Xcite Energy Limited

Interim consolidated financial statements

For the 3 and 6 month periods ended 30 June 2013

(Unaudited)

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Contents

Management's Discussion and Analysis

The Management's Discussion and Analysis ("MD&A") of the operating and financial results of Xcite Energy Limited ("XEL" or the "Company") should be read in conjunction with the Company's interim unaudited consolidated financial statements and related notes thereto for the three and six month periods ended 30 June 2013, the audited consolidated financial statements and related notes thereto for the year ended 31 December 2012 and the annual MD&A of the Company. This MD&A is dated 22 August 2013. These documents and additional information about XEL, including its annual information form dated 26 October 2010, are available on SEDAR at www.sedar.com.

XEL is an oil issuer and disclosures pertaining to oil activities are presented in accordance with National Instrument 51-101 ("NI-51-101").

This MD&A includes an analysis of the XEL results from 1 January 2013 to 30 June 2013 and from 1 January 2012 to 30 June 2012, which include the results of the operating subsidiary Xcite Energy Resources Limited ("XER"). In this MD&A, XEL and XER are together defined as the "Group". All figures and the comparative figures contained herein are expressed in Pounds Sterling unless otherwise noted.

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

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

Overview

The Company, through its wholly owned subsidiary XER, is an oil appraisal and development company focused on heavy oil resources in the North Sea on the UK Continental Shelf. In 2003, XER was awarded its 100% working interest in the Bentley field in Block 9/3b in the UK North Sea. In 2011 XER was awarded 100% working interests in licences in adjacent Blocks 9/3c and 9/3d. In 2013 XER was awarded 100% working interests in licences in further adjacent Blocks 9/4a, 9/8b and 9/9h to enhance the XER portfolio and create a wider Bentley development area. The Group now has four offshore licences comprising a total of six blocks, all of which are held at 100% ownership.

The Group's strategy is to develop the identified heavy oil discoveries in the Bentley field and its adjacent blocks, explore and appraise the identified prospects in its other adjacent blocks, to pursue potential acquisitions and participate in future UK offshore licensing rounds to become a significant independent heavy oil producer in the North Sea.

Summary of Results

The following table summarises the Group's performance for the eight most recent quarters. All of these results are unaudited. The interim unaudited consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB"). The interim unaudited consolidated financial statements of the Company have also been prepared in accordance with IFRS's adopted by the European Union ("EU"). The financial data contained within the following table has been prepared in accordance with accounting policies that have been applied consistently across all eight reporting periods.

	Q2'13	Q1'13	Q4'12	Q3'12	Q2'12	Q1'12	Q4'11	Q3'11
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Revenue	-	-	-	13,289	-	-	-	-
Net profit/(loss)	10,000	(1,700)	(884)	(568)	(223)	(46)	1,099	(662)
Basic EPS *	3.4p	(0.6p)	(0.4p)	(0.2p)	(0.1p)	(0.0p)	0.6p	(0.4p)
Total assets	265,444	250,424	251,841	260,704	237,556	192,634	152,771	130,219
Long term liabilities	852	505	505	505	505	505	505	505

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

During the second quarter of 2013, the Group was pleased to announce the results of an updated Reserves Assessment Report ("RAR"), with an effective date of 31 December 2012, which was the culmination of many months of work interpreting the well data collected from the extended pre-production well test. The increase in the Bentley field's Proven and Probable ("2P") Reserves from 116 million stock tank barrels of oil ("MMstb"), as previously reported in the RAR of February 2012, to 250 MMstb of 2P Reserves from the April 2013 update, reflects a greatly enhanced Bentley field development plan resulting from the success of the extended pre-production well test, and an improved understanding of the Bentley field reservoir structure and extent gained through the interpretation of new 3D seismic data acquired in 2012.

The three months ended 30 June 2013 reports a net profit for the quarter, arising from the income received on the sale of technical data to an undisclosed third party for US$15.0 million (£9.8 million). In addition, the Group also sold certain items of surplus oilfield equipment, following the Bentley extended pre-production well test, for a total of US$2.5 million (£1.6 million).

Until such time as the Department of Energy and Climate Change ("DECC") approves the Group's Field Development Plan ("FDP") for Bentley, the accumulated costs to date in appraising the Bentley field remain within Exploration and Evaluation ("E&E") assets. It is anticipated that upon approval by DECC of the FDP and the Group's decision to commit to commercial production, the Group will undertake an impairment review prior to transferring the E&E assets carrying value within intangible assets into tangible Production Assets under the successful efforts standard accounting treatment for oil and gas development assets.

The Group is not influenced by seasonality to any significant extent, and its financial results are predominantly project-driven. The variations noted above in the net results between each quarter have arisen in line with the project execution of the Bentley field appraisal and development programme, which has given rise to one-off revenues and associated charges, together with foreign currency gains and losses and from share-based payment charges in relation to the Company's Share Option Plan.

Liquidity and Capital Resources

The cash balance as at 30 June 2013 was £24.9 million, compared with £25.6 million as at 31 December 2012 and £81.7 million as at 30 June 2012. The decrease in cash balance during the six months ended 30 June 2013 has arisen due to final project and working capital expenditure in respect of the Phase 1A work programme on Bentley, in addition to underlying expenditure on overheads and financing charges. Further expenditure has been incurred on enhanced oil recovery studies and preparation for the next phase in the development of the Bentley field. Income from the sale of technical well data and of the sale of surplus oilfield equipment has offset this expenditure.

All of the cash balance held at 30 June 2013 is considered cash available on demand and the Group no longer holds any funds in escrow. As at 31 December 2012 and 30 June 2012 the balances held in escrow were £14.8 million and £59.1 million respectively.

As at the date of this MD&A there remains unused Equity Line Facility ("ELF") capacity of £30.8 million.

The Group currently has sufficient cash resources to fund its working capital requirements and its committed work programme. The US$60 million Loan Note facility with West Face Capital Inc. falls due for repayment by 31 December 2013, extendable by mutual agreement to 31 March 2014, and in order to finance this repayment the Directors are considering a number of options that would secure longer term funding in respect of the first phase development of the Bentley field.

Lease and Contractual Commitments

At 30 June 2013 the Group had lease commitments relating to business premises of £350,990 (30 June 2012: £423,740). The decrease in commitments when comparing June 2013 with June 2012 is in line with the remaining lease commitment on XER's Aberdeen office premises.

Income

Other Income
Other Income in the three month and six month periods ended 30 June 2013 represents income of US$15 million (£9.8 million) from the sale of technical well data. There was no such equivalent data sale income in the three or six month periods ended 30 June 2012. Other Income also includes US$2.5 million (£1.6 million) from the sale of surplus oilfield equipment following the 9/03b-7 and 7Z well programme. There was no such equivalent equipment sale income in the three or six month periods ended 30 June 2012.

Interest Income
Interest income received on funds invested in the three months ended 30 June 2013 amounted to £2,965 (three months ended 30 June 2012: £52,174). The decrease in interest generated on funds invested in the two periods was as a result of lower average cash balances held by the Group between the comparable periods and a reduction of headline interest rates on the Sterling deposit accounts.

Interest income received on funds invested in the six months ended 30 June 2013 amounted to £8,090 (six months ended 30 June 2012: £90,854). The decrease in interest generated on funds invested in the two periods was as a result of lower average cash balances held by the Group between the comparable periods and a reduction of headline interest rates on the Sterling deposit accounts.

The Group policy is to ensure that all cash balances earn a market rate of interest and that interest rate exposures are regularly reviewed and managed. The Group's treasury policy will be kept under review in light of current market conditions.

Operations and Administrative Expenses

The Group operates in a single business and geographical segment. The Group's single line of business is the appraisal and development of oil and gas reserves and the geographical segment in which it currently operates is the North Sea. The Group's current sole operational focus is the development of the Bentley field, but it will continue to pursue other commercial opportunities as and when they arise, subject to available management and financial resources.

During the three months ended 30 June 2013 the Group incurred total net administrative expenses of £1,093,796 (three months ended 30 June 2012: £275,281). This included total foreign currency gains of £124,348 in the three months ended 30 June 2013 (three months ended 30 June 2012: gains of £143,212). Charges taken to the Profit and Loss account under the Company's Stock Option Plan were £754,970 during the three months ended 30 June 2013 compared with £73,447 for the comparative period in 2012. In all other material respects the Company has continued to incur operational overheads on a consistent basis.

During the six months ended 30 June 2013 the Group incurred total net administrative expenses of £2,798,660 (six months ended 30 June 2012: £360,235). This included total foreign currency losses of £1,264,049 in the six months ended 30 June 2013 (six months ended 30 June 2012: gains of £439,774), this loss being driven by a strengthening US Dollar in the six month period ended 30 June 2013 on the Group's US Dollar loan note facility with West Face Capital Inc. Charges taken to the Profit and Loss account under the Company's Stock Option Plan were £763,949 during the six months ended 30 June 2013 compared with £81,690 for the comparative period in 2012. The higher charge to the Income Statement has resulted from a higher number of share options being issued in the six months ended 30 June 2013 compared with the same period in 2012, together with the share option allocation in 2013 including XEL Board members, for whom the fair value charges are expensed rather than capitalised. Underlying expenses increased in the period compared with prior year due to increased staff headcount, increased operational activity and increased spend on legal fees and investor relations costs.

Additions to E&E assets during the three months ended 30 June 2013 were £7,337,502 (three months ended 30 June 2012: £41,339,593). Additions to E&E assets during the six months ended 30 June 2013 were £11,452,503 (six months ended 30 June 2012: £66,470,230). Expenditure in the three months ended 30 June 2013 reflects completion of the Phase 1A Bentley field extended pre-production well test and the work performed in the preparation of the Reserves Assessment Report, as announced by the Group on 8 April 2013. The work to optimise the Bentley field development continues, including reservoir simulation studies and laboratory work in connection with enhanced oil recovery techniques.

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

Additions to Property, Plant and Equipment in the three and six month periods ended 30 June 2013 of £5,638,375 comprise principally of the acquisition of long-lead offshore power generation turbines for use in the next phase of the Bentley field development.

Related Party Transactions

Using a loan facility, XEL continued to provide its wholly owned subsidiary, XER, with net cash funding. During the three month period to 30 June 2013, XER repaid £16.3 million (three months to 30 June 2012: funding of £0.5 million) of the cumulative funding received to date to finance XER's operational requirements. For the six month period to 30 June 2013, the net amount XER repaid was £13.9 million (six months to 30 June 2012: funding of £21.0 million). No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand. The total balance owing by XER to XEL at 30 June 2013 was £100.5million (as at 30 June 2012: £85.8 million).

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

	6 months ended 30 June 2013 (unaudited)	**3 months ended 30 June 2013 (unaudited)**	6 months ended 30 June 2012 (unaudited)	3 months ended 30 June 2012 (unaudited)
	£	**£**	£	£
Wages and salaries	**281,750**	**140,875**	319,350	159,675
Social security costs	**37,834**	**18,910**	42,562	21,260
Share-based payment charges	**1,232,507**	**1,232,507**	15,736	-
	1,552,091	**1,392,292**	377,648	180,935

In addition to the above, during the three month period ended 30 June 2013, the Group paid to Roger Ramshaw, Gregory Moroney, Scott Cochlan and Tim Jones in their capacity as Non-Executive Directors of the Company fees of £20,000, £11,250, £10,625 and £11,250 respectively. The comparatives for the three month period ended 30 June 2012 were £15,000, £8,750, £8,125 and £8,750 respectively.

In the six months ended 30 June 2013 the total fees for Roger Ramshaw, Gregory Moroney, Scott Cochlan and Tim Jones were £40,000, £22,500, £21,250 and £22,500 respectively. The comparatives for the six months ended 30 June 2012 were £30,000, £17,500, £16,250 and £17,500 respectively.

Charges in respect of share-based payments for the Non-Executive Directors in the three month period to 30 June 2013 were £275,692 (three month period to 30 June 2012: £nil). Charges in respect of share-based payments for the Non-Executive Directors in the six month period to 30 June 2013 were £275,692 (six month period to 30 June 2012: £2,525).

In the normal course of business XER incurred charges totalling £5,059 during the three month period to 30 June 2013 and £10,058 for the six months to 30 June 2013 (three and six months to 30 June 2012: £5,000 and £9,994 respectively) for property rentals from Seaburome Limited, a company in which Rupert E. Cole is a Director. There was no outstanding balance payable by XER at 30 June 2013 (30 June 2012: £nil).

Share Options, Warrants and Rights

During the three and six month periods ended 30 June 2013 the Company issued a total of 9,850,000 new options with an exercise price of CAD$1.62 (£1.01) and a life of five years to the Board of Directors, XER staff and management team and key contractors under the Stock Option Plan (three and six month periods ended 30 June 2012: a total of 4,700,000 new share options were issued with an exercise price of CAD$1.19 (£0.74) and a life of five years).

During the three months ended 30 June 2013 a total of 450,000 share options expired unexercised with an exercise price of CAD$1.60. During the six months ended 30 June 2013 a total of 1,140,000 share options expired unexercised with a weighted average exercise price of CAD$2.51 (£1.55). No share options expired during either the three or the six month periods ended 30 June 2012.

During the three and six month periods ended 30 June 2013, a total of 931,000 share options were exercised with a weighted average price of CAD$0.69 (£0.44), providing total proceeds of £405,966. No share options were exercised in the three and six month periods ended 30 June 2012.

During the three and six month periods ended 30 June 2013 there were no share warrant issues, expiries or exercises.

In the three months ended 30 June 2012 the Company issued 4,000,000 new warrants with an exercise price of approximately £0.97 (CAD$1.54) and a life of three years in respect of a private placement with Global Resource Funding Partners LLC.

In the six month period ended 30 June 2012 the Company issued a total of 10,676,519 new warrants with a weighted average exercise price of £1.07 and an average life of three years. A total of 6,676,519 of these warrants were exercised during the three and six month periods ended 30 June 2012 under a cashless exercise provision, resulting in the issue of 6,449,599 new ordinary shares for nil consideration.

In the six month period ended 30 June 2012 the Company also received consideration of CAD$18,802 (£11,780) in respect of the exercise of 30,325 broker warrants.

As at the date of signing this MD&A there were 25,652,000 share options outstanding and 16,250,000 share warrants outstanding.

Disclosure Controls and Procedures

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

Outstanding Share Capital

The following table sets out the ordinary shares issued during the six month period ended 30 June 2013.

	Ordinary Shares
As at 1 January 2013	**290,880,000**
Issue of ordinary shares through share option exercise	931,000
As at 30 June 2013	**291,811,000**

As at the date of signing this MD&A, the number of ordinary shares in issue was 291,811,000.

Risk Management

The principal risk factors facing the Group are as follows:

Exploration and development

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

Offshore exploration

The 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.

Commodity pricing

The Group has no control over the market price of crude oil. Suitable hedging arrangements are entered into to mitigate the volatility of oil prices when the Group are in 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.

Currency

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

Resource estimation

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

Dependence on key executives and personnel

The 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.

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

Significant Accounting Judgements and Estimates

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

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

(a) Income taxes

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

(b) Fair value of share options and warrants

The 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 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

A number of new standards, interpretations and amendments issued by the International Accounting Standard Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") became effective 1 January 2013 and were adopted by the Group.

- 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 standards, interpretations and amendments did not have a material effect on the 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 14 to the interim unaudited consolidated financial statements.

Outlook for the Remainder of 2013

On 8 April 2013 the Group was pleased to announce the results from a revised Reserves Assessment Report ("RAR"), prepared by AGR TRACS International Limited. These highlights included confirmation of 2P Reserves for the Bentley field of 250 MMstb, an increase of 116% since the previous RAR dated 17 February 2012. Additionally, the after-tax net present value of the Bentley field cash flows (discounted at 10%) was confirmed to be approximately $2.2 billion. A further 46 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 upside potential from the application of enhanced oil recovery techniques and further optimisation in the field development plan.

The summarised highlights confirm, in management's view, that the Bentley field is now a strategic asset, being one of the largest, proven, undeveloped oilfields in the UK North Sea. Preparations will continue for the execution of the next steps in the First Phase Development ("FPD") of the Bentley field, including front-end engineering design and key contracts tendering and the Environmental Statement was submitted to DECC on 2 July 2013 for public consultation, which commenced on 12 July 2013 and concluded on 9 August 2013.

With the updated RAR now complete, corporate attention has turned to the potential farm-out of part of the Bentley asset to other industry participants. The RAR has provided the Group with a sound platform on which to commence these discussions.

In light of the significant increase in the aggregate 2P Reserves assigned to the Bentley field, management believes that there is the potential to increase the existing US$155 million Reserves Based Lending facility to be used as part of the FPD funding requirements and the Company has begun discussions with existing and new participants to explore this.

Xcite Energy Limited
For the 3 and 6 month periods ended 30 June 2013

Consolidated Income Statement (in Pounds Sterling)

	Note	**6 month period ended 30 June 2013 (unaudited) £**	**3 month period ended 30 June 2013 (unaudited) £**	6 month period ended 30 June 2012 (unaudited) £	3 month period ended 30 June 2012 (unaudited) £
Share-based payment charges		**(763,949)**	**(754,970)**	(81,690)	(73,447)
Foreign exchange gains/(losses)		**(1,264,049)**	**124,348**	439,774	143,212
Other expenses		**(770,662)**	**(463,174)**	(718,319)	(345,046)
Net administrative expenses		**(2,798,660)**	**(1,093,796)**	(360,235)	(275,281)
Loss from operations	3	**(2,798,660)**	**(1,093,796)**	(360,235)	(275,281)
Other income	4	**11,437,056**	**11,437,056**	-	-
Finance income – bank interest		**8,090**	**2,965**	90,854	52,174
Profit/(loss) before taxation		**8,646,486**	**10,346,225**	(269,381)	(223,107)
Tax expense	6	**(346,526)**	**(346,526)**	-	-
Profit/(loss) for the period attributable to equity holders of the parent company		**8,299,960**	**9,999,699**	(269,381)	(223,107)
Earnings/(loss) per share attributable to the equity holders of the parent company:					
- Basic	7	**2.85p**	**3.43p**	(0.12p)	(0.09p)
- Diluted	7	**2.56p**	**3.07p**	(0.12p)	(0.09p)

All results relate to continuing operations. The notes on pages 17 to 33 form part of these financial statements.

Consolidated Statement of Comprehensive Income (in Pounds Sterling)

	6 months ended 30 June 2013 (unaudited) £	**3 months ended 30 June 2013 (unaudited) £**	6 months ended 30 June 2012 (unaudited) £	3 months ended 30 June 2012 (unaudited) £
Profit/(loss) for the period	**8,299,960**	**9,999,699**	(269,381)	(223,107)
Total comprehensive profit/(loss) for the period	**8,299,960**	**9,999,669**	(269,381)	(223,107)
Attributable to:				
Equity holders of the parent company	**8,299,960**	**9,999,669**	(269,381)	(223,107)

The notes on pages 17 to 33 form part of these financial statements.

Xcite Energy Limited
For the 3 and 6 month periods ended 30 June 2013

Consolidated Condensed Statement of Changes in Equity (in Pounds 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 6 months ended 30 June 2012	-	(269,381)	-	-	(269,381)
Total comprehensive loss for the 6 months ended 30 June 2012	**-**	**(269,381)**	**-**	**-**	**(269,381)**
Transactions with owners:					
Issue of shares	48,305,104	-	-	-	48,305,104
Associated share issue costs	(752,269)	-	-	-	(752,269)
Share warrant issue	(1,731,869)	-	-	1,731,869	-
Transfer upon exercise of share warrants	-	1,199,114	-	(1,199,114)	-
Fair value of share warrants and options	-	-	-	1,176,497	1,176,497
At 30 June 2012	**182,880,963**	**(3,115,682)**	**218**	**11,459,760**	**191,225,259**
Loss for the 6 months ended 31 December 2012	-	(1,451,527)	-	-	(1,451,527)
Total comprehensive loss for the 6 months ended 31 December 2012	**-**	**(1,451,527)**	**-**	**-**	**(1,451,527)**
Transactions with owners:					
Issue of shares	16,725,262	-	-	-	16,725,262
Associated share issue costs	(859,646)	-	-	-	(859,646)
Share warrant issue	(2,299,971)	-	-	2,299,971	-
Transfer upon exercise of share warrants	-	2,324,352	-	-	2,324,352
Fair value of share warrants and options	-	-	-	140,899	140,899
At 31 December 2012	**196,446,608**	**(2,242,857)**	**218**	**11,576,279**	**205,780,248**
Gain for the 6 months ended 30 June 2013	-	8,299,960	-	-	8,299,960
Total comprehensive gain for the 6 months ended 30 June 2013	**-**	**8,299,960**	**-**	**-**	**8,299,960**
Transactions with owners:					
Issue of shares	**405,966**	**-**	**-**	**-**	**405,966**
Transfer upon exercise of share warrants	**-**	**147,425**	**-**	**(147,425)**	**-**
Fair value of share warrants and options	**-**	**-**	**-**	**3,194,788**	**3,194,788**
At 30 June 2013	**196,852,574**	**6,204,528**	**218**	**14,623,642**	**217,680,962**

The notes on pages 17 to 33 form part of these financial statements.

Xcite Energy Limited
For the 3 and 6 month periods ended 30 June 2013

Consolidated Statement of Financial Position (in Pounds Sterling)

	Note	**30 June 2013 (unaudited) £**	31 December 2012 (audited) £
Assets			
Non-current assets			
Intangible assets	8	**228,189,846**	216,737,343
Property, plant and equipment	9	**5,757,731**	222,347
Total non-current assets		**233,947,577**	216,959,690
Current assets			
Trade and other receivables	10	**6,619,361**	9,288,916
Cash and cash equivalents	14b	**24,877,373**	25,592,215
Total current assets		**31,496,734**	34,881,131
Total assets		**265,444,311**	251,840,821
Liabilities			
Current liabilities			
Trade and other payables	11	**2,731,210**	5,284,605
Short term loans	12	**44,180,446**	40,270,801
Total current liabilities		**46,911,656**	45,555,406
Non-current liabilities			
Deferred tax	13	**851,693**	505,167
Total non-current liabilities		**851,693**	505,167
Net assets		**217,680,962**	205,780,248
Equity			
Share capital	15	**196,852,574**	196,446,608
Retained earnings	16	**6,204,528**	(2,242,857)
Merger reserve	16	**218**	218
Other reserves	16	**14,623,641**	11,576,279
Total equity		**217,680,962**	205,780,248

The notes on pages 17 to 33 form part of these financial statements. These interim unaudited consolidated financial statements were approved by the Board of Directors and authorised for issue on 22 August 2013 and were signed on its behalf by:

Stephen Kew
Chief Operating Officer

Rupert Cole
Chief Executive Officer

Xcite Energy Limited
For the 3 and 6 month periods ended 30 June 2013

Consolidated Statement of Cash Flows (in Pounds Sterling)

	6 months ended 30 June 2013	**3 months ended 30 June 2013**	6 months ended 30 June 2012	3 months ended 30 June 2012
	(unaudited)	**(unaudited)**	(unaudited)	(unaudited)
	£	**£**	£	£
Profit/(loss) for the period before tax	**8,646,486**	**10,346,225**	(269,381)	(223,107)
Adjustment for share-based payments	**763,949**	**754,970**	81,690	73,447
Adjustment for interest income	**(8,090)**	**(2,965)**	(90,854)	(52,174)
Adjustment for depreciation	**102,991**	**55,752**	57,232	32,072
Movement in working capital				
- Trade and other receivables	**2,669,555**	**2,202,610**	(638,981)	(715,113)
- Trade and other payables	**1,297,128**	**1,449,611**	5,670,204	2,201,356
Net cash flow from operations	**13,472,019**	**14,806,203**	4,809,910	1,316,481
Additions to exploration and evaluation assets	**(8,962,542)**	**(4,868,123)**	(65,375,423)	(40,322,378)
Purchase of fixed assets	**(5,638,375)**	**(5,501,980)**	(103,145)	(31,547)
Interest income	**8,090**	**2,965**	90,854	52,174
Net cash flow from investing	**(14,592,827)**	**(10,367,138)**	(65,387,714)	(40,301,751)
Net proceeds from issue of new shares	**405,966**	**-**	47,552,835	11,138,124
Net proceeds from issue of loan notes	**-**	**-**	30,654,978	30,654,978
Cash flow from financing	**405,966**	**-**	78,207,813	41,793,102
Net (decrease)/increase in cash and cash equivalents	**(714,842)**	**4,439,065**	17,630,009	2,807,832
Cash and cash equivalents as at beginning of period	**25,592,215**	**20,438,308**	64,123,406	78,945,583
Cash and cash equivalents as at end of period	**24,877,373**	**24,877,373**	81,753,415	81,753,415
Cash and cash equivalents comprise:				
Short term deposits	**-**	**-**	59,130,779	59,130,779
Cash available on demand	**24,877,373**	**24,877,373**	22,622,636	22,622,636

The notes on pages 17 to 33 form part of these financial statements.

Notes to the Interim Consolidated Financial Statements

1 Accounting Policies

Basis of preparation

The interim unaudited consolidated financial statements for the three and six month periods ended 30 June 2013 have been prepared in accordance with International Accounting Standards ("IAS") 34 Interim Financial Reporting. However, the interim unaudited consolidated financial statements for the three and six month periods ended 30 June 2013 have not been reviewed or audited by the Group's auditors.

These interim unaudited consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") following the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended 31 December 2012. These interim unaudited consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Xcite Energy Limited ("XEL" or "the Company") annual report for the year ended 31 December 2012.

The interim unaudited consolidated financial statements have been prepared on a going concern basis, taking into account the 2013 Outlook in the Management Discussion and Analysis on page 11 of these interim unaudited consolidated financial statements. The Group currently has sufficient cash resources to fund its working capital requirements and its committed work programme. The US$60 million Loan Note facility with West Face Capital Inc. falls due for repayment by 31 December 2013, extendable by mutual agreement to 31 March 2014, and in order to finance this repayment the Directors are considering a number of options that would secure longer term funding in respect of the first phase development of the Bentley field.

Basis of consolidation

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

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.

New accounting standards adopted during the period

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 but were effective for accounting periods beginning on or after 1 January 2013. These 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'.

New standards and interpretations not yet applied

Certain new standards and interpretations issued and endorsed by the IASB and the IFRIC during the three months ended 30 June 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; 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 interim unaudited consolidated financial statements. None are expected to have a material effect on the reported results or financial position of the Group.

Status of EU endorsement

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

- IFRS 9 'Financial Instruments';
- Amendments to IFRS 10, IFRS 12 and IFRS 27 'Investment Entities';
- Amendments to IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets';
- Amendments to IAS 39 'Novation of Derivatives and Continuation of Hedge Accounting'; and
- IFRIC Interpretation 21 'Levies'.

2 Segment Information

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

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

3 Operating Profit

The profit from operations on ordinary activities is stated after charging the following:

	6 months ended 30 June 2013 (unaudited)	**3 months ended 30 June 2013 (unaudited)**	6 months ended 30 June 2012 (unaudited)	3 months ended 30 June 2012 (unaudited)
	£	**£**	£	£
Share-based payment charges	**763,949**	**754,970**	81,690	73,447

The Company incurred total charges in respect of share-based payments in the three month period to 30 June 2013 of £3,224,349 (three months to 30 June 2012: £1,686,264). Of this, £2,818,919 was in respect of employees (see Note 4) (three months to 30 June 2012: £1,016,010). In accordance with the Company accounting policy, £754,970 has been expensed within operating loss and the balance of £2,469,379 has been capitalised within E&E assets (three months to 30 June 2011: £73,447 was expensed, £1,077,215 was capitalised, and balance of £535,602 was charged against the share capital account).

In the six month period to 30 June 2013 the Company incurred total charges in respect of share-based payments of £3,253,910 (six months to 30 June 2012: £2,908,366). Of this, £2,848,480 was in respect of employees (six months to 30 June 2012: £1,039,320). In accordance with the Company accounting policy, £2,489,961 has been capitalised within E&E assets and the balance of £763,949 expensed within operating loss (six months to 30 June 2012: £1,094,807 was capitalised within E&E assets, £81,690 expensed within operating loss and the balance of £1,731,869 was charged against the share capital account).

4 Other Income

On 20 May 2013 the Company announced that XER had entered into a non-exclusive, confidential, 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 represents the US$15.0 million received under this agreement.

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

5 Staff Costs and Directors' Emoluments

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

	6 months ended 30 June 2013 (unaudited)	**3 months ended 30 June 2013 (unaudited)**	6 months ended 30 June 2012 (unaudited)	3 months ended 30 June 2012 (unaudited)
Technical and administration	**18**	**18**	17	18

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

	6 months ended 30 June 2013 (unaudited)	**3 months ended 30 June 2013 (unaudited)**	6 months ended 30 June 2012 (unaudited)	3 months ended 30 June 2012 (unaudited)
	£	**£**	£	£
Wages and salaries	**1,433,533**	**838,509**	1,178,370	687,156
Social security costs	**188,228**	**110,870**	154,446	90,357
Share-based payment charges	**2,848,480**	**2,818,919**	1,039,320	1,016,010
	4,470,241	**3,768,298**	2,372,136	1,793,523

b) Executive Directors' emoluments and performance based remuneration:

	6 months ended 30 June 2013 (unaudited)	**3 months ended 30 June 2013 (unaudited)**	6 months ended 30 June 2012 (unaudited)	3 months ended 30 June 2012 (unaudited)
	£	**£**	£	£
Wages and salaries	**281,750**	**140,875**	319,350	159,675
Social security costs	**37,834**	**18,910**	42,562	21,260
Share-based payment charges	**1,232,507**	**1,232,507**	15,736	-
	1,552,091	**1,392,292**	377,648	180,935

The Executive Directors comprise the key management personnel of the Group and in the three and six month periods to 30 June 2013 comprised 2 individuals (three and six month periods to 30 June 2012 comprised 3 individuals).

In addition to the above, during the three month period ended 30 June 2013, the Group paid to Roger Ramshaw, Gregory Moroney, Scott Cochlan and Tim Jones in their capacity as Non-Executive Directors of the Company fees of £20,000, £11,250, £10,625 and £11,250 respectively. The comparatives for the three month period ended 30 June 2012 were £15,000, £8,750, £8,125 and £8,750 respectively.

In the six months ended 30 June 2013 the total fees for Roger Ramshaw, Gregory Moroney, Scott Cochlan and Tim Jones were £40,000, £22,500, £21,250 and £22,500 respectively. The comparatives for the six months ended 30 June 2012 were £30,000, £17,500, £16,250 and £17,500 respectively.

Charges in respect of share-based payments for the Non-Executive Directors in the three month period to 30 June 2013 were £275,692 (three month period to 30 June 2012: £nil). Charges in respect of share-based payments for the Non-Executive Directors in the six month period to 30 June 2013 were £275,692 (six month period to 30 June 2012: £2,525).

6 Taxation

	6 months ended 30 June 2013 (unaudited)	**3 months ended 30 June 2013 (unaudited)**	6 months ended 30 June 2012 (unaudited)	3 months ended 30 June 2012 (unaudited)
	£	**£**	£	£
Current tax	-	-	-	-
Deferred tax	**346,526**	**346,526**	-	-
Overseas tax charges	**346,526**	**346,526**	-	-

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). As the Group forecasts not to be paying corporation tax or supplementary charges in the immediate future due to the availability of brought forward losses and heavy oil field allowances, the impact of this reduction to 23% does not have a current impact on the reported results of the Group.

In addition to the changes in rates of corporation tax disclosed above, further changes to the non-ring fence UK corporation tax system were announced in the Autumn Statement 2012. This includes a further reduction to the main rate to reduce the rate to 21% from 1 April 2014. This change had not been substantively enacted at the balance sheet date and, therefore, is not included in these financial statements.

With effect from 21 March 2012, there is a reduction to the rate of relief for decommissioning costs from 62% to 50%. Given the distant timings on potential Bentley field decommissioning activities, the impact of this reduction has a negligible financial impact on the Group at present.

7 Earnings/(Loss) per Share

The basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The calculation of basic earnings per ordinary share for the three month period ended 30 June 2013 is based on a three month period profit of £9,999,699 (three months to 30 June 2012: loss of £223,107) and on 291,811,000 (three months to 30 June 2012: 244,975,363), being the weighted average number of ordinary shares in issue during the period.

The diluted earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to ordinary shareholders by the weighted average total number of ordinary shares, warrants and options outstanding during the period. The calculation of diluted earnings per ordinary share for the three month period ended 30 June 2013 is based on a three month period profit of £9,999,699 (three months to 30 June 2012: loss of £223,107) and on 325,232,780 (three months to 30 June 2012: 275,442,100), being the weighted average total number of ordinary shares, warrants and options in issue during the period.

The calculation of basic earnings per ordinary share for the six month period ended 30 June 2013 is based on a six month period profit of £8,299,960 (six months to 30 June 2012: loss of £269,381) and on 291,666,978 (six months to 30 June 2012: 231,741,321), being the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings per ordinary share for the six month period ended 30 June 2013 is based on a six month period profit of £8,299,960 (six months to 30 June 2012: loss of £269,381) and on 324,873,387 (three months to 30 June 2012: 261,400,553), being the weighted average total number of ordinary shares, warrants and options in issue during the period.

Details of potentially dilutive financial instruments are given in Note 16 to these financial statements.

8 Intangible Assets

	Licence Fees	
	30 June 2013 (unaudited)	31 December 2012 (audited*)
Exploration and Evaluation Assets	**£**	£
Cost and carrying value:		
At 1 January 2013 /1 January 2012	**1,733,967**	1,215,387
Additions during period	**53,070**	518,580
At 30 June 2013 / 31 December 2012	**1,787,037**	1,733,967

	Appraisal and Exploration Costs	
	30 June 2013 (unaudited)	31 December 2012 (audited*)
	£	£
Cost and carrying value:		
At 1 January 2013 / 1 January 2012	**215,003,376**	86,865,223
Additions during period	**11,399,433**	128,138,153
At 30 June 2013 / 31 December 2012	**226,402,809**	215,003,376

	Total	
	30 June 2013 (unaudited)	31 December 2012 (audited)
	£	£
Cost and carrying value:		
At 1 January 2013 / 1 January 2012	**216,737,343**	88,080,610
Additions during period	**11,452,503**	128,656,733
At 30 June 2013 / 31 December 2012	**228,189,846**	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 appraisal of the Bentley field have been capitalised in accordance with the Group's accounting policy.

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

9 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
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

	Oilfield equipment	Furniture, fittings and computing equipment	Total
Year ended 31 December 2012	£	£	£
Period ended 30 June 2013			
Opening net book amount at 1 January 2013	**-**	**222,347**	**222,347**
Additions	**5,460,733**	**177,642**	**5,638,375**
Depreciation charge	**-**	**(102,991)**	**(102,991)**
Closing net book amount at 30 June 2013	**5,460,733**	**296,998**	**5,757,731**
At 30 June 2013			
Cost or valuation	**5,460,733**	**608,720**	**6,069,453**
Accumulated depreciation	**-**	**(311,722)**	**(311,722)**
Net book amount	**5,460,733**	**296,998**	**5,757,731**

10 Trade and Other Receivables

	30 June 2013 (unaudited)	31 December 2012 (audited)
	£	£
Trade receivable	**1,984,096**	816,750
Indirect taxes receivable	**129,548**	178,771
Prepayments	**4,419,200**	8,222,395
Other receivables	**86,516**	71,000
	6,619,360	9,288,916

11 Trade and Other Payables

	30 June 2013 (unaudited)	31 December 2012 (audited)
	£	£
Trade payables	**762,386**	2,000,374
Social security and other taxes payable	**337,009**	472,377
Accruals and other creditors	**1,631,815**	2,811,854
	2,731,210	5,284,605

12 Short Term Loans

	30 June 2013 (unaudited)	31 December 2012 (audited)
	£	£
Loan notes	**38,795,239**	36,589,341
Interest accrual	**5,385,207**	3,681,460
Interest-bearing loan notes	**44,180,446**	40,270,801

On 5 April 2012, the Group announced that it had issued US$50 million of unsecured loan notes bearing interest at 14%, payable in arrears, and with a maturity of 360 days. These loan notes have now been amended to expire on 31 December 2013, with a term of 275 days. On 8 August 2012, the Group announced that it had issued a further USD$10 million of unsecured loan notes bearing interest at 14%, and with a maturity of 236 days. These loan notes have also now been amended to expire on 31 December 2013, with a term of 275 days. Interest can be rolled up into the principal amount of the loan notes or paid at the Group's discretion.

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

13 Deferred tax

	30 June 2013 (unaudited)	31 December 2012 (audited)
	£	£
At 1 January 2013 / 1 January 2012	**505,167**	505,167
Profit and loss charge	**346,526**	-
At 30 June 2013 / 31 December 2012	**851,693**	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.

14 Financial Instruments

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

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

Non-market risk

a) Credit risk

Group management has a responsibility to minimise the risk of default on credit advanced to customers and on deposits held by suppliers. Deposits held by suppliers comprise an office rent deposit recorded as receivables and, as such, it is regarded as low risk. On this basis, Group management is satisfied that any credit risk has been minimised.

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

b) Liquidity risk

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

		Carrying Amount	
		30 June 2013 (unaudited)	31 December 2012 (audited)
		£	£
Financial assets – measured at amortised cost			
-	Cash	**24,877,373**	25,592,215
-	Receivables (current)	**2,070,613**	887,750
-	Prepayments	**4,419,200**	8,222,395
-	Inventory	**5,460,733**	-

		Carrying Amount	
		30 June 2013 (unaudited)	31 December 2012 (audited)
		£	£
		36,827,919	34,702,360
Financial liabilities – measured at amortised cost			
-	Loans	**44,180,446**	40,270,801
-	Payables (current)	**2,626,631**	4,812,228
		46,807,077	45,083,029

Included in cash balances as at 31 December 2012 were amounts held in escrow of £14.8 million. By 30 June 2013, all amounts held in escrow had been returned to the Group and the accounts closed.

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

c) Capital disclosures

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

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

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

Market risk

d) Interest rate and foreign currency risks

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

	Fixed Rate Liabilities		**Interest Free Liabilities**	
	30 June 2013 (unaudited)	31 December 2012 (audited)	**30 June 2013 (unaudited)**	31 December 2012 (audited)
	£	£	**£**	£
Sterling	**-**	**-**	**2,571,362**	4,306,985
US$	**44,180,446**	40,270,801	**4,200**	20,678
CAD$	**-**	-	**52,630**	5,649
Norwegian Kroner	**-**	-	**-**	478,916
	44,180,446	40,270,801	**2,628,192**	4,812,228

	Floating rate assets	**Interest free assets**	**Total**
	30 June 2013 (unaudited)	**30 June 2013 (unaudited)**	**30 June 2013 (unaudited)**
	£	**£**	**£**
Sterling	**681,943**	**6,489,918**	**7,171,861**
US$	**24,101,443**	**5,460,769**	**29,562,212**
CAD$	**84,755**	**-**	**84,755**
Euro	**1,813**	**105**	**1,918**
Norwegian Kroner	**7,135**	**38**	**7,173**
	24,877,089	**11,950,830**	**36,827,919**

	Floating rate assets 31 December 2012 (audited) £	Interest free assets 31 December 2012 (audited) £	Total 31 December 2012 (audited) £
Sterling	5,614,860	8,294,751	13,909,611
US$	19,947,394	815,794	20,763,188
CAD$	24,761	-	24,761
Euro	3,488	262	3,750
Norwegian Kroner	1,011	39	1,050
	25,591,514	9,110,846	34,702,360

Sterling floating rate assets earn interest at rates linked to the Bank of England Base Rate, with higher rates of return being achieved on deposits placed on longer maturities. The Company currently earns interest on Sterling deposits in the range of 0.0% to 0.65%. At 30 June 2013 the weighted average rate of interest being earned on Sterling deposits was 0.22% (30 June 2012: 0.65%; 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 30 June 2013 the weighted average rate of interest being earned on US Dollar deposits was 0.17% (30 June 2012: 0.07%; 31 December 2012: 0.11%).

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

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

(e) Foreign exchange rate sensitivity analysis

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

Based on the Group’s financial instruments at the Balance Sheet date, had the base currency been stronger than the transactional currencies by 2% then the Group would have reported an additional unrealised exchange loss in the Income Statement of £469,205 (three months to 30 June 2012; an additional unrealised exchange loss of £862,946). Had the base currency been weaker than the transactional currencies by 2% then the Group would have reported an additional unrealised exchange gain in the Income Statement of £496,906 (three months to 30 June 2012; an additional unrealised exchange gain of £470,015).

(f) Interest rate sensitivity analysis

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

Based on the Group's cash balances during the period, if interest rates had been 50 basis points higher and all other variables were held constant, the Group's profit for the three month period ended 30 June 2013 would increase by £13,567 (three month period to 30 June 2012; the Group's loss would decrease by £86,877). If interest rates had been 50 basis points lower and all other variables were held constant, the Group's profit for the three month period ended 30 June would decrease by £3,576 (three month period to 30 June 2012; the Group's loss would increase by £49,300).

On a similar basis, if interest rates had been 50 basis points higher and all other variables were held constant, the Group's profit for the six month period ended 30 June 2013 would increase by £31,750 (six month period to 30 June 2012; the Group's loss would decrease by £169,734). If interest rates had been 50 basis points lower and all other variables were held constant, the Group's profit for the six month period ended 30 June 2013 would decrease by £8,695 (six month period to 30 June 2012; the Group's loss would increase by £85,539).

15 Share Capital

	30 June 2013 (unaudited)	31 December 2012 (audited)
	Number of shares	Number of shares
Authorised		
- Ordinary shares of no par value each	**Unlimited**	Unlimited
Issued and fully paid up		
- Ordinary shares of no par value each	**291,811,000**	290,880,000

	30 June 2013 (unaudited)	31 December 2012 (audited)
	£	£
Authorised		
- Ordinary shares of no par value	**Unlimited**	Unlimited
Issued and fully paid up		
- Ordinary shares of no par value	**196,851,703**	196,446,608

Shares issued

During the six months ended 30 June 2013 the Company issued a total of 931,000 new ordinary shares pursuant to the exercise of share options. The total proceeds received from the issue of these 931,000 new ordinary shares was CAD$639,080 (£405,966). There were no new ordinary shares issued in the three months ended 30 June 2013.

During the six months ended 30 June 2012 the Company issued a total of 24,439,997 new ordinary shares under the Equity Line Facility for a total consideration of £29.07 million after the deduction of transaction costs. In addition, during the six months ended 30 June 2012 the Company issued a total of 6,479,884 new ordinary shares pursuant to the exercise of share warrants for a total consideration of CAD$18,802 (£11,780), and a total of 21,353,038 new ordinary shares were issued following private placements with Socius CG II, Ltd and Global Resource Funding Partners LLC, collectively providing collective net proceeds of £18.47 million after the deduction of transaction costs.

All new ordinary share issues during the periods referred to above rank *pari passu* with the existing ordinary shares in the Company.

Stock Option Plan

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

During the three and six month periods ended 30 June 2013 the Company issued a total of 9,850,000 new options with an exercise price of CAD$1.62 (£1.01) and a life of five years to the Board of Directors, XER staff and management team and key contractors under the Stock Option Plan (three and six month periods ended 30 June 2012: a total of 4,700,000 new share options were issued with an exercise price of CAD$1.19 (£0.74) and a life of five years).

During the three months ended 30 June 2013 a total of 450,000 share options expired unexercised with an exercise price of CAD$1.60. During the six months ended 30 June 2013 a total of 1,140,000 share options expired unexercised with a weighted average exercise price of CAD$2.51 (£1.55). No share options expired during either the three or the six month periods ended 30 June 2012.

During the three and six month periods ended 30 June 2013, a total of 931,000 share options were exercised with a weighted average price of CAD$0.69 (£0.44), providing total proceeds of £405,966. No share options were exercised in the three and six month periods ended 30 June 2012.

Share warrants

During the three and six month periods ended 30 June 2013 there were no share warrant issues, expiries or exercises.

In the three months ended 30 June 2012 the Company issued 4,000,000 new warrants with an exercise price of approximately £0.97 (CAD$1.54) and a life of three years in respect of a private placement with Global Resource Funding Partners LLC.

In the six month period ended 30 June 2012 the Company issued a total of 10,676,519 new warrants with a weighted average exercise price of £1.07 and an average life of three years. A total of 6,676,519 of these warrants were exercised during the three and six month periods ended 30 June 2012 under a cashless exercise provision, resulting in the issue of 6,449,599 new ordinary shares for nil consideration.

In the six month period ended 30 June 2012 the Company received consideration of CAD$18,802 (£11,780) in respect of the exercise of 30,325 broker warrants.

16 Retained earnings and other reserves

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

- Retained Earnings: Cumulative profits recognised in the Group Income Statement less cumulative losses and distributions made.

- Merger Reserve: The difference between the nominal value of the shares issued to acquire a subsidiary and the nominal value of the shares acquired.

- Other Reserves: The fair value of unexercised share-based payments and warrants granted over ordinary shares in the Company at the date of grant.

17 Commitments and contingencies

At 30 June 2013 the Company had minimum lease commitments under non-cancellable operating leases as follows:

	30 June 2013 £	31 December 2012 £
Amounts payable on leases which expire:		
Within one year	**77,332**	7,950
In two to five years	**273,658**	320,742

18 Related parties

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

- The Group's Executive and Non-Executive Directors;

- The Company's subsidiary XER;

- The Company’s key management; and

- Companies in which the Executive Directors exercise significant influence.

Using a loan facility, XEL continued to provide its wholly owned subsidiary, XER, with net cash funding. During the three month period to 30 June 2013, XER repaid £16.3 million (three months to 30 June 2012: funding of £0.5 million) of the cumulative funding received to date to finance XER’s operational requirements. For the six month period to 30 June 2013, the net amount XER repaid was £13.9 million (six months to 30 June 2012: funding of £21.0 million). No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand. No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand. The total balance owing by XER to XEL at 30 June 2013 was £100.5 million (as at 30 June 2012: £85.8 million).

In the normal course of business XER incurred charges totalling £5,059 during the three month period to 30 June 2013 and £10,058 for the six months to 30 June 2013 (three and six months to 30 June 2012: £5,000 and £9,994 respectively) for property rentals from Seaburome Limited, a company in which Rupert E. Cole is a Director. There was no outstanding balance payable by XER at 30 June 2013 (30 June 2012: £nil).

The Executive Directors have received performance based remuneration, details of which are given in Note 5 to these financial statements. The Executive and Non-Executive Directors have also been granted certain share options over the ordinary share capital of the Company, details of which are given in these interim unaudited financial statements.