Xcite Energy Limited

Interim unaudited consolidated financial statements

For the 3 month period ended 31 March 2015

The Company discloses that its auditors have not reviewed these interim unaudited consolidated financial statements for the three month period ended 31 March 2015, which have been prepared by and are the responsibility of the Company's management.

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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 2015, the audited consolidated financial statements and related notes thereto for the year ended 31 December 2014 and the annual MD&A of the Company. The interim unaudited consolidated financial statements for the three month period ended 31 March 2015 have been prepared in accordance with International Accounting Standards ("IAS") 34 Interim Financial Reporting. This MD&A is dated 28 May 2015. 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 Standards of Disclosure for Oil and Gas Activities ("NI-51-101") of the Canadian Securities Administrators. The Company is a "designated foreign issuer" as that term is defined under National Instrument 71-102 - Continuous Disclosure and Other Exemptions Relating to Foreign Issuers. The Company is subject to the regulatory requirements of the AIM Market of the London Stock Exchange plc of the United Kingdom.

This MD&A includes an analysis of the XEL results from 1 January 2015 to 31 March 2015 and from 1 January 2014 to 31 March 2014, which include the results of the operating subsidiary Xcite Energy Resources plc ("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 US Dollars (US$) 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 construction 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.

Summary of Results

The following table summarises the Group's performance for the eight most recent quarters. All of these results are unaudited and, following a decision by the Company to amend its presentation and functional currency to US Dollars from 1 January 2015, the results of the previous quarters are also restated. 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 adopted by the European Union. 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.

All values in US$'000s	**Q1'15**	Q4'14	Q3'14	Q2'14	Q1'14	Q4'13	Q3'13	Q2'13
Net (loss)/profit	**(451)**	(1,582)	(4,335)	875	(64)	(4,871)	1,468	15,826
Basic EPS *	**(0.1)**	(0.5)	(1.5)	0.3	(0.0)	(1.7)	0.5	5.4
Total assets	**482,560**	482,235	498,814	514,680	447,268	444,389	426,020	403,902
Long term liabilities	**126,414**	125,782	126,308	123,907	5,753	5,700	1,375	1,296

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

The three month period ended 31 March 2015 reports a net loss for the quarter of US$0.45 million, arising from underlying expenditure of US$0.48 million and realised net gains on foreign currency revaluations of US$0.03 million on the Group's Sterling, Euro and Norwegian Krone cash balances held. The Group has continued to incur operating overheads on a level consistent with previous quarters.

Until such time as the Oil and Gas Authority ("OGA"), the new executive agency of the Department of Energy and Climate Change ("DECC") responsible for licensing and field development consents, 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 the OGA/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 Share Option Plan.

Income

Interest Income

Interest income received on funds invested in the three month period ended 31 March 2015 amounted to US$12,574 (three month period ended 31 March 2014: US$14,206). Interest income continues to remain 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 month period ended 31 March 2015, the Group incurred net administrative expenses of US$0.45 million (three month period ended 31 March 2014: US$0.87 million). The decrease in net administrative expenses reflects reduced professional fees incurred during the comparable periods, offset by an E&E write-off in respect of the relinquishment of licences 9/3c and 9/3d in January 2015 of US$0.09 million.

A total of US$0.04 million of net foreign currency exchange ("forex") gains were recognised in the three month period ended 31 March 2015, compared with net gains of US$0.51 million for the three month period ended 31 March 2014, principally attributable to the movement of US Dollar against Sterling, Euro, Canadian Dollar and Norwegian Krone during the period, requiring the Group's currency cash and creditor balances to be revalued as at the date of the Consolidated Statement of Financial Position.

With no share options or share warrants vesting during the periods, there were no charges taken to the Income Statement under the Company's Share Option Plan in either of the three month periods ended 31 March 2015 and 31 March 2014.

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

Additions to E&E assets during the three month period ended 31 March 2015 were US$9.87 million (three month period ended 31 March 2014: US$5.92 million). The additions in the three month period ended 31 March 2015 is higher compared to that of the three month period ended 31 March 2014, reflecting the increase in capitalised finance costs following the issue of the Group's US$135 million of Bonds (as defined below) in June 2014.

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 2015.

Liquidity and Capital Resources

The cash balance as at 31 March 2015 was US$41.07 million, compared with US$50.43 million as at 31 December 2014 and US$28.91 million as at 31 March 2014. The decrease in cash balance during the three month period ended 31 March 2015 has arisen due to continued investment by the Group into the Bentley field development, including servicing of the Group's Bond liabilities. Additions to E&E assets totalled US$9.87 million, which includes capitalised interest costs in respect of the Bonds of US$5.06 million, together with amortisation on Bond fees of US$1.94 million, and capitalised staff and contractor costs of US$2.03 million.

Of the US$41.07 million cash balance held at 31 March 2015, US$16.69 million is held in an escrow account and therefore has been classified as restricted cash with a designated purpose. Whilst title remains with the Group, funds are held under the control of the Bond Trustee. As at 31 March 2014 and 31 December 2014 the balances held in escrow were US$nil and US$22.32 million respectively.

As at the date of this MD&A there remains unused Equity Line Facility ("ELF") capacity of £30.84 million (US$45.80 million), available until July 2017, to provide the Group with additional sources of capital, if required, 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 2015, the Company had lease commitments relating to business premises of US$0.23 million (31 March 2014: US$0.36 million). The decrease in commitments is in line with the remaining lease commitment on XER's Aberdeen office premises.

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 ended 31 March 2015, XER received funding of US$3.08 million (three month period ended 31 March 2014: funding of US$3.96 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 2015 was US$95.37 million (as at 31 March 2014: US$169.69 million).

During the three month period ended 31 March 2015, each of Rupert E. Cole, Andrew J. Fairclough 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 2015 (unaudited)	3 months ended 31 March 2014 (unaudited and restated)
	US$'000s	US$'000s
Wages and salaries	**291**	311
Social security costs	**38**	42
	329	353

In addition to the above, during the three month period ended 31 March 2015, the Group paid to Timothy Jones, Gregory Moroney, Scott Cochlan and Henry Wilson in their capacity as Non-Executive Directors of the Company fees of £20,000, £11,250, £11,250 £11,250 respectively (US$30,444, US$17,294, US$17,245 and US$17,294 respectively). The comparatives in respect of Roger Ramshaw, Gregory Moroney, Scott

Cochlan and Timothy Jones for the three month period ended 31 March 2014 were £20,000, £11,250, £10,625 and £11,250 respectively (US$33,219, US$18,685, US$17,607 and US$18,645 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 2015 and 31 March 2014.

In the normal course of business XER incurred charges totalling US$9,562 during the three month period ended 31 March 2015 (three month period ended 31 March 2014: US$9,853) for property rentals from Seaburome Limited, a company in which Rupert E. Cole is a Director. There was no outstanding balance payable by XER at 31 March 2015 (31 March 2014: US$nil).

Share Options, Warrants and Rights

During the three month periods ended 31 March 2015 and 31 March 2014 no new share options, warrants or rights were issued and no share options, warrants or rights expired.

As at the date of signing this MD&A there were 30,162,000 share options outstanding, with a weighted average exercise price of £1.02 (US$1.58), and 17,250,000 share warrants outstanding, with a weighted average exercise price of £0.86 (US$1.34).

Outstanding Share Capital

There were no new ordinary shares issued during the three month period ended 31 March 2015.

As at the date of signing this MD&A, the number of shares of the Company in issue was 309,930,421.

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 outside 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 are now administered by the OGA 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 OGA and 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 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. 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 US Dollars, the same as the market for crude oil. However, certain Group expenditure is denominated in Pounds Sterling and other currencies. 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 mitigate 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 reserves and resources and its early stage of development. The Group has no previous history of earnings from commercial production and there can be no assurance that the Group's business will be successful or profitable. The development of the field into a proven reserve, as demonstrated by the Reserves and Resources Assessment Report, has, however, materially mitigated this risk. 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 and gas reserves. Estimated recoverable value is based upon anticipated discounted pre-tax and pre-financing net cash flows attributable to such oil and gas reserves.

(d) Fair value of Bond call option

The Group has fair valued the call option that XER has over the repurchase of the Bonds that are currently in issue. The Group used judgement to derive such a valuation using assumptions that are based on market conditions at the date of the Bond issue and those existing at the period end.

Changes in Accounting Policies

Certain new standards, amendments and interpretations endorsed by the IASB and the IFRIC were effective for accounting periods beginning on or after 1 January 2015. The Group has reviewed and considered all available new standards, amendments and interpretations and the adoption of these 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 these interim unaudited consolidated financial statements.

Outlook

On 30 April 2015, the Group announced the results of an updated Reserves and Resources Assessment Report (“RAR”), prepared by AGR TRACS International Limited. This RAR, with an effective date of 31 December 2014, confirmed 2P Reserves for the Bentley field of 265 million stock tank barrels (“MMstb”), an increase of 8 MMstb since the previous RAR dated 25 February 2014. Additionally, the after-tax net present value of the Bentley field cash flows (discounted at 10%) was confirmed to be approximately US$2.25 billion. A further 21 MMstb of P50 Contingent Resources were assigned to the Bentley field, representing the additional economic production that could be achieved after an estimated initial 35 year facilities life cut-off had been applied to the development plan.

The Group has focused on creating an efficient, cost-effective and deliverable development plan, supported by a clearly defined execution strategy with an externally validated cost base. In carrying out this work, the Group has successfully completed a significant number of technical, engineering, optimisation and value assurance programmes in conjunction with the Bentley development group. This has incorporated advanced reservoir modelling to provide more subsurface certainty and has delivered improved functional and cost definition for the project. This is part of the strategy to demonstrate the economic viability of the Bentley project and the Group remains focused on developing its commercial and funding discussions.

Xcite Energy Limited
For the 3 month period ended 31 March 2015

Consolidated Income Statement

	Note	**3 months ended 31 March 2015 (unaudited) US$'000s**	3 months ended 31 March 2014 (unaudited and restated) US$'000s
Foreign exchange gains/(losses)		**26**	(277)
Other expenses		**(490)**	(594)
Net administrative expenses		**(464)**	(871)
Operating loss	3	**(464)**	(871)
Finance income – bank interest		**13**	14
Foreign exchange gains – loan notes		**-**	791
Loss before taxation		**(451)**	(64)
Tax expense	5	-	-
Loss for the period attributable to equity holders of the parent company		**(451)**	(64)
Loss per share attributable to equity holders of the parent Company			
- Basic and Diluted (in cents)	6	**(0.15)**	(0.02)

All results relate to continuing operations. The notes on pages 14 to 27 form part of these financial statements.

Xcite Energy Limited
For the 3 month period ended 31 March 2015

Consolidated Statement of Comprehensive Income

	3 months ended 31 March 2015 (unaudited)	3 months ended 31 March 2014 (unaudited and restated)
	US$'000s	US$'000s
Loss for the period	**(451)**	(64)
Total comprehensive loss for the period	**(451)**	(64)
Attributable to:		
Equity holders of the parent company	**(451)**	(64)

The notes on pages 14 to 27 form part of these financial statements.

Consolidated Condensed Statement of Changes in Equity

	Share Capital	Retained Earnings	Other Reserves	Total
	US$'000s	US$'000s	US$'000s	US$'000s
At 1 January 2014	**311,710**	**6,470**	**39,659**	**357,839**
Loss for the 3 months ended 31 March 2014	-	(64)	-	(64)
Total comprehensive loss for the 3 months ended 31 March 2014	**-**	**(64)**	**-**	**(64)**
At 31 March 2014	**311,710**	**6,406**	**39,659**	**357,775**
Loss for the 9 months ended 31 December 2014	-	(5,042)	-	(5,042)
Total comprehensive loss for the 9 months ended 31 December 2014	**-**	**(5,042)**	**-**	**(5,042)**
Revaluation adjustment on currency conversion	-	-	(22,168)	(22,168)
Issue of shares	18,841	-	-	18,841
Associated share issue costs	(423)	-	-	(423)
Transfer upon exercise of share options	-	216	(216)	-
Fair value of share warrants and options	-	-	1,934	1,934
At 31 December 2014 (unaudited and restated)	**330,128**	**1,580**	**19,209**	**350,917**
Loss for the 3 months ended 31 March 2015	-	(451)	-	(451)
Total comprehensive loss for the 3 months ended 31 March 2015	**-**	**(451)**	**-**	**(451)**
At 31 March 2015 (unaudited)	**330,128**	**1,129**	**19,209**	**350,466**

The notes on pages 14 to 27 form part of these financial statements.

Xcite Energy Limited
For the 3 month period ended 31 March 2015

Consolidated Statement of Financial Position

	Note	**31 March 2015 (unaudited) US$'000s**	31 December 2014 (unaudited and restated) US$'000s
Assets			
Non-current assets			
Intangible assets	7	**432,677**	422,807
Property, plant and equipment	8	**8,579**	8,623
Total non-current assets		**441,256**	431,430
Current assets			
Trade and other receivables	9	**283**	378
Cash and cash equivalents	13b	**24,377**	28,101
Restricted cash and cash equivalents	13b	**16,686**	22,326
Total current assets		**41,346**	50,805
Total assets		**482,602**	482,235
Liabilities			
Current liabilities			
Trade and other payables	10	**1,492**	3,511
Interest on Bonds	11	**3,038**	2,025
Total current liabilities		**4,530**	5,536
Non-current liabilities			
Bonds	11	**125,217**	123,280
Deferred tax	12	**2,389**	2,502
Total non-current liabilities		**127,606**	125,782
Net assets		**350,466**	350,917
Equity			
Share capital	14	**330,128**	330,128
Retained earnings	15	**1,129**	1,580
Other reserves	15	**19,209**	19,209
Total equity		**350,466**	350,917

The notes on pages 14 to 27 form part of these financial statements. These interim unaudited consolidated financial statements were approved by the Board of Directors and authorised for issue on 28 May 2015 and were signed on its behalf by:

Rupert Cole
Chief Executive Officer

Andrew Fairclough
Chief Financial Officer

Consolidated Statement of Cash Flows

	3 months ended 31 March 2015	3 months ended 31 March 2014
	(unaudited)	(unaudited and restated)
	US$'000s	US$'000s
Loss for the period before tax	**(451)**	(64)
Adjustment for interest income	**(13)**	(14)
Adjustment for depreciation	**44**	82
Movement in working capital:		
- Trade and other receivables	**94**	(197)
- Trade and other payables	**931**	(3,011)
Net cash flow from operations	**605**	(3,204)
Additions to exploration and evaluation assets	**(9,870)**	(5,918)
Interest income	**13**	14
Net cash flow from investing	**(9,857)**	(5,904)
Net decrease in cash and cash equivalents	**(9,252)**	(9,108)
Cash and cash equivalents as at beginning of period	**50,427**	36,166
Effect of foreign exchange rate changes	**(112)**	1,854
Cash and cash equivalents as at end of period	**41,063**	28,912
Short term deposits	**16,686**	-
Cash available on demand	**24,377**	28,912

The notes on pages 14 to 27 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 2015 have been prepared in accordance with IAS 34 Interim Financial Reporting. However, the interim unaudited consolidated financial statements for the three months ended 31 March 2015 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 IFRS following the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended 31 December 2014. 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 Company's annual report for the year ended 31 December 2014.

As of 1 January 2015, the Group's functional currency changed from Pounds Sterling (GBP) to United States Dollar (US$). This change was made as the Directors now consider US$ to best represent the currency of the primary economic environment in which the Group operates. This change acknowledges that the Group's financing activities are predominantly in US$, it now primarily expends cash in US$, and its long-term project economics, such as its Reserve and Resources Assessment Reports, are US$ denominated. Furthermore, the market for the Group's anticipated future crude oil production is in US$.

With this change in functional currency, the Group has also adopted US$ as its presentation currency, which aligns the reporting of the results of the Group with that of its peer group. This is a change in accounting policy and, consequently, the financial information for the year ended 31 December 2014 has been presented as "unaudited and restated".

In accordance with IAS 21 'The Effects of Changes in Foreign Exchange Rates', this change in functional currency has been accounted for prospectively by translating all monetary items using the GBP/US$ exchange rate on the date of change (1 January 2015), being at the rate of US$ to GBP of 1.5535. The change in presentation currency has been applied retrospectively, with transactions being translated at their historical prevailing rate ruling at the transaction date, and a corresponding balancing entry being reported in a Cumulative Translation Account in reserves.

The consolidated financial statements have been prepared on a going concern basis. The Group currently has sufficient cash resources to fund its working capital and the committed work programme for at least the next 12 months. The US$135 million of senior secured bonds, issued by XER in June 2014, fall due for repayment by the end of June 2016. In order to fulfil the financial capability requirements of the FDP approval process for the Bentley field development, the Group intends to secure a financing package which meets its long-term funding requirements, including re-financing of the Balance Sheet where appropriate. There is, however, no guarantee of this future long-term funding being available.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, 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

Certain new standards, amendments and interpretations endorsed by the IASB and the IFRIC were effective for accounting periods beginning on or after 1 January 2015. The Group has reviewed and considered all available new standards, amendments and interpretations and the adoption of these had no material impact on the previously reported results or financial position of the Group.

New standards and interpretations not yet applied

Certain new standards and interpretations issued and endorsed by the IASB and the IFRIC during the three months ended 31 March 2015 are effective for future periods and for which the Group has not early adopted. None of these is expected to have a material effect on the reported results or financial position of the Group.

New standards and interpretations which have been issued by the IASB and the IFRIC but have yet to be endorsed by the European Union have not been adopted in these interim unaudited consolidated financial statements. None is expected to have a material effect on the reported results or financial position of the Group.

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

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

	3 months ended 31 March 2015 (unaudited)	3 months ended 31 March 2014 (unaudited and restated)
	US$'000s	US$'000s
Foreign exchange (gains)/losses	**(35)**	277

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 2015 (unaudited)	3 months ended 31 March 2014 (unaudited)
Technical and administration	**17**	18

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

	3 months ended 31 March 2015 (unaudited)	3 months ended 31 March 2014 (unaudited and restated)
	US$'000s	US$'000s
Wages and salaries	**927**	1,001
Social security costs	**121**	130
	1,048	1,131

b) Executive Directors' emoluments and performance based remuneration:

	3 months ended 31 March 2015 (unaudited)	3 months ended 31 March 2014 (unaudited and restated)
	US$'000s	US$'000s
Wages and salaries	**291**	311
Social security costs	**38**	42
	329	353

During the three months ended 31 March 2015, each of Rupert E. Cole, Andrew J. Fairclough and Stephen A. Kew were executive directors of XEL (the "Executive Directors"). For the three months ended 31 March 2014 the Executive Directors were Rupert E. Cole, Andrew J. Fairclough (from 3 February 2014) 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 2015, the Group paid to Timothy Jones, Gregory Moroney, Scott Cochlan and Henry Wilson (the "Non-Executive Directors") in their capacity as Non-Executive Directors of the Company fees of £20,000, £11,250, £11,250 and £11,250 respectively (US$30,444, US$17,294, US$17,245 and US$17,294 respectively). The comparatives for the three months ended 31 March 2014 were for Roger Ramshaw, Gregory Moroney, Scott Cochlan and Timothy Jones and were £20,000, £11,250, £10,625 and £11,250 respectively (US$33,219, US$18,685, US$17,607 and US$18,645 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 2015 and 31 March 2014.

5 Taxation

	3 months ended 31 March 2015 (unaudited)	3 months ended 31 March 2014 (unaudited and restated)
	US$'000s	US$'000s
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. On 18 March 2015, the UK Budget 2015 announced a reduction in the rate of Supplementary Charge to 20% from 1 January 2015, which will result in a combined rate of corporation tax for ring-fenced trading profits for UK North Sea producing oil companies of 50%.

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. When a loss for the period is presented the diluted EPS is not calculated as this would be anti-dilutive.

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 2015 (unaudited)	3 months ended 31 March 2014 (unaudited and restated)
Loss in period (in US$'000s)	**(451)**	(64)
Weighted average number of shares in issue:		
Basic	**309,930,421**	292,811,000
Fully diluted	**357,342,421**	335,713,000
Earnings per share:		
Basic EPS (in US cents)	**(0.15)**	(0.02)
Diluted EPS (in US cents)	**(0.15)**	(0.02)

7 Intangible Assets

Exploration and Evaluation Assets	Licence Fees	
	31 March 2015 (unaudited)	31 December 2014 (unaudited and restated)
	US$'000s	US$'000s
Cost and carrying value:		
At 1 January 2015 /1 January 2014	**4,876**	3,940
Additions during period	**65**	1,212
Disposals during period	**(91)**	-
Effect of foreign exchange rate changes	**-**	(276)
At 31 March 2015 / 31 December 2014	**4,850**	4,876

	Appraisal and Exploration Costs	
	31 March 2015 (unaudited)	31 December 2014 (unaudited and restated)
	US$'000s	US$'000s
Cost and carrying value:		
At 1 January 2015 /1 January 2014	**417,930**	386,555
Net additions during period	**9,897**	57,150
Effect of foreign exchange rate changes	**-**	(25,775)
At 31 March 2015 / 31 December 2014	**427,827**	417,930

	Total	
	31 March 2015 (unaudited)	31 December 2014 (unaudited and restated)
	US$'000s	US$'000s
Cost and carrying value:		
At 1 January 2015 /1 January 2014	**422,806**	390,495
Net additions during period	**9,871**	58,362
Effect of foreign exchange rate changes	**-**	(26,051)
At 31 March 2015 / 31 December 2014	**432,677**	422,806

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 2015 include an amount of US$5.06 million in respect of capitalised interest costs (three month period ended 31 March 2014: US$2.53 million).

The charge in respect of disposals in the three months ended 31 March 2015 represents the write-off on previously capitalised licence costs in respect of Blocks 9/3c and 9/3d, the licences for which were relinquished in January 2015.

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 2014 (unaudited and restated)	US$'000s	US$'000s	US$'000s
Opening net book amount at 1 January 2014	9,005	347	9,352
Additions	-	73	73
Depreciation charge	-	(256)	(256)
Effect of foreign exchange rate changes	(522)	(24)	(546)
Closing net book amount at 31 December 2014	8,483	140	8,623
At 31 December 2014 (unaudited and restated)			
Cost or valuation	8,483	1,056	9,539
Accumulated depreciation	-	(916)	(916)
Net book amount	8,483	140	8,623
Period ended 31 March 2015 (unaudited)			
Opening net book amount at 1 January 2015	**8,483**	**140**	**8,623**
Depreciation charge	**-**	**(44)**	**(44)**
Closing net book amount at 31 March 2015	**8,483**	**96**	**8,579**

At 31 March 2015 (unaudited)			
Cost or valuation	**8,483**	**1,056**	**9,539**
Accumulated depreciation	**-**	**(960)**	**(960)**
Net book amount	**8,483**	**96**	**8,579**

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

9 Trade and Other Receivables

	31 March 2015 (unaudited) US$'000s	31 December 2014 (unaudited and restated) US$'000s
Indirect taxes receivable	**143**	241
Other receivables	**140**	137
	283	378

10 Trade and Other Payables

	31 March 2015 (unaudited) US$'000s	31 December 2014 (unaudited and restated) US$'000s
Trade payables	**777**	1,350
Social security and other taxes payable	**164**	703
Accruals and other creditors	**551**	1,458
	1,492	3,511

11 Senior Secured Bonds

	31 March 2015 (unaudited) US$'000s	31 December 2014 (unaudited and restated) US$'000s
Current liabilities:		
Bond interest accrual	**3,038**	2,025
Non-current liabilities:		
Bond capital less unamortized issue costs	**125,217**	123,280
12.0% Senior Secured US$ Bonds 2014/2016	**128,255**	125,305

On 30 June 2014, the Group issued senior secured bonds ("Bonds") with a capital value of US$135.00 million and a 10% initial issue discount. The Bonds have a term of two years, carry a cash interest coupon of 12% per annum, payable quarterly in arrears, together with an annual payment-in-kind interest coupon of 3% (payable either in cash or in the issue of additional Bonds at the discretion of the Group). The Bonds are listed on the Nordic ABM Stock Exchange. The Bonds have certain financial covenants attached, which include the maintenance of a minimum Group cash balance of not less than US$6.00 million and a minimum Book Equity Ratio (Group Equity to Total Assets) of not less than 30% on a consolidated basis during the term of the Bonds. All financial covenants in place have been met in the three month period ended 31 March 2015. At 31 March 2015, the Book Equity Ratio was 73%. In the absence of a current liquid market in the Bonds, management considers that the carrying value of the Bonds is not materially different from their fair value. The Bonds are secured by a charge over the assets of XER.

The Bond liability has also increased by the payment in kind interest accrual of US$3.04 million and the US$6.01 million amortisation of issue costs. These items have been capitalised within the E&E asset in line with the Group's accounting policy, but are non-cash transactions.

12 Deferred tax

	31 March 2015 (unaudited) US$'000s	31 December 2014 (unaudited and restated) US$'000s
At 1 January 2015 / 1 January 2014	**2,502**	5,700
Profit and loss credit	**-**	(3,198)
Effect of foreign exchange rate changes	**(113)**	-
At 31 March 2015 / 31 December 2014	**2,389**	2,502

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 2015 (unaudited) US$'000s	31 December 2014 (unaudited and restated) US$'000s
Financial assets – loans and receivables		
- Cash and cash equivalents	**24,377**	28,101
- Restricted cash and cash equivalents	**16,686**	22,326
- Receivables (current)	**137**	137
	41,200	50,564
Financial liabilities – measured at amortised cost		
- Senior Secured Bonds (greater than one year)	**125,217**	123,280
- Senior Secured Bonds (current)	**3,038**	2,025
- Payables (current)	**1,326**	2,808
	129,581	128,113

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:

	As at 31 March 2015 (unaudited)		
	Floating rate assets	**Interest free assets**	**Total**
	US$'000s	**US$'000s**	**US$'000s**
Sterling	**4,574**	**138**	**4,712**
Euro	**206**	**-**	**206**
Norwegian Krone	**32**	**-**	**32**
CAD$	**71**	**-**	**71**
US$	**36,179**	**-**	**36,179**
	41,062	**138**	**41,200**

	As at 31 December 2014 (unaudited and restated)		
	Floating rate assets	Interest free assets	Total
	US$'000s	US$'000s	US$'000s
Sterling	5,075	138	5,213
Euro	237	-	237
Norwegian Krone	13	-	13
CAD$	94	-	94
US$	45,007	-	45,007
	50,426	138	50,564

	Fixed Rate Liabilities		Interest Free Liabilities	
	31 March 2015 (unaudited) US$'000s	31 December 2014 (unaudited and restated) US$'000s	**31 March 2015 (unaudited) US$'000s**	31 December 2014 (unaudited and restated) US$'000s
Sterling	**-**	-	**1,279**	2,674
Euro	**-**	-	**-**	-
Norwegian Krone	**-**	-	**31**	107
CAD$	**-**	-	**-**	2
US$	**128,255**	125,305	**18**	25
	128,255	125,305	**1,328**	2,808

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 2015 the weighted average rate of interest being earned on Sterling deposits was 0.27% (31 March 2014: 0.25%; 31 December 2014: 0.26%).

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 2015 the weighted average rate of interest being earned on US Dollar deposits was 0.09% (31 March 2014: 0.17%; 31 December 2014: 0.09%).

The Company also maintains working capital balances of Euros, Norwegian Krone 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 US Dollars (transactional risk) and where non-US Dollar 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 Pounds Sterling and, to a lesser extent, the Canadian Dollar, the Euro and the Norwegian Krone. 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 US Dollars (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 net unrealised foreign exchange loss reported in the Income Statement by the Group would decrease by US$0.08 million (three months ended 31 March 2014; the Group would have reported an additional unrealised exchange gain of US$1.1 million). 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 US$0.08 million (three months ended 31 March 2014; the Group would have reported an additional unrealised exchange loss of US$1.1 million).

The comparative foreign exchange rate sensitivity analysis for the three months ended 31 March 2014 is based on a US Dollar retranslation of the Group's previous functional currency of Pounds Sterling.

(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 2015 would decrease by US$99,546 (three month period ended 31 March 2014; the Group's loss would decrease by US$34,079). 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 2015 would increase by US$12,574 (three month period ended 31 March 2014; the Group's loss would increase by US$19,135).

14 Share Capital

	31 March 2015 (unaudited)	31 December 2014 (unaudited)
	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	**309,930,421**	309,930,421

	31 March 2015 (unaudited)	31 December 2014 (unaudited and restated)
	Value of shares	Value of shares
	US$'000s	US$'000s
Authorised		
- Ordinary shares of no par value	**Unlimited**	Unlimited
Issued and fully paid up		
- Ordinary shares of no par value	**330,128**	330,128

Shares issued

There were no new ordinary shares issued in either of the three month periods ended 31 March 2015 and 31 March 2014.

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

Share Option Plan

An element of the Group's remuneration and reward strategy is through the implementation and use of the Share 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 Share Option Plan is an equity-settled plan with a current maximum five year vesting period for options granted. The Share Option Plan is administered by the Remuneration and Nominating Committee.

During the three month period ended 31 March 2015 the Company issued no new share options under the Share Option Plan (three month period ended 31 March 2014: nil).

At 31 March 2015 there were 30,162,000 total share options outstanding (31 December 2014; 30,162,000 total share options outstanding), with a weighted average exercise price of US$1.58 per option (31 December 2014: US$1.58 per option). Of the total outstanding at 31 March 2015, 30,162,000 were exercisable at that date (31 December 2014: 30,162,000 exercisable share options).

Share warrants

During the three month period ended 31 March 2015 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.

- Other Reserves: Includes Share-Based Payments Reserve, which represents the fair value of unexercised share-based payments and warrants granted over ordinary shares in the Company at the date of grant, and the Merger Reserve, which represents the difference between the nominal value of the shares issued to acquire a subsidiary and the nominal value of the shares acquired.

16 Commitments and contingencies

At 31 March 2015 and 31 December 2014 the Company had minimum lease commitments under non-cancellable operating leases as follows:

	31 March 2015 (unaudited)	31 December 2014 (unaudited and restated)
	US$'000s	US$'000s
Amounts payable on leases which expire:		
Within one year	**212**	260
In two to five years	**18**	56

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 month period ended 31 March 2015, XER received funding of US$3.08 million (three month period ended 31 March 2014: funding of US$3.96 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 2015 was US$95.37 million (as at 31 March 2014: US$169.69 million).

In the normal course of business XER incurred charges totalling US$9,562 during the three month period ended 31 March 2015 (three month period ended 31 March 2014: US$9,853) for property rentals from Seaburome Limited, a company in which Rupert E. Cole is a Director. There was no outstanding balance payable by XER at 31 March 2015 (31 March 2013: US$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.