



Xcite Energy Limited

Interim consolidated financial statements

For the 3 and 6 month periods ended June 30, 2009

(Unaudited)

Xcite Energy Limited

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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 and six month periods ended June 30, 2009, the audited consolidated financial statements and related notes thereto for the year ended December 31, 2008 and the annual MD&A of the Company. This MD&A is dated August 17, 2009. These documents and additional information about XEL are available on SEDAR at www.sedar.com.

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

This MD&A includes an analysis of the XEL results from January 1, 2009 to June 30, 2009 and from January 1, 2008 to June 30, 2008, 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, which could cause actual results to differ from those anticipated by the Group. The reader should not place undue importance on forward looking statements and should not rely upon this information as of any other date. While the Company may elect to, it is under no obligation and does not undertake to update this information at any particular time, unless required by applicable securities law.

Summary of Results

The following table summarises the Group's performance 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 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 and therefore they comply with Article 4 of the EU IAS Regulation.

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	Q2 09	Q1 09	Q3 08	Q2 08	Q1 08	Q3 07	Q2 07	Q1 07
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Net (loss)/profit	(145)	(127)	(90)	(281)	22	65	(-)	(-)
EPS *	(0.2p)	(0.2p)	(0.1p)	(0.5p)	0.0p	0.0p	(0.0p)	(0.0p)
Total assets	23,507	23,779	24,005	25,185	27,787	9,237	11,417	2,288

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

XEL remains disappointed about its share price performance in recent months, despite some recent recovery. Management believes that this net decline in share price over the last twelve months has been largely caused by a rapid deterioration in worldwide financial market confidence and not as a result of any deviation from its existing strategy in the commercialisation and development of the Bentley field, one of the largest undeveloped heavy oil fields in the UK continental shelf. Management believe that the current share price does not reflect the underlying value of the Group's assets.

Liquidity and Capital Resources

The cash balance of the Group as at June 30, 2009 was £0.67 million, compared with £1.83 million as at December 31, 2008. This decrease was attributable to general corporate working capital requirements, together with significant spend on the completion of the updated Competent Person's Report, the successful 3D seismic update, specific fluid studies and on preparation work for the next well as part of the work programme on the Bentley field; this work includes preparation for the drilling of a technical borehole on Bentley in the third quarter of 2009 and a seabed survey.

The cash balance and expected cash inflows are sufficient to meet the short-term operational cash requirements of the Group to March 2010, but is reliant on securing additional funding in order to finance working capital beyond that time. The Group has no capital commitments at this time which require to be financed.

The Company is currently evaluating a number of different initiatives to support its medium-term operational cash-flow requirements. There is no certainty of success with these initiatives due to the continuing economic downturn and restricted availability of capital, but management expects that a satisfactory outcome will be achieved in an appropriate timescale to enable the Bentley work programme to progress.

Lease and Contractual Commitments

At June 30, 2009 the Group had no material lease commitments or contractual obligations.

Operations and Administrative Expenses

In the six months to June 30, 2009 the Group incurred total expenses of £0.28 million (six months to June 30, 2008: £0.53 million). The decrease noted was as a result of no expenditure in relation to UK licensing rounds in 2009 in addition to a reduction in expenditure on professional advisors, including fees for Non-Executive Directors and travel.

The Group is in the development phase and as such no revenue is yet being generated from the Group's assets. Certain key milestones have been achieved in the six months ended June 30, 2009, the most recent being the announcement of the re-interpretation of the re-processed 3D seismic data for the Bentley field. The re-interpretation attributes to Bentley total petroleum initially in place ("PIIP") for the most-likely structure of 689

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million barrels of oil equivalent (“MMbbls”) with a range of 521 MMbbls to 886 MMbbls, with an effective date of June 22, 2009. The most-likely structure confirms remaining recoverable resources from a single platform in the core area of the Bentley field in Block 9/3b of between 80 and 166 MMbbls. The addition of a southern drill centre, not previously considered in the Competent Person’s Report of February 20, 2009 (“CPR”), gives remaining recoverable resources in the range of 29 to 54 MMbbls.

While the above resources estimates have been prepared in accordance with the COGE Handbook by a qualified reserves evaluator with the Company, they have not been verified by an independent third party. Third party confirmation of these changes to remaining recoverable resources will be undertaken in due course as part of the work programme for the pre-development well on Bentley. The technical terms herein are used in accordance with the definitions and guidelines set out in the 2007 SPE/WPC/AAPG/SPEE Petroleum Resource Management System (“PRMS”) as incorporated into the Canadian Oil and Gas Evaluation Handbook (“COGEH”) by the Society of Petroleum Evaluation Engineers & Canadian Institute of Mining, Metallurgy & Petroleum.

The risks and uncertainties associated with recovery of the Contingent Resources (Development Pending) which prevent them from being classified as reserves have been set out in the CPR, with the probability of commercial success for the Field being reported as 70%. The principal risks and uncertainties associated with the recovery of the Prospective Resources (over and above the CPR Contingent Resources) which prevent them from being classified as Contingent Resources are that appraisal wells have not yet confirmed their existence. The principal issues remaining to be addressed following the drilling and testing of the 9/3b-5 well, as reported in the CPR, include the requirement to confirm commercial flow rates from the Field, which are currently predicted from modelling supported by the well flow rates in the analogue Bressay field, 6 km to the northwest and recently announced by StatoilHydro as moving forward to development. The next reservoir intervention will be designed to resolve these remaining issues and, if successful, will enable the Field to be designated as 1P and 2P reserves (as defined under PRMS) within its core area.

Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters, or a lack of markets. There is no certainty that it will be commercially viable to produce any portion of the Contingent Resources.

Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. There is no certainty that any portion of the Prospective Resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the Prospective Resources.

In the three months ended June 30, 2009, total costs of £463,332 (three months ended June 30, 2008: £12,498,864) have been capitalised as Exploration and Evaluation (“E&E”) Assets in Intangible Assets relating to the Bentley field in Block 9/3b. These 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 expenditure in this latest three month period to June 30, 2009 predominantly comprises the costs of study work to re-interpret the re-processed 3D seismic data and in planning for the next stage in the development of the Bentley field, including the preparation for the drilling of a technical borehole on Bentley in the third quarter of 2009 and seabed survey for a pre-development well.

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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. XEL has incurred management costs and costs of operating as a public company amounting to £146,141 for the three months ended June 30, 2009, including investor relations, Directors' remuneration and Stock Exchange fees (three months ended June 30, 2008: £367,280).

Related Party Transactions

XEL has continued to provide a loan facility to its wholly owned subsidiary, XER, to finance XER's operational requirements, with net cash funding of £0.54 million during the three month period to June 30, 2009 (three month period to June 30, 2008: £3.66 million). No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand. The funding provided to XER by XEL in the six month period to June 30, 2009 was £1.06 million (six months to June 30, 2008: £10.22 million).

The Executive Directors have received remuneration, details of which are given in Note 4 to these financial statements. Certain members of the management team and a Non-Executive Director have also been granted share options over the ordinary share capital of the parent undertaking during the period, details of which are given below.

Share Options, Warrants and Rights

On January 8, 2009 the Company issued 650,000 share options over the Company's ordinary share capital to four members of the XER management team. All such options vested immediately with an exercise price of CAD\$0.10 (£0.06) and a term of five years. The Company also issued on the same date a further 200,000 share options over the Company's ordinary share capital to a contractor in recognition of his contribution to the work programme on the Bentley field.

In accordance with the Stock Option Plan, a total of 55,000 share options held by a Non-Executive Director have expired in the six months ended June 30, 2009 following his resignation on November 4, 2008.

On April 23, 2009 the Company issued 100,000 share options over the Company's ordinary share capital to a Non-Executive Director, upon his appointment to the Board of Directors. All such share options vested immediately with an exercise price of CAD\$0.29 (£0.16) and a term of five years.

Income

Interest income earned on funds invested during the three months ended June 30, 2009 amounted to £5,033 (three months to June 30, 2008: £95,235). This interest income earned is consistent with the funds held on deposit during the relevant periods. The reduction seen is due to the significant decreases in base rates since late 2008 in addition to the declining cash balance held on deposit.

During the continued uncertainties of the financial markets during the three months ended June 30, 2009, management has maintained its policy of keeping cash deposits with banks with "AA" 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.

Disclosure Controls and Procedures

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

Outstanding Share Capital

There were no new shares issued in the three months ended June 30, 2009. During the three month period ended June 30, 2009 a total of 10,648,700 share warrants expired, having been issued as part of the June 2007 Private Placement.

As at the date of signing this MD&A, the number of shares in issue was 61,413,800 as set out in Note 12 to the interim unaudited consolidated financial statements and the total number of outstanding share options and warrants over the ordinary share capital of the Company was 5,245,000 and 1,176,000 respectively, which would be equal to 6,421,000 further ordinary shares upon full conversion of these options and warrants.

Risk Management

The principal risk factors facing the Group are as follows:

Exploration and development

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

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 heavy crude 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 reserve 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.

Significant Accounting Judgements and Estimates

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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 Balance Sheet date.

(c) Impairment of Exploration and Evaluation ("E&E") assets

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

Changes in Accounting Policies

During the period the Group has adopted a number of new standards and amendments to standards which become mandatory for the first time for the financial year beginning January 1, 2009. The most significant adoption was that of IAS 1 (revised). The Group has elected under IAS 1 (revised) to present two statements: an income statement and a statement of comprehensive income. These interim unaudited consolidated financial statements have been prepared under the revised disclosure requirements. No restatements were required to prior period comparatives as a result of this adoption.

Whilst the Group has adopted IFRIC 13, IFRIC 14, IFRIC 15 and IFRIC 16 during the period, these are not considered relevant for the Group and have therefore had no impact in these financial statements.

Financial Instruments and Other Derivatives

Details regarding the Group's policies in respect of financial instruments are disclosed in Notes 1 and 11 to the interim unaudited consolidated financial statements.

Outlook for the Remainder of 2009

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The current status of the global equity and credit markets and the consequent effect on the Company's share price compared with its underlying asset value will make it difficult for the Company to raise additional finance and to make significant commitments to move forward with the next phase of the work programme on the Bentley field. The Group's long term prospects are dependent on the investment of significant capital sums for the commercialisation of the Bentley field, but the Group has no such capital commitments to fulfil at this time.

The Group is currently pursuing a number of commercial initiatives involving potential farm-in partners and production sharing contractors to facilitate further work on the Bentley field.

As noted above in 'Liquidity and Capital Resources', the Group has sufficient existing resources to meet its financial obligations to March 2010, but is reliant on securing additional funding in order to finance working capital beyond that time. In addition, the Group is currently in the process of evaluating a number of different initiatives to support its medium-term operational cash-flow requirements to enable it to continue with the work programme on the Bentley field.

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Consolidated Condensed Income Statement

		6 month period ended June 30 2009 (unaudited)	3 month period ended June 30 2009 (unaudited)	6 month period ended June 30 2008 (unaudited)	3 month period ended June 30 2008 (unaudited)
	Note	£	£	£	£
Administrative expenses		(277,511)	(146,142)	(530,552)	(367,280)
Operating loss	3	(277,511)	(146,142)	(530,552)	(367,280)
Finance income - bank interest		5,033	623	280,751	95,235
Loss before tax		(272,478)	(145,519)	(249,801)	(272,045)
Tax expense	5	-	-	(9,443)	(9,443)
Loss for the period		(272,478)	(145,519)	(259,244)	(281,488)
Loss per share:					
Basic and diluted	6	(0.00)	(0.00)	(0.00)	(0.00)

All results relate to continuing operations.

The notes on pages 15 to 30 form part of these financial statements.

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Consolidated Condensed Statement of Comprehensive Income

	6 months ended June 30 2009 (unaudited) £	3 months ended June 30 2009 (unaudited) £	6 months ended June 30 2008 (unaudited) £	3 months ended June 30 2008 (unaudited) £
Loss for the period	(272,478)	(145,519)	(259,244)	(281,488)
Total comprehensive loss for the period	(272,478)	(145,519)	(259,244)	(281,488)
Attributable to:				
Equity shareholders	(272,478)	(145,519)	(259,244)	(281,488)

The notes on pages 15 to 30 form part of these financial statements.

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Consolidated Condensed Statement of Changes in Equity

	Share Capital	Retained Earnings	Merger Reserve	Other Reserves	Total
	£	£	£	£	£
At January 1, 2008	21,774,150	(730,422)	218	1,645,481	22,689,427
Loss for the year to December 31, 2008	-	(554,021)	-	-	(554,021)
Total comprehensive loss for the year ended December 31, 2008	-	(554,021)	-	-	(554,021)
Transactions with owners:					
Issue of shares	478,475	-	-	-	478,475
Transfer upon exercise of share warrants	-	101,774	-	(101,774)	-
Fair value of share warrants and options	-	-	-	135,977	135,977
At January 1, 2009	22,252,625	(1,182,669)	218	1,679,684	22,749,858
Loss for the period to June 30, 2009	-	(272,478)	-	-	(272,478)
Total comprehensive loss for the period ended June 30, 2009	-	(272,478)	-	-	(272,478)
Transactions with owners:					
Fair value of share warrants and options	-	-	-	11,385	11,385
At June 30, 2009	22,252,625	(1,455,147)	218	1,691,069	22,488,765

The notes on pages 15 to 30 form part of these financial statements.

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Consolidated Balance Sheet

		June 30 2009	December 31 2008
		(unaudited)	(audited)
	Note	£	£
Assets			
<i>Non-current assets</i>			
Intangible assets	7	22,817,760	21,996,871
Property, plant and equipment	8	16,735	21,317
Total non-current assets		22,834,495	22,018,188
<i>Current assets</i>			
Trade and other receivables	9	3,925	14,098
Cash and cash equivalents		668,649	1,828,183
Total current assets		672,574	1,842,281
Total assets		23,507,069	23,860,469
Liabilities			
<i>Current liabilities</i>			
Trade and other payables	10	1,018,304	1,110,611
Total current liabilities		1,018,304	1,110,611
Net assets		22,488,765	22,749,858
Equity			
Share capital	12	22,252,625	22,252,625
Retained earnings		(1,455,147)	(1,182,669)
Merger reserve		218	218
Other reserves		1,691,069	1,679,684
Total equity attributable to the owners of the parent		22,488,765	22,749,858

The notes on pages 15 to 30 form part of these financial statements.

These interim unaudited condensed consolidated financial statements were approved by the Board of Directors and authorised for issue on August 17, 2009 and were signed on its behalf by:

Richard Smith
Chief Executive Officer

Rupert Cole
Chief Financial Officer

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Consolidated Cash Flow Statement

	6 months ended June 30 2009 (unaudited) £	3 months ended June 30 2009 (unaudited) £	6 months ended June 30 2008 (unaudited) £	3 months ended June 30 2008 (unaudited) £
Loss for the period after tax	(272,478)	(145,519)	(259,244)	(281,488)
Adjustment for share based payments	11,385	6,641	82,070	82,070
Adjustment for interest income	(5,033)	(623)	(280,751)	(95,235)
Adjustment for depreciation	4,582	2,291	1,611	1,611
Movement in working capital				
- Trade and other receivables	10,173	16,026	36,789	98,577
- Trade and other payables	(92,307)	(132,645)	(2,848,752)	(2,403,300)
Net cash flow from operations	(343,678)	(253,829)	(3,268,277)	(2,597,765)
Additions to exploration and evaluation	(820,889)	(357,557)	(13,703,929)	(1,205,065)
Purchase of fixed assets	-	-	(27,309)	(27,309)
Interest income	5,033	623	280,751	95,235
Net cash flow from investing	(815,856)	(356,934)	(13,450,487)	(1,137,139)
Net proceeds from issue of new shares	-	-	478,475	-
Cash flow from financing	-	-	478,475	-
Net decrease in cash and cash equivalents	(1,159,534)	(610,763)	(16,240,289)	(3,734,904)
Cash and cash equivalents as at beginning of period	1,828,183	1,279,412	21,067,134	8,561,749
Cash and cash equivalents as at end of period	668,649	668,649	4,826,845	4,826,845
Cash and cash equivalents comprise:				
Cash available on demand	668,649	668,649	4,826,845	4,826,845

The notes on pages 15 to 30 form part of these financial statements.

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Notes to the Interim Consolidated Financial Statements

1 Accounting Policies

Basis of preparation

The interim unaudited condensed consolidated financial statements for the three months ended June 30, 2009 have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by The European Union. The interim unaudited condensed consolidated financial statements for the three months ended June 30, 2009 have not been reviewed or audited by the Company's auditors.

These interim unaudited condensed consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards following the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended December 31, 2008, except as described below. These interim unaudited condensed 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 December 31, 2008.

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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning January 1, 2009:

- IAS 1 (revised) 'Presentation of Financial Statements' prohibits the presentation of items of income and expense (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement. The Group has elected to present two statements: an income statement and a statement of comprehensive income. These interim unaudited consolidated financial statements have been prepared under the revised presentation requirements for primary statements.
- IFRS 8 'Operating Segments' replaces IAS 14 'Segment Reporting'. Adoption of IFRS 8 has resulted in no changes in the Group's identification of reporting segments.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning January 1, 2009 but are currently not relevant for the Group:

- IFRIC 13 'Customer Loyalty Programmes';
- IFRIC 14 'The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction';

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- IFRIC 15 'Agreements for the Construction of Real Estate'; and
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'.

New standards and interpretations not yet applied

The following new standards and interpretations, which have been issued by the IASB and the 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 below. None are expected to have a material effect on the reported results or financial position of the Group.

In December 2007 the IASB issued an exposure draft on the amendments to IFRS 2 'Share-based Payment' and IFRIC 11 'Group and Treasury Share Transactions: Group Cash-settled Share-based Payment Transactions'. The proposals in the exposure draft respond to requests for guidance on how an entity that receives goods or services from its suppliers (including employees) should account for the certain cash-settled arrangements. The proposed amendment to IFRS 2 clarifies that IFRS 2 can apply even if the entity that receives the goods or services from its suppliers has no obligation to make the required shared-based cash payments.

The IASB published amendments to IAS 39 'Financial Instruments: Recognition and Measurement: Eligible Hedged items' in July 2008 to clarify when inflation can be designated as a hedged item in a financial instrument under the hedge accounting provisions of IAS 39 and how hedge accounting can be applied to hedges when a hedging instrument is an option contract.

A restructured version of IFRS 1 'First Time Adoption of IFRS' was proposed in November 2008. It aims to make it easier to use and to amend in the future. Additional amendments for first time adopters were issued in July 2009.

Amendment to IAS 39 'Reclassification of Financial Assets: Effective Date and Transition' was issued in November 2008. This amendment clarifies the effective date and transitional requirements of the October 2008 amendment to IAS 39 that permitted reclassifications out of the fair value through profit or loss category of financial assets in certain circumstances.

In November 2008 the IFRIC published IFRIC 17 'Distributions of Non-cash Assets to Owners' to provide guidance on how an entity should measure distributions of assets other than cash when it pays dividends to its owners acting in their capacity as owners. In summary, IFRIC 17 requires such distributions to be measured at fair value. IFRIC 17 shall be applied prospectively for annual periods beginning on or after July 1, 2009.

In January 2009 the IFRIC published IFRIC 18 'Transfers of Assets from Customers' to help address uncertainties over the accounting of contributions by customers in the form of infrastructure assets (such as an item of property, plant and equipment) or cash to fund the acquisition and/or construction of such an asset in order to obtain an ongoing service or to secure the ongoing supply of goods from the entity. IFRIC 18 shall be applied prospectively to transfers of assets from customers received on or after July 1, 2009.

In March 2009 the IASB issued Amendment to IFRS 7 'Improving Disclosures About Financial Instruments', in part as a response to the world-wide credit crisis, to introduce a fair value hierarchy and to enhance liquidity risk disclosures.

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Amendments to IFRIC 9 and IAS 39 'Embedded Derivatives' were issued in March 2009. The proposed amendments clarify that entities are required to assess whether hybrid contracts reclassified out of the fair value through profit or loss category contain embedded derivatives that require separation and that assessment has to be made based on the conditions that existed at the time of the initial recognition of the contracts.

The IASB issued in April 2009 as part of its Annual Improvements Project an Exposure Draft discussing proposed improvements to existing IFRSs. The Annual Improvements Project has the intention of dealing with a relatively high number of small amendments to existing standards. Most amendments will be effective July 1, 2009 at the earliest.

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 interim consolidated financial statements were authorised for issue:

- Amendment to IAS 39 'Financial Instruments: Recognition and Measurement: Eligible Hedged Items';
- Amendment to IAS 39 'Reclassification of Financial Assets: Effective Date and Transition';
- Amendment to IFRS 7 'Improving Disclosures about Financial Instruments';
- Amendments to IFRIC 9 and IAS 39 'Embedded Derivatives';
- Amendments to IFRS 2 'Group Cash-settled Share-based Payment Transactions';
- IFRIC 17 'Distributions of Non-cash Assets to Owners';
- IFRIC 18 'Transfers of Assets from Customers';
- Revised IFRS 1 'First Time Adoption of IFRS'; and
- Amendments to IFRS 1 'Additional Exemptions for First-Time Adopters'.

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.

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3 Operating Loss

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

	6 months ended June 30, 2009 (unaudited)	3 months ended June 30, 2009 (unaudited)	6 months ended June 30, 2008 (unaudited)	3 months ended June 30, 2008 (unaudited)
	£	£	£	£
Share based payment charges	6,781	6,641	12,072	12,072

The Company incurred total charges in respect of share based payments in the three month period to June 30, 2009 of £6,641 (three months to June 30, 2008: £82,070). Of this, £nil was in respect of employees (see Note 4) (three months to June 30, 2008: £74,115). In accordance with the Company accounting policy, £nil has been capitalized within E&E assets and the balance of £6,641 expensed within operating loss (three months to June 30, 2008: £69,998 capitalized within E&E assets and the balance of £12,072 expensed within operating loss).

In the six month period to June 30, 2009 the Company incurred total charges in respect of share based payments of £11,385 (six months to June 30, 2008: £82,070). Of this, £3,628 was in respect of employees (six months to June 30, 2008: £74,115). In accordance with the Group accounting policy, £4,604 has been capitalized within E&E assets and the balance of £6,781 expensed within operating loss (six months to June 30, 2008: £69,998 capitalized within E&E assets and the balance of £12,072 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 June 30, 2009 (unaudited)	3 months ended June 30, 2009 (unaudited)	6 months ended June 30, 2008 (unaudited)	3 months ended June 30, 2008 (unaudited)
Technical and administration	8	8	6	6

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

	6 months ended June 30, 2009 (unaudited)	3 months ended June 30, 2009 (unaudited)	6 months ended June 30, 2008 (unaudited)	3 months ended June 30, 2008 (unaudited)
	£	£	£	£
Wages and salaries	572,930	285,295	469,979	264,423
Social security costs	70,543	35,115	57,982	32,562
Share based payments	3,628	-	74,115	74,115
	647,101	320,410	602,076	371,100

b) Executive Directors' emoluments

	6 months ended June 30, 2009 (unaudited)	3 months ended June 30, 2009 (unaudited)	6 months ended June 30, 2008 (unaudited)	3 months ended June 30, 2008 (unaudited)
	£	£	£	£
Wages and salaries	319,350	159,675	319,350	159,675
Social security costs	39,809	19,889	39,846	19,909
	359,159	179,564	359,196	179,584

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

In addition to the above, during the three month period ended June 30, 2009, the Group paid to Roger Ramshaw, Gregory Moroney, Scott Cochlan and Timothy Jones in their capacity as Non-Executive Directors of the Company fees of £6,000, £1,500, £1,500 and £6,000 respectively. The comparatives for the three month period ended June 30, 2008 were £15,000, £4,500, £3,000 and £nil respectively.

There were share based payment charges in respect of Non-Executive Directors in the three months and six months to June 30, 2009 of £6,641 and £6,641 respectively (three months and six months to June 30, 2008 of £nil and £7,954 respectively).

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5 Taxation

	6 months ended June 30, 2009 (unaudited)	3 months ended June 30, 2009 (unaudited)	6 months ended June 30, 2008 (unaudited)	3 months ended June 30, 2008 (unaudited)
	£	£	£	£
Current tax				
UK tax on income for the period	-	-	9,443	9,443
Adjustments in respect of prior periods	-	-	-	-
Tax on loss on ordinary activities	-	-	9,443	9,443

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

	6 months ended June 30 2009	3 months ended June 30 2009	6 months ended June 30 2008	3 months ended June 30 2008
	£	£	£	£
Loss on ordinary activities before tax	(272,478)	(145,519)	(249,801)	(272,045)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the British Virgin Islands of 0% (2008: 0%)	-	-	-	-
Effects of:				
UK Tax suffered on income	-	-	9,443	9,443
Prior period adjustments	-	-	-	-
Current tax charge for the period	-	-	9,443	9,443

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

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current tax on taxable profits at a rate of 30% or 19% where the profits fall within the limits of the small companies rate (June 30, 2008: 30% or 20%).

From April 1, 2008 the standard rate of corporation tax in the UK decreased to 28% and the small companies' rate increased to 21%. XER is, however, considered to be a company which profits from oil extraction and oil rights in the UK and the UK Continental Shelf and therefore from April 1, 2008 continued to be 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.

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 June 30, 2009 is based on a three month period loss of £145,518 (three months to June 30, 2008: loss of £281,488) and on 61,413,800 (three months to June 30, 2008: 61,413,800), 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 June 30, 2009 is based on a six month period loss of £272,478 (six months to June 30, 2008: loss of £259,244) and on 61,413,800 (six months to June 30, 2008: 61,257,990), being the weighted average number of ordinary shares in issue during the period.

Details of potentially dilutive financial instruments are given in Note 12 to these financial statements. None of these potentially dilutive financial instruments have been included in the calculation of loss per share as they are anti-dilutive.

7 Intangible Assets

	Licence Fees	
	June 30 2009 (unaudited)	December 31 2008 (audited)
<i>Exploration and Evaluation Assets</i>	£	£
<hr/>		
Cost and carrying value:		
At January 1, 2009 / January 1, 2008	253,287	126,567
Additions during period	-	126,720
<hr/>		
At June 30, 2009 / December 31, 2008	253,287	253,287
<hr/>		

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Appraisal and Exploration Costs

	June 30 2009 (unaudited)	December 31 2008 (audited)
	£	£
<hr/>		
Cost and carrying value:		
At January 1, 2009 / January 1, 2008	21,743,584	6,455,609
Additions during period	820,889	15,287,975
	<hr/>	
At June 30, 2009 / December 31, 2008	22,564,473	21,743,584
	<hr/>	

Total

	June 30 2009 (unaudited)	December 31 2008 (audited)
	£	£
<hr/>		
Cost and carrying value:		
At January 1, 2009 / January 1, 2008	21,996,871	6,582,176
Additions during period	820,889	15,414,695
	<hr/>	
At June 30, 2009 / December 31, 2008	22,817,760	21,996,871
	<hr/>	

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 well 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.

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8 Property, Plant and Equipment

	Furniture, fittings and computing equipment
	£
Opening net book amount at January 1, 2008	-
Additions	27,490
Depreciation charge	6,173
Closing net book amount at December 31, 2008	21,317
At December 31, 2008 (audited)	
Cost or valuation	27,490
Accumulated depreciation	6,173
Net book amount at December 31, 2008	21,317
Period ending June 30, 2009 (unaudited)	
Opening net book amount at January 1, 2009	21,317
Depreciation charge	4,582
Closing net book amount at June 30, 2009	16,735
At June 30, 2009 (unaudited)	
Cost or valuation	27,490
Accumulated depreciation	10,755
Net book amount at June 30, 2009	16,735

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9 Trade and Other Receivables

	June 30 2009 (unaudited)	December 31 2008 (audited)
	£	£
Indirect taxes receivable	-	10,173
Other receivables	3,925	3,925
	3,925	14,098

10 Trade and Other Payables

	June 30 2009 (unaudited)	December 31 2008 (audited)
	£	£
Trade payables	104,334	150,092
Social security and other taxes payable	46,529	47,318
Indirect taxes payable	1,386	-
Accruals and other payables	866,055	913,201
	1,018,304	1,110,611

11 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.

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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 "AA" 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. It operates according to the policies and guidelines established by the Board. Cash management is carried out centrally.

	Carrying Amount	
	June 30 2009 (unaudited)	December 31 2008 (audited)
	£	£
Financial assets – loans and receivables measured at amortised cost		
- Cash	668,675	1,828,183
- Receivables (current)	3,925	3,925
	672,600	1,832,108
Financial liabilities – measured at amortised cost		
- Payables (current)	1,018,304	1,063,293

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.

Market risk

c) 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	
	June 30 2009 (unaudited)	December 31 2008 (audited)
	£	£
Sterling	1,007,175	1,063,293
CAD\$	11,129	-
	1,018,304	1,063,293

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	Floating rate assets	Interest free assets	Total
	June 30 2009 (unaudited)	June 30 2009 (unaudited)	June 30 2009 (unaudited)
	£	£	£
Sterling	649,071	3,675	652,746
CAD\$	18,307	250	18,557
USD\$	1,297	-	1,297
	668,675	3,925	672,600

	Floating rate assets	Interest free assets	Total
	December 31 2008 (audited)	December 31 2008 (audited)	December 31 2008 (audited)
	£	£	£
Sterling	1,788,298	3,675	1,791,973
CAD\$	34,833	250	35,083
USD\$	5,052	-	5,052
	1,828,183	3,925	1,832,108

Sterling floating rate assets earn interest at circa 25 basis points below the Bank of England Base Rate per annum. US\$ floating rate assets earn interest at circa 25 basis points below the Federal Reserve Rate per annum. CAD\$ floating rate assets earn interest at circa 25 basis points below the Canadian Overnight Rate per annum. Cash deposits are only kept with banks with “AA” 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 and the Euro. In light of the infrequency and relative small value of such non-Sterling denominated transactions and balances, the Group considers that at present its foreign currency risk is not material. 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.

As the Group is at the development stage, it is not yet subject to significant exposure to the Sterling/US Dollar exchange rate fluctuations.

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(d) 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/lower and all other variables were held constant, the Group's loss for the three month period ended June 30, 2009 would decrease/increase by £3,382 (three month period to June 30, 2008; the Group's loss would decrease/increase by £37,065).

12 Share Capital

	June 30 2009 (unaudited)	December 31 2008 (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	61,413,800	61,413,800

	June 30 2009 (unaudited)	December 31 2008 (audited)
	£	£
Authorised		
- Ordinary shares of no par value	Unlimited	Unlimited
Issued and fully paid up		
- Ordinary shares of no par value	22,252,625	22,252,625

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

Shares issued

The Company issued no new ordinary shares during the six months ended June 30, 2009. During the three months ended March 31, 2008 the Company issued a total of 863,800 ordinary shares for a total consideration of £478,475 following the exercise of certain warrants. There were no further share issues in the three month period ended June 30, 2008.

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Stock Option Plan

An element of the Group's reward strategy is the implementation 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 or 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 administered by the Remuneration and Nominating Committee.

On January 8, 2009 the Company issued 650,000 share options over the Company's ordinary share capital to four members of the XER management team. All such options vested immediately with an exercise price of CAD\$0.10 (£0.06) and a term of five years. The Company issued on the same date a further 200,000 share options over the Company's ordinary share capital to a contractor in recognition of his contribution to the development of the Bentley field.

In accordance with the Stock Option Plan, a total of 55,000 share options held by a Non-Executive Director have expired in the six months ended June 30, 2009 following his resignation on November 4, 2008.

On April 23, 2009 the Company issued 100,000 share options over the Company's ordinary share capital to a Non-Executive Director upon his appointment to the Board of Directors. All such share options vested immediately with an exercise price of CAD\$0.29 (£0.16) and a term of five years.

The following assumptions were used in the share option pricing model for the grant of options during the financial period at the following dates:

Grant Date	January 8, 2009	April 23, 2009
Share bid price	CAD\$0.04	CAD\$0.25
Exercise price	CAD\$0.10	CAD\$0.29
Expected volatility	55%	59%
Expected life	5 years	5 years
Expected dividends	0.0%	0.0%
Risk-free interest rate	1.83%	2.01%

At June 30, 2009 there were 5,245,000 options outstanding over the ordinary share capital of the Company (December 31, 2008: 4,350,000).

Share warrants

The Company had the following outstanding warrants over the ordinary share capital of the Company at June 30, 2009:

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Security	Holder	Number of ordinary shares	Exercise price	Market price at grant date	Expiry date
IPO Broker warrants ⁽¹⁾	Various	1,012,500	CAD\$1.60	CAD\$1.60	Nov 15, 2009
Warrants ⁽²⁾	Ammonite	163,500	US\$1.00	US\$1.00	Nov 15, 2009

(1) Pursuant to the Initial Public Offering, XEL issued a total of 1,125,000 broker warrants to the following institutions: Thomas Weisel Partners (UK) Limited 843,750 (75%); Mirabaud Securities Limited 112,500 (10%); Wellington West Capital Markets Inc. 112,500 (10%); and MGI Securities 56,250 (5%), with each warrant entitling the holder to purchase one ordinary share in XEL at an exercise price of CAD\$1.60 at any time until November 15, 2009. On February 7, 2008, Wellington West Capital Markets Inc. exercised a total of 112,500 of these warrants for a consideration of CAD\$180,000.

(2) XER entered into an agreement with Ammonite Capital Partners L.P. ("Ammonite") in January 2007 in connection with its proposed funding activities. The agreement contained provisions for XER to award Ammonite warrants over ordinary shares in XER under certain circumstances. XEL assumed responsibility for this agreement at the time that XEL acquired XER. The agreement provided for Ammonite to receive a total of 163,500 warrants, each over one ordinary share in XEL (the "Ammonite Warrants"), with each warrant entitling the holder to purchase one ordinary share in XEL at an exercise price of US\$1.00 at any time until November 15, 2009.

13 Owners' equity

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 share based payments and warrants granted over ordinary shares in the Company at the date of grant.

14 Commitments and contingencies

The Group had no commitments or contingencies as at June 30, 2009 other than as accounted for in these interim unaudited consolidated financial statements.

15 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 Xcite Energy Resources Limited ("XER");

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

XEL has continued to provide a loan facility its wholly owned subsidiary, XER, to finance XER's operational requirements, with net cash funding of £0.54 million during the three month period to June 30, 2009 (three month period to June 30, 2008: £3.66 million). No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand. The funding provided to XER by XEL in the six month period to June 30, 2009 was £1.06 million (six months to June 30, 2008: £10.22 million).

The Executive Directors have received remuneration, details of which are given in Note 4 to these financial statements. The Executive Directors have also been granted certain share options over the ordinary share capital of the parent undertaking, details of which are given in these financial statements.