Xcite Energy Limited

Interim consolidated financial statements

For the 3 and 6 month periods ended 30 June 2012

(Unaudited)

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Management's Discussion and Analysis

The Management's Discussion and Analysis ("MD&A") of the operating and financial results of Xcite Energy Limited ("XEL" or the "Company") should be read in conjunction with the Company's interim unaudited consolidated financial statements and related notes thereto for the three and six month periods ended 30 June 2012, the audited consolidated financial statements and related notes thereto for the year ended 31 December 2011 and the annual MD&A of the Company. This MD&A is dated 24 July 2012. These documents and additional information about XEL, including its annual information form dated 26 October 2010, 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 2012 to 30 June 2012 and from 1 January 2011 to 30 June 2011, 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 the appraisal and development of heavy oil resources in the North Sea on the UK Continental Shelf. In 2003, XER was awarded its 100% working interest in the Bentley field in Block 9/3b in the UK North Sea. During 2011 XER was awarded 100% working interests in adjacent Blocks 9/3c and 9/3d.

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

Xcite Energy Limited
For the 3 and 6 month periods ended 30 June 2012

Summary of Results

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

	Q2'12	Q1'12	Q4'11	Q3'11	Q2'11	Q1'11	Q4'10	Q3'10
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Net (loss)/profit	**(223)**	(46)	1,099	(662)	(294)	(13)	(1,724)	(212)
EPS *	**(0.1p)**	(0.0p)	0.6p	(0.4p)	(0.2p)	(0.0p)	(1.1p)	(0.2p)
Total assets	**237,556**	192,634	152,771	130,219	118,064	99,158	102,801	54,688
Long term liabilities	**505**	505	505	505	505	505	505	505

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

The three months ended 30 June 2012 reports a net loss for the period, comprising working capital expenditure and share-based payment charges offset by foreign exchange gains. The reduction in the loss in the current quarter compared with previous periods has arisen due to the increase in foreign currency gains made in the period on currency exchange transactions entered into in the normal course of business. Taking into account the currency gains realised from quarter to quarter, the expenditure incurred in the three months ended 30 June 2012 has risen in line with operational activity and investment in headcount but generally consistent with previous periods. The total asset value of the Group continues to rise quarter on quarter as the Group progresses with its principal project, the Bentley field development.

The Company is not influenced by seasonality to any significant extent. The variations noted above in the net results from quarter to quarter have arisen in line with the execution of the Phase 1A of the Bentley field development programme, 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 2012 was £81.8 million, compared with £64.1 million as at 31 December 2011 and £44.3 million as at 30 June 2011.The increase in cash balance during the six months ended 30 June 2012 has arisen due to the raising of gross funds of £33.5 million as a result of Equity Line Facility ("ELF") draw-downs, new loan note funds of US$50 million (£30.6 million), offset by working capital commitments in respect of the 9/3b-7 and 9/3b-7Z wells under the Bentley Phase 1A field development programme.

In January 2012, the Company raised additional equity of £3.54 million by issuing 3,765,060 new ordinary shares to Esousa Holdings, LLC. ("Esousa"). In March 2012 the Company raised a further £21.19 million by issuing 16,223,431 new ordinary shares to Esousa. In April 2012 the Company raised a further £2.19 million by issuing 1,866,813 new ordinary shares to Esousa. In June 2012 the Company raised a further £2.29 million by issuing 2,584,693 new ordinary shares to Esousa. All of these equity raises to Esousa were using the ELF. As at the date of this MD&A there remains unused ELF capacity of £30.8 million.

In February 2012, the Company completed the placing of the second tranche of new equity funding from Socius CG II, Ltd ("Socius"), receiving gross funds of £12.6 million in respect of the issue of 13,353,038 new ordinary shares.

On 5 April 2012, the Company issued a total of USD$50 million of unsecured 14% loan notes to a Canada-based investment management firm, West Face Capital, Inc ("West Face"). The loan notes have an initial term of 360 days.

On 13 June 2012, the Company announced the private placing of a total of 30 million new ordinary shares with Global Resource Funding Partners LLC ("Global"), to occur in three tranches, the first of which closed on 13 June 2012 with the issuance of 8 million new ordinary shares for gross proceeds of £6.4 million. The second tranche closed on 19 July 2012 with the issuance of 12.5 million new ordinary shares for gross proceeds of £8.33 million.

Of the cash balance held at 30 June 2012, the Company holds £33.4 million in an escrow account in respect of contractual commitments under the Rowan Norway rig agreement. The Company held a further £25.7 million in a separate escrow account in respect of commitments placed under the well management contract for the drilling programme under Phase 1A of the Bentley field development project.

Taking into account the unused ELF, the Group's 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 and for Phase 1A of the Bentley field development programme.

Lease and Contractual Commitments

At 30 June 2012 the Company had lease commitments relating to business premises of £423,740 (30 June 2011: £487,499). The decrease in commitments when comparing June 2012 with June 2011 is in line with the remaining lease commitment on XER's existing Aberdeen business premises..

On 3 February 2012 the Company announced that it had negotiated amendments to the Rowan Norway rig contract with British American Offshore Limited ("Rowan"), providing XER with the ability to shorten its rig commitment should the current Phase 1A work programme finish ahead of schedule, whilst retaining optionality over the procurement of an appropriate rig from the Rowan rig fleet for Phase 1B of the Bentley field development programme.

As mentioned above, the Company holds a total of £59.1 million in two escrow accounts to meet certain contractor commitments under the drilling and management contracts for Phase 1A of the Bentley field development programme (as at 30 June 2011 and 31 December 2011 the Company held a total of £19.7 million and £47.1 million respectively in these two escrow accounts). These escrow accounts will remain in place and the funds used to settle associated expenditure until such time as all associated contractor obligations have been satisfied under the Bentley work programme.

In preparation for the second phase development on the Bentley field, XER has placed commitments for various long-lead items of oilfield equipment, including power generators and topside equipment. The commitments at the balance sheet date for such items were £1.8 million.

On 12 June 2012 the Company announced that it had amended its agreement with BP Oil International Limited ("BPOI") under which BPOI will provide the offtake services to market and sell the Bentley crude oil in return for an incentive-based fee per barrel. BPOI has undertaken to finance Xcite Energy's working

capital requirements for the diluent products to be used in the blending-in-field operations. At current oil prices, this working capital support is estimated to be in the range of US$20 million to US$40 million depending on Bentley crude oil production and blending requirements, in respect of which Xcite Energy would pay BPOI an appropriate commercial financing charge.

On 22 June 2012 the Company announced that it had signed a USD$155 million secured reserves based lending facility (the "Facility") for the Bentley field with a leading group of lending institutions. The Facility, with a term of five years, will be used to provide a substantial part of the funding required for the Phase 1B development of the Bentley heavy oil field. The drawdown under the facility is subject to conditions precedent, including the achievement of certain principal objectives in the Bentley Phase 1A work programme.

The Facility has been arranged with Royal Bank of Scotland plc, Société Générale Corporate & Investment Bank, GE unit GE Energy Financial Services, Nedbank Limited and Britannic Strategies Limited (a subsidiary of BP plc). Royal Bank of Scotland is acting as the Facility agent and security trustee, with Société Générale acting as technical and modelling bank.

The Company is very pleased to have secured the Facility from such a high quality banking consortium with considerable experience in reserves based lending. The process to secure the Facility has involved a further rigorous, independent technical assessment of the Bentley field, the Company's field development plan for Bentley and the route to market for and value of the Bentley crude. The interest rate on the Facility ranges from US Dollar LIBOR and 5.5 per cent to US Dollar LIBOR and 4.5 per cent, with the lower rate applicable following the achievement of certain project milestones in Phase 1B, which include a minimum volume of produced crude oil from the initial wells brought into production. The interest rate and all other principal terms are in line with industry norms.

Having secured the Facility in the current, difficult banking and financial market conditions, the Company has demonstrated a further substantial de-risking of the Bentley field and its proposed development plan.

Income

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

Interest income received on funds invested in the three months ended 30 June 2012 amounted to £52,174 (three months ended 30 June 2011: £11,930). The increase in interest generated on funds invested between the two periods was as a result of a higher average cash balances held by the Group between the comparable periods.

Management has maintained its policy of keeping cash deposits with banks with "A" equivalent credit rating or better. The policy of the Group is to ensure that all cash balances earn a market rate of interest and that interest rate exposures are regularly reviewed and managed.

Operations and Administrative Expenses

The Group operates in a single business and geographical segment. The Group's single line of business is the appraisal and evaluation of oil and gas reserves and the geographical segment in which it currently operates is the North Sea. The Group's sole operational focus is the development of the Bentley field, but it will

continue to pursue other commercial opportunities as and when they arise, subject to available management and financial resources.

During the three months ended 30 June 2012 the Group incurred total net administrative expenses of £275,281 (three months ended 30 June 2011: £305,847). This included total realised foreign currency gains of £143,212 in the three months ended 30 June 2012 (three months ended 30 June 2011: losses of £15,917). Charges taken to the Profit and Loss account under the Company's Stock Option Plan were £73,447 during the current quarter compared with £nil for the comparative period in 2011. In all other material respects the Company has continued to incur operational overheads on a consistent basis quarter on quarter.

During the six months ended 30 June 2012 the Group incurred total net administrative expenses of £360,235 (six months ended 30 June 2011: £351,077). This included total realised foreign currency gains of £439,774 in the six months ended 30 June 2012 (six months ended 30 June 2011: gains of £294,374). Charges taken to the Profit and Loss account under the Company's Stock Option Plan were £81,690 during the six months compared with £65,949 for the comparative period in 2011. 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 public relations costs, including investment in a new corporate website.

Additions to Exploration and Evaluation ("E&E") assets during the three months ended 30 June 2012 were £41,339,593 (three months ended 30 June 2011: £4,573,756). Additions to E&E assets during the six months ended 30 June 2012 were £66,470,230 (six months ended 30 June 2011: £7,390,119). This represents a significant increase on the comparable period last year due principally to the current well drilling operations on the Bentley field. During well drilling operations there are a number of high value costs being incurred on a daily basis, namely rig day rates, together with offshore drilling and other specialist equipment, and offshore and onshore personnel costs. The Rowan Norway jack-up drilling rig has been on hire to XER since late November 2011 and will remain on hire to XER for the foreseeable future to continue the drilling requirements for Phase 1A. There were no drilling rigs on hire during the comparable period in 2011.

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

Related Party Transactions

Using a loan facility, XEL has continued to provide its wholly owned subsidiary, XER, with net cash funding of £0.52 million during the three month period to 30 June 2012 (three months to 30 June 2011: £4.74 million) to finance XER's operational requirements. The cumulative six month period funding to 30 June 2012 by XEL to XER was £21.0 million (six months to 30 June 2011: £4.48 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 2012 was £85.8 million (as at 30 June 2011: £46.1 million).

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

	6 months ended 30 June 2012 (unaudited)	**3 months ended 30 June 2012 (unaudited)**	6 months ended 30 June 2011 (unaudited)	3 months ended 30 June 2011 (unaudited)
	£	**£**	£	£
Wages and salaries	**319,350**	**159,675**	371,850	212,175
Social security costs	**42,562**	**21,260**	48,255	28,549
Share-based payments	**15,736**	**-**	125,888	-
	377,648	**180,935**	545,993	240,724

In addition to the above, during the three month period ended 30 June 2012, 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 £15,000, £8,750, £8,125 and £8,750 respectively. The comparatives for the three month period ended 30 June 2011 were £7,500, £5,917, £5,708 and £8,917 respectively.

In the six months ended 30 June 2012 the total fees for Roger Ramshaw, Gregory Moroney, Scott Cochlan and Tim Jones were £30,000, £17,500, £16,250 and £17,500 respectively. The comparatives for the six months ended 30 June 2011 were £16,500, £8,917, £8,708 and £14,167 respectively.

Charges in respect of share-based payments for the Non-Executive Directors in the three month period to 30 June 2012 were £nil (three month period to 30 June 2011: £nil). Charges in respect of share-based payments for the Non-Executive Directors in the six month period to 30 June 2012 were £2,525 (six month period to 30 June 2011: £20,199).

In the normal course of business XER incurred charges totalling £5,000 during the three month period to 30 June 2012 and £9,994 for the six months to 30 June 2012 (three and six months to 30 June 2011: £5,027 and £6,284 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 2012 (30 June 2011: £nil).

Share Options, Warrants and Rights

During the three and six month periods ended 30 June 2012 the Company issued 4,700,000 new options to the XER management team under the Stock Option Plan with an average exercise price of CAD$1.19 (£0.74) and a life of five years (three and six month periods ended 30 June 2011: nil new share options were issued). No share options were issued to XEL Directors during this period.

On 7 February 2012 the Company received consideration of CAD$18,802 (£11,780) in respect of the exercise of 30,325 broker warrants.

On 10 February 2012 the Company issued a total of 6,676,519 new warrants with an exercise price of £1.14 and a life of three years as part of the second tranche of equity financing from Socius. These warrants were exercised on 29 May 2012 under a cashless exercise provision, resulting in the issue of 6,449,599 new ordinary shares for nil consideration.

On 13 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.

On 5 July 2012 the Company announced that a total of 7,597,647 warrants were exercised by Socius under a cashless exercise provision resulting in the issue of 7,501,677 new ordinary shares in the Company.

On 18 July 2012 the Company issued a total of 6,250,000 new warrants at a price of approximately £0.80 (CAD$1.27) and a life of three years in respect of the second tranche of the private placement with Global.

As at the date of signing this MD&A there were 21,923,000 options outstanding and 10,600,000 warrants outstanding, which would be equal to 32,523,000 further ordinary shares upon full conversion of these options and warrants.

Disclosure Controls and Procedures

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

Outstanding Share Capital

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

	Ordinary Shares
As at 1 January 2012	**206,005,364**
Issue of ordinary shares through ELF	24,439,997
Issue of ordinary shares through private placement	21,353,038
Issue of ordinary shares through warrant exercises	6,479,924
As at 30 June 2012	**258,278,323**

As at the date of signing this MD&A, the number of shares in issue was 278,280,000 following the issue of 7,501,677 new ordinary shares in the Company as a result of the exercise of warrants as announced by the Company on 5 July 2012 and the issue of 12,500,000 new ordinary shares in the Company in respect of the second tranche of the private placement with Global as announced on 19 July 2012.

Risk Management

The principal risk factors facing the Group are as follows:

Exploration and development

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

Offshore exploration

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

Commodity pricing

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

Financing

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

Currency

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

Resource estimation

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

Dependence on key executives and personnel

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

Early stage of development

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

Significant Accounting Judgements and Estimates

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

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

(a) Income taxes

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

(b) Fair value of share options and warrants

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

(c) Impairment of E&E assets

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

Changes in Accounting Policies

Whilst the Group has adopted Amendments to IAS 19 'Employee Benefits' during the period, it has not had 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 13 to the interim unaudited consolidated financial statements.

Outlook for the Remainder of 2012

Following the successful spud of the 9/03b-7 well on 18 March 2012, the Group is now undertaking the work programme on the Bentley field, which has an estimated duration into the fourth quarter of 2012. The Bentley Phase 1A work programme has two principal objectives:

1. The 9/03b-7 and 7Z wells are planned to demonstrate the mechanical and operational aspects of the drilling, completion and flowing of the proposed well design for Phase 1B. The 9/03b-7Z well is planned to be used in Phase 1B as the first full production wellbore.

2. To collect additional reservoir and production data to improve the calibration of the reservoir model, including data with respect to enhanced oil recovery techniques. This data will be used to further increase the certainty with respect to the longer term oil, gas and water production profiles and recoverable reserves from the Bentley field.

As announced in recent weeks, the Company has made good progress in the drilling programme for the 9/03b-7 and 7Z wells, with both laterals being placed in the planned locations in the reservoir and completed satisfactorily with sand screens.

The pre-production flow test is progressing well, with the planned shut-in period and pressure build-up test commencing on 11 July 2012 following the initial, successful, clean-up and first oil flow on 9 July 2012. This planned shut-in period and pressure build-up test is designed to obtain key information about the Bentley reservoir and the mobility of its fluids for use in interpreting the subsequent flow data and for planning the next step of the Bentley field development.

Following this build-up test, the flow test has continued as planned and, as announced on 19 July 2012, a stabilised flow rate of 2,900 barrels of oil per day was comfortably achieved, which was well within the operating limits of the equipment and the reservoir performance. This augurs well for the remainder of the pre-production flow test and we look forward to updating shareholders with further news of the Phase 1A work programme during the remainder of the year.

As announced on 13 June 2012, the Company agreed to a private placement of 30 million units with Global, to be issued in three tranches. Tranche 1 closed on 13 June 2012 and Tranche 2 on 19 July 2012, at which point the Company announced that the placement was amended to 32.5 million units in total. Tranche 3 is expected to close within the third quarter of 2012.

As announced on 22 June 2012, the Company signed a US$155 million secured reserves based loan facility agreement (the "Facility") for the Bentley field with a leading group of lending institutions. The Facility, with a term of five years, will be used to provide a substantial part of the funding required for the Phase 1B development of the Bentley oil field.

With the RBL Facility now signed, the Company will continue its preparations for the development of the Bentley field in Phase 1B, including the inter-dependent completion of the funding programme and the Department of Energy and Climate Change approval for the field development plan.

In line with the previously outlined funding strategy, the Company intends to pursue its other options to provide the balance of the funding required to commence the Phase 1B development. Such funding could be provided by the potential farm-out of an appropriate interest in the Bentley field following the outcome of Phase 1A programme in the fourth quarter of 2012, other industry participation, convertible debt instruments, mezzanine debt and potentially equity financing. The Company has appointed Jefferies International Limited and Rothschild as advisers to assist with advancing these options.

Xcite Energy Limited
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Consolidated Income Statement (in Pounds Sterling)

	Note	**6 month period ended 30 June 2012**	**3 month period ended 30 June 2012**	6 month period ended 30 June 2011	3 month period ended 30 June 2011
		(unaudited)	**(unaudited)**	(unaudited)	(unaudited)
		£	**£**	£	£
Share-based payment charges		**(81,690)**	**(73,447)**	(65,949)	-
Foreign exchange gains/(losses)		**439,774**	**143,212**	294,374	(15,917)
Other expenses		**(718,319)**	**(345,046)**	(579,502)	(289,930)
Net administrative expenses		**(360,235)**	**(275,281)**	(351,077)	(305,847)
Operating loss	3	**(360,235)**	**(275,281)**	(351,077)	(305,847)
Finance income – bank interest		**90,854**	**52,174**	43,921	11,930
Loss before taxation		**(269,381)**	**(223,107)**	(307,156)	(293,917)
Tax expense	5	**-**	**-**	-	-
Loss for the period attributable to equity holders of the parent company		**(269,381)**	**(223,107)**	(307,156)	(293,917)

Loss per share attributable to the equity holders of the parent company:

Basic and diluted	6	**(0.12p)**	**(0.09p)**	(0.19p)	(0.17p)

All results relate to continuing operations. The notes on pages 18 to 33 form part of these financial statements.

Xcite Energy Limited
For the 3 and 6 month periods ended 30 June 2012

Consolidated Statement of Comprehensive Income (in Pounds Sterling)

	6 months ended 30 June 2012 (unaudited) £	**3 months ended 30 June 2012 (unaudited) £**	6 months ended 30 June 2011 (unaudited) £	3 months ended 30 June 2011 (unaudited) £
Loss for the period	**(269,381)**	**(223,107)**	(307,156)	(293,917)
Total comprehensive loss for the period	**(269,381)**	**(223,107)**	(307,156)	(293,917)
Attributable to:				
Equity holders of the parent company	**(269,381)**	**(223,107)**	(307,156)	(293,917)

The notes on pages 18 to 33 form part of these financial statements.

Xcite Energy Limited
For the 3 and 6 month periods ended 30 June 2012

Consolidated Condensed Statement of Changes in Equity (in Pounds Sterling)

	Share Capital	Retained Earnings	Merger Reserve	Other Reserves	Total
	£	£	£	£	£
At 1 January 2011	76,487,362	(4,220,248)	218	6,317,213	78,584,545
Loss for the 6 months to 30 June 2011	-	(307,156)	-	-	(307,156)
Total comprehensive loss for the 6 months to 30 June 2011	**-**	**(307,156)**	**-**	**-**	**(307,156)**
Transactions with owners:					
Issue of shares	33,500,000	-	-	-	33,500,000
Associated share issue costs	(334,818)	-	-	-	(334,818)
Transfer upon exercise of share warrants	-	1,711	-	(1,711)	-
Fair value of share warrants and options	-	-	-	206,682	206,682
At 30 June 2011	**109,652,544**	**(4,525,693)**	**218**	**6,522,184**	**111,649,253**
Profit for the 6 months to 31 December 2011	-	436,719	-	-	436,719
Total comprehensive gain for the 6 months to 31 December 2011	**-**	**436,719**	**-**	**-**	**436,719**
Transactions with owners:					
Issue of shares	31,901,434	-	-	-	31,901,434
Associated share issue costs	(2,316,522)	-	-	-	(2,316,522)
Broker warrant issue	(2,177,459)	-	-	2,177,459	-
Transfer upon exercise of share warrants	-	43,559	-	(43,559)	-
Fair value of share warrants and options	-	-	-	1,094,424	1,094,424
At 31 December 2011	**137,059,997**	**(4,045,415)**	**218**	**9,750,508**	**142,765,308**
Loss for the 6 months to 30 June 2012	-	(269,381)	-	-	(269,381)
Total comprehensive loss for the 6 months to 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)**
Broker 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**

The notes on pages 18 to 33 form part of these financial statements.

Xcite Energy Limited
For the 3 and 6 month periods ended 30 June 2012

Consolidated Statement of Financial Position (in Pounds Sterling)

	Note	30 June 2012 (unaudited) £	31 December 2011 (audited) £
Assets			
Non-current assets			
Intangible assets	7	**154,550,840**	88,080,610
Property, plant and equipment	8	**232,458**	186,545
Total non-current assets		**154,783,298**	88,267,155
Current assets			
Trade and other receivables	9	**1,019,710**	380,729
Cash and cash equivalents	13b	**81,753,415**	64,123,406
Total current assets		**82,773,125**	64,504,135
Total assets		**237,556,423**	152,771,290
Liabilities			
Current liabilities			
Trade and other payables	10	**14,082,093**	9,500,815
Short term loans	11	**31,743,904**	-
Total current liabilities		**45,825,997**	9,500,815
Non-current liabilities			
Deferred tax	12	**505,167**	505,167
Total non-current liabilities		**505,167**	505,167
Net assets		**191,225,259**	142,765,308
Equity			
Share capital	14	**182,880,963**	137,059,997
Retained earnings	15	**(3,115,682)**	(4,045,415)
Merger reserve	15	**218**	218
Other reserves	15	**11,459,760**	9,750,508
Total equity		**191,225,259**	142,765,308

The notes on pages 18 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 24 July 2012 and were signed on its behalf by:

Stephen Kew
Director

Rupert Cole
Chief Financial Officer

Xcite Energy Limited
For the 3 and 6 month periods ended 30 June 2012

Consolidated Statement of Cash Flows (in Pounds Sterling)

	6 months ended 30 June 2012	**3 months ended 30 June 2012**	6 months ended 30 June 2011	3 months ended 30 June 2011
	(unaudited)	**(unaudited)**	(unaudited)	(unaudited)
	£	**£**	£	£
Loss for the period after tax	**(269,381)**	**(223,107)**	(307,156)	(293,917)
Adjustment for share-based payments	**81,690**	**73,447**	65,949	-
Adjustment for interest income	**(90,854)**	**(52,174)**	(43,921)	(11,930)
Adjustment for depreciation	**57,232**	**32,072**	15,366	9,538
Movement in working capital				
Trade and other receivables	**(638,981)**	**(715,113)**	565,716	(223,083)
Trade and other payables	**5,670,204**	**2,201,356**	(17,801,543)	932,300
Net cash flow from operations	**4,809,910**	**1,316,481**	(17,505,589)	412,908
Additions to exploration and evaluation assets	**(65,375,423)**	**(40,322,378)**	(7,249,385)	(4,573,756)
Purchase of fixed assets	**(103,145)**	**(31,547)**	(71,531)	(34,104)
Interest income	**90,854**	**52,174**	43,921	11,930
Net cash flow from investing	**(65,387,714)**	**(40,301,751)**	(7,276,995)	(4,595,930)
Net proceeds from issue of new shares	**47,552,835**	**11,138,124**	33,165,182	18,268,288
Net proceeds from issue of loan notes	**30,654,978**	**30,654,978**	-	-
Cash flow from financing	**78,207,813**	**41,793,102**	33,165,182	18,268,288
Net increase in cash and cash equivalents	**17,630,009**	**2,807,832**	8,382,598	14,085,266
Cash and cash equivalents as at beginning of period	**64,123,406**	**78,945,583**	35,952,447	30,249,779
Cash and cash equivalents as at end of period	**81,753,415**	**81,753,415**	44,335,045	44,335,045
Cash and cash equivalents comprise:				
Short term deposits	**59,130,779**	**59,130,779**	19,742,828	19,742,828
Cash available on demand	**22,622,636**	**22,622,636**	24,592,217	24,592,217

The notes on pages 18 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 months ended 30 June 2012 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 months ended 30 June 2012 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 2011 but with the adoption of a new accounting policy for loan notes, the policy for which is given below. 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 2011.

Financial liabilities

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

Basis of consolidation

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

New accounting standards adopted during the period

Whilst the Group has adopted Amendments to IAS 19 'Employee Benefits' during the period, it has not had a material effect on the reported results or financial position of the Group. The requirements of recently endorsed Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income' will become effective 1 July 2012 and will not have a material effect on the 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 International Accounting Standard Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC"), have yet to be endorsed by the European Union and/or are effective for future periods and thus have not been adopted in these interim unaudited consolidated financial

statements. A description of these standards and interpretations, together with (where applicable) an indication of the effect of adopting them, is set out in the section below. None are expected to have a material effect on the reported results or financial position of the Group.

Status of EU endorsement

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

- IFRS 9 'Financial Instruments';
- IFRS 10 'Consolidated Financial Statements';
- IFRS 11 'Joint Arrangements';
- IFRS 12 'Disclosures of Interests in Other Entities';
- IFRS 13 'Fair Value Measurement';
- IAS 27 'Separate Financial Statements';
- IAS 28 'Investments in Associates and Joint Ventures';
- Amendments to IAS 12 'Deferred tax: Recovery of underlying assets';
- Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities';
- Amendments to IFRS 1 'Severe hyperinflation and removal of fixed dates for first-time adopters';
- Amendments to IFRS 1 'Government Loans'; and
- Improvements to IFRSs (2009-2011, issued May 2012).

2 Segment Information

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

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

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

	6 months ended 30 June 2012 (unaudited)	**3 months ended 30 June 2012 (unaudited)**	6 months ended 30 June 2011 (unaudited)	3 months ended 30 June 2011 (unaudited)
	£	**£**	£	£
Share-based payment charges	**81,690**	**73,447**	65,949	-

The Company incurred total charges in respect of share-based payments in the three month period to 30 June

2012 of £1,686,264 (three months to 30 June 2011: £nil). Of this, £1,016,010 was in respect of employees (see Note 4) (three months to 30 June 2011: £nil). In accordance with the Company accounting policy, £73,447 has been expensed within operating loss, £1,077,215 has been capitalised within E&E assets and the balance of £535,602 has been charged against the share capital account (three months to 30 June 2011: £nil charge).

In the six month period to 30 June 2012 the Company incurred total charges in respect of share-based payments of £2,908,366 (six months to 30 June 2011: £206,682). Of this, £1,041,845 was in respect of employees and Non-Executive Directors (six months to 30 June 2011: £206,682). In accordance with the Company accounting policy, £1,094,807 has been capitalised within E&E assets, £81,690 expensed within operating loss and the balance of £1,731,869 charged against the share capital account (six months to 30 June 2011: £140,733 capitalised within E&E assets and the balance of £65,949 expensed within operating loss).

4 Staff Costs and Directors' Emoluments

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

	6 months ended 30 June 2012 (unaudited)	**3 months ended 30 June 2012 (unaudited)**	6 months ended 30 June 2011 (unaudited)	3 months ended 30 June 2011 (unaudited)
Technical and administration	**17**	**18**	10	11

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

	6 months ended 30 June 2012 (unaudited)	**3 months ended 30 June 2012 (unaudited)**	6 months ended 30 June 2011 (unaudited)	3 months ended 30 June 2011 (unaudited)
	£	**£**	£	£
Wages and salaries	**1,178,370**	**687,156**	881,363	526,367
Social security costs	**154,446**	**90,357**	113,770	70,037
Share-based payments	**1,039,320**	**1,016,010**	186,483	-
	2,372,136	**1,793,523**	1,181,616	596,404

b) Executive Directors' emoluments and performance based remuneration:

	6 months ended 30 June 2012 (unaudited)	**3 months ended 30 June 2012 (unaudited)**	6 months ended 30 June 2011 (unaudited)	3 months ended 30 June 2011 (unaudited)
	£	**£**	£	£
Wages and salaries	**319,350**	**159,675**	371,850	212,175
Social security costs	**42,562**	**21,260**	48,255	28,549
Share-based payments	**15,736**	**-**	125,888	-
	377,648	**180,935**	545,993	240,724

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

In addition to the above, during the three month period ended 30 June 2012, 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 £15,000, £8,750, £8,125 and £8,750 respectively. The comparatives for the three month period ended 30 June 2011 were £7,500, £5,917, £5,708 and £8,917 respectively.

In the six months ended 30 June 2012 the total fees for Roger Ramshaw, Gregory Moroney, Scott Cochlan and Tim Jones were £30,000, £17,500, £16,250 and £17,500 respectively. The comparatives for the six months ended 30 June 2011 were £16,500, £8,917, £8,708 and £14,167 respectively.

Charges in respect of share-based payments for the Non-Executive Directors in the three month period to 30 June 2012 were £nil (three month period to 30 June 2011: £nil). Charges in respect of share-based payments for the Non-Executive Directors in the six month period to 30 June 2012 were £2,525 (six month period to 30 June 2011: £20,199).

5 Taxation

	6 months ended 30 June 2012 (unaudited)	**3 months ended 30 June 2012 (unaudited)**	6 months ended 30 June 2011 (unaudited)	3 months ended 30 June 2011 (unaudited)
	£	**£**	£	£
Overseas tax charges	-	-	-	-

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

On 23 March 2011 the UK Government announced changes to the UK Oil and Gas Tax Regime. The most significant change was an increase in the supplementary corporation tax charge for UK North Sea producing

oil companies from 20% to 32%, with a mechanism to reduce this increase should oil prices fall below a certain level. Subject to enactment as proposed, this increase is effective from 24 March 2011.

6 Loss per Share

The basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The calculation of basic loss per ordinary share for the three month period ended 30 June 2012 is based on a three month period loss of £223,107 (three months to 30 June 2011: loss of £293,917) and on 244,975,363 (three months to 30 June 2011: 168,019,234), being the weighted average number of ordinary shares in issue during the period.

The calculation of basic loss per ordinary share for the six month period ended 30 June 2012 is based on a six month period loss of £269,381 (six months to 30 June 2011: loss of £307,156) and on 231,741,321 (six months to 30 June 2011: 164,170,330), being the weighted average number of ordinary shares in issue during the period.

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

7 Intangible Assets

	Licence Fees	
	30 June 2012 (unaudited)	31 December 2011 (audited)
Exploration and Evaluation Assets	**£**	£
Cost and carrying value:		
At 1 January 2012 /1 January 2011	**1,215,387**	791,847
Additions during period	**11,700**	423,540
At 30 June 2012 / 31 December 2011	**1,227,087**	1,215,387

	Appraisal and Exploration Costs	
	30 June 2012 (unaudited)	31 December 2011 (audited)
	£	£
Cost and carrying value:		
At 1 January 2012 / 1 January 2011	**86,865,223**	64,471,530
Additions during period	**66,458,530**	22,393,693
At 30 June 2012 / 31 December 2011	**153,323,753**	86,865,223

	Total	
	30 June 2012 (unaudited)	31 December 2011 (audited)
	£	£
Cost and carrying value:		
At 1 January 2012 / 1 January 2011	**88,080,610**	65,263,377
Additions during period	**66,470,230**	22,817,233
At 30 June 2012 / 31 December 2011	**154,550,840**	88,080,610

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

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

8 Property, Plant and Equipment

Year ended 31 December 2011	Furniture, fittings and computing equipment £
Opening net book amount at 1 January 2011	30,225
Additions	197,340
Depreciation charge	(41,020)
Closing net book amount at 31 December 2011	186,545

At 31 December 2011	
Cost or valuation	262,355
Accumulated depreciation	(75,810)
Net book amount	186,545

Period ended 30 June 2012	
Opening net book amount at 1 January 2012	**186,545**
Additions	**103,145**
Depreciation charge	**(57,232)**
Closing net book amount at 30 June 2012	**232,458**

At 30 June 2012	
Cost or valuation	**365,500**
Accumulated depreciation	**(133,042)**
Net book amount	**232,458**

9 Trade and Other Receivables

	30 June 2012 (unaudited)	31 December 2011 (audited)
	£	£
Indirect taxes receivable	**787,719**	309,729
Prepayments	**160,991**	-
Other receivables	**71,000**	71,000
	1,019,710	380,729

10 Trade and Other Payables

	30 June 2012 (unaudited)	31 December 2011 (audited)
	£	£
Trade payables	**8,658,415**	3,962,950
Social security and other taxes payable	**87,047**	79,385
Accruals and other creditors	**5,336,631**	5,458,480
	14,082,093	9,500,815

11 Short Term Loans

	30 June 2012 (unaudited)	31 December 2011 (audited)
	£	£
Loan notes	**30,847,330**	-
Interest accrual	**896,574**	-
Interest-bearing loan notes	**31,743,904**	-

On 5 April 2012 the Company announced that it had issued USD$50 million of unsecured loan notes bearing interest at 14%, payable in arrears, and with a maturity of 360 days. Interest can be rolled up into the principal amount of the loan notes or paid at the Company's discretion. Given their short term nature, the book value of the loan notes is considered to be materially representative of their fair value.

12 Deferred tax

	30 June 2012 (unaudited)	31 December 2011 (audited)
	£	£
At 1 January 2012 / 1 January 2011	**505,167**	505,167
Profit and loss charge	**-**	-
At 30 June 2012 / 31 December 2011	**505,167**	505,167

The total deferred tax liability at 30 June 2012 comprised temporary differences arising from a Research and Development tax claim in the UK. The Group no longer has pre-trading losses within XER as it is now trading following the decision to proceed with the development of the Bentley field. No deferred tax asset has been recognised on these losses until such time as the Group is expected to have sufficient taxable profits in future periods against which the asset can be relieved.

13 Financial Instruments

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

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

Non-market risk

a) Credit risk

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

Credit risk also arises from cash and cash equivalents and deposits held by banks and financial institutions. To minimise the credit risk on banks and financial institution deposits, only independently rated parties with a minimum rating of "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 2012 (unaudited)	31 December 2011 (audited)
	£	£
Financial assets – loans and receivables		
- Cash	**81,753,415**	64,123,406
- Receivables (current)	**71,000**	71,000
- Prepayments	**160,991**	-
	81,985,406	64,194,406
Financial liabilities – measured at amortised cost		
- Loans (all USD$)	**31,551,552**	-
- Payables (current)	**13,995,046**	9,421,431
	45,546,598	9,421,431

Included in cash balances are amounts held in escrow of £59,130,779 (31 December 2011: £47,119,005). The balance held in escrow is not currently available for use by the Group but only available for the purposes of meeting the drilling and well management commitments under the 9/03b-7 and 9/03b-7z well programme for Phase 1A of the Bentley field development.

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

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

c) Capital disclosures

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

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

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

Market risk

d) Interest rate and foreign currency risks

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

	Interest Free Liabilities	
	30 June 2012 (unaudited)	31 December 2011 (audited)
	£	£
Sterling	**6,844,153**	3,941,333
USD$	**7,143,073**	5,474,040
CAD$	**7,820**	6,058
	13,995,046	9,421,431

	Floating rate assets	**Interest free assets**	**Total**
	30 June 2012 (unaudited)	**30 June 2012 (unaudited)**	**30 June 2012 (unaudited)**
	£	**£**	**£**
Sterling	**36,669,896**	**232,054**	**36,901,950**
CAD$	**282,214**	**151**	**282,365**
Euro	**138,973**	**191**	**139,164**
Norwegian Kroner	**21,951**	**38**	**21,989**
USD$	**44,639,902**	**36**	**44,639,938**
	81,752,936	**232,470**	**81,985,406**

	Floating rate assets	Interest free assets	Total
	31 December 2011 (audited)	31 December 2011 (audited)	31 December 2011 (audited)
	£	£	£
Sterling	23,498,964	71,298	23,570,262
CAD$	74,343	151	74,494
Euro	4,740	191	4,931
Norwegian Kroner	-	38	38
USD$	40,544,645	36	40,544,681
	64,122,692	71,714	64,194,406

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 2012 the weighted average rate of interest being earned on Sterling deposits was 0.65% (30 June 2011: 0.64%).

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 2012 the weighted average rate of interest being earned on US deposits was 0.07 % (30 June 2011: 0.18%).

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 £862,946 (three months to 30 June 2011; the Group would have

reported an additional unrealised exchange loss of £493,724). 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 £470,015 (three months to 30 June 2011; the Group would have reported an additional unrealised exchange gain of £513,875).

(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 30 June 2012 would decrease by £86,877 (three month period to 30 June 2011; the Group's loss would decrease by £29,643). 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 30 June 2012 would increase by £49,300 (three month period to 30 June 2011; the Group's loss would increase by £9,034).

On a similar basis, for the six month period ended 30 June 2012 if interest rates had been 50 basis points higher and all other variables were held constant, the Group's loss for the six month period ended 30 June 2012 would decrease by £169,734 (six month period to 30 June 2011; the Group's loss would decrease by £67,180). If interest rates had been 50 basis points lower and all other variables were held constant, the Group's loss for the six month period ended 30 June 2012 would increase by £85,539 (six month period to 30 June 2011; the Group's loss would increase by £17,667).

14 Share Capital

	30 June 2012 (unaudited)	31 December 2011 (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	**258,278,323**	206,005,364

	30 June 2012 (unaudited)	31 December 2011 (audited)
	£	£
Authorised		
- Ordinary shares of no par value	**Unlimited**	Unlimited
Issued and fully paid up		
- Ordinary shares of no par value	**182,880,963**	137,059,997

Shares issued

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.

On 7 February 2012 the Company received consideration of CAD$18,802 (£11,780) in respect of the exercise of 30,325 broker warrants.

On 29 May 2012 a total of 6,676,519 warrants were exchanged for a total of 6,449,559 new ordinary shares in the Company for nil consideration

A total of 21,353,038 new ordinary shares were issued following private placements with Socius and Global, collectively providing collective net proceeds of £18.47 million after the deduction of transaction costs.

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

Stock Option Plan

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

During the three and six month periods ended 30 June 2012 the Company issued 4,700,000 new options under the Stock Option Plan to the XER management team with an average exercise price of CAD$1.19 (£0.74) and a life of five years (three and six month periods ended 30 June 2011: nil new share options were issued). The Company's Directors received no new options in this period.

At 30 June 2012 there were 21,923,000 total share options outstanding (31 December 2011: 17,223,000 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$1.84 per option. Of the total outstanding at 30 June 2012, all were exercisable at that date (31 December 2011: 15,858,668 exercisable share options).

Share warrants

In the six month period to 30 June 2012, the Company issued a total of 10,676,519 new warrants (six months to 30 June 2011: no warrants issued) with an average exercise price of CAD$1.70 (£1.07) and with an average life of three years. There were 4,000,000 warrants issued in the three month period to 30 June 2012 with an average exercise price of CAD$1.54 (£0.97) and a life of three years (three months to 30 June 2011: nil warrants issued).

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 30 June 2012 the Company had minimum lease commitments under non-cancellable operating leases as follows:

	30 June 2012 £	31 December 2011 £
Amounts payable on leases which expire:		
Within one year	**55,134**	7,800
In two to five years	**368,606**	415,950

In preparation for the drilling of further wells on the Bentley field, XER has committed purchases for long-lead items at 30 June 2012 of approximately £1.8 million in respect of tooling and oilfield equipment (30 June 2011: approximately £7 million).

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 of £0.52 million during the three month period to 30 June 2012 (three months to 30 June 2011: £4.74 million)

to finance XER's operational requirements. The cumulative six month period funding to 30 June 2012 by XEL to XER was £21.0 million (six months to 30 June 2011: £4.48 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 2012 was £85.8 million (as at 30 June 2011: £46.1 million).

In the normal course of business XER incurred charges totalling £5,000 during the three month period to 30 June 2012 and £9,994 for the six months to 30 June 2012 (three and six months to 30 June 2011: £5,027 and £6,284 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 2012 (30 June 2011: £nil).

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