Xcite Energy Limited

Interim unaudited consolidated financial statements

For the 3 month period ended 31 March 2014

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these interim unaudited consolidated financial statements for the three month period ended 31 March 2014, which have been prepared by and are the responsibility of the Company's management.

Xcite Energy Limited

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Contents

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Management's Discussion and Analysis

The Management's Discussion and Analysis ("MD&A") of the operating and financial results of Xcite Energy Limited ("XEL" or the "Company") should be read in conjunction with the Company's interim unaudited consolidated financial statements and related notes thereto for the three month period ended 31 March 2014, the audited consolidated financial statements and related notes thereto for the year ended 31 December 2013 and the annual MD&A of the Company. The interim unaudited consolidated financial statements for the three months ended 31 March 2014 have been prepared in accordance with International Accounting Standards ("IAS") 34 Interim Financial Reporting. This MD&A is dated 19 May 2014. These documents and additional information about XEL are available on SEDAR at www.sedar.com and on the Company's website at www.xcite-energy.com.

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

This MD&A includes an analysis of the XEL results from 1 January 2014 to 31 March 2014 and from 1 January 2013 to 31 March 2013, which include the results of the operating subsidiary Xcite Energy Resources Limited ("XER"). In this MD&A, XEL and XER are together defined as the "Group". All figures and the comparative figures contained herein are expressed in Pounds Sterling unless otherwise noted.

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

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

Overview

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

In February 2014 the Group was pleased to announce the results of an updated Reserves Assessment Report, prepared by AGR TRACS International Limited. This RAR, with an effective date of 31 December 2013, confirmed 2P Reserves for the Bentley field of 257 million stock tank barrels ("MMstb"), an increase of 7 MMstb since the previous RAR dated 8 April 2013. 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 a material extension to the P.1078 Bentley oil field licence to 31 December 2016.

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.

	Q1'14	Q4'13	Q3'13	Q2'13	Q1'13	Q4'12	Q3'12	Q2'12
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Revenue	-	-	-	-	-	-	13,289	-
Net (loss)/profit	**(41)**	(2,623)	905	10,000	(1,700)	(884)	(568)	(223)
Basic EPS *	**(0.0p)**	(0.8p)	0.3p	3.4p	(0.6p)	(0.4p)	(0.2p)	(0.1p)
Total assets	**268,764**	269,478	263,919	265,444	250,424	251,841	260,704	237,556
Long term liabilities	**3,457**	3,457	852	852	505	505	505	505

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

The three months ended 31 March 2014 reports a net loss for the quarter of £0.04 million, arising from underlying expenditure of £0.36 million offset by unrealised net gains on foreign currency revaluations of £0.31 million on the Group's US dollar net borrowings, during a period of a weakening US dollar against the Group's functional currency of Sterling, and interest income of £0.01 million. The Group has continued to incur operating overheads on a level consistent with previous quarters.

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

Liquidity and Capital Resources

The cash balance as at 31 March 2014 was £17.4 million, compared with £21.9 million as at 31 December 2013 and £20.4 million as at 31 March 2013. The decrease in cash balance during the three months ended 31 March 2014 has arisen due to continued investment by the Group into the Bentley field development, with additions to E&E assets of £3.6 million, including payment of unsecured loan note interest of £1.5 million (US$2.5 million).

The aggregate cash balance held at 31 March 2014 is considered cash available on demand and the Group no longer holds any funds in escrow. As at 31 March 2013 and 31 December 2013 the balances held in escrow were £11.6 million and £nil respectively.

As at the date of this MD&A there remains unused Equity Line Facility ("ELF") capacity of £30.8 million, the facility life of which was recently extended in April 2014 out by a further three years to July 2017 to provide the Group with additional sources of capital to be used at its sole discretion.

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

Taking into account the ELF, the Group's current cash balances and the Group's financial obligations, the Group has forecast that it has sufficient financial resources for working capital for the foreseeable future.

Lease and Contractual Commitments

At 31 March 2014 the Company had lease commitments relating to business premises of £215,040 (31 March 2013: £407,394). The decrease in commitments when comparing March 2014 with March 2013 is in line with the remaining lease commitment on XER's Aberdeen office premises.

Income

Interest Income

Interest income received on funds invested in the three months ended 31 March 2014 amounted to £8,621 (three months ended 31 March 2013: £5,124). Interest income remains low during the current period of sustained historical lows on Federal and UK base rates.

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

Operations and Administrative Expenses

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

During the three months ended 31 March 2014 the Group incurred total net administrative expenses of £525,385 (three months ended 31 March 2013: net gains of £737,977). When removing the effect of foreign exchange ("forex") and share-based payment charges, the net administrative expenses in the three months to 31 March 2014 were £358,875 compared against £307,488 for the comparable period in 2013. The marginal increase in administrative expenses reflects increased professional fees incurred during the comparable periods.

The influence of forex fluctuations between the comparable periods of the three months ended 31 March 2014 and the three months ended 31 March 2013 were significant. A total of £309,090 net forex gains were recognised in the three months ended 31 March 2014 compared with net forex losses of £1,388,396 for the three months ended 31 March 2013. These differences were principally attributable to the movement of US Dollar against Sterling during the period, requiring the Group's US Dollar loan note borrowings and US Dollar cash balances to be revalued as at the date of the Consolidated Statement of Financial Position. Given a recent weakening of US Dollar against the reporting currency of Sterling, the Group has reported a forex gain of £475,600 arising from the revaluation of the unsecured loan note liabilities as at 31 March 2014. Similarly, a forex loss of £166,510 has been reported within administration expenses, reflecting the forex loss on the Group's US Dollar cash balances held as at 31 March 2014. With respect to the comparable period of the three months ended 31 March 2013, Sterling had weakened against the US Dollar, causing large forex losses on the Group's US Dollar liabilities, partially offset by forex gains on the Group's US Dollar cash balances.

Charges taken to the Profit and Loss account under the Company's Stock Option Plan were £nil during the current quarter compared with £8,979 for the comparative period in 2013, reflecting no share options vesting during the three months ended 31 March 2014.

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

Additions to E&E assets during the three months ended 31 March 2014 were £3.57 million (three months ended 31 March 2013: £4.11 million). Following the conclusion to the Bentley extended well test in October 2012, the Company continues to have no current offshore drilling activity. The expenditure in the three months ended 31 March 2014 is marginally lower compared to that of the three months ended 31 March 2013, reflecting the nature of the work currently being carried out, being more strategic rather than operations focussed than for the comparable period in 2013. As such, external expenditure is currently reduced whilst the Field Development Plan is being advanced.

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

There were no additions to Property, Plant and Equipment in the three month period ended 31 March 2014.

Off-Balance Sheet Arrangements

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

Related Party Transactions

Using a loan facility, XEL has continued to provide its wholly owned subsidiary, XER, with net cash funding. During the three month period to 31 March 2014, XER received funding of £2.4 million (three months ended 31 March 2013: funding of £2.4 million) in financing XER's operational requirements. No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand. The total balance owing by XER to XEL at 31 March 2014 was £102.9 million (as at 31 March 2013: £116.9 million).

During the three months ended 31 March 2014, each of Rupert E. Cole, Andrew J. Fairclough (from 3 February 2014) and Stephen A. Kew were executive directors of XEL (the "Executive Directors"). The Executive Directors have received remuneration, details of which are given below:

	3 months ended 31 March 2014 (unaudited)	3 months ended 31 March 2013 (unaudited)
	£	£
Wages and salaries	**172,958**	140,875
Social security costs	**23,159**	18,924
	196,117	159,799

In addition to the above, during the three month period ended 31 March 2014, the Group paid to Roger Ramshaw, Gregory Moroney, Scott Cochlan and Timothy Jones in their capacity as Non-Executive Directors of the Company fees of £20,000, £11,250, £10,625 and £11,250 respectively. The comparatives for the three month period ended 31 March 2013 were £20,000, £11,250, £10,625 and £11,250 respectively.

There were no charges in respect of share-based payments for the Non-Executive Directors in either of the three month periods ended 31 March 2014 and 31 March 2013.

In the normal course of business XER incurred charges totalling £5,999 during the three month period ended 31 March 2014 (three months ended 31 March 2013: £4,999) 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 31 March 2014 (31 March 2013: £nil).

Share Options, Warrants and Rights

During the three month periods ended 31 March 2014 and 31 March 2013 no new share options were issued.

During the three month period ended 31 March 2014 no share options expired. During the three month period ended 31 March 2013 a total of 690,000 share options expired with an average exercise price of CAD$3.10 and a total of 931,000 share options were exercised at an average exercise price of CAD$0.69 for total proceeds of CAD$639,080 (£405,966).

As at the date of signing this MD&A there were 25,652,000 share options outstanding, all but 250,000 of which are exercisable, and 17,250,000 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

There were no new ordinary shares issued during the three month period ended 31 March 2014.

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

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

Licensing

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

Fiscal and political regime

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

Offshore exploration and development

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

Commodity pricing

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

Financing

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

Currency

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

Resource estimation

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

Dependence on key executives and personnel

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

Early stage of development

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

Significant Accounting Judgements and Estimates

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

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

(a) Income taxes

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

(b) Fair value of share options and warrants

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

(c) Impairment of E&E assets

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

Changes in Accounting Policies

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

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

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

Financial Instruments and Other Derivatives

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

Outlook

XER has selected the first of its preferred development partners and intends shortly to begin the final part of pre-FEED/assurance engineering together with its partners over the coming months, to optimise the updated development concept. The concept is based on the current development plan and intends to capture the potential benefits that XER and its development partners envisage from utilising Arup’s ACE platform design and the Sevan FSO facility. Subject to the completion of these engineering work programmes towards the end of 2014, XER intends to be able to enter into binding contracts with its partners subject to approval of the FDP.

In April 2014, XER signed a further Memorandum of Understanding (“MOU”) with AMEC and with Arup, which sets out the principles of co-operation for the design and development of Arup’s self-installing, steel ACE platform for the Bentley field. XER, AMEC and Arup intend to work together to optimise the existing ACE platform design for the Bentley field, covering all aspects of assurance, engineering, procurement, construction and installation. Management believes this will enable XER, prior to partner contract award, to confirm the final platform design and capital requirement for one of the key Bentley field development assets.

Also in April 2014, XER entered into an MOU with Teekay Shipping Norway AS (“Teekay”), setting out the principles of co-operation for the supply of a bridge linked Sevan FSO facility for the life of the Bentley field. XER and Teekay intend to work together on an exclusive basis during the project, from front end engineering, through fabrication, hook up and onwards into production operations and maintenance.

XER has also been assessing available options for the supply of a drilling rig and is in discussions with drilling service providers. Given the full field drilling programme through to the end of the second phase could be up to ten years in duration, as part of that evaluation XER has recently initiated a tender process for the provision of a new build rig, which may be determined as the most cost effective drilling strategy to pursue.

A collaboration agreement was signed with Statoil (U.K.) Ltd. (“Statoil”) and Shell U.K. Ltd. (“Shell”) and announced on 6 May 2014, for the sharing of technical and operational information to evaluate potential synergies and collaboration in the development of the Bentley and Bressay oil fields. Management believe that this collaboration with Statoil and Shell highlights how much the Company can bring to an area development strategy and is a good example of what the Wood Review is seeking to achieve.

Consolidated Income Statement (in Sterling)

	Note	**3 month period ended 31 March 2014**	3 month period ended 31 March 2013
		(unaudited)	(unaudited)
		£	£
Share-based payment charges		**-**	(8,979)
Foreign exchange (losses)/gains		**(166,510)**	1,054,444
Other expenses		**(358,875)**	(307,488)
Net administrative (expenses)/gains		**(525,385)**	737,977
Operating (loss)/profit	3	**(525,385)**	737,977
Finance income – bank interest		**8,621**	5,124
Foreign exchange gains/(losses) – loan notes		**475,600**	(2,442,840)
Loss before taxation		**(41,164)**	(1,699,739)
Tax expense	5	-	-
Loss for the period attributable to equity holders of the parent company		**(41,164)**	(1,699,739)
- Basic and Diluted	6	**(0.0p)**	(0.6p)

All results relate to continuing operations. The notes on pages 15 to 29 form part of these financial statements.

Xcite Energy Limited
For the 3 month period ended 31 March 2014

Consolidated Statement of Comprehensive Income (in Sterling)

	3 months ended 31 March 2014 (unaudited) £	3 months ended 31 March 2013 (unaudited) £
Loss for the period	**(41,164)**	(1,699,739)
Total comprehensive loss for the period	**(41,164)**	(1,699,739)
Attributable to:		
Equity holders of the parent company	**(41,164)**	(1,699,739)

The notes on pages 15 to 29 form part of these financial statements.

Xcite Energy Limited
For the 3 month period ended 31 March 2014

Consolidated Condensed Statement of Changes in Equity (in Sterling)

	Share Capital	Retained Earnings	Merger Reserve	Other Reserves	Total
	£	£	£	£	£
At 1 January 2013	**196,446,608**	**(2,242,857)**	**218**	**11,576,279**	**205,780,248**
Loss for the 3 months ended 31 March 2013	-	(1,699,739)	-	-	(1,699,739)
Total comprehensive loss for the 3 months ended 31 March 2013	**-**	**(1,699,739)**	**-**	**-**	**(1,699,739)**
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	-	-	-	29,561	29,561
At 31 March 2013	**196,852,574**	**(3,795,171)**	**218**	**11,458,415**	**204,516,036**
Profit for the 9 months ended 31 December 2013	-	8,281,910	-	-	8,281,910
Total comprehensive Profit for the 9 months ended 31 December 2013	**-**	**8,281,910**	**-**	**-**	**8,281,910**
Transactions with owners:					
Issue of shares	994,530	-	-	-	994,530
Associated share issue costs	(81,789)	-	-	-	(81,789)
Share warrant issue	(218,793)	-	-	218,793	-
Fair value of share warrants and options	-	-	-	3,283,471	3,283,471
At 31 December 2013 (audited)	**197,546,522**	**4,486,739**	**218**	**14,960,679**	**216,994,158**
Loss for the 3 months ended 31 March 2014	-	(41,164)	-	-	(41,164)
Total comprehensive loss for the 3 months ended 31 March 2014	**-**	**(41,164)**	**-**	**-**	**(41,164)**
At 31 March 2014 (unaudited)	**197,546,522**	**4,445,575**	**218**	**14,960,679**	**216,952,994**

The notes on pages 15 to 29 form part of these financial statements.

Xcite Energy Limited
For the 3 month period ended 31 March 2014

Consolidated Statement of Financial Position (in Sterling)

	Note	31 March 2014 (unaudited) £	31 December 2013 (audited) £
Assets			
Non-current assets			
Intangible assets	7	**240,366,872**	236,796,014
Property, plant and equipment	8	**5,621,878**	5,671,133
Total non-current assets		**245,988,750**	242,467,147
Current assets			
Trade and other receivables	9	**5,401,376**	5,079,314
Cash and cash equivalents	13b	**17,373,485**	21,931,159
Total current assets		**22,774,861**	27,010,473
Total assets		**268,763,611**	269,477,620
Liabilities			
Current liabilities			
Trade and other payables	10	**1,044,107**	1,974,928
Short term loans	11	**47,309,778**	47,051,802
Total current liabilities		**48,353,885**	49,026,730
Non-current liabilities			
Deferred tax	12	**3,456,732**	3,456,732
Total non-current liabilities		**3,456,732**	3,456,732
Net assets		**216,952,994**	216,994,158
Equity			
Share capital	14	**197,546,522**	197,546,522
Retained earnings	15	**4,445,575**	4,486,739
Merger reserve	15	**218**	218
Other reserves	15	**14,960,679**	14,960,679
Total equity		**216,952,994**	216,994,158

The notes on pages 15 to 29 form part of these financial statements. These interim unaudited consolidated financial statements were approved by the Board of Directors and authorised for issue on 19 May 2014 and were signed on its behalf by:

Rupert Cole
Chief Executive Officer

Andrew Fairclough
Chief Financial Officer

Xcite Energy Limited
For the 3 month period ended 31 March 2014

Consolidated Statement of Cash Flows (in Sterling)

	3 months ended 31 March 2014	3 months ended 31 March 2013
	(unaudited)	(unaudited)
	£	£
Loss for the period before tax	**(41,164)**	(1,699,739)
Adjustment for share-based payments	-	8,979
Adjustment for interest income	**(8,621)**	(5,124)
Adjustment for depreciation	**49,255**	47,240
Trade and other receivables	**(322,063)**	466,946
Trade and other payables	**(672,844)**	(152,483)
Net cash flow from operations	**(995,437)**	(1,334,181)
Additions to exploration and evaluation assets	**(3,570,858)**	(4,094,419)
Purchase of fixed assets	-	(136,397)
Interest income	**8,621**	5,124
Net cash flow from investing	**(3,562,237)**	(4,225,692)
Net proceeds from issue of new shares	-	405,966
Cash flow from financing	-	405,966
Net decrease in cash and cash equivalents	**(4,557,674)**	(5,153,907)
Cash and cash equivalents as at beginning of period	**21,931,159**	25,592,215
Cash and cash equivalents as at end of period	**17,373,485**	20,438,308
Short term deposits	-	12,258,722
Cash available on demand	**17,373,485**	8,179,586

The notes on pages 15 to 29 form part of these financial statements.

Notes to the Interim Consolidated Financial Statements

1 Accounting Policies

Basis of preparation

The interim unaudited consolidated financial statements for the three months ended 31 March 2014 have been prepared in accordance with International Accounting Standards ("IAS") 34 Interim Financial Reporting. However, the interim unaudited consolidated financial statements for the three months ended 31 March 2014 have not been reviewed or audited by the Company's auditors.

These interim unaudited consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") following the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended 31 December 2013. These interim unaudited consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Xcite Energy Limited ("XEL" or "the Company") annual report for the year ended 31 December 2013.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Xcite Energy Resources 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 endorsed by the International Accounting Standard Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") were effective for accounting periods beginning on or after 1 January 2014. These accounting standards were adopted during the period and include:

- Amendments to IFRS 1 'First Time Adoption of International Financial Reporting Standards – Government Loans';
- Annual Improvements to IFRSs 2009-2011 Cycle;

- Amendments to IFRS 10, IFRS 12 and IFRS 27 ‘Investment Entities’;
- Amendments to IAS 36 ‘Recoverable Amount Disclosures for Non-Financial Assets’;
- Amendments to IAS 39 ‘Novation of Derivatives and Continuation of Hedge Accounting’; and
- Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12).

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

New standards and interpretations not yet applied

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

Status of EU endorsement

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

- IFRS 9 ‘Financial Instruments’;
- IFRS 14 ‘Regulatory Deferral Accounts’;
- IFRIC Interpretation 21 ‘Levies’;
- Amendments to IAS 19 ‘Defined Benefit Plans: Employee Contributions’;
- Amendments to IFRS 11 ‘Accounting for Acquisitions of Interests in Joint Operations’;
- Annual Improvements to IFRSs 2010-2012 Cycle; and
- Annual Improvements to IFRSs 2011-2013 Cycle.

2 Segment Information

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

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

3 Operating (Loss)/Profit

The operating (loss)/profit on ordinary activities is stated after charging the following:

	3 months ended 31 March 2014 (unaudited)	3 months ended 31 March 2013 (unaudited)
	£	£
Share-based payment charges	**-**	8,979

The Company incurred total charges in respect of share-based payments in the three months ended 31 March 2014 of £nil (three months ended 31 March 2013: £29,561).

4 Staff Costs and Directors' Emoluments

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

	3 months ended 31 March 2014 (unaudited)	3 months ended 31 March 2013 (unaudited)
Technical and administration	**18**	18

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

	3 months ended 31 March 2014 (unaudited) £	3 months ended 31 March 2013 (unaudited) £
Wages and salaries	**608,250**	595,024
Social security costs	**79,158**	77,357
Share-based payment charges	**-**	29,561
	687,408	701,942

b) Executive Directors' emoluments and performance based remuneration:

	3 months ended 31 March 2014 (unaudited) £	3 months ended 31 March 2013 (unaudited) £
Wages and salaries	**172,958**	140,875
Social security costs	**23,159**	18,924
	196,117	159,799

During the three months ended 31 March 2014, each of Rupert E. Cole, Andrew J. Fairclough (from 3 February 2014) and Stephen A. Kew were executive directors of XEL (the "Executive Directors"). For the three months ended 31 March 2013 the Executive Directors were Rupert E. Cole and Stephen A. Kew. The Executive Directors comprise the key management personnel of the Group.

In addition to the above, during the three months ended 31 March 2014, the Group paid to Roger Ramshaw, Gregory Moroney, Scott Cochlan and Timothy Jones (the "Non-Executive Directors") 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 months ended 31 March 2013 were £20,000, £11,250, £10,625 and £11,250 respectively.

There were no charges in respect of share-based payments for the Non-Executive Directors in each of the three month periods ended 31 March 2014 and 31 March 2013.

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

5 Taxation

	3 months ended 31 March 2014 (unaudited) £	3 months ended 31 March 2013 (unaudited) £
Deferred tax charges	**-**	-

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

Changes to the non-ring fence UK corporation tax system were enacted as part of the Finance Bill 2013 on 2 July 2013. These include reductions to the main rate of corporation tax to reduce the rate to 21% from 1 April 2014 and to 20% from 1 April 2015. As the Group forecasts not to be paying corporation tax or supplementary charges in the immediate future due to the availability of brought forward losses and heavy oil field allowances, the impact of this reductions does not have a current impact on the reported results of the Group.

6 Earnings per Share

The basic earnings per share ("EPS") is calculated by dividing the profit/(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 14 to these financial statements.

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

	3 months ended 31 March 2014 (unaudited)	3 months ended 31 March 2013 (unaudited)
Loss in period	**(£41,164)**	(£1,699,739)
Weighted average number of shares in issue:		
Basic	**292,811,000**	291,521,356
Fully diluted	**335,713,000**	324,510,000
Earnings per share in pence:		
Basic EPS	**(0.0p)**	(0.6p)
Diluted EPS	**(0.0p)**	(0.6p)

7 Intangible Assets

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

	Appraisal and Exploration Costs	
	31 March 2014 (unaudited)	31 December 2013 (audited)
	£	£
Cost and carrying value:		
At 1 January 2014 /1 January 2013	**234,407,057**	215,003,376
Net additions during period	**3,517,788**	19,403,681
At 31 March 2014 / 31 December 2013	**237,924,845**	234,407,057

	Total	
	31 March 2014 (unaudited)	31 December 2013 (audited)
	£	£
Cost and carrying value:		
At 1 January 2014 /1 January 2013	**236,796,014**	216,737,343
Net additions during period	**3,570,858**	20,058,671
At 31 March 2014 / 31 December 2013	**240,366,872**	236,796,014

The costs associated with the appraisal of the Bentley field have been capitalised in accordance with the Group’s accounting policy. Appraisal and Exploration Costs net additions in the three month period ended 31 March 2014 include an amount of £1.5 million in respect of capitalised interest costs (three month period ended 31 March 2013: £1.4 million).

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

8 Property, Plant and Equipment

	Oilfield equipment	Furniture, fittings and computing equipment	Total
Year ended 31 December 2013 (audited)	£	£	£
Opening net book amount at 1 January 2013	-	222,347	222,347
Additions	5,460,733	204,775	5,665,508
Depreciation charge	-	(216,722)	(216,722)
Closing net book amount at 31 December 2013	5,460,733	210,400	5,671,133
At 31 December 2013 (audited)			
Cost or valuation	5,460,733	635,852	6,096,585
Accumulated depreciation	-	(425,452)	(425,452)
Net book amount	5,460,733	210,400	5,671,133
Period ended 31 March 2014 (unaudited)			
Opening net book amount at 1 January 2014	**5,460,733**	**210,400**	**5,671,133**
Additions	**-**	**-**	**-**
Depreciation charge	**-**	**(49,255)**	**(49,255)**
Closing net book amount at 31 March 2014	**5,460,733**	**161,145**	**5,621,878**
At 31 March 2014 (unaudited)			
Cost or valuation	**5,460,733**	**635,852**	**6,096,585**
Accumulated depreciation	**-**	**(474,707)**	**(474,707)**
Net book amount	**5,460,733**	**161,145**	**5,621,878**

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

9 Trade and Other Receivables

	31 March 2014 (unaudited) £	31 December 2013 (audited) £
Indirect taxes receivable	**44,938**	35,250
Prepayments	**5,254,259**	4,963,838
Other receivables	**102,179**	80,226
	5,401,376	5,079,314

10 Trade and Other Payables

	31 March 2014 (unaudited) £	31 December 2013 (audited) £
Trade payables	**391,286**	708,941
Social security and other taxes payable	**104,707**	104,303
Accruals and other creditors	**548,114**	1,161,684
	1,044,107	1,974,928

11 Short Term Loans

	31 March 2014 (unaudited) £	31 December 2013 (audited) £
Loan notes	**47,293,082**	47,018,093
Interest accrual	**16,696**	33,709
Interest-bearing loan notes	**47,309,778**	47,051,802

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.

12 Deferred tax

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

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

13 Financial Instruments

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

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

Non-market risk

a) Credit risk

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

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

b) Liquidity risk

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

	Carrying Amount	
	31 March 2014 (unaudited)	31 December 2013 (audited)
	£	£
Financial assets – loans and receivables		
- Cash	**17,373,485**	21,931,159
- Receivables (current)	**79,400**	80,226
	17,452,885	22,011,385
Financial liabilities – measured at amortised cost		
- Loans (all USD$)	**47,309,778**	47,051,802
- Payables (current)	**939,400**	1,870,625
	48,249,178	48,922,427

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

c) Capital disclosures

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

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

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

Market risk

d) Interest rate and foreign currency risks

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

	Floating rate assets	**Interest free assets**	**Total**
	31 March 2014 (unaudited)	**31 March 2014 (unaudited)**	**31 March 2014 (unaudited)**
	£	**£**	**£**
Sterling	**459,207**	**79,625**	**538,832**
Euro	**170,437**	**270**	**170,707**
Norwegian Kroner	**5,731**	**23**	**5,754**
CAD$	**26,274**	**-**	**26,274**
US$	**16,711,230**	**88**	**16,711,318**
	17,372,879	**80,006**	**17,452,885**

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

	Fixed Rate Liabilities		**Interest Free Liabilities**	
	31 March 2014 (unaudited) £	31 December 2013 (audited) £	**31 March 2014 (unaudited) £**	31 December 2013 (audited) £
Sterling	**-**	-	**939,159**	1,550,981
CAD$	**-**	-	**219**	-
US$	**47,309,778**	47,051,802	**22**	319,644
	47,309,778	47,051,802	**939,400**	1,870,625

Sterling floating rate assets earn interest at rates linked to the Bank of England Base Rate, with higher rates of return being achieved on deposits placed on longer maturities. The Company currently earns interest on

Sterling deposits in the range of 0.0% to 0.40%. At 31 March 2014 the weighted average rate of interest being earned on Sterling deposits was 0.25% (31 March 2013: 0.29%; 31 December 2013: 0.31%).

US Dollar floating rate assets earn interest within the range of rates of 0.0% to 0.18%, depending upon the liquidity of the deposit placed. At 31 March 2014 the weighted average rate of interest being earned on US Dollar deposits was 0.17% (31 March 2013: 0.04%; 31 December 2013: 0.17%).

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

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

(e) Foreign exchange rate sensitivity analysis

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

Based on the Group’s financial instruments at the date of the Consolidated Statement of Financial Position, had the base currency been stronger than the transactional currencies by 2% then the Group would have reported an additional unrealised exchange gain in the Income Statement of £639,824 (three months ended 31 March 2013; the Group would have reported an additional unrealised exchange loss of £325,187). 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 £665,940 (three months ended 31 March 2013; the Group would have reported an additional unrealised exchange gain of £338,478).

(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 loss for the three month period ended 31 March 2014 would decrease by £23,613 (three month period ended 31 March 2013; the Group’s loss would decrease by £18,182). If interest rates had been 50 basis points lower and all other variables were held constant, the Group’s loss for the three month period ended 31 March 2014 would increase by £8,621 (three month period ended 31 March 2013; the Group’s loss would increase by £5,119).

14 Share Capital

	31 March 2014 (unaudited) Number of shares	31 December 2013 (audited) 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	**292,811,000**	292,811,000

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

Shares issued

There were no new ordinary shares issued in the three months ended 31 March 2014.

During the three months ended 31 March 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).

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

Stock Option Plan

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

During the three months ended 31 March 2014 the Company issued no new share options to the XER management team under the Stock Option Plan (three months ended 31 March 2013: nil)

At 31 March 2014 there were 25,652,000 total share options outstanding (31 December 2013 25,652,000 total share options outstanding), with exercise prices ranging from CAD$0.10 to CAD$5.95 and with a weighted average exercise price of CAD$1.75 per option. Of the total outstanding at 31 March 2014, 25,402,000 were exercisable at that date (31 December 2013: 25,402,000 exercisable share options).

Share warrants

During the three month period ended 31 March 2014 no share warrants were issued, expired or exercised.

15 Retained earnings and other reserves

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

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

16 Commitments and contingencies

At 31 March 2014 and 31 December 2013 the Company had minimum lease commitments under non-cancellable operating leases as follows:

	31 March 2014 £	31 December 2013 £
Amounts payable on leases which expire:		
Within one year	**12,658**	50,634
In two to five years	**202,382**	225,794

17 Related parties

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

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

Using a loan facility, XEL has continued to provide its wholly owned subsidiary, XER, with net cash funding. During the three months ended 31 March 2014, XER received funding of £2.4 million (three months ended 31 March 2013: funding of £2.4 million) to finance XER's operational requirements. No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand. The total balance owing by XER to XEL at 31 March 2014 was £102.9 million (as at 31 March 2013: £116.9 million).

In the normal course of business XER incurred charges totalling £5,999 during the three months ended 31 March 2014 (three months ended 31 March 2013: £4,999) 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 31 March 2014 (31 March 2013: £nil).

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