required during 2014. The Group looks forward to updating shareholders in due course.

A significant amount of internal resource has been devoted during 2013 to the preparation of the Field Development Plan ("FDP") for the Bentley field for submission to the Department of Energy and Climate Change ("DECC") in the UK in due course. The Company now considers that the FDP has been substantively completed from a technical perspective, and, with the Environmental Statement having been through public consultation in 2013, all that remains is the satisfactory conclusion of a complete financing package to demonstrate the financial capabilities of Xcite Energy to move forward into development.

The net profit for the year ending 31 December 2013 has arisen principally from the unprecedented sale of technical well data to a third party during the second quarter of 2013 for US$15 million. This is regarded as a significant technical validation of the valuable work performed by Xcite Energy during the extended well test of 2012.

The following table summarises the Group's performance for the eight most recent quarters. All of these results are unaudited.

	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Revenue	**-**	-	-	-	-	13,289	-	-
Net (loss)/profit	**(2,623)**	905	10,000	(1,700)	(884)	(568)	(223)	(46)
EPS*	**(0.8p)**	0.3p	3.4p	(0.6p)	(0.4p)	(0.2p)	(0.1p)	(0.0p)
Total assets	**269,478**	263,919	265,444	250,424	251,841	260,704	237,556	192,634
Long term liabilities	**3,457**	852	852	505	505	505	505	505

***** Earnings/(loss) per share (basic) in pence

Fourth Quarter 2013 Highlights

- In December 2013 the Company announced that it had issued US$80 million of 12.5% unsecured loan notes, which enabled the Company to repay in full the existing 14% unsecured loan notes whilst providing additional working capital.
- The continuing strengthening of Sterling against the US Dollar during the fourth quarter of 2013 gave rise to an unrealised foreign exchange net gain in the fourth quarter of £0.6 million. This gain arose from the revaluation of the US Dollar loan note liabilities, offset by an unrealised loss from the revaluation of the Company's US Dollar cash balances.
- The fourth quarter incurred additional spend on E&E assets of £5.2 million, which includes capitalised project finance costs and field licence fees. This is comparable to spend incurred in each of the previous quarters during 2013.
- The Group recognised an additional deferred tax liability of £2.95 million during the fourth quarter, arising principally from corporation tax timing differences in respect of the UK subsidiary, XER.

Income

Revenue

The Group has no reported revenues in the year ended 31 December 2013, reflecting no offshore oil production activities during the year.

The comparatives for the year ended 31 December 2012 included the revenues achieved from the successful pre-production well test on Bentley, which commenced in July 2012 and ended in October 2012, producing a cargo of approximately 149,000 barrels of Bentley crude oil, combined with approximately 58,000 barrels of diluent. The entire cargo was sold in September 2012 to a major refiner in Europe. Aggregate net revenue for the cargo after deduction of all direct sales costs was £13.29 million.

Interest Income

Interest income received on funds invested up to 31 December 2013 amounted to £27,658 (2012: £175,964). Interest income remains low, arising from an active decision to retain the majority of the Group's working cash capital in US dollars to act as a partial natural hedge against currency fluctuation exposure on the Group's US dollar loan note liabilities. The US dollar cash balances attract a nominal rate of interest during unprecedented low Federal rates in the US.

Other Income

Other Income for the year ended 31 December 2013 represents US$15.0 million (£9.8 million) from the sale of technical well data and US$2.5 million (£1.6 million) from the sale of surplus oilfield equipment following the 2012 pre-production well test. There was no such equivalent data sale or equipment sales income in year ended 31 December 2012.

Operations and Administrative Expenses

During 2013 a total of £20.1 million was charged to E&E assets (year ended 31 December 2012: £128.7 million), of which £7.6 million was in respect of finance interest and amortised costs, £5.3 million for staff costs, including capitalised charges under the Group's Stock Option Plan, £1.8 million on consultancy costs,

£1.6 million on design and concept engineering support, £0.5 million for new 3D seismic data, in addition to spend on capitalised direct overheads.

A total of £0.65 million (year ended 31 December 2012: £0.52 million) was paid in respect of XER's obligations under the UK North Sea licencing agreements, which includes Blocks 9/3b, 9/3c, 9/3d, 9/4a, 9/8b and 9/9h.

The Group charged to the Income Statement other expenses (within total net administrative expenses) of £1.79 million compared to £1.60 million in the year ended 31 December 2012. These expenses represent the costs of operating as a public company, including a proportion of the remuneration costs of certain Executive Directors, Non-Executive Director fees, Nominated Adviser, stockbrokers, legal fees, registrars and stock exchange fees. The increase in share option charges under the Group's Share Option Plan from £0.13 million in 2012 to £0.78 million in 2013 arises from the June 2013 awards made under the Stock Option Plan. A total of 9,850,000 new share options were awarded to the Directors and management team during 2013 compared with 5,750,000 during 2012.

The net foreign exchange gains in the current year have been driven by the overall strengthening of Sterling against the US Dollar during the year, resulting in the reduction of the book liabilities owing by the Group on its US Dollar loan notes. This is partially offset by the reduction in the value held in respect of the Group's US Dollar cash balances.

Taxation

A tax charge of £2.95 million has been recorded for the year ended 31 December 2013. This is in respect of an increase to the deferred tax liability provision, comprising temporary differences arising from tax relief claimed for fixed asset expenditure in the UK. The deferred tax liability has been reduced by a deferred tax asset arising on UK tax losses.

Liquidity and Capital Resources

The cash balance as at 31 December 2013 was £21.93 million, compared with £25.59 million as at 31 December 2012. The net decrease in cash balance during the twelve months ended 31 December 2013 has arisen due to continued investment by the Group into the Bentley field development, with additions to E&E assets of over £20 million in the year, the receipt of income from the sale of technical well data and surplus oilfield equipment, the repayment of the US$60 million 14% loan notes, all offset by the receipt of new 12.5% US$80 million loan note funds into the Group.

In December 2013, the Company announced the issue of US$80 million unsecured 12.5% loan notes to investors, including funds managed by West Face Capital Inc. The loan notes had an initial term of 360 days and an initial discount of 2%. The Company also announced that the US$60 million 14% coupon loan notes, due to West Face Capital Inc. maturing 31 December 2013, were repaid in full.

Concurrent with the issuance of the unsecured 12.5% loan notes, the Company raised additional equity of £0.98 million by issuing 1,000,000 new ordinary shares in the Company pursuant to a private placement.

The Group has a US$155 million Reserves Based Lending Facility ("RBL") with a group of commercial and lending banks, which currently remains undrawn. Its purpose will be to support the First Phase Development of the Bentley field. All associated costs to date with the RBL have been capitalised under prepayments, pending the availability date, at which point the accumulated costs will be amortised over the life of the facility. During the year ended 31 December 2013 the Group incurred costs of £2.13 million in respect of servicing this RBL facility (year ended 31 December 2012: £2.83 million).

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

The US$80 million Loan Note facility falls for repayment by 25 December 2014, extendable by mutual agreement to 20 December 2015, and in order to finance this repayment the Directors are considering a number of options that would secure longer term funding leading into the first phase development of the Bentley field.

Taking into account the ELF, the Group's cash balances, other potential sources of finance and the Group's financial obligations, which includes the requirement to settle the new US$80 million loan notes in full prior to 25 December 2014, the Group has forecast that it has sufficient financial resources for working capital for the foreseeable future.

Lease and Contractual Commitments

At 31 December 2013 the Group had lease commitments relating to business premises of £236,944 (31 December 2012: £328,692). The decrease in commitments when comparing 2013 with 2012 is in line with the remaining lease commitment on XER's existing Aberdeen business premises.

Off-Balance Sheet Arrangements

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

Related Party Transactions

The Executive Directors have received remuneration, details of which are given in the table below. The Executive and Non-Executive Directors have also been granted share options over the ordinary share capital of the Company during year, details of which are also given below.

	Year ended 31 December 2013	Year ended 31 December 2012
	£	£
Wages and salaries	**706,000**	972,772
Social security costs	**95,319**	130,926
Share-based payment charges	**1,232,507**	15,736
	2,033,826	1,119,434

In the normal course of business XER incurred charges totalling £5,522 during the year ended 31 December 2013 (year ended 31 December 2012: £5,550) for consultancy services from Esher Management Services Limited, a company for which Timothy Jones is a Director. There was an accrued balance payable by XER at the year-end of £5,522 (as at 31 December 2012: £5,550).

In the normal course of business XER incurred charges totalling £22,009 during the year ended 31 December 2013 (year ended 31 December 2012: £19,991) for property rentals from Seaburome Limited, a company for which Rupert E. Cole is a Director. There was no outstanding balance payable by XER at the year end.

Outstanding Share Capital

The following table sets out the ordinary shares issued during the year.

	Ordinary Shares
As at 1 January 2013	**290,880,000**
Issue of ordinary shares through private placement	1,000,000
Issue of ordinary shares through share option exercises	931,000
As at 31 December 2013	**292,811,000**

As at the date of signing this MD&A, the number of shares in issue was 292,811,000.

Share Options and Warrants

Share Options

In the year ended 31 December 2013 the Company issued a total of 9,850,000 new share options to the XER management team under the Stock Option Plan with an average exercise price of CAD$1.61 (£1.01) and a life of five years (year ended 31 December 2012: 5,750,000 new share options were issued with an average exercise price of CAD$1.20 (£0.75) and a life of five years). The total expense to the Group in respect of share-based payment transactions under the Stock Option Plan was £3.31 million (year ended 31 December 2012: £1.32 million). Of this total, £0.78 million (2012: £0.14 million) has been charged to the Income Statement and £2.53 million (year ended 31 December 2012: £1.18 million) has been capitalised under intangible assets in accordance with the Group's accounting policy. The share-based payment charges in respect of share options are the required entries recorded in the Company's books and records. They do not represent the cash value received or receivable by holders of share options issued under the Stock Option Plan. In the event that the share options are exercised at prices above the recorded option price, the option price becomes payable to the Company by the option holder, and option holders are personally liable for taxable gains, together with the reimbursement to the Company for any associated employee and employer national insurance liabilities arising on such gains.

In the year ended 31 December 2013 a total of 1,140,000 options expired unexercised with an weighted average exercise price of CAD$2.51 (£1.55). In the year ended 31 December 2012 a total of 4,500,000 share options expired unexercised.

In the year ended 31 December 2013, a total of 931,000 share options were exercised with a weighted average price of CAD$0.69 (£0.44), providing total proceeds of CAD$639,080 (£405,966). A total of 600,000 share options were exercised during the year ended 31 December 2012, providing total proceeds of CAD$714,000 (£444,000).

As at the date of signing this MD&A there were 25,652,000 options outstanding, all but 250,000 of which are exercisable.

Share Warrants

In the year ended 31 December 2013, the Company issued 1,000,000 new share warrants with an exercise price of £0.98 and a three year term (year ended 31 December 2012: 22,926,519 share warrants issued with an average exercise price of £0.94 and an average term of three years). The total expense to the Group for share-based payment transactions in respect of share warrants was £0.22 million, all of which was charged against the share capital account in accordance with the Group's accounting policy (year ended 31 December 2012: £4.03 million; all of which was charged against share capital).

No share warrants expired or were exercised during the year ended 31 December 2013. In the year ended 31 December 2012 a total of 350,000 share warrants expired having not been exercised, with a weighted average exercise price of £2.59 equivalent, and a total of 14,304,491 share warrants were exercised resulting in the issue of 13,981,601 new ordinary shares in the Company.

As at the date of signing this MD&A there were 17,250,000 warrants outstanding, all of which are exercisable.

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.

The Board meets at least quarterly during the year and on an ad hoc basis as required. The attendance record of each Director during the year ended 31 December 2013 is given below. The Full Board held a total of 4 meetings, and both the Audit Committee and the Remuneration and Nominating ("R&N") Committees held a total of 4 meetings during the year.

	Board	Audit Committee	R&N Committee
Rupert E. Cole	4	n/a	n/a
Stephen A. Kew	4	n/a	n/a
Roger S. Ramshaw	4	4	4
Gregory J. Moroney	4	4	4
Scott R. Cochlan	4	n/a	4
Timothy S. Jones	4	4	n/a

Risk Management

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

Licensing

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

Fiscal and political regime

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

Offshore exploration and development

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

Commodity pricing

The Group has no control over the market price of crude oil. Accordingly, suitable hedging programmes will be used to mitigate the volatility of oil prices, and in particular to protect the downside risk, as and when the Group approaches production phases.

Financing

Future field development will depend upon the ability of the Group to secure financing, whether this is by joint venture projects, farm down arrangements, public financing or other means. By using appropriate financial management and cash forecasting, the Group monitors its projected cash requirements on a regular basis. The Group has delivered capital and debt market transactions, often during difficult market conditions, in order to provide the necessary financing for field development projects.

Currency

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

Resource estimation

Oil resource estimation techniques are inherently judgemental and involve a high degree of technical interpretation and modelling techniques. Incorrect resource estimation may result in inappropriate capital investment decisions being made. To minimise this risk, Group resources are independently assessed on an annual basis to provide additional assurance over the accuracy of internal estimates.

Dependence on key executives and personnel

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

Early stage of development

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

Significant Accounting Judgements and Estimates

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

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

(a) Income taxes

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

(b) Fair value of share options and warrants

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

(c) Impairment of 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

Certain new standards, amendments and interpretations endorsed by the International Accounting Standard Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") became effective for accounting periods beginning on or after 1 January 2013. These accounting standards were adopted during the year and include:

- Amendments to IFRS 7and IAS 32 'Financial Instruments: Disclosures and Presentation – Offsetting Financial Assets and Financial Liabilities';
- Amendments to IAS12 'Income Taxes – Deferred Tax: Recovery of Underlying Assets';
- IFRIC Interpretation 20 'Stripping Costs in the Production Phase of a Surface Mine';
- IFRS10 'Consolidated Financial Statements';
- IFRS11 'Joint Arrangements';
- IFRS12 'Disclosure of Interests in Other Entities';
- IFRS 13 'Fair Value Measurement';
- IAS27 'Separate Financial Statements'; and
- IAS28 'Investments in Associates and Joint Ventures'.

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

Financial Instruments and Other Derivatives

Details regarding the Group's policies in respect of financial instruments are disclosed in Notes 1 and 16 to the financial statements.

2014 To Date and Outlook

The information contained in this section constitutes forward-looking information.

On 26 February 2014 the Group announced the results of an updated Reserves Assessment Report ("RAR"), prepared by AGR TRACS International Limited. This RAR, with an effective date of 31 December 2013, confirmed 2P Reserves for the Bentley field of 257 million stock tank barrels ("MMstb"), an increase of 2.8% since the previous RAR dated 8 April 2013. Additionally, the after-tax net present value of the Bentley field cash flows (discounted at 10%) was confirmed to be approximately US$2.1 billion. A further 48 MMstb of P50 Contingent Resources were assigned to the Bentley field, representing the additional economic production that could be achieved after an initial 35 year facilities life cut-off had been applied to the development plan. In addition to the Reserves and Contingent Resources assigned in the RAR, there is the potential for upside from the application of enhanced oil recovery techniques and further field optimisation.

At the end of March 2014 the Group received confirmation from DECC of an extension to the P.1078 Bentley oil field licence to 31 December 2016.

Over the coming months, the Company plans to select its key preferred development partners and commence engineering programmes to more accurately define the development concept with a view to signing binding contracts with them for the project execution phase following approval of the FDP. In addition, the Company shall continue to work to clarify the funding requirement for the Bentley development, taking into account the relevant contributions from each partner in the development group, and evaluate the available financing options to take advantage of the cash flows generated during the First Phase Development, with the emphasis on debt finance.

Report of the Remuneration and Nominating Committee

The Remuneration and Nominating Committee, in accordance with its written charter, reviews and makes recommendations to the Board concerning the appointment, remuneration and benefits and performance of executive management and Directors.

The Remuneration and Nominating Committee consists of three Non-Executive Directors, all of whom are independent within the meaning of National Instrument 52-110. The chairman of the Remuneration and Nominating Committee is Gregory J. Moroney.

Executive and Non-Executive Director Remuneration

The remuneration of the Executive Directors, who are the key personnel, and of the Non-Executive Directors for the year ended 31 December 2013 was as follows:

	Basic salary	Fees	Other compensation(i)	**2013 Total**	2012 Total
	£	£	£	**£**	£
Scott R. Cochlan	-	42,500	-	**42,500**	32,500
Rupert E. Cole(ii)	250,000	-	120,500	**370,500**	317,840
Timothy S. Jones	-	45,000	-	**45,000**	35,000
Stephen A. Kew(ii)	225,000	-	110,500	**335,500**	317,840
Gregory J. Moroney	-	45,000	-	**45,000**	35,000
Roger S. Ramshaw	-	80,000	-	**80,000**	60,000

(i) Other compensation comprises performance-related bonus, together with cash allowances in lieu of pension contributions, company car and fuel, private healthcare and life insurance and permanent health insurance cover.
(ii) The XER service contracts for Mr. Cole and Mr. Kew were effective 1 September 2003 and last amended on 24 October 2007.

The Group's policy is to review salary and benefits annually against market data and analysis and to adjust accordingly where the Remuneration and Nominating Committee believes it is appropriate. Following a detailed market review, and in recognition of having received no basic salary adjustment for over five years, the Executive Director remuneration was adjusted effective 1 January 2013, with the basic salary level for Mr. Cole and Mr. Kew being adjusted to £250,000 and £225,000, respectively. This compares with £175,000 and £175,000 respectively for the year ended 31 December 2012. The service and employment contracts for the Executive Directors are not of fixed duration, but continuation in office as a director is subject to annual re-election by shareholders. The Group's policy is for Executive Directors to have service and employment contracts with a notice requirement for termination of no longer than twelve months.

The fees for the Non-Executive Directors in respect of their duties are determined by the Board and are reviewed on an annual basis. Effective 1 January 2013, revisions were made to the Non-Executive Directors fees following a market data review. The fees for the individual Non-Executive Directors are now as follows, with the 2012 fees charged shown in brackets; Mr. Ramshaw: £80,000 (£60,000), Mr. Moroney; £45,000 (£35,000), Mr. Cochlan £42,500 (£32,500), and Mr. Jones £45,000 (£35,000).

Letters of Appointment for the Non-Executive Directors provide for termination of the appointment with one month notice by either party. In accordance with rules of the TSX-V, all Directors, including Non-Executive Directors will retire at each annual general meeting of the shareholders at which point they may, subject to being eligible, offer themselves for re-election at such meeting.

Beneficial Interests

The beneficial interests, shown in thousands, of the Directors in the ordinary share capital of the Company as at 31 December 2013 are as follows:

	Shares				**Share Tranche**				**Total Options**
	('000s)	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**('000s)**
Scott R. Cochlan	25	-	100	100	100	90	100	200	690
Rupert E. Cole	7,000	-	100	831	400	90	100	1,900	3,421
Timothy S. Jones	50	100	100	100	100	90	100	200	690
Stephen A. Kew	6,213	-	100	831	400	90	100	1,900	3,421
Gregory J. Moroney	100	-	-	100	100	90	100	200	590
Roger S. Ramshaw	-	-	100	100	100	90	100	350	840

Tranche 1 – Mr. Jones was appointed to the Board on 19 March 2009 and on 23 April 2009 100,000 share options were awarded and vested immediately with an exercise price of CAD$0.29 (£0.16) and a term of five years.

Tranche 2 – These share options, which vested immediately, were granted to the Directors on 30 November 2009 with an exercise price of CAD$0.74 (£0.42) and a term of five years.

Tranche 3 – These share options, which vested in three equal tranches over a two year period, were granted to the Directors on 26 March 2010 with an exercise price of CAD$0.68 (£0.44) and a term of five years.

Tranche 4 – These share options, which vested immediately, were granted to the Directors on 3 November 2010 with an exercise price of CAD$2.92 (£1.80) and a term of five years.

Tranche 5 – These share options, which vested immediately, were granted to the Directors on 31 December 2010 with an exercise price of CAD$5.95 (£3.85) and a term of five years.

Tranche 6 – These share options, which vested immediately, were granted to the Directors on 6 August 2011 with an exercise price of CAD$2.30 (£1.46) and a term of five years.

Tranche 7 – These share options, which vested immediately, were granted to the Directors on 21 June 2013 with an exercise price of CAD$1.62 (£1.01) and a term of five years.

Further details of the stock options in issue are given in Note 17 to the financial statements. There has been no trading of shares by the Directors since the year end.

Share Options

An element of the Group's reward strategy is through the implementation of the Stock Option Plan, the purpose of which is to provide an incentive to the Directors, officers, employees, consultants and other personnel of the Group ("Optionees") 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 unapproved stock option plan, which is not intended to qualify for HM Revenue & Customs in the UK, but complies with the rules and policies of the TSX-Venture stock exchange.

The Stock Option Plan is administered by the Remuneration and Nominating Committee. The number of options granted to an Optionee and the exercise price thereof are set at the time of grant, subject to any limitations imposed by the Stock Option Plan or any relevant regulatory authority, provided that if the ordinary shares are listed on a stock exchange, the exercise price shall not be lower than the market price of the ordinary shares on the date of the grant, where "market price" is defined as the highest closing trading price of the ordinary shares on any stock exchange on which the ordinary shares are listed on the day of grant.

On 18 November 2013 the Stock Option Plan was amended to extend the term of share options which would otherwise have expired due to the Company being in a closed period. The amendment now enables an unexercised share option which expires during or within five business days of a closed period (in accordance with the Company's Share Dealing Code) to have its expiration date extended to be the tenth business day after the expiry of the closed period and applies to all outstanding share option awards made under the Stock Option Plan. Such amendment was made by the Board in accordance with and pursuant to the provisions of the Stock Option Plan and is subject to shareholder approval, which will be sought at the Annual General and Special Meeting of the Shareholders of the Company scheduled to be held on 15 May 2014.

The exercise of an option may be conditional on the performance of the Company and, if the Remuneration and Nominating Committee so determines, on the performance of a subsidiary and/or the performance of the Optionee over such period and measured against such objective criteria as shall be determined by the Remuneration and Nominating Committee and notified in writing to the Optionee when the option is granted.

Signed on behalf of the Remuneration and Nominating Committee by:

Gregory J. Moroney
Non-Executive Director
26 March 2014

Report of the Independent Auditors

To the Shareholders of Xcite Energy Limited

We have audited the financial statements of Xcite Energy Limited for the years ended 31 December 2013 and 31 December 2012 which comprise the consolidated statement of financial position, the consolidated statements of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and a summary of significant accounting policies and other explanatory information.

This report is made solely to the Company's shareholders in accordance with our terms of engagement letter dated 14 March 2014 and for no other purpose. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Statements ("IFRS") as adopted by the European Union and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market and with those relating to companies trading securities on the Venture Exchange of the Toronto Stock Exchange.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (as issued by the IAASB). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on financial statements

In our opinion, the financial statements present fairly, in all material respects the consolidated financial position of Xcite Energy Limited as at 31 December 2013 and 31 December 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS as adopted by the European Union.

Separate opinion in relation to IFRS as issued by the International Accounting Standards Board (IASB)

As explained in Note 1 to the consolidated financial statements, the group in addition to complying with its obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the consolidated financial statements have been properly prepared in accordance with IFRSs as issued by the IASB.

BDO LLP
London
United Kingdom
26 March 2014

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Xcite Energy Limited
For the year ended 31 December 2013

Consolidated Income Statement (in Sterling)

	Note	**Year ended 31 December 2013 £**	Year ended 31 December 2012 (restated) £
Revenue	3	**-**	13,288,989
Cost of sales	4	**-**	(13,288,989)
Gross profit		-	-
Share-based payment charges		**(781,907)**	(135,563)
Net foreign exchange losses		**(496,732)**	(1,054,585)
Other expenses		**(1,789,934)**	(1,597,545)
Net administrative expenses		**(3,068,573)**	(2,787,693)
Loss from operations	5	**(3,068,573)**	(2,787,693)
Finance income – bank interest		**27,658**	175,964
Foreign exchange gains – loan notes		**1,137,595**	890,822
Other income	7	**11,437,056**	-
Profit/(loss) before taxation		**9,533,736**	(1,720,907)
Tax expense	8	**(2,951,565)**	-
Profit/(loss) for the year attributable to equity holders of the Company		**6,582,171**	(1,720,907)
Profit/(loss) per share attributable to equity holders of the Company	9		
- basic		**2.3p**	(0.7p)
- diluted		**2.0p**	(0.7p)

All results relate to continuing operations.

Consolidated Statement of Comprehensive Income (in Sterling)

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Profit/(loss) for the year	**6,582,171**	(1,720,907)
Total comprehensive income for the year	**6,582,171**	(1,720,907)
Attributable to: equity holders of the Company	**6,582,171**	(1,720,907)

The notes on pages 28 to 51 form part of these financial statements.

Xcite Energy Limited
For the year ended 31 December 2013

Consolidated Statement of Changes in Equity (in Sterling)

	Share Capital	Retained Earnings	Merger Reserve	Other Reserves	Total
	£	£	£	£	£
At 1 January 2012	**137,059,997**	**(4,045,415)**	**218**	**9,750,508**	**142,765,308**
Loss for the year ended 31 December 2012	-	(1,720,907)	-	-	(1,720,907)
Total comprehensive loss for the year ended 31 December 2012	**-**	**(1,720,907)**	**-**	**-**	**(1,720,907)**
Transactions with owners:					
Issue of shares	65,030,366	-	-	-	65,030,366
Associated share issue costs	(1,611,915)	-	-	-	(1,611,915)
Share warrant issue	(4,031,840)	-	-	4,031,840	-
Transfer upon exercise of share warrants and options	-	3,523,466	-	(3,523,466)	-
Fair value of share warrants and options	-	-	-	1,317,396	1,317,396
At 1 January 2013	**196,446,608**	**(2,242,857)**	**218**	**11,576,279**	**205,780,248**
Profit for the year ended 31 December 2013	-	6,582,171	-	-	6,582,171
Total comprehensive gain for the year ended 31 December 2013	**-**	**6,582,171**	**-**	**-**	**6,582,171**
Transactions with owners:					
Issue of shares	**1,400,496**	**-**	**-**	**-**	**1,400,496**
Associated share issue costs	**(81,789)**	**-**	**-**	**-**	**(81,789)**
Share warrant issue	**(218,793)**	**-**	**-**	**218,793**	**-**
Transfer upon exercise of share warrants and options	**-**	**147,425**	**-**	**(147,425)**	**-**
Fair value of share warrants and options	**-**	**-**	**-**	**3,313,032**	**3,313,032**
At 31 December 2013	**197,546,522**	**4,486,739**	**218**	**14,960,679**	**216,994,158**

The notes on pages 28 to 51 form part of these financial statements.

Consolidated Statement of Financial Position (in Sterling)

	Note	31 December 2013 £	31 December 2012 £
Assets			
Non-current assets			
Intangible assets	10	**236,796,014**	216,737,343
Property, plant and equipment	11	**5,671,133**	222,347
Total non-current assets		**242,467,147**	216,959,690
Current assets			
Trade and other receivables	12	**5,079,314**	9,288,916
Cash and cash equivalents	16b	**21,931,159**	25,592,215
Total current assets		**27,010,473**	34,881,131
Total assets		**269,477,620**	251,840,821
Liabilities			
Current liabilities			
Trade and other payables	13	**1,974,928**	5,284,605
Short term loans	14	**47,051,802**	40,270,801
Total current liabilities		**49,026,730**	45,555,406
Non-current liabilities			
Deferred tax	15	**3,456,732**	505,167
Total non-current liabilities		**3,456,732**	505,167
Net assets		**216,994,158**	205,780,248
Equity			
Share capital	17	**197,546,522**	196,446,608
Retained earnings	18	**4,486,739**	(2,242,857)
Merger reserve	18	**218**	218
Other reserves	18	**14,960,679**	11,576,279
Total equity		**216,994,158**	205,780,248

The notes on pages 28 to 51 form part of these financial statements. These financial statements were approved by the Board of Directors and authorised for issue on 26 March 2014 and were signed on its behalf by:

Rupert Cole
Chief Executive Officer

Andrew Fairclough
Chief Financial Officer

Xcite Energy Limited
For the year ended 31 December 2013

Consolidated Statement of Cash Flows (in Sterling)

	Year ended 31 December 2013	Year ended 31 December 2012
	£	£
Net cash flow from operating activities		
Profit/(loss) for the period before tax	**9,533,736**	(1,720,907)
Adjustment for interest income	**(27,658)**	(175,964)
Adjustment for other income	**(11,437,056)**	-
Adjustment for share-based payment charges	**781,907**	135,563
Adjustment for depreciation	**216,722**	132,920
Movement in working capital		
- Trade and other receivables	**(1,251,131)**	(8,908,188)
- Trade and other payables	**1,624,386**	1,040,190
Net cash flow from operations	**(559,094)**	(9,496,383)
Cash flow from investing activities		
Additions to exploration and evaluation assets	**(17,527,545)**	(127,474,900)
Purchase of property, plant and equipment	**(204,775)**	(168,722)
Other income	**11,437,056**	-
Interest income	**27,658**	175,964
Net cash flow from investing activities	**(6,267,606)**	(127,467,658)
Cash flow from financing activities		
Net proceeds from issue of new shares	**1,318,708**	63,418,451
Settlement of loan notes	**(44,674,531)**	-
Net proceeds from issue of loan notes	**46,521,467**	35,014,399
Cash flow from financing activities	**3,165,644**	98,432,850
Net decrease in cash and cash equivalents	**(3,661,056)**	(38,531,191)
Cash and cash equivalents at the beginning of the year	**25,592,215**	64,123,406
Cash and cash equivalents at the end of the year	**21,931,159**	25,592,215
Cash and cash equivalents comprise:		
Short term deposits	**-**	14,806,099
Cash available on demand	**21,931,159**	10,786,116

The notes on pages 28 to 51 form part of these financial statements.

Notes to the Consolidated Financial Statements

1 Accounting Policies

Basis of preparation

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below.

The consolidated financial statements 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 consolidated financial statements have also been prepared in accordance with IFRSs adopted by The European Union and they comply, therefore, with Article 4 of the EU International Accounting Standards ("IAS") Regulation. The new standards and interpretations which have been issued by the IASB and the IFRIC but have yet to be endorsed by the European Union have not been adopted in these consolidated financial statements. This is not expected to have a material effect on the reported results or financial position of the Group.

The consolidated financial statements have been prepared on a going concern basis, taking into account the 2014 Outlook in the Management Discussion and Analysis on pages 17 and 18 of these financial statements. The Group currently has sufficient cash resources to fund working capital and the committed work programme. The US$80 million Loan Note facility falls for repayment by 25 December 2014, extendable by mutual agreement to 20 December 2015, and in order to finance this repayment the Directors are considering a number of options that would secure longer term funding leading into the first phase development of the Bentley field.

Basis of consolidation

The Company was incorporated with the sole purpose of acquiring its controlling interest in its directly held, wholly owned subsidiary, Xcite Energy Resources Limited ("XER"). XER was acquired on 26 June 2007 through a transaction under common control, as defined in IFRS 3 *Business Combinations*. As a result of the transaction, the equity shareholders of Xcite Energy Limited ("XEL" or the "Company") and XER became the equity shareholders of the combined entities. The Directors note that transactions under common control and those that involve a new shell company (XEL) with no business of its own acquiring a controlling interest in an existing entity (XER), are outside the scope of IFRS 3 and that there is no guidance elsewhere in IFRS covering such transactions.

IFRS contains specific guidance to be followed where a transaction falls outside the scope of IFRS. This guidance is included at paragraphs 10 to 12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* This requires, *inter alia,* that where IFRS does not include guidance for a particular issue, the Directors may also consider the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards. In this regard it is noted that the UK Accounting Standards Board ("ASB") had issued an accounting standard covering acquisitions and mergers ("FRS 6"). FRS 6 allows for merger accounting to be applied where two or more companies are combined to form one group on terms such that the equity shareholders in each company become the equity shareholders in the combined entity.

Having considered the requirements of IAS 8, and the guidance included within FRS 6, it is considered appropriate to apply an accounting treatment similar to "merger accounting" as described by FRS 6 when dealing with the transaction in which the Company acquired its controlling interest in XER (together the "Group") in order to provide a true and fair view. The effect of the above is:

- New shares issued by XEL as consideration for the merger are recorded at their nominal amount in books of XEL;
- The net assets of XER and XEL are combined using existing book values;
- No amount is recognised as consideration for goodwill or negative goodwill; and
- The consolidated profit and loss includes profits of each company for the entire period, regardless of the date of the merger, and the comparative amounts in the consolidated accounts are restated to the aggregate of the amounts recorded by the two companies.

Revenue

Revenue arises from the sale of oil produced and reflects the actual sales value, net of value-added-tax ("VAT") and overriding royalties. Revenue earned on test production prior to establishing the technical feasibility and commercial viability of the project is credited to the Income Statement. Test production revenue is recognised at a zero margin and a corresponding deduction made against intangible exploration cost. Revenues are recognised when the risks and rewards of ownership together with effective control are transferred to the customer and the amount of revenue and associated costs incurred in respect of the relevant transaction can be reliably measured. Revenue is not recognised unless it is probable that the economic benefits associated with the sales transaction will flow to the Group.

Finance income

Finance income is recognised on an accruals basis and is disclosed separately on the face of the Income Statement.

Other income

Other income is recognised on an accruals basis and is disclosed separately on the face of the Income Statement. Other income reflects the actual sales value, net of VAT, overriding royalties and related costs. Other income is recognised when the risks and rewards are transferred to the customer and the amount of other income and associated costs incurred in respect of the relevant transaction can be reliably measured.

Current taxation

The total tax expense represents the sum of current and deferred tax. Current tax is based on the taxable result for the period. The taxable result may differ from the net result as reported in the Income Statement as it may exclude certain items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the date of the Consolidated Statement of Financial Position.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the Consolidated Statement of Financial Position differs to its tax base.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the date of the Consolidated Statement of Financial Position and are expected to apply when the deferred tax liabilities/assets are settled/recovered. Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- The same taxable group company; or
- Different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Share-based payments

The Company has a Stock Option Plan as described in Note 17. The share-based payment expense arising under this Stock Option Plan is recorded in the Income Statement, or as a direct reduction in share capital where the charge relates to the issue of such share capital, or as an increase in exploration and evaluation assets (“E&E” assets) where the charge relates to employees or contractors employed wholly for the benefit of such E&E assets for all options granted in the period, with a corresponding increase recorded in other reserves. The share-based expense is calculated on the estimated fair values at the time of the grant and the expense is recognised over the vesting period of the options. Upon the exercise of the stock options, consideration paid is recorded as an increase in share capital and amounts previously recorded in other reserves are transferred to retained earnings. In the event that vested options expire unexercised, previously recognised share-based payment expense associated with such stock options is not reversed.

The Black-Scholes model is used to fair value share options and warrants granted, unless the underlying market value of the goods or services for which the share options, rights or warrants are being granted can be reliably determined, in which case market value is considered to be equal to fair value.

Where equity instruments are granted to persons other than employees, the Income Statement, Exploration & Evaluation Assets or Share Capital account is charged with the fair value of the goods and services received as appropriate.

Operating leases

All leases are treated as operating leases. Rental premiums are charged to the Income Statement or capitalised within E&E assets on a straight-line basis over the term of the lease. Reverse premiums or other such incentives to enter into operating lease agreements are released to the Income Statement or as a credit to E&E assets over the lease term.

Foreign currency

The functional currency of the Group is Sterling. Transactions entered into by the Group in a currency other than the functional currency are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the date of the Consolidated Statement of Financial Position.

Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the Income Statement. Foreign currency exchange gains and losses arising from the retranslation of financial instruments, such as the Company's unsecured loan notes, are separately disclosed in the finance section of the Income Statement, with all other foreign exchange gains and losses disclosed within net administrative expenses.

For the year ended 31 December 2012, a presentation adjustment has been made to the Income Statement, with no overall impact to the net result for the year, to show the effect of foreign exchange gains arising from financial instruments, with a corresponding adjustment within net administrative expenses. Accordingly, the comparatives for the year ending 31 December 2012 on the face of the Income Statement have been presented as "restated".

Intangible fixed assets – Exploration & Evaluation Assets

Capitalisation

Certain costs (other than payments to acquire the legal right to explore) incurred prior to acquiring the rights to explore are charged directly to the Income Statement. All costs incurred after the rights to explore an area have been obtained, such as geological and geophysical costs and other direct costs of exploration (drilling, trenching, sampling and technical feasibility and commercial viability activities) and appraisal, which includes project loan interest costs, certain payroll costs and associated employee share-based payment charges, are accumulated and capitalised as E&E assets.

E&E costs are not amortised prior to the conclusion of appraisal activities. At completion of appraisal activities if technical feasibility is demonstrated and commercial reserves are discovered, then, following development sanction, the carrying value of the relevant E&E asset will be reclassified as a development and production asset, but only after the carrying value of the relevant E&E asset has been assessed for impairment, and where appropriate, its carrying value adjusted. If after completion of appraisal in an area it is not possible to determine technical feasibility and commercial viability, or if the legal right to explore expires or if the Group decides not to continue exploration and evaluation, the carrying value of the E&E asset is written off to the Income Statement in the period the relevant events occur.

The annual licence fees charged by DECC in respect of the Group's oilfield assets, which enable the Group to explore, appraise, develop and exploit natural resources within its licensed Blocks, are fully capitalised to E&E assets as incurred.

Borrowing costs

Loan funding incurred specifically for the appraisal and development of the Group's oilfield assets are capitalised as E&E assets. Amortised charges use the effective interest rate method, and include initial transaction costs as well as any interest payable.

Impairment

If and when facts and circumstances indicate that the carrying value of an E&E asset may exceed its recoverable amount an impairment review is performed. This is carried out by identifying groups of assets, within the E&E asset, which together form the Cash Generating Unit ("CGU") and comparing the carrying value of the CGU with its recoverable amount. Any shortfall in carrying value, the impairment loss, is written off directly to the Income Statement. The recoverable amount of the CGU is determined as the higher of its fair value less costs to sell and its value in use.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. All repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

Depreciation on assets in use is calculated using the straight-line method to allocate their cost over their estimated useful life, as follows:

Furniture, fittings and computing equipment	3-5 years
Other oilfield equipment	5 years

Assets capitalised pending use are not depreciated, but are held at the lower of cost and net realisable value.

Financial assets

The Group's financial assets are classified as loans and receivables and comprise the following:

Other receivables – these are measured on initial recognition at fair value and are subsequently measured at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised in the Income Statement when there is objective evidence that the asset value is impaired.

Trade receivables – these assets arise through the provision of goods and services to customers or from credit notes due from suppliers, and are carried at fair value less provision for impairment.

Cash and cash equivalents – comprise cash on hand and cash on deposit accessible without penalty and are subject to an insignificant risk of changes in value. The Group currently has no cash on term deposit or held in escrow.

Prepayments

Prepayments comprise advance payments made by the Group and are recognised on initial recognition at cost. Advance payments include payments made in respect of Reserves Based Lending facility fees and long-lead equipment items for future Bentley field development projects.

Financial liabilities

The Group's financial liabilities of trade and other payables and are recognised on initial recognition at fair value and are subsequently measured at amortised cost.

The group's unsecured loan notes are initially recognised at fair value net of any transaction costs directly attributable to their issue. The loan notes are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the Consolidated Statement of Financial Position. Interest expense in this context includes initial transaction costs as well as any interest payable while the liability is outstanding.

Share Capital

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's ordinary shares are classified as equity instruments.

Critical accounting estimates and judgements

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

(a) Income taxes

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

(b) Fair value of share options and warrants

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

(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.

New accounting standards adopted during the year

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

- Amendments to IFRS 7and IAS 32 'Financial Instruments: Disclosures and Presentation – Offsetting Financial Assets and Financial Liabilities';
- Amendments to IAS12 'Income Taxes – Deferred Tax: Recovery of Underlying Assets';
- IFRIC Interpretation 20 'Stripping Costs in the Production Phase of a Surface Mine';
- IFRS10 'Consolidated Financial Statements';

- IFRS11 'Joint Arrangements';
- IFRS12 'Disclosure of Interests in Other Entities';
- IFRS 13 'Fair Value Measurement';
- Amendments to IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets';
- IAS27 'Separate Financial Statements'; and
- IAS28 'Investments in Associates and Joint Ventures'.

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

New standards and interpretations not yet applied

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

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

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

Status of EU endorsement

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

- IFRS 9 'Financial Instruments';
- IFRS 14 'Regulatory Deferral Accounts';
- IFRIC Interpretation 21 'Levies';
- Amendments to IAS 19 'Defined Benefit Plans: Employee Contributions';
- Annual Improvements to IFRSs 2010-2012 Cycle; and
- Annual Improvements to IFRSs 2011-2013 Cycle.

2 Segment Information

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

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

3 Revenue

Revenue represents the sale of blended crude oil, principally from the Bentley field, and reflects the actual sales value, net of discounts, VAT and other sales-related taxes to the Group's. There was no revenue in the year ended 31 December 2013. For the year ended 31 December 2012 all of the Group's revenue was from one customer.

4 Cost of Sales

In the year ended 31 December 2012 the Group reported what it regarded as test volumes of crude oil production as revenue. Test production revenue should be recorded at zero-margin in the Income Statement. Accordingly, a total value of £13.29 million was charged to cost of sales in 2012, which included the costs of diluent and a balancing charge from E&E assets.

5 Operating Loss

The operating loss is stated after crediting/(charging) the following:

	Year ended 31 December 2013	Year ended 31 December 2012
	£	£
Foreign exchange losses	**(496,732)**	(1,054,585)
Auditors' remuneration:		
- Group audit fee	**(25,000)**	(25,000)
- Audit of subsidiary pursuant to legislation	**(15,000)**	(15,000)
- Tax advisory fees	**-**	(10,900)

The Group incurred total charges in respect of equity-settled share-based payments in the current year of £3,531,825 (2012: £5,349,236). Of this, £2,810,299 (2012: £1,180,219) was in respect of employees (see Note 6). In accordance with the Group's accounting policy, £2,531,126 (2012: £1,181,833) has been capitalised within E&E assets and £781,906 (2012: £135,563) has been expensed within operating loss. The balance of £218,793 (2012: £4,031,840) has been charged to the share capital account in accordance with the Group's accounting policy.

The Group incurred total charges in respect of property leases in the current year of £225,785 (year ended 31 December 2012: £188,600). These have all been capitalised to E&E assets in accordance with the Group's accounting policy.

The Group incurred no charges in respect of drilling rig leases in the current year (year ended 31 December 2012: £46,536,157). The costs in 2012 were all capitalised to E&E assets in accordance with the Group's accounting policy.

6 Staff Costs and Directors' Emoluments

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

	Year ended 31 December 2013	Year ended 31 December 2012
Technical and administration	**18**	18

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

	Year ended 31 December 2013	Year ended 31 December 2012
	£	£
Wages and salaries	**3,165,538**	3,350,961
Social security costs	**417,515**	439,506
Share-based payment charges	**2,810,299**	1,180,219
	6,393,352	4,970,686

b) Executive Directors' emoluments

Further details of the emoluments of the Executive Directors are provided in the Report of the Remuneration and Nominating Committee on pages 19 and 20.

	Year ended 31 December 2013	Year ended 31 December 2012
	£	£
Wages and salaries	**706,000**	972,772
Social security costs	**95,319**	130,926
Share-based payment charges	**1,232,507**	15,736
	2,033,826	1,119,434

In addition to the above, during the year the Group paid to Roger Ramshaw, Gregory Moroney, Scott Cochlan and Timothy Jones in their capacity as Non-Executive Directors of the Group fees of £80,000 (2012: £60,000), £45,000 (2012: £35,000), £42,500 (2012: £32,500) and £45,000 (2012: £35,000) respectively. Charges in respect of share-based payments for the Non-Executive Directors in the year ended 31 December 2013 were £275,692 (2012: £2,525).

The Executive Directors and Non-Executive Directors comprise the key personnel of the Group. The total compensation for key personnel for the year ended 31 December 2013 was as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
	£	£
Director wages and salaries	**706,000**	972,772
Non-Executive Director fees	**212,500**	162,500
Share-based payment charges	**1,508,199**	18,261
	2,426,699	1,153,533

7 Other Income

On 20 May 2013 the Company entered into a non-exclusive, binding sale and purchase agreement for certain technical data in respect of the Bentley 9/03b-6, 6Z well, and the 9/03b-7 and 7Z extended pre-production well test. Other income includes the US$15.0 million (£9.8 million) received under this agreement.

On 27 June 2013 the Company concluded on the sale of certain oilfield equipment acquired during the 9/03b-7 and 7Z well programme for US$2.5 million (£1.6 million). This sale has been recognised within other income.

8 Tax Expense

	Year ended 31 December 2013	Year ended 31 December 2012
	£	£
UK deferred tax charge	**2,951,565**	-

The tax assessed for the year is different to the standard rate of corporation tax in the British Virgin Islands (0%). The differences are explained below.

	Year ended 31 December 2013	Year ended 31 December 2012
	£	£
Profit/(loss) before tax	**9,533,736**	(1,720,907)
Profit/(loss) before tax multiplied by the standard rate of corporation tax in the British Virgin Islands of 0% (2012: 0%)	**-**	-
Prior period adjustments relating to UK tax	**(3,668,249)**	-
UK tax on activities in the UK at 62%	**6,619,814**	-
Tax charge for the year	**2,951,565**	-

Current tax is calculated at the rates prevailing in the respective jurisdictions. XEL is incorporated in the British Virgin Islands, a jurisdiction subject to a tax exemption. XER is incorporated in the UK.

XER is considered to be a company which profits from oil extraction and oil rights in the UK and the UK Continental Shelf and is, therefore, subject to corporation tax on taxable profits at a rate of 30% or 19% where the profits fall within the limit of the small companies rate. With the supplementary charge remaining at 32%, the combined corporation tax rate for ring-fenced trading profits for UK North Sea producing oil companies remains at 62%.

On 26 March 2012 changes in the main (non-ring fenced) rate of UK corporation tax were substantively enacted, resulting in reductions from 26% to 24% (effective from 1 April 2012), reducing further to 23% (from 1 April 2013). Further changes to the non-ring fence UK corporation tax system were substantively enacted as part of the Finance Bill 2013 on 2 July 2013. These include reductions to the main rate to reduce the rate to 21% from 1 April 2014 and to 20% from 1 April 2015. As the Company is carrying on a ring fence trade and the Company forecasts not to be paying corporation tax or supplement charges in the immediate future due to the availability of brought forward losses and heavy oil field allowances, the impact of these reductions do not have a current impact on the reported results of the Company.

With effect from 21 March 2012, there was a reduction to the effective rate of relief for decommissioning costs from 62% to 50% resulting from the capping of the relief available for the supplementary charge at 20%. Given the distant timings on potential Bentley field decommissioning activities, the impact of this reduction has a negligible financial impact on the Company at present.

9 Earnings Per Share

The basic earnings per share ("EPS") is calculated by dividing the profit/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The diluted EPS is calculated by dividing the profit/(loss) attributable to ordinary shareholders by the weighted average number of potentially outstanding ordinary shares, which takes into account issued ordinary shares in addition to all outstanding share options and share warrants that may yet be converted into ordinary shares in the Company in the future. Details of potentially dilutive financial instruments are given in Note 17 to these financial statements.

The calculation of the basic and diluted earnings per share for the current and prior year is based on the following values:

	Year ended 31 December 2013	Year ended 31 December 2012
Profit/(loss) for the year	**£6,582,171**	(£1,720,907)
Weighted average number of shares in issue:		
Basic	**291,742,321**	258,646,240
Fully diluted	**329,335,000**	292,022,575
Earnings per share in pence:		
Basic EPS	**2.3p**	(0.7p)
Diluted EPS	**2.0p**	(0.7p)

10 Intangible Assets

	Licence Fees	
	2013	2012*
Exploration and Evaluation Assets	**£**	£
Opening cost and carrying value at 1 January	**1,733,967**	1,215,387
Additions	**654,990**	518,580
Closing cost and carrying value at 31 December	**2,388,957**	1,733,967

	Exploration and Appraisal Costs	
	2013	2012*
	£	£
Opening cost and carrying value at 1 January	**215,003,376**	86,865,223
Net additions	**19,403,681**	127,835,644
Closing cost and carrying value at 31 December	**234,407,057**	215,003,376

	Total	
	2013	2012*
	£	£
Opening cost and carrying value at 1 January	**216,737,343**	88,080,610
Net additions	**20,058,671**	128,656,733
Closing cost and carrying value at 31 December	**236,796,014**	216,737,343

* The comparatives for the year ended 31 December 2012 have been restated by the reclassification of £302,509 of seismic licence additions previously shown as Licence Fees additions to Appraisal and Exploration Costs additions. This reclassification has no impact upon the previously reported total Intangible Assets value as at 31 December 2012.

The costs associated with the continuing appraisal of the Bentley field and its surrounding prospects have been capitalised in accordance with the Group's accounting policy in Note 1. Appraisal and Exploration Costs net additions in the year ended 31 December 2013 include an amount of £5.87 million in respect of capitalised interest costs, representing 100% of eligible interest costs (year ended 31 December 2012: £3.68 million). Net additions also include a value of £2.53 million (2012: £1.18 million) in respect of capitalised share-based payment charges (see Note 5). For the year ended 31 December 2012, net additions includes a credit of £9.00 million in respect of a transfer to Cost of Sales to zero-margin the pre-production well test revenue (see Note 4).

Based on the Group's success in the pre-production well test during 2012 and in view of the forecast revenue streams and cash flows of this project, the Directors are 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.

11 Property, Plant and Equipment

	Oilfield equipment	Furniture, fittings and computing equipment	Total
Year ended 31 December 2012	£	£	£
Opening net book amount at 1 January 2012	-	186,545	186,545
Net Additions	-	168,722	168,722
Depreciation charge	-	(132,920)	(132,920)
Closing net book amount at 31 December 2012	-	222,347	222,347
At 31 December 2012			
Cost or valuation	-	431,077	431,077
Accumulated depreciation	-	(208,730)	(208,730)
Net book amount	-	222,347	222,347
Year ended 31 December 2013			
Opening net book amount at 1 January 2013	**-**	**222,347**	**222,347**
Additions	**5,460,733**	**204,775**	**5,665,508**
Depreciation charge	**-**	**(216,722)**	**(216,722)**
Closing net book amount at 31 December 2013	**5,460,733**	**210,400**	**5,671,133**
At 31 December 2013			
Cost or valuation	**5,460,733**	**635,852**	**6,096,585**
Accumulated depreciation	**-**	**(425,452)**	**(425,452)**
Net book amount	**5,460,733**	**210,400**	**5,671,133**

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

12 Trade and Other Receivables

	31 December 2013	31 December 2012
	£	£
Trade receivables	**-**	816,750
Indirect taxes receivable	**35,250**	178,771
Prepayments	**4,963,838**	8,222,395
Other receivables	**80,226**	71,000
	5,079,314	9,288,916

The Groups' prepayments balance represents advance payments made in respect of the Group's Reserves Based Lending ("RBL") facility, and for 2012 the balance also includes advance payments on certain long-lead oilfield equipment items. RBL facility fees will be amortised over the life of the facility from the date of availability.

13 Trade and Other Payables

	31 December 2013	31 December 2012
	£	£
Trade payables	**708,941**	2,000,374
Social security and other taxes payable	**104,303**	472,377
Accruals and other payables	**1,161,684**	2,811,854
	1,974,928	5,284,605

14 Short Term Loans

	31 December 2013	31 December 2012
	£	£
Loan notes	**47,018,093**	36,589,341
Interest accrual	**33,709**	3,681,460
Interest-bearing loan notes	**47,051,802**	40,270,801

On 30 December 2013, the Group issued US$80 million of unsecured loan notes bearing interest at 12.5%, with an initial discount of 2%, payable in arrears, and with a maturity of 360 days. These 12.5% unsecured loan notes replaced the 14% unsecured loan notes, which were repaid, together with accrued interest, on 30 December 2013.

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

15 Deferred Tax

	2013	2012
	£	£
At 1 January	**505,167**	505,167
Profit and loss charge	**2,951,565**	-
At 31 December	**3,456,732**	505,167

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

16 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 and advance payments held by suppliers. Deposits held by suppliers comprise an office rent deposit recorded as receivables and, as such, it is regarded as low risk. Advance payments are made on the basis of agreed contracts, and with blue chip institutions or banks and financial institutions rated 'A' grade or higher. On this basis, Group management is satisfied that any credit risk has been minimised.

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

b) Liquidity risk

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

	Carrying Amount	
	31 December 2013	31 December 2012
	£	£
Financial assets – loans and receivables measured at amortised cost		
- Cash	**21,931,159**	25,592,215
- Receivables (current)	**80,226**	887,750
	22,011,385	26,479,965
Financial liabilities – measured at amortised cost		
- Payables (current)	**1,870,625**	4,812,228
- Loans	**47,051 802**	40,270,801
	48,922,427	45,083,029

Included in cash balances are amounts held in escrow of £nil (2012: £14,806,099). In 2012 the balance held in escrow was treated as on short term deposit.

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 Group's primary objective is to ensure preservation of capital and ultimately capital growth for its equity shareholders. In order to achieve this objective, the Group seeks to balance risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, the Group 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 Group's capital management objectives, policies and processes in the year, nor has there been any change in what the Company considers to be its capital.

Market risk

d) Interest rate and foreign currency risks

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

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

	Floating rate assets	Interest free assets	Total
	31 December 2012	31 December 2012	31 December 2012
	£	£	£
Sterling	5,614,860	72,356	5,687,216
Euro	3,488	262	3,750
Norwegian Kroner	1,011	39	1,050
CAD$	24,761	-	24,761
US$	19,947,394	815,794	20,763,188
	25,591,514	888,450	26,479,965

	Fixed Rate Liabilities		**Interest Free Liabilities**	
	31 December 2013	31 December 2012	**31 December 2013**	31 December 2012
	£	£	**£**	£
Sterling	**-**	-	**1,550,981**	4,306,985
US$	**47,051,802**	40,270,801	**319,644**	20,678
CAD$	**-**	-	**-**	5,649
Norwegian Kroner	**-**	-	**-**	478,916
	47,051,802	40,270,801	**1,870,625**	4,812,228

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 Group currently earns interest on Sterling deposits in the range of 0% to 0.40%. At 31 December 2013 the weighted average rate of interest being earned on Sterling deposits was approximately 0.31% (at 31 December 2012: 0.56%).

US Dollar floating rate assets earn interest within the range of rates of 0.0% to 0.18%, depending upon the liquidity of the deposit placed. At 31 December 2013 the weighted average rate of interest being earned on US deposits was 0.17% (31 December 2012: 0.11%).

The Group also maintains working capital balances of Euros and Canadian Dollars. These all earn nominal rates of interest. Cash deposits are kept with banks with “A” rating or better. The policy of the Group is to ensure that all cash balances earn a market rate of interest and that interest rate exposures are regularly reviewed and managed.

Foreign currency risk arises where purchase transactions are undertaken in a currency other than Sterling (transactional risk) and where non-Sterling financial derivatives are held at the date of the Consolidated Statement of Financial Position (translational risk). The group is exposed to exchange rate movements in the US Dollar and, to a lesser extent, the Canadian Dollar, the Euro and the Norwegian Kroner. During well drilling programmes the Group aligns its expected future foreign expenditure with the necessary foreign currency cash balances, in effect creating a natural hedge. The Group will continue to monitor its exposure to such foreign currency risks and may manage future risks using derivative financial instruments as considered appropriate.

(e) Foreign exchange rate sensitivity analysis

Foreign exchange rate sensitivity analysis has been determined based on the exposure to financial instruments denominated in currencies (“transactional currencies”) other than the reporting currency of Sterling (the “base currency”) as at the date of the Consolidated Statement of Financial Position.

Based on the Group’s financial instruments at the date of the Consolidated Statement of Financial Position, had the base currency been stronger than the transactional currencies by 2% then the Group would have reported an additional unrealised exchange gain in the Income Statement of £515,114 (year ended 31 December 2012; the Group would have reported an additional unrealised exchange gain of £497,191). Had the base currency been weaker than the transactional currencies by 2% then the Group would have reported an additional unrealised exchange loss in the Income Statement of £597,758 (year ended 31 December 2012; the Group would have reported an additional unrealised exchange loss of £517,485).

(f) Interest rate sensitivity analysis

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

Based on the Group’s cash balances during the year, if interest rates had been 50 basis points higher and all other variables were held constant, the Group’s profit for the year ended 31 December 2013 would increase by £82,636 (year to 31 December 2012; the Group’s loss would decrease by £319,971). If interest rates had been 50 basis points lower and all other variables were held constant, the Group’s profit for the year ended 31 December 2013 would decrease by £27,653 (year ended 31 December 2012; the Group’s loss would increase by £175,749).

17 Share Capital

	Number of shares 31 December 2013	Number of shares 31 December 2012
Authorised		
- Ordinary shares of no par value each	**Unlimited**	Unlimited
Issued and fully paid up		
- Ordinary shares of no par value each	**292,811,000**	290,880,000

	£ Value of shares 31 December 2013	£ Value of shares 31 December 2012
Authorised		
- Ordinary shares of no par value each	**Unlimited**	Unlimited
Issued and fully paid up		
- Ordinary shares of no par value each	**197,628,311**	196,446,608

Xcite Energy Limited is registered in the British Virgin Islands under the BVI Business Companies Act 2004. Under BVI laws and regulations there is no concept of "share premium", and all proceeds from the sale of no par value equity shares is deemed to be share capital of the Company.

Shares issued

During the year ended 31 December 2013 the Company issued a total of 931,000 new ordinary shares pursuant to the exercise of share options for a total consideration of CAD$639,080 (£405,966). An additional 1,000,000 ordinary shares were issued pursuant to a private placement for consideration of US$1.60 million (£0.98 million). All new ordinary share issues during the year rank *pari passu* with the existing ordinary shares in the Company.

During the year ended 31 December 2012, the Company issued a total of 84,874,636 new ordinary shares in the Company, for a total consideration of £63.4 million after the deduction of transaction costs.

Stock Option Plan

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

At 31 December 2013 there were 25,652,000 share options outstanding with a weighted average exercise price of CAD$1.75, and a weighted average remaining life of 1,121 days. The exercise prices ranging from CAD$0.10 to CAD$5.95, summarised as below:

Exercise prices	**Quantity outstanding**	**Remaining term to expiry (days)**
CAD$0.10 (£0.06)	650,000	8
CAD$0.29 (£0.16)	100,000	113
CAD$0.37 (£0.22)	150,000	285
CAD$0.68 (£0.44)	3,262,000	453
CAD$0.74 (£0.42)	900,000	334
CAD$1.19 (£0.74)	4,100,000	1,273
CAD$1.25 (£0.80)	1,050,000	1,317
CAD$1.62 (£1.01)	9,850,000	1,633
CAD$2.30 (£1.46)	1,450,000	946
CAD$2.92 (£1.80)	2,800,000	672
CAD$5.95 (£3.85)	1,340,000	730
Totals	**25,652,000**	**1,121**

At 31 December 2012 there were 17,873,000 share options outstanding with a weighted average exercise price of CAD$1.80, with exercise prices ranging from CAD$0.10 to CAD$5.95 and a weighted average remaining life of 1,115 days. At 1 January 2012 there were 17,223,000 share options outstanding, with the weighted average exercise price per option being CAD$2.02, with exercise prices ranging from CAD$0.10 to CAD$5.95 and a weighted average remaining life of 1,073 days.

During the year ended 31 December 2013, a total of 9,850,000 share options were issued under the Stock Option Plan at a weighted average exercise price of CAD$1.62 (£1.01) and a weighted average life of five years. During the year ended 31 December 2012, a total of 5,750,000 share options were issued under the Stock Option Plan, at a weighted average exercise price of CAD$1.20 and a weighted average life of five years.

During the year ended 31 December 2013, a total of 931,000 share options were exercised at an average exercise price of CAD$0.69 in consideration for a total of 931,000 new ordinary shares in the Company and proceeds of CAD$639,080. During the year ended 31 December 2012, a total of 600,000 share options were exercised at an exercise price of CAD$1.19 in consideration for a total of 600,000 new ordinary shares in the Company and proceeds of CAD$714,000.

In accordance with the Stock Option Plan rules a total of 1,140,000 share options expired during the year ended 31 December 2013, with a weighted average exercise price of CAD$2.51. A total of 4,400,000 share options expired during the year ended 31 December 2012, with a weighted average exercise price of CAD$1.93 and a further 100,000 were forfeited with a weighted average exercise price of CAD$2.30.

At the date of these financial statements there were 25,652,000 share options outstanding, with exercise prices ranging from CAD$0.10 to CAD$5.95, of which 250,000 have yet to vest and are therefore not eligible for exercise.

Details of the Directors' interests in ordinary shares held under the Stock Option Plan are given in the Report of the Remuneration and Nominating Committee.

The following assumptions were used in the share option pricing model for the vesting of options and warrants during the year ended 31 December 2013:

Instrument	Option	Option	Warrant
Grant Date	9 August 2012	21 June 2013	30 December 2013
Vesting Date	9 August 2013	21 June 2013	30 December 2013
Share bid price	£0.80	£1.01	£0.96
Exercise price	£0.80	£1.01	£0.98
Expected volatility	59%	57%	48%
Expected life	2 years	2 years	1.5 years
Expected dividends	0%	0%	0%
Risk-free interest rate	1.16%	1.17%	1.10%

The expected share price volatility was determined by a review of the share trading performance of Xcite Energy Limited together with comparable oil and gas companies in the same industry sector.

The Group incurred total charges in respect of equity-settled share-based payments in the current year of £3.53 million (2012: £5.35 million), further details of which are provided in Note 5.

Share warrants

During the year ended 31 December 2013, the Company issued 1,000,000 new share warrants, with an exercise price of £0.98 and a term of three years (year ended 31 December 2012: 22,926,519 new share warrants were issued with an average exercise price of £0.94 and an average life of three years).

The total expense to the Group in respect of share-based payment transactions in respect of share warrants issued was £0.22 million (2012: £4.03 million, all of which was charged to the share capital account in accordance with the Company's accounting policy).

No share warrants expired during the year ended 31 December 2013. A total of 350,000 share warrants expired during the year ended 31 December 2012 having not been exercised, with a weighted average exercise price of £2.59 equivalent.

The Group had 17,250,000 outstanding share warrants over the ordinary share capital of the Company at 31 December 2013 with a weighted average exercise price of £0.86 (as at 31 December 2012: 16,250,000 warrants with a weighted average exercise price of £0.85), and exercise prices ranging from £0.80 to £0.98.

At the date of these financial statements there were 17,250,000 exercisable share warrants outstanding, and exercise prices ranging from £0.80 to £0.98 with a weighted average exercise price of £0.86.

18 Owners' Equity

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

- Share Capital: The carrying value of the issued and fully paid up ordinary share capital of the Company less any directly associated costs involved in the raising of that capital, which includes (but is not limited to) legal fees, broker and agent fees, listing fees, sustaining fees and fair values for broker share-based warrants and options.

- Retained Earnings: Cumulative gains 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.

19 Commitments and Contingencies

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

	2013	2012
	£	£
Amounts payable on leases which expire:		
Within one year	**50,634**	7,950
In two to five years	**225,794**	320,742

In addition to property lease commitments above, at 31 December 2013, the Company had £nil commitments under contract for topside and power generation equipment (2012: £1.1 million).

20 Subsequent Events

On 26 February 2014 the Group announced the results of an updated Reserves Assessment Report ("RAR"), prepared by AGR TRACS International Limited. This RAR, with an effective date of 31 December 2013, confirmed 2P Reserves for the Bentley field of 257 million stock tank barrels ("MMstb"), an increase of 2.8% since the previous RAR dated 8 April 2013. Additionally, the after-tax net present value of the Bentley field cash flows (discounted at 10%) was confirmed to be approximately US$2.1 billion. A further 48 MMstb of P50 Contingent Resources were assigned to the Bentley field, representing the additional economic production that could be achieved after an initial 35 year facilities life cut-off had been applied to the development plan. In addition to the Reserves and Contingent Resources assigned in the RAR, there is the potential for upside from the application of enhanced oil recovery techniques and further field optimisation.

At the end of March 2014 the Group received confirmation from DECC of an extension to the P.1078 Bentley oil field licence to 31 December 2016.

21 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 has continued to provide a loan facility to its wholly owned subsidiary, XER, and during the year ended 31 December 2013 XER repaid £14.0 million (year ended 31 December 2012: £49.7 million net cash funding received) of the cumulative funding received to date 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 under this facility at 31 December 2013 was £100.5 million (as at 31 December 2012: £114.5 million).

The Executive Directors have received remuneration, details of which are given in Note 6 to the financial statements. The Executive and Non-Executive Directors have been granted share options over the ordinary share capital of the Company during the current year, details of which are given in Note 17 of these financial statements.

In the normal course of business XER incurred charges totalling £5,522 during the year ended 31 December 2013 (year ended 31 December 2012: £5,550) for consultancy services from Esher Management Services Limited, a company for which Timothy Jones is a Director. There was an accrued balance payable by XER at the year-end of £5,522 (as at 31 December 2012: £5,550).

In the normal course of business XER incurred charges totalling £22,009 during the year ended 31 December 2013 (year ended 31 December 2012: £19,991) for property rentals from Seaburome Limited, a company for which Rupert E. Cole is a Director. There was no outstanding balance payable by XER at the year end.

Officers and Principal Advisers

Directors
Rupert E. Cole (Company Secretary)
Stephen A. Kew
Andrew Fairclough (appointed 3 February 2014)

Non-Executive Directors
Roger S. Ramshaw (Chairman)
Scott R. Cochlan
Timothy S. Jones
Gregory J. Moroney

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