Xcite Energy Limited

Annual Report and Financial Statements

for the year ended December 31, 2010

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Contents

Board of Directors

Roger S. Ramshaw is the Chairman and a Non-Executive Director of the Company and is a member of the Remuneration and Nominating Committee. From 2002 until his retirement in 2003, Mr. Ramshaw was Chairman and Managing Director of ConocoPhillips (UK) Ltd, where he led the company's exploration, development and production business on the UK Continental Shelf. From 1999 to 2002, he was President of Conoco Venezuela Ltd. Mr. Ramshaw has over 30 years of domestic and international experience in operations, project and commercial activity in the petroleum industry.

Richard E. Smith is Chief Executive Officer and Director of Xcite Energy Resources Limited ("XER") and the Company. From 2000 until joining XER in 2003, Mr. Smith was Programme Director at Granherne, formerly of the Halliburton group of companies, where he was responsible for the creation and formation of a business providing programme management services to clients in the international onshore and offshore oil and gas business. Mr. Smith is a Chartered Engineer and has over 25 years of experience in engineering and business management in onshore and offshore oil and gas projects. He is a Fellow of the Institute of Civil Engineers and a Corporate Member of the Institute of Marine Engineers and the Royal Institute of Naval Architects.

Rupert E. Cole is Chief Financial Officer and Director of XER and the Company. From 2002 until joining XER in 2003, Mr. Cole was Programme Management Business Adviser at Granherne, a company within the Halliburton group of companies, providing strategic, commercial and financial advice to upstream oil and gas services providers. From 1990 to 1996, Mr. Cole was Finance Director at Harpur, an international downstream service provider to major oil companies. Mr. Cole is a Chartered Accountant and has over 20 years of experience in corporate finance.

Stephen A. Kew is Exploration and Development Director of XER and the Company. Mr. Kew has been a director for 3 Sigma Limited since 1999, a petroleum engineering consultancy company in the upstream oil and gas business. Mr. Kew is a Petroleum Engineer and has over 35 years of development engineering and project management experience in the oil and gas industry, including previous experience in respect of the Bentley field while at Conoco. He is an associate of the Institution of Chemical Engineers and a member of the Society of Petroleum Engineers.

Gregory J. Moroney is a Non-Executive Director of the Company and Chairman of the Remuneration and Nominating Committee. Mr. Moroney is the Founding and Managing Member of Energy Capital Advisors LLC of Greenwich, Connecticut, which he founded in 2003 to assist independent energy companies and energy fund managers in North America in their fund-raising activities. Mr. Moroney is also a director of BreitBurn Energy Partners, L.P., an oil and gas limited partnership listed on NASDAQ. From 1993 to 2002, he was head of the Structured Finance Group for the Energy and Natural Resource Sector - Western Hemisphere at Deutsche Bank Securities in New York. Mr. Moroney has over 25 years of experience as an energy finance specialist.

Scott R. Cochlan is a Non-Executive Director of the Company and is a member of the Remuneration and Nominating Committee. Mr. Cochlan is a partner at the law firm of Torys LLP in the Corporate and Capital Markets group. Mr. Cochlan has represented senior and junior public issuers in numerous aspects of general corporate law and securities regulatory matters including corporate governance, continuous disclosure, regulatory compliance and transaction negotiation and completion. Mr. Cochlan also has extensive experience in representing both issuers and underwriters in a wide variety of complex private and public financing matters (equity and debt), including cross-border financings, mergers, acquisitions and other business reorganizations and restructurings. Mr. Cochlan holds a law degree from the University of Calgary and a B.A. from the University of Western Ontario. Mr. Cochlan has received a number of recognitions as a leading lawyer in his field.

Timothy S. Jones is a Non-Executive Director of the Company and also Chairman of the Audit Committee. Mr. Jones is a Chartered Accountant with 20 years experience in professional practice covering a number of industries including oil and gas. Following major public company roles, he formed his own accountancy and consulting practice to focus on the oil and gas sector, where he specialises in providing advice to AIM listed companies. He is currently on the board of a number of AIM listed natural resources companies.

Chairman's and Chief Executive's Review

2010 proved to be a transformational year for Xcite Energy Limited. The successful completion and flow testing of a horizontal well drilled into the Bentley reservoir justified the value proposition that has driven the founders of the Company since its inception. The heavy-oil reservoir that had been previously considered non-commercial, could now be developed economically with the application of current technology. The market supported this view with an increase in share price during the year from CAD$0.87(£0.56) to CAD$5.92(£3.70) reflecting a change in market capitalisation from approximately CAD$61million to CAD$800 million.

With hard work and dedication the team overcame many varied commercial and operational challenges during the year to drill the pilot hole, 9/3b-6, and its horizontal, completed sidetrack, 9/3b-6z, concluding the work successfully in December. The pilot hole confirmed that the structure and properties of the eastern flank of the reservoir were better than had previously been used for base case estimates; a 113 foot oil column was found with a 100% net to gross, versus the 73 foot column with 88% net to gross that had been prognosed. An exploratory tail was added to the pilot hole which encountered 15 foot of Jurassic sands with oil shows. The well was sidetracked and a 1,800 foot horizontal section drilled at the top of the Bentley Dornoch reservoir. This was completed and flow tested at multiple rates over 36 hours with a final stabilised flow rate of 2,900 barrels of oil equivalent per day ("boepd"). The demonstrated reservoir properties were above the upper end of the modelled parameters, with work now underway to incorporate all the information from this well test and the latest plans for development of the field into an updated Bentley Reserves Report to be published as soon as practicable.

Capital markets eased somewhat in 2010 compared to 2009 and we were pleased to raise gross proceeds of approximately CAD$84 million (£53 million) during the year from equity investors in the UK and Canada. Of this, a total of £22.75 million was raised from the Standby Equity Drawdown Agreement ("SEDA") that had been arranged with Yorkville Advisors. This SEDA equity line, with a limit of £60 million at year end and now increased to £100 million, provided a very useful addition to our funding options. Funds raised were used to finance the 9/3b-6 and 6z wells, in addition to the preparatory work for the first stage of Bentley's development.

We continued to concentrate our resources throughout the year on our core Bentley asset in block 9/3b, together with successfully applying in the 26th Licence Application Round to the Department of Energy and Climate Change for the contiguous blocks, 9/3c and 9/3d, that could potentially provide enhanced development opportunities.

Shortly before the completion of the 9/3b-6 well, a Shareholder Rights Plan was put into effect to encourage fair treatment of shareholders should an unsolicited take-over bid be made in the future.

Now that the commerciality of the Bentley field is established our attention has moved towards its staged development. An important first step was taken with the securing of the harsh environment, deep water jack-up rig, Rowan Norway, which is capable of conducting simultaneous drilling and production operations. This should be available from Rowan to commence drilling the wells for the First Stage Production in late 2011. Also, to supplement the capability of the company as we move into development and production activities, some key positions have been added to the XER team and discussions continue with potential partners to further develop the Bentley alliance.

Finally, we would like to express our appreciation of all the support we have received during this transformational year. The small, dedicated XER team has continued to show remarkable commitment to the project and of course we are indebted to our many investors who have believed in the Company's potential value and helped us progress to this stage.

Roger Ramshaw
Chairman
March 24, 2011

Richard Smith
Chief Executive Officer

Management Discussion and Analysis

The Management 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 audited consolidated financial statements and related notes for the year ended December 31, 2010. This MD&A is dated March 24, 2011. These documents and additional information about XEL, including its annual information form dated October 26, 2010 are available on SEDAR at www.sedar.com.

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

This MD&A includes an analysis of the XEL results for the twelve month period to December 31, 2010, which include the results of the operating subsidiary Xcite Energy Resources Limited ("XER") for the twelve months to December 31, 2010. The comparative results comprise the twelve months to December 31, 2009. In this MD&A, XEL and XER are together defined as the "Group". All figures and the comparatives figures contained herein are expressed in Pounds Sterling unless otherwise noted.

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

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

Summary of Results

The following table summarises the Group's performance in the year to December 31, 2010 and the comparatives of the year to December 31, 2009 and the year to December 31, 2008. The Group had no trading revenue in any of these periods. The 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 consolidated financial statements of the Company have also been prepared in accordance with IFRS's adopted by the European Union ("EU") and therefore they comply with Article 4 of the EU International Accounting Standards Regulation.

	Year ended December 31 2010	Year ended December 31 2009	Year ended December 31 2008
	£	£	£
Net loss	**(2,446,998)**	(880,218)	(554,021)
Loss per share (basic and diluted) in pence	**(1.9p)**	(1.4p)	(0.9p)
Total assets	**102,801,482**	24,789,744	23,860,469
Long term liabilities (deferred tax)	**505,167**	505,167	-

When comparing the current year against past performance, the net loss increases have arisen primarily as a result of increased non-capitalised share-based payment charges, coupled with an increased payroll cost. Share options and warrants issued during 2010 due to the success of the 9/3b-6z well programme, the fund raising transactions as further described under the section entitled "Liquidity and Capital Resources" hereinafter and an additional £1.33 million of associated share-based payment charges required under IFRS2 have given rise to an increased expense in the current year compared with 2009. In addition, staff payroll costs have increased in the current year as a result of performance-related pay awards to the Board and management team.

The deferred tax balance exists as a result of a Research and Development ("R&D") tax rebate during 2009. There was no such equivalent tax rebate during 2010. The Company has no other long term liabilities and has elected not to recognise its deferred tax assets.

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.

	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Net loss	(1,724)	(212)	(246)	(265)	(359)	(249)	(145)	(127)
EPS *	(1.1p)	(0.2p)	(0.2p)	(0.3p)	(0.5p)	(0.4p)	(0.2p)	(0.2p)
Total assets	102,801	54,688	48,281	48,282	24,790	23,240	23,507	23,779
Long term liabilities	505	505	505	505	505	-	-	-

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

Fourth Quarter Highlights

The fourth quarter of 2010 was a pivotal period in the Company's history with the successful drilling and testing of the 9/3b-6 and 6z wells on the Bentley field. The flow rates achieved on the well test exceeded expectation despite enduring some of the worst seasonal weather in the UK North Sea in almost 40 years, which resulted in significant additional costs as downtime. Accordingly, cash spend during the fourth quarter was exceptional but necessary to deliver the successful outcome on the 9/3b-6z well test. This success has provided the foundations for the anticipated commercial development of the Bentley field and its surrounding oilfield prospects.

The Company is not influenced by seasonality to any significant extent. The variations noted above in the quarterly net loss have arisen in line with the execution of the work programme for the Bentley field, together with share-based payment charges in relation to the Company's Share Option Plan and increased performance-related pay charges directly related to the success of the work carried out on the Bentley field.

New investment in the Company from the March and August 2010 financings, together with prudent use of the Standby Equity Distribution Agreement (“SEDA”) facility during the fourth quarter, has resulted in an increasing net assets position over the course of the year. The principal increases have been firstly to the cash balance as a result of the successful financing activities, and secondly to the Exploration & Evaluation (“E&E”) assets carrying value as a result of the 9/3b-6 well spend during the September to December period.

Liquidity and Capital Resources

The cash balance as at December 31, 2010 was £36.0 million, compared with £1.7 million as at December 31, 2009. The significant increase in the cash balance noted during the year arose following the March 2010 financing of £23.1 million net of costs, the August 2010 financing of £5.4 million net of costs and from four SEDA draw-downs during the period October to December, which raised a further £22.5 million net of costs.

In addition, a number of share warrant and share options were exercised during 2010, with total proceeds of £1.5 million being received by the Company.

The first financing was completed in March 2010 to enable the work programme for the 9/3b-6 and 9/3b-6z wells to proceed during 2010. This financing comprised an equity share issue to raise approximately £24.7 million gross and £23.1 million net of costs. Following a change of the planned drilling rig, from a jack-up to a semi-submersible unit, the opportunity arose to perform an enhanced work programme for the 9/3b-6 well and, therefore, a second financing was completed in August 2010, raising gross proceeds of £5.8 million and £5.4 million net of costs.

On September 28, 2010 the Company announced that it had entered into a Standby Equity Distribution Agreement (“SEDA”) with YA Global Master SPV Limited (“Yorkville”) for a £20 million standby equity line. The facility enables the Company to draw down funds, at its sole discretion, in exchange for the issue of new shares in the capital of the Company. On October 7, 2010 the Company announced that it had drawn down £3 million in the first use of the SEDA facility, issuing a total of 2,840,893 new ordinary shares in the Company in the process. On November 4, 2010 the Company announced that it had drawn down a further £7 million of the SEDA facility, issuing a total of 4,549,886 new ordinary shares in the Company in the process. On November 15, 2010 the Company announced that the SEDA facility was increased by an additional £20 million, bringing the total facility to £40 million. On November 25, 2010 the Company announced that it had drawn down a further £6 million of the SEDA facility, issuing a total of 2,447,695 new ordinary shares in the Company in the process. On December 10, 2010 the Company announced that it had drawn down a further £6.75 million of the SEDA facility, issuing a total of 2,351,916 new ordinary shares in the Company in the process. On December 17, 2010 the Company announced a further increase of £20 million to the SEDA facility, bringing the total facility to £60 million. Following a further two draw downs during February 2011 totalling £10 million, with the issuance of 2,921,676 new ordinary shares in the process, the SEDA facility was further increased on March 18, 2011 by an additional £40 million, bringing the total facility to £100 million.

Following the settlement of known costs and obligations arising out of the 9/3b-6 well, in the opinion of the Directors the Group has sufficient financial resources and facilities, including a total of £67.25 million remaining under the SEDA facility, for working capital for the foreseeable future and to continue the planning of and commitment for the initial expenditure associated with the First Stage Development (“FSP”) of the Bentley field planned to commence at the end of 2011.

Lease and Contractual Commitments

As at December 31, 2010 the Group held a total of £19.8 million in two escrow accounts to meet the commitments under the drilling and management contracts for the 9/3b-6 well. It is anticipated that these escrow accounts will be closed out shortly following completion of the final well reports and settlement of all outstanding obligations.

On February 14, 2011 the Company announced that XER had entered into a binding contract with British American Offshore Limited ("BAOL"), part of Rowan Companies, Inc. ("Rowan"), for the Rowan Norway, a harsh environment deep water jack-up rig, designed and built for simultaneous drilling and production. The Rowan Norway is currently under construction and expected to be available to XER in the fourth quarter 2011. The initial commitment period under this contract is 240 days, during which XER is expecting to commence the first stage production on the Bentley field. As part of this contract an escrow account was set up, into which USD$30 million has been deposited by the Group. A further USD$30 million will be provided for the escrow account at the time that the jack-up rig is accepted by Rowan from the construction yard.

On December 30, 2010 the Company entered into a lease agreement for new business premises at 1 Farnham Road, Guildford, England, with a minimum commitment to January 31, 2012 with value £0.1 million.

Operations and Administrative Expenses

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. The Group's sole operational focus is the development of the Bentley field, but it intends to pursue other commercial opportunities as and when they arise.

The drilling operations on the Bentley field during 2010 invariably resulted in increased expenditure for the Company in comparison to the previous year. During 2010 a total of £42.2 million was charged to Exploration and Evaluation ("E&E") assets (year ending December 31, 2009: £1.0 million), by far the majority of which was in respect of the planning, management and drilling of the 9/3b-6 and 9/3b-6z wells on the Bentley field in the fourth quarter of 2010. The 9/3b-6 well has been suspended for potential future use. In addition, a total of £0.32 million (year ended December 31, 2009: £0.22 million) was paid in respect of XER's obligations under the UK North Sea licence of the Bentley field for the forthcoming licensing period.

The Group charged to the Income Statement total administrative expenses of £2.58 million compared to £0.79 million in the year to December 31, 2009. Such expenses represent the costs of operating as a public company, including a proportion of the remuneration costs of certain Executive Directors, Non-Executive Director fees, Nominated Advisor, stockbrokers, registrars and stock exchange fees. The increase in total administrative expenses in 2010 compared to 2009 has arisen in part due to expensed share-based payment charges of £1.46 million (year ended December 31, 2009: £0.13 million) and due to increased wages and salary costs as a result of performance-related pay awards to certain Executive Directors.

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 £3.16 million during the year to December 31, 2010 (year to December 31, 2009: £1.78 million). No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand. The total balance owing by XER to XEL at December 31, 2010 was £25.76 million (as at December 31, 2009: £22.60 million).

The Executive Directors have received remuneration, details of which are given in Note 4 to the financial statements. The Executive and Non-Executive Directors have also been granted share options over the ordinary share capital of the Company during year, details of which are given below.

In the normal course of business XER incurred charges totalling £4,769 during the year to December 31, 2010 for consultancy services from Esher Management Services Limited, a company for which Timothy Jones is a Director. There was no outstanding balance payable by the Company at the year end.

Share Options and Warrants

In the year to December 31, 2010, the Company issued aggregate share options to Non-Executive Directors, contractors and management of 9,323,000 under the Stock Option Plan (2009: 2,250,000 aggregate share options issued). The total expense to the Group in respect of share based payment transactions under the Stock Option Plan was £4.21 million (2009: £0.25 million). Of this total, £1.33 million (2009: £0.13 million) has been charged to the Income Statement and £2.88 million (2009: £0.12 million) has been capitalised under intangible assets in accordance with the Company's accounting policy.

In the year to December 31, 2010, the Company issued aggregate share warrants of 3,770,168 as part of the March 2010 fundraising and as a consideration of the SEDA facility (2009: nil share warrants issued). The total expense to the Group for share based payment transactions in respect of share warrants was £0.46 million (2009: £nil). Of this total, £0.13 million (2009: £nil) has been charged to the Income Statement and £0.33 million (2009: £nil) has been charged against share capital in accordance with the Company's accounting policy.

As at the date of signing this MD&A there were 15,473,000 options outstanding (2009: 6,530,000) and 862,508 warrants outstanding (2009: nil).

Income

Interest income received on funds invested up to December 31, 2010 amounted to £135,148 (2009: £6,053). The increase in interest generated on funds invested during the year in comparison to 2009 was as a result of a significant increase in the average balance of funds held on deposit.

During the continued uncertainties of the financial markets during the year, 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

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.

The Board meets at least quarterly during the year and on an ad hoc basis as required. The attendance record of each Director during the year to December 31, 2010 is given below.

	Board	Audit Committee	Remuneration and Nominating Committee
Richard E. Smith	6	n/a	n/a
Rupert E. Cole	6	n/a	n/a
Stephen A. Kew	6	n/a	n/a
Roger S. Ramshaw	6	4	5
Gregory J. Moroney	6	4	5
Scott R. Cochlan	5	n/a	4
Timothy S. Jones	6	4	n/a

Outstanding Share Capital

The following table sets out the ordinary shares issued during the year.

	Ordinary Shares
As at January 1, 2010	**71,555,798**
Issue of ordinary shares from fund raising March and August	71,700,150
Issue of ordinary shares through broker warrant exercises	2,907,660
Issue of ordinary shares through share option exercises	350,000
Issue of ordinary shares through SEDA Equity Line	12,190,390
As at December 31, 2010	**158,703,998**

As at the date of signing this MD&A, the number of shares in issue was 158,703,998 as set out in Note 13 to the financial statements.

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.

Offshore exploration

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

Commodity pricing

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

Financing

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

Currency

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

Resource estimation

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

Dependence on key executives and personnel

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

Early stage of development

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

Significant Accounting Judgements and Estimates

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

The Directors make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual outcome. 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 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 year 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, 2010. Whilst the Group has adopted 'Improvements to IFRSs (2009)', 'Amendments to IFRS 2: Group Cash-settled Share-based Payment Transactions' and 'Revised IAS 24 Related Party Disclosures' during the year, these have had no material impact in the consolidated financial statements or business 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 12 to the financial statements.

2011 Outlook

Following the outstanding success of the 9/3b-6 well at the end of 2010, with the Rowan jack-up rig under contract and the advanced position with the other material aspects of the work programme, the Group is well placed to move ahead with the plans for the First Stage Production ("FSP") during 2011.

The effect of the 9/3b-6 well has been to transform the perception of the Group and its value with the investment community as well as the industry itself, enabling a wider selection of business partners to be entertained in key aspects of the Group's development. Indeed we are pleased that we have also been approached by a number of significant business entities who are keen to assist us during 2011 and beyond.

With the Reserves Assessment report currently being constructed, the XER team is confident that this will provide the catalyst required to move ahead rapidly with the FSP work programme and target First Oil in the first quarter of 2012.

As much as the 9/3b-6 well was transformational for the Group in 2010, we anticipate the work programme leading into the FSP to be equally important in 2011. We look forward to the progress on the Bentley field that we anticipate being able to report in 12 months time.

Report of the Remuneration and Nominating Committee

The Remuneration and Nominating Committee, in accordance with its written charter, reviews and makes recommendations to the Board concerning the appointment, remuneration and benefits and performance of executive management and Directors.

The Remuneration and Nominating Committee consists of three Non-Executive Directors, two of whom are independent within the meaning of National Instrument 52-110. The chairman of the Remuneration and Nominating Committee is Gregory J. Moroney.

Basic salary and benefits

The remuneration of the Executive Directors, who are the key personnel, for the year ended December 31, 2010, was as follows:

	Basic salary	Other compensation (i)	Share based payments	**2010 Total**	2009 Total
	£	£	£	**£**	£
Richard E. Smith	175,000	160,400	374,309	**709,709**	234,157
Rupert E. Cole	175,000	160,400	374,309	**709,709**	234,157
Stephen A. Kew	175,000	160,400	374,309	**709,709**	234,157

(i) Other compensation comprises performance-related bonus, together with cash allowances in lieu of pension contributions, company car and fuel, private healthcare and life insurance and permanent health insurance cover.

The XER service contracts for Mr Smith, Mr Cole and Mr Kew were signed on September 1, 2003 and last amended on October 24, 2007.

The Group's policy is to review salary and benefits annually against market data and analysis and to adjust accordingly where the Remuneration and Nominating Committee believes it is appropriate; no changes to Executive remuneration have been made during the year. The service and employment contracts for the Executive Directors are not of fixed duration but continuation in office as a director is subject to annual re-election by shareholders. The Group's policy is for Executive Directors to have service and employment contracts with provision for termination of no longer than twelve months notice.

The fees for the Non-Executive Directors in respect of their duties are determined by the Board and are reviewed on an annual basis; no changes to Non-Executive fees have been made during the year. Letters of Appointment for the Non-Executive Directors provide for termination of the appointment with one month notice by either party. In accordance with the Company's Articles of Association, Non-Executive Directors will retire after a term of two years at which point they may, subject to being eligible, offer themselves for re-election.

All Non-Executive Directors receive remuneration at the rate of £1,500 per day in respect of their services to the Group. During the year the Group paid to Roger Ramshaw, Gregory Moroney, Scott Cochlan and Timothy Jones in their capacity as Non-Executive Directors of the Group fees of £24,750 (2009: £21,750), £13,500 (2009: £12,000), £6,750 (2009: £9,000) and £24,000 (2009: £15,750) respectively. Charges in respect of share based payments for the Non-Executive Directors in the year to December 31, 2010 were £668,196 (2009: £92,789).

Beneficial Interests

The beneficial interests, shown in thousands, of the Directors in the ordinary share capital of the Company are as follows:

	Shares ('000s)	Option Tranche ('000s) 1	2	3	4	5	6	Options Total ('000s)
Stephen A. Kew	5,213	1,000	-	100	831	400	90	2,421
Rupert E. Cole	5,198	1,000	-	100	831	400	90	2,421
Richard E. Smith	5,198	1,000	-	100	831	400	90	2,421
Roger S. Ramshaw	-	200	-	100	100	100	90	590
Gregory J. Moroney	100	100	-	-	100	100	90	390
Scott R. Cochlan (i)	25	100	-	100	100	100	90	490
Timothy S. Jones	50	-	100	100	100	100	90	490

Tranche 1- These share options, which vested immediately, were granted to the Directors on November 16, 2007 at the date of the Initial Public Offering (except for Scott R. Cochlan as noted below) with an exercise price of CAD$1.60 and a term of five years.

Tranche 2 - Timothy S. Jones was appointed to the Board on March 19, 2009 and on April 23, 2009, 100,000 share options were awarded and vested immediately with an exercise price of CAD$0.29 and a term of five years.

Tranche 3 - These share options, which vested immediately, were granted to the Directors on November 30, 2009 with an exercise price of CAD$0.74 and a term of five years.

Tranche 4 – These share options, which vested in three equal tranches over a two year period, were granted to the Directors on March 26, 2010 with an exercise price of CAD$0.68 and a term of five years.

Tranche 5 - These share options, which vested immediately, were granted to the Directors on November 3, 2010 with an exercise price of CAD$2.92 and a term of five years.

Tranche 6 - These share options, which vested immediately, were granted to the Directors on December 31, 2010 with an exercise price of CAD$5.95 and a term of five years.

(i) Scott R. Cochlan was appointed to the Board on January 18, 2008 at which time 100,000 share options were awarded and vested immediately with an exercise price of CAD$2.09 and a term of five years.

Further details of the stock options in issue are given in Note 13 to the financial statements. There has been no trading of shares by the Directors since the year end.

Share options

An element of the Group's reward strategy is through the implementation of the Stock Option Plan, the purpose of which is to provide an incentive to the Directors, officers, employees, consultants and other personnel of the Group ("Optionees") to achieve the objectives of the Group; to give suitable recognition to the ability and industry of such persons who contribute materially to the success of the Group; and to attract and retain persons of experience and ability, by providing them with the opportunity to acquire an increased proprietary interest in the Company.

The Stock Option Plan is an unapproved stock option plan which is not intended to qualify for HM Revenue & Customs in the UK but complies with the rules and policies of the TSX-Venture stock exchange.

The Stock Option Plan is administered by the Remuneration and Nominating Committee. The number of options granted to an Optionee and the exercise price thereof are set at the time of grant, subject to any limitations imposed by the Stock Option Plan or any relevant regulatory authority, provided that if the ordinary shares are listed on a stock exchange, the exercise price shall not be lower than the market price of the ordinary shares on the date of the grant, where “market price” is defined as the highest closing trading price of the ordinary shares on any stock exchange on which the ordinary shares are listed on the day of grant.

The exercise of an option may be conditional on the performance of the Company and, if the Remuneration and Nominating Committee so determines, on the performance of a subsidiary and/or the performance of the Optionee over such period and measured against such objective criteria as shall be determined by the Remuneration and Nominating Committee and notified in writing to the Optionee when the option is granted.

Signed on behalf of the Remuneration and Nominating Committee by:

Gregory J. Moroney
Non-Executive Director
March 24, 2011

Report of the Independent Auditors

To the Directors of Xcite Energy Limited

We have audited the consolidated financial statements of Xcite Energy Limited ("the financial statements"), which comprise the consolidation of the parent company Xcite Energy Limited and its subsidiary Xcite Energy Resources Limited (collectively referred to as the "Group"), for the year ended December 31, 2010, which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, and related notes. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards (IFRS) as adopted by the European Union.

Our report has been prepared pursuant to the requirements of our engagement letter dated January 26, 2011 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of our engagement letter or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Respective responsibilities of directors and auditors

The Group's directors are responsible for the preparation of the financial statements in accordance with IFRS as adopted by the European Union.The directors are responsible for preparing financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market and with those relating to companies trading securities on the Venture Exchange of the Toronto Stock Exchange. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the European Union and comply with IFRS as issued by the IASB, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Group. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Our responsibility is to audit and express an opinion on the financial statements in accordance with International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s (APB’s) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of: whether the accounting policies are appropriate to the group’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group’s affairs as at December 31, 2010 and of the Group’s loss for the year then ended and;

- have been properly prepared in accordance with IFRS as adopted by the European Union.

Separate opinion in relation to IFRS as issued by the International Accounting Standards Board (IASB)

As explained in note 1 to the consolidated financial statements, the group in addition to complying with its obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the consolidated financial statements comply with IFRSs as issued by the IASB.

BDO LLP
Epsom
United Kingdom
March 24, 2011

Xcite Energy Limited
For the year ended December 31, 2010

Consolidated Income Statement (in Pounds Sterling)

	Note	Year ended December 31 2010 £	Year ended December 31 2009 £
Share based payment charge		**(1,462,223)**	(132,925)
Other expenses		**(1,119,923)**	(656,202)
Administrative expenses		**(2,582,146)**	(789,127)
Operating loss	3	**(2,582,146)**	(789,127)
Finance income – bank interest		**135,148**	6,053
Loss before taxation		**(2,446,998)**	(783,074)
Tax expense	5	-	(97,144)
Loss for the year attributable to Equity holders of the Company		**(2,446,998)**	(880,218)
Loss per share attributable to Equity holders of the Parent Company			
- basic and diluted	6	**(1.9p)**	(1.4p)

All results relate to continuing operations.

Consolidated Statement of Comprehensive Income (in Pounds Sterling)

	Year ended December 31 2010 £	Year ended December 31 2009 £
Loss for the year	**(2,446,998)**	(880,218)
Total comprehensive income for the year	**(2,446,998)**	(880,218)
Attributable to:		
Equity holders of the Company	**(2,446,998)**	(880,218)

The notes on pages 24 to 42 form part of these financial statements.

Xcite Energy Limited
For the year ended December 31, 2010

Consolidated Statement of Changes in Equity (in Pounds Sterling)

	Share Capital	Retained Earnings	Merger Reserve	Other Reserves	Total
	£	£	£	£	£
At January 1, 2009	22,252,625	(1,182,669)	218	1,679,684	22,749,858
Loss for the year to December 31, 2009	-	(880,218)	-	-	(880,218)
Total comprehensive loss for the year ended December 31, 2009	-	(880,218)	-	-	(880,218)
Transactions with owners:					
Issue of shares	2,163,242	-	-	-	2,163,242
Associated share issue costs	(215,596)	-	-	-	(215,596)
Fair value of share warrants and options	-	-	-	255,982	255,982
At January 1, 2010	**24,200,271**	**(2,062,887)**	**218**	**1,935,666**	**24,073,268**
Loss for the year to December 31, 2010	-	(2,446,998)	-	-	(2,446,998)
Total comprehensive loss for the year ended December 31, 2010	-	**(2,446,998)**	-	-	**(2,446,998)**
Transactions with owners:					
Issue of shares	53,153,038	-	-	-	53,153,038
Associated share issue costs	(536,664)	-	-	-	(536,664)
Broker warrant issue	(329,283)		-	329,283	-
Transfer upon exercise of share options & warrants	-	289,637	-	(289,637)	-
Fair value of share warrants and options	-	-	-	4,341,901	4,341,901
At December 31, 2010	**76,487,362**	**(4,220,248)**	**218**	**6,317,213**	**78,584,545**

The notes on pages 24 to 42 form part of these financial statements.

Consolidated Statement of Financial Position (in Pounds Sterling)

	Note	December 31 2010 £	December 31 2009 £
Assets			
Non-current assets			
Intangible assets	7	**65,263,377**	23,022,835
Property, plant and equipment	8	**30,225**	12,775
Total non-current assets		**65,293,602**	23,035,610
Current assets			
Trade and other receivables	9	**1,555,433**	17,767
Cash and cash equivalents	12b	**35,952,447**	1,736,367
Total current assets		**37,507,880**	1,754,134
Total assets		**102,801,482**	24,789,744
Liabilities			
Non-current liabilities			
Deferred tax	10	**505,167**	505,167
Total non-current liabilities		**505,167**	505,167
Current liabilities			
Trade and other payables	11	**23,711,770**	211,309
Total current liabilities		**23,711,770**	211,309
Net assets		**78,584,545**	24,073,268
Equity			
Share capital	13	**76,487,362**	24,200,271
Retained earnings	14	**(4,220,248)**	(2,062,887)
Merger reserve	14	**218**	218
Other reserves	14	**6,317,213**	1,935,666
Total equity		**78,584,545**	24,073,268

The notes on pages 24 to 42 form part of these financial statements. These financial statements were approved by the Board of Directors and authorised for issue on March 24, 2011 and were signed on its behalf by:

Richard Smith
Chief Executive Officer

Rupert Cole
Chief Financial Officer

Xcite Energy Limited
For the year ended December 31, 2010

Consolidated Statement of Cash Flows (in Pounds Sterling)

	Year ended December 31 2010	Year ended December 31 2009
	£	£
Net cash flow from operating activities		
Loss for the period before tax	**(2,446,998)**	(783,074)
Adjustment for interest income	**(135,148)**	(6,053)
Adjustment for share based payments	**1,462,223**	132,925
Adjustment for depreciation	**19,330**	9,287
Movement in working capital		
- Trade and other receivables	**(1,537,666)**	(3,669)
- Trade and other payables	**23,500,461**	(899,302)
Foreign corporation tax received	**-**	7,813
Net cash flow from operations	**20,862,202**	(1,542,073)
Cash flow from investing activities		
Additions to exploration and evaluation assets	**(39,360,864)**	(902,907)
Purchase of property, plant and equipment	**(36,780)**	(745)
Research & Development tax claim	**-**	400,210
Interest income	**135,148**	6,053
Net cash flow from investing activities	**(39,262,496)**	(497,389)
Cash flow from financing activities		
Net proceeds from issue of new shares	**52,616,374**	1,947,646
Cash flow from financing activities	**52,616,374**	1,947,646
Net increase/(decrease) in cash and cash equivalents	**34,216,080**	(91,816)
Cash and cash equivalents at the beginning of the year	**1,736,367**	1,828,183
Cash and cash equivalents at the end of the year	**35,952,447**	1,736,367
Cash and cash equivalents comprise:		
Short term deposits	**22,393,499**	-
Cash available on demand	**13,558,948**	1,736,367

The notes on pages 24 to 42 form part of these financial statements.

Notes to the Consolidated Financial Statements

1 Accounting Policies

Basis of preparation

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below.

The consolidated financial statements 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 consolidated financial statements have also been prepared in accordance with IFRSs adopted by The European Union and they comply, therefore, with Article 4 of the EU International Accounting Standards ("IAS") Regulation.

The consolidated financial statements have been prepared on a going concern basis, taking into account the 2011 Outlook in the Management Discussion and Analysis on page 13 of these financial statements.

Basis of consolidation

The Company was incorporated with the sole purpose of acquiring its controlling interest in its directly held, wholly owned, subsidiary Xcite Energy Resources Limited ("XER"). XER was acquired on June 26, 2006 through a transaction under common control, as defined in IFRS 3 *Business Combinations*. As a result of the transaction, the equity shareholders of Xcite Energy Limited ("XEL" or the "Company") and XER became the equity shareholders of the combined entities. The Directors note that transactions under common control and those that involve a new shell company (XEL) with no business of its own acquiring a controlling interest in an existing entity (XER), are outside the scope of IFRS 3 and that there is no guidance elsewhere in IFRS covering such transactions.

IFRS contains specific guidance to be followed where a transaction falls outside the scope of IFRS. This guidance is included at paragraphs 10 to 12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* This requires, *inter alia*, that where IFRS does not include guidance for a particular issue, the Directors may also consider the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards. In this regard it is noted that the UK Accounting Standards Board ("ASB") has issued an accounting standard covering acquisitions and mergers ("FRS 6"). FRS 6 allows for merger accounting to be applied where two or more companies are combined to form one group on terms such that the equity shareholders in each company become the equity shareholders in the combined entity.

Having considered the requirements of IAS 8, and the guidance included within FRS 6, it is considered appropriate to apply an accounting treatment similar to "merger accounting" as described by FRS 6 when dealing with the transaction in which the Company acquired its controlling interest in XER (together the "Group") in order to provide a true and fair view. The effect of the above is:

- New shares issued by XEL as consideration for the merger are recorded at their nominal amount in books of XEL;
- The net assets of XER and XEL are combined using existing book values;
- No amount is recognised as consideration for goodwill or negative goodwill; and

- The consolidated profit and loss includes profits of each company for the entire period, regardless of the date of the merger, and the comparative amounts in the consolidated accounts are restated to the aggregate of the amounts recorded by the two companies.

Revenue

Revenue arises from the sale of oil produced from the Bentley field on the UK Continental Shelf and reflects the actual sales value, net of value-added-tax ("VAT") and overriding royalties. Revenues are recognised when the risks and rewards of ownership together with effective control are transferred to the customer and the amount of revenue and associated costs incurred in respect of the relevant transaction can be reliably measured. Revenue is not recognised unless it is probable that the economic benefits associated with the sales transaction will flow to the Group.

Finance income is recognised on an accruals basis and is disclosed separately on the face of the Income Statement.

Foreign currency

The functional currency of the Group is Pounds Sterling. Transactions entered into by the Group in a currency other than the functional currency are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the Balance Sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the Income Statement.

Financial assets

The Group's financial assets are classified as loans and receivables and comprise the following:

Other receivables – these are measured on initial recognition at fair value and are subsequently measured at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset value is impaired.

Cash and cash equivalents – comprise cash on hand and cash on deposit accessible without penalty and are subject to an insignificant risk of changes in value.

Financial liabilities

The Group's financial liabilities comprise trade and other payables and are recognised on initial recognition at fair value and are subsequently measured at amortised cost.

Current taxation

The total tax expense represents the sum of current and deferred tax. Current tax is based on the taxable result for the period. The taxable result may differ from the net result as reported in the Income Statement as it may exclude certain items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Balance Sheet date.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the Balance Sheet differs to its tax base.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the Balance Sheet date and are expected to apply when the deferred tax liabilities/assets are settled/recovered. Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- The same taxable group company; or
- Different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Share based payments

The Company has a Stock Option Plan as described in Note 13. The share based payment expense arising under this Stock Option Plan is recorded in the Income Statement, or as a direct reduction in share capital where the charge relates to the issue of such share capital, or as an increase in exploration and evaluation assets for all options granted in the period, with a corresponding increase recorded in other reserves. The share based expense is calculated on the estimated fair values at the time of the grant and the expense is recognised over the vesting period of the options. Upon the exercise of the stock options, consideration paid is recorded as an increase in share capital and amounts previously recorded in other reserves are transferred to retained earnings. In the event that vested options expire unexercised, previously recognised share based payment expense associated with such stock options is not reversed.

The Black-Scholes model is used to value all share based payments.

Where equity instruments are granted to persons other than employees, the Income Statement, Exploration & Evaluation Assets or Share Capital account is charged with the fair value of the goods and services received as appropriate.

Critical accounting estimates and judgements

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 Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual outcome. 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 Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different

from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Fair value of share options and warrants

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

Intangible fixed assets – Exploration and Evaluation Assets

Capitalisation

Certain costs (other than payments to acquire the legal right to explore) incurred prior to acquiring the rights to explore are charged directly to the Income Statement. All costs incurred after the rights to explore an area have been obtained, such as geological and geophysical costs and other direct costs of exploration (drilling, trenching, sampling and technical feasibility and commercial viability activities) and appraisal, which includes certain payroll costs and associated employee share-based payment charges, are accumulated and capitalised as intangible Exploration and Evaluation ("E&E") assets.

E&E costs are not amortised prior to the conclusion of appraisal activities. At completion of appraisal activities if technical feasibility is demonstrated and commercial reserves are discovered, then, following development sanction, the carrying value of the relevant E&E asset will be reclassified as a development and production asset, but only after the carrying value of the relevant E&E asset has been assessed for impairment, and where appropriate, its carrying value adjusted. If after completion of appraisal in an area it is not possible to determine technical feasibility and commercial viability, or if the legal right to explore expires or if the Company decides not to continue exploration and evaluation, the carrying value of the E&E asset is written off to the Income Statement in the period the relevant events occur.

Impairment

If and when facts and circumstances indicate that the carrying value of an E&E asset may exceed its recoverable amount an impairment review is performed. This is carried out by identifying groups of assets, within the E&E asset, which together form the Cash Generating Unit ("CGU") and comparing the carrying value of the CGU with its recoverable amount. Any shortfall in carrying value, the impairment loss, is written off directly to the Income Statement. The recoverable amount of the CGU is determined as the higher of its fair value less costs to sell and its value in use.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. All repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost over their estimated useful life, as follows:

- Furniture, fittings and computing equipment 3-5 years

New accounting standards adopted during the year

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning January 1, 2010:

- ‘Improvements to IFRSs (2009)’ was issued in April 2009 and sought to clarify the requirements of IFRSs and eliminate inconsistencies between Standards. The adoption had no impact upon the Group or its prior period comparatives.
- ‘Amendments to IFRS 2: Group Cash-settled Share-based Payment Transactions’ was issued in June 2009 and sought to clarify that where a parent company has an obligation to make a cash-settled share-based payment to another group company’s employees or suppliers, the entity receiving the goods or services should account for the transaction as equity-settled. The adoption had no impact upon the Group or its prior period comparatives.
- ‘Revised IAS 24 Related Party Disclosures’ was issued in November 2009 with a mandatory effective date January 1, 2011. The Company has early adopted this standard. The adoption had no impact upon the Group or its prior period comparatives.

Whilst the Group has also adopted the following amendments and interpretations during the financial year, these are not considered relevant for the Group and have therefore had no impact in these financial statements:

- Revised IFRS 1 First-time Adoption of international Financial Reporting Standards;
- ‘Amendments to IFRS 1: Additional Exemptions for First-time Adopters’;
- ‘Amendment to IAS 32: Classification of Rights Issues’;
- IFRIC 19 ‘Extinguishing Financial Liabilities with Equity Instruments’; and
- ‘Amendments to IFRIC 14 IAS 19: Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction’.

New standards and interpretations not yet applied

The new standards and interpretations listed under the “Status of EU Endorsement” section below, which have been issued by the IASB and the IFRIC, have yet to be endorsed by the European Union and/or are effective for future periods and thus have not been adopted in these consolidated financial statements. A description of these standards and interpretations, together with (where applicable) an indication of the effect of adopting them, is set out in the section below. None are expected to have a material effect on the reported results or financial position of the Group.

- 'Improvements to IFRSs (2010)' was issued in May 2010, endorsed in February 2011 and has an effective date of January 1, 2011. Relevant improvements to the Company as a result of this endorsement will include IFRS 7 Financial Instruments, IAS 1 and IAS 34 amendments.

Status of EU endorsement

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

- IFRS 9 'Financial Instruments';
- 'Deferred tax: Recovery of underlying assets (Amendments to IAS12)';
- Amendments to IFRS 7 'Financial Instruments - Disclosures'; and
- 'Severe hyperinflation and removal of fixed dates for first-time adopters (Amendments to IFRS1)'.

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.

3 Operating Loss

The operating loss is stated after charging the following:

	Year ended December 31 2010	Year ended December 31 2009
	£	£
Auditors' remuneration:		
- Group audit fee	20,000	15,000
- Audit of subsidiary pursuant to legislation	20,000	20,000
- Tax advisory	17,250	21,758

The Group incurred total charges in respect of equity-settled share based payments in the current year of £4,671,184 (2009: £255,982). Of this, £3,488,246 (2009: £154,386) was in respect of employees (see Note 4). In accordance with the Group's accounting policy, £2,879,678 (2009: £123,057) has been capitalised within E&E assets and £1,462,223 (2009: £132,925) has been expensed within operating loss. The balance of £329,283 (2009: £nil) has been charged to the share capital account in accordance with the Group's accounting policy.

4 Staff Costs and Directors' Emoluments

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

	Year ended December 31 2010	Year ended December 31 2009
Technical and administration	**8**	7

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

	Year ended December 31 2010	Year ended December 31 2009
	£	£
Wages and salaries	**1,940,410**	1,137,280
Social security costs	**243,133**	140,219
Share based payments charge	**3,488,246**	154,386
	5,671,789	1,431,885

b) Executive Directors' emoluments

	Year ended December 31 2010	Year ended December 31 2009
	£	£
Wages and salaries	**1,006,200**	638,700
Social security costs	**126,784**	79,587
Share based payments charge	**1,122,927**	64,611
	2,255,911	782,898

In addition to the above, during the year the Group paid to Roger Ramshaw, Gregory Moroney, Scott Cochlan and Timothy Jones in their capacity as Non-Executive Directors of the Group fees of £24,750 (2009: £21,750), £13,500 (2009: £12,000), £6,750 (2009: £9,000) and £24,000 (2009: £15,750) respectively. Charges in respect of share based payments for the Non-Executive Directors in the year to December 31, 2010 were £668,196 (2009: £92,789).

The Executive Directors and Non-Executive Directors comprise the key personnel of the Group. The total compensation for key personnel for the year ended December 31, 2010 was £2,886,323 (2009: £854,600).

5 Tax Expense

	Year ended December 31 2010	Year ended December 31 2009
	£	£
Current tax		
Research & Development tax credit	**-**	(400,210)
Adjustments in respect of prior years	**-**	(7,813)
Total current tax	**-**	(408,023)
Deferred tax		
Origination of temporary differences (see note 10)	**-**	505,167
Total deferred tax	**-**	505,167
Total tax charge	**-**	97,144

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

	Year ended December 31 2010	Year ended December 31 2009
	£	£
Loss before tax	**(2,446,998)**	(783,074)
Loss before tax multiplied by the standard rate of corporation tax in the British Virgin Islands of 0% (2009: 0%)	-	-
Effects of:		
Prior period adjustments relating to UK Tax	-	7,813
Research & Development tax credit	-	400,210
Temporary differences	-	(505,167)
Tax charge for the year	**-**	(97,144)

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.

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 March 23, 2011 the UK Government announced changes to the UK Oil and Gas Tax Regime. The most significant change was an increase in the supplementary corporation tax charge for UK North Sea producing oil companies from 20% to 32%, with a mechanism to reduce this increase should oil prices fall below a certain level. Subject to enactment as proposed, this increase is effective from March 24, 2011.

6 Loss per Share

The basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The calculation of basic loss per ordinary share for the year to December 31, 2010 is based on a loss of £2,446,998 (year to December 31, 2009: loss of £880,218) and on shares of 126,542,827 (year to December 31, 2009: 63,775,635), being the weighted average number of ordinary shares in issue during the year.

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

7 Intangible Assets

	Licence Fees	
	2010	2009
Exploration and Evaluation Assets	**£**	£
Opening cost and carrying value at January 1	**475,047**	253,287
Additions	**316,800**	221,760
Closing cost and carrying value at December 31	**791,847**	475,047

	Appraisal and Exploration Costs	
	2010	2009
	£	£
Opening cost and carrying value at January 1	**22,547,788**	21,743,584
Net additions	**41,923,742**	804,204
Closing cost and carrying value at December 31	**64,471,530**	22,547,788

	Total	
	2010	2009
	£	£
Opening cost and carrying value at January 1	**23,022,835**	21,996,871
Net additions	**42,240,542**	1,025,964
Closing cost and carrying value at December 31	**65,263,377**	23,022,835

The costs associated with the continuing appraisal of Block 9/3b have been capitalised in accordance with the Group's accounting policy in Note 1.

Based on the Group's success in drilling its final appraisal well on Block 9/3b, and in view of the forecast revenue streams and cash flows of this project, the Directors are 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

	Furniture, fittings and computing equipment £
Year ended December 31, 2009	
Opening net book amount at January 1, 2009	21,317
Additions	745
Depreciation charge	(9,287)
Closing net book amount at December 31, 2009	12,775
At December 31, 2009	
Cost or valuation	28,235
Accumulated depreciation	(15,460)
Cost and net book amount	12,775
Year ended December 31, 2010	
Opening net book amount at January 1, 2010	12,775
Additions	36,780
Depreciation charge	(19,330)
Closing net book amount at December 31, 2010	**30,225**
At December 31, 2010	
Cost or valuation	65,015
Accumulated depreciation	(34,790)
Net book amount	**30,225**

9 Trade and Other Receivables

	December 31 2010	December 31 2009
	£	£
Indirect taxes receivable	**139,485**	13,842
Other receivables	**1,415,948**	3,925
	1,555,433	17,767

10 Deferred tax

	December 31 2010	December 31 2009
	£	£
At January 1	**505,167**	-
Profit and loss charge	**-**	505,167
At December 31	**505,167**	505,167

The total deferred tax liability at December 31, 2010 comprised temporary differences arising from a R&D tax claim in the UK. As at December 31, 2010 the Group had pre-trading losses (within XER) of £1,009,931 (December 31, 2009; pre-trading losses of £714,499). No deferred tax asset has been recognised on these losses until such time as the Group is expected to have sufficient taxable profits in future periods against which the asset can be relieved.

11 Trade and Other Payables

	December 31 2010	December 31 2009
	£	£
Trade payables	**23,098,455**	118,739
Social security and other taxes payable	**254,773**	46,527
Accruals and other payables	**358,542**	46,043
	23,711,770	211,309

12 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 revenue and therefore generally advances no credit. However, as at December 31, 2010 the Company had a balance owing in respect of a credit note from a supplier totalling US$1.3 million, which has been included within other receivables. This was repaid in full in January 2011.

Deposits held by suppliers comprise an office rent deposit recorded as receivables and, as such, it is regarded as low risk. On this basis, Group management is satisfied that any credit risk has been minimised.

Credit risk also arises from cash and cash equivalents and deposits held by banks and financial institutions. To minimise the credit risk on banks and financial institution deposits, only independently rated parties with a minimum rating of "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. 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	
	December 31 2010	December 31 2009
	£	£
Financial assets – loans and receivables measured at amortised cost		
- Cash	**35,952,447**	1,736,367
- Receivables (current)	**1,415,948**	3,925
	37,368,395	1,740,292
Financial liabilities – measured at amortised cost		
- Payables (current)	**23,456,997**	164,782

Included in cash balances are amounts held in escrow of £19,846,410 (2009: £nil). The balance held in escrow is not currently available for use by the Group but only available for the purposes of meeting the remaining drilling and well management commitments under the 9/3b-6 and 9/3b-6z well programme.

The Management believes that as all financial instruments are short term, the fair values for all such items equate to their carrying amount. The accounting policies for financial assets and financial liabilities are disclosed in Note 1.

c) Capital disclosures

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

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

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

Market risk

d) Interest rate and foreign currency risks

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

	Interest Free Liabilities	
	December 31 2010	December 31 2009
	£	£
Sterling	**13,549,166**	158,756
USD$	**9,767,007**	-
Norwegian Kroner	**132,211**	-
CAD$	**8,613**	6,026
	23,456,997	164,782

	Floating rate assets December 31 2010 £	Interest free assets December 31 2010 £	Total December 31 2010 £
Sterling	**25,255,783**	**557,142**	**25,812,925**
CAD$	**256,592**	**-**	**256,592**
USD$	**10,440,072**	**858,806**	**11,298,878**
	35,952,447	**1,415,948**	**37,368,395**

	Floating rate assets December 31 2009 £	Interest free assets December 31 2009 £	Total December 31 2009 £
Sterling	1,681,622	3,675	1,685,297
CAD$	53,437	250	53,687
USD$	1,308	-	1,308
	1,736,367	3,925	1,740,292

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 0.1% to 2.5%. At December 31, 2010 the weighted average rate of interest being earned on Sterling deposits was approximately 0.8%.

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 December 31, 2010 the weighted average rate of interest being earned on US deposits was 0.11%.

Due to the currently low level of Canadian overnight rates, Canadian Dollar floating rate assets earn a nominal rate of interest. 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 Norwegian Kroner. During well drilling programmes the Group aligns its expected future foreign expenditure with the necessary foreign currency cash balances, in effect creating a natural hedge. The Group will continue to monitor its exposure to such foreign currency risks and will manage future risks using derivative financial instruments as considered appropriate.

(e) 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 year to December 31, 2010 would decrease by £98,868 (year to December 31, 2009; the Group's loss would decrease by £5,777). If interest rates had been 50 basis points lower and all other variables were held constant, the Group's loss for the year to December 31, 2010 would increase by £72,655 (year to December 31, 2009; the Group's loss would increase by £5,777).

13 Share Capital

	Number of shares December 31 2010	Number of shares December 31 2009
Authorised		
- Ordinary shares of no par value each	**Unlimited**	Unlimited
Issued and fully paid up		
- Ordinary shares of no par value each	**158,703,998**	71,555,798

	£ Value of shares December 31 2010	£ Value of shares December 31 2009
Authorised		
- Ordinary shares of no par value each	**Unlimited**	Unlimited
Issued and fully paid up		
- Ordinary shares of no par value each	**76,487,362**	24,200,271

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

During the year the Company has issued a total of 87,148,200 new ordinary shares, all of which rank pari pasu with the existing ordinary shares.

61,972,394 of these new ordinary shares were issued as part of the March 2010 Public Offering, which raised additional funding of £23.1 million after associated costs.

An additional 9,727,756 new ordinary shares were issued as part of a Private Placement in August 2010, which raised £5.5 million after associated costs.

On a rising share price the Company was also able to benefit from issuing new ordinary shares under the SEDA facility totalling 12,190,390 ordinary shares for a total of £22.5 million after associated costs.

A total of 3,257,660 new ordinary shares were issued following the exercise of share options and warrants, providing additional funds of £1.5 million. Further details of these are provided in the sections below.

Stock Option Plan

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

The Stock Option Plan is administered by the Remuneration and Nominating Committee. At December 31, 2010 there were 15,473,000 options outstanding with a weighted average exercise price of CAD$1.99 per option, exercise prices ranging from CAD$0.10 to CAD$5.95 and with a weighted average remaining life of 1,370 days. As at December 31, 2009 there were 6,530,000 options outstanding, with the weighted average exercise price per option being CAD$1.21, with exercise prices ranging from CAD$0.10 to CAD$2.09 and a weighted average remaining life of 911 days.

During the year to December 31, 2010 a total of 9,323,000 share options were issued under the Stock Option Plan at a weighted average exercise price of CAD$2.47, further analysed as follows:

- March 26, 2010; the Company issued 4,093,000 share options with an exercise price of CAD$0.68;
- November 3, 2010; the Company issued 3,600,000 share options with an exercise price of CAD$2.92; and
- December 31, 2010; the Company issued 1,630,000 share options with an exercise price of CAD$5.95.

A total of 350,000 share options were exercised during the year to December 31, 2010 (year to December 31, 2009: nil) at a weighted average exercise price of CAD$0.32 and a weighted average prevailing share price of CAD$2.32. Total proceeds from exercise were £0.1 million in consideration for a total of 350,000 new ordinary shares in the Company.

In accordance with the Stock Option Plan rules a total of 30,000 share options expired during the year to December 31, 2010 as a result of the resignation during 2008 of a Non-Executive Director, with a weighted average exercise price of CAD$1.60.

At the date of these financial statements there were 12,744,336 exercisable options outstanding, with exercise prices ranging from CAD$0.10 to CAD$5.95.

Details of the Directors' interests in ordinary shares held under the Stock Option Plan are given in the Report of the Remuneration and Nominating Committee.

The following assumptions were used in the share option pricing model for the grant of options and warrants that vested during the year at the following dates:

Vesting Date	Mar 18, 2010	Mar 26, 2010	Oct 07, 2010	Nov 03, 2010	Dec 31, 2010
Share bid price	C$0.62	C$0.68	£1.14	C$2.92	C$5.95
Exercise price	C$0.62	C$0.68	£2.34	C$2.92	C$5.95
Expected volatility	58%	58%	65%	64%	64%
Expected life	1 year	2 years	0.25 years	1.5 years	1.5 years
Expected dividends	0%	0%	0%	0%	0%
Risk-free interest rate	1.69%	2.98%	1.94%	2.02%	2.53%

The expected share price volatility was determined by a review of the share trading performance of comparable oil and gas companies in the same industry sector.

The total expense to the Group in respect of share based payment transactions under the Stock Option Plan was £4.21 million (2009: £0.25 million). Of this total, £1.33 million (2009: £0.13 million) has been charged to the Income Statement and £2.88 million (2009: £0.12 million) has been capitalised under intangible assets in accordance with the Company's accounting policy.

Share warrants

As part of the March 2010 fundraising, a total of 3,270,168 new broker warrants over the ordinary share capital of the Company were granted, in addition to 200,000 new Ammonite warrants. Of these new broker warrants, a total of 2,757,660 had been exercised by December 31, 2010 for a total consideration of £1.0 million.

A consideration of the SEDA facility was the granting of a total of 300,000 new warrants over the ordinary share capital of the Company to YA Global Master SPV Limited, 150,000 of which had been exercised by December 31, 2010 for a consideration of £0.4 million.

The total expense to the Group in respect of share based payment transactions in respect of warrants issued was £0.46 million (2009: £nil). Of this total, £0.13 million has been charged to the Income Statement and £0.33 million has been charged to the share capital account in accordance with the Company's accounting policy. The total Group expense has been measured at fair value of the warrants granted due to the lack of open market value data to attribute to the underlying services provided by the warrant holders. This treatment is consistent with prior years.

The Group had 862,508 outstanding warrants over the ordinary share capital of the Company at December 31, 2010 with a weighted average exercise price of CAD$2.06 (as at December 31, 2009: nil warrants).

14 Owners' equity

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

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

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

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

15 Commitments and contingencies

At December 31, 2010 the Company had total commitments under non-cancellable operating leases expiring as follows:

	2010	2009
	£	£
Within one year	**88,331**	593

16 Subsequent events

On February 14, 2011 the Company announced that XER had entered into a contract with British American Offshore Limited (“BAOL”), part of Rowan Companies, Inc. (“Rowan”), for the Rowan Norway, a harsh environment deep water jack-up rig, designed and built for simultaneous drilling and production. The Rowan Norway is currently under construction and expected to be available to XER in the fourth quarter 2011. The initial commitment period under this contract is 240 days, during which XER is expecting to commence the first stage production on the Bentley field.

Since the year end, the Group has drawn down an additional £10 million under the SEDA facility. On March 16, 2011 the Group increased the SEDA facility to £100 million, thus leaving a total of £67.25 million available to be drawn down.

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.

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 £3.16 million during the year to December 31, 2010 (year to December 31, 2009: £1.78 million). No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand. The total balance owing by XER to XEL at December 31, 2010 was £25.76 million (as at December 31, 2009: £22.60 million).

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

In the normal course of business XER incurred charges totalling £4,769 during the year to December 31, 2010 for consultancy services from Esher Management Services Limited, a company for which Timothy Jones is a Director. There was no outstanding balance payable by the Company at the year end.

Xcite Energy Limited
For the year ended December 31, 2010

Officers and Principal Advisors

Directors
Richard E. Smith
Rupert E. Cole (Company Secretary)
Stephen A. Kew

Non-Executive Directors
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Gregory J. Moroney
Scott R. Cochlan
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TSX, TSX-Venture Exchange
Code: XEL.