Xcite Energy Limited

Interim consolidated financial statements

For the 3 month period ended March 31, 2010

(Unaudited)

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Contents

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Management's Discussion and Analysis

The Management's Discussion and Analysis ("MD&A") of the operating and financial results of Xcite Energy Limited ("XEL" or the "Company") should be read in conjunction with the Company's interim unaudited consolidated financial statements and related notes thereto for the three month period ended March 31, 2010, the audited consolidated financial statements and notes thereto for the year ended December 31, 2009 and the annual MD&A for the Company. This MD&A is dated May 26, 2010. These documents and additional information about XEL, including its annual information form dated December 8, 2009, 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 from January 1, 2010 to March 31, 2010 and from January 1, 2009 to March 31, 2009, which include the results of the operating subsidiary Xcite Energy Resources Limited ("XER"). In this MD&A, XEL and XER are together defined as the "Group". All figures and the comparative figures contained herein are expressed in Pounds Sterling unless otherwise noted.

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

Information concerning 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, and prevailing rates of taxation (see "Risk Management" section below), which could cause actual results to differ from those anticipated by the Group. The reader should not place undue importance on forward-looking statements and should not rely upon this information as of any other date. While the Company may elect to, it is under no obligation and does not undertake to update this information at any particular time, unless required by applicable securities law.

Summary of Results

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

Xcite Energy Limited
For the 3 month period ended March 31, 2010

	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Net loss	**(265)**	(359)	(249)	(145)	(127)	(205)	(90)	(281)
EPS *	**(0.3p)**	(0.5p)	(0.4p)	(0.2p)	(0.2p)	(0.3p)	(0.1p)	(0.5p)
Total assets	**48,282**	24,790	23,240	23,507	23,779	23,860	24,005	25,185
Long term liabilities	**505**	505	-	-	-	-	-	-

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

The three months ended March 31, 2010 was an important period for the Group. The progression on the Bentley field development programme continued strongly with the signing of a Supply and Offtake Agreement with BP Oil International Limited ("BPOI") in January. February saw the securing, through a Letter of Intent, of a jack-up drilling unit and the joining of Applied Drilling Technology International ("ADTI") to the Bentley Alliance, together with the signing of an agreement to have AMEC plc as a key adviser in the upcoming 9/3b-R well. In March the Group announced the intention of Challenger Minerals (North Sea) Limited ("CMNS") to become a farm-in partner with a 4% stake in the Bentley field and the Group raised new finance of £23.1 million (after expenses), which, together with the $4.0 million contribution from CMNS, will enable the drilling of the 9/3b-R well, scheduled for summer 2010. The Company is not influenced by seasonality to any significant extent.

The higher loss in the current period compared with the three months ended March 31, 2009 was principally as a result of share-based payment charges under the Group's Stock Option Plan of £120,906 during the three months to March 31, 2010 compared with £140 for the three months to March 31, 2009. In all other material respects, the three months to March 31, 2010 has been consistent with previous quarters. Operational expenditure has remained materially consistent, with no changes being made to Management Team and Executive Director salaries.

The work programme focused on bringing the Bentley field into development continues, and the Group is pleased to have also recently submitted an application to the Department of Energy and Climate Change ("DECC") for participation in the UK North Sea 26th Licensing Round. The significant Bentley field asset remains the primary focus for the Group, but as opportunities arise that the Company consider would be of value to its shareholders, appropriate and carefully measured additions to the XER asset portfolio will be pursued.

Liquidity and Capital Resources

The cash balance as at March 31, 2010 was £24.2 million, compared with £1.7 million as at December 31, 2009. The increase in cash balance during the three months ended March 31, 2010 has arisen from a new public offering of shares.

The new public offering was completed in March 2010 to enable the financing of the 9/3b-R well, thereby engaging a good range of UK institutional investors whom we welcome to the register. This financing comprised an equity share issue to raise approximately £24.7 million gross and £23.1 million net of costs, which, in conjunction with the £2.7 million (USD$4.0 million) from the CMNS farm-in future undertaking, provides adequate funds for the 9/3b-R well and working capital for the foreseeable future. The 9/3b-R well programme is the Group's only current material capital expenditure requirement and therefore the Group has sufficient liquidity to meet its ongoing obligations.

Lease and Contractual Commitments

At March 31, 2010 the Company had no material lease commitments or contractual obligations.

Income

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

Interest income received on funds invested up to March 31, 2010 amounted to £856 (three months ended March 31, 2009: £4,410). The decline in interest generated on funds invested between the two periods was as a result of a significant reduction in UK bank interest rates from circa 2.0% at the start of January 2009 to circa 0.5% by the end of March 2009 and which have remained at this level ever since.

During the continued uncertainties of the financial markets during the year, management has maintained its policy of keeping cash deposits with banks with "AA" equivalent rating or better. The policy of the Group is to ensure that all cash balances earn a market rate of interest and that interest rate exposures are regularly reviewed and managed.

Operations and Administrative Expenses

The Group 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 will continue to pursue other commercial opportunities as and when they arise.

During the three months ended March 31, 2010 the Group incurred total administrative expenses of £265,944 (three months to March 31, 2009: £131,369). Additional charges under the Company's Stock Option Plan of £120,766 during the current quarter compared with the comparative period in 2009 accounted for the majority of the additional loss reported. In all other material respects the Company has continued to incur operational overheads on a consistent basis quarter on quarter.

Additions to Exploration and Evaluation ("E&E") assets during the three months ended March 31, 2010 were £951,436 (three months ended March 31, 2009: £463,332), comprising work carried out on borehole analysis and site survey in preparation for the drilling of the 9/3b-R well in late summer 2010 and operational working capital, including staff salaries and share based payment charges under the Stock Option Plan. These costs have been capitalised in accordance with the Group's accounting policies and will be amortised against the revenue from production, if any, from the Bentley field. The Group has not incurred any additional material research and development costs or deferred development costs over and above those costs capitalised as E&E assets.

Related Party Transactions

XEL has continued to provide, using a loan facility, its wholly owned subsidiary, XER, with net cash funding of £0.59 million during the three month period to March 31, 2010 (three months to March 31, 2009: £0.52 million) to finance XER's operational requirements. No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand. The total balance owing by XER to XEL at March 31, 2010 was £23.2 million (as at March 31, 2009: £21.3 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 the period, details of which are given below.

Share Options, Warrants and Rights

In the period to March 31, 2010, the Company issued an aggregate of 4,093,000 share options under the Stock Option Plan as follows: 100,000 to each of the four Non-Executive Directors, 831,000 to each of the three Executive Directors, and an aggregate of 1,200,000 amongst four members of the XER Management Team. In the three months to March 31, 2009 a total of 850,000 share options were issued. The total expense to the Group in respect of share based payment transactions under the Stock Option Plan was £337,586 (three months to March 31, 2009: £4,744). Of this total, £120,906 (three months to March 31, 2009: £140) has been charged to the Income Statement and £216,680 (three months to March 31, 2009: £4,604) has been capitalised under intangible assets in accordance with the Company's accounting policy.

In the period to March 31, 2010, the Company issued warrants of 3,270,168 (three months to March 31, 2009: nil warrants issued) to its brokers in respect of the March 2010 fund raising programme. The aggregate share based payment charge in respect of these warrants of £431,419 has been offset against share capital in the Balance Sheet to be consistent with the accounting treatment adopted for previous warrants issued.

As at the date of signing this MD&A there were 10,608,000 options outstanding and 2,529,290 broker warrants outstanding, which would be equal to 13,137,290 further ordinary shares upon full conversion of these options and warrants.

Disclosure Controls and Procedures

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

Outstanding Share Capital

The following table sets out the ordinary shares issued during the period. No warrants or share options were exercised during the three months to March 31, 2010.

	Ordinary Shares
As at January 1, 2010	**71,555,798**
Issue of ordinary shares through public offering	61,972,394
As at March 31, 2010	**133,528,192**

As at the date of signing this MD&A, the number of shares in issue was 134,269,070 following the exercise of 740,878 broker warrants by Arbuthnot Securities Limited on May 12, 2010 for a consideration of £269,351.

Risk Management

The principal risk factors facing the Group are as follows:

Exploration and development

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

Commodity pricing

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

Financing

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

Currency

The Group's reporting and functional currency is Pounds Sterling. However, the market for 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.

Significant Accounting Judgements and Estimates

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

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

(a) Income taxes

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

(b) Fair value of share options and warrants

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

(c) Impairment of E&E assets

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

Changes in Accounting Policies

During the period the Group has adopted the amendments to IFRS 2 in respect of 'Group Cash-settled Share-based Payment Transactions', although the adoption of these amendments had no impact on the results 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.

Outlook for the Remainder of 2010

The securing of the 'Bentley Alliance', the innovative commercial structure that has created to take the Bentley field into development, was reported in the 2009 Financial Statements. This important business alliance includes Applied Drilling Technologies International, the well management arm of Transocean Drilling U.K. Limited, and AMEC plc, which has signed an agreement to provide its technical expertise, engineering and project management skills to assist XER demonstrate the reserves potential of the Bentley field and subsequently bring it into production.

An important underpinning of the field development and the economics of the field was provided when BP Oil International Limited ("BPOI"), a wholly owned subsidiary of BP plc, signed a Supply and Offtake agreement to market and sell the Bentley crude oil in return for a fee per barrel which incentivises them to maximise the price per barrel achieved for XER by minimising the discount to Brent crude. In addition, when XER moves to full field development of Bentley, BPOI will procure $20 million of financing from a commercial bank with credit support to assist in the process.

Finally, the Company was pleased to welcome Challenger Minerals (North Sea) Limited ("CMNS") as a farm-in partner in the Bentley field, through an undertaking to provide $4 million (£2.7 million) towards the cost of the 9/3b-R well in exchange for 4% of the Bentley field; a deal that applied a pre-money value of $100 million to the Bentley field. This will be enacted through an earn-in mechanism which, when the $4 million is paid, will allow CMNS to join the Bentley field licence at any time prior to the commencement of the first phase development of the field.

As noted above, a further funding success with the capital markets was completed in March 2010 to enable the financing of the 9/3b-R well. This financing comprised the £2.7 million from the CMNS farm-in undertaking, together with an equity share issue to raise approximately £24.7 million gross and £23.1 million net of costs, which in aggregate provides adequate funds for the 9/3b-R well and working capital for the foreseeable future. Based on this, the Company now intends to demonstrate the potential of the Bentley field and confirm its value as a significant North Sea oil field.

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Consolidated Income Statement (in Pounds Sterling)

	Note	**3 months ended March 31 2010 (unaudited) £**	3 months ended March 31 2009 (unaudited) £
Administrative expenses		**(265,944)**	(131,369)
Operating loss	3	**(265,944)**	(131,369)
Finance income - bank interest		**856**	4,410
Loss before tax		**(265,088)**	(126,959)
Tax expense	5	**-**	-
Loss for the period		**(265,088)**	(126,959)
Loss per share:			
Basic and diluted	6	**(0.3p)**	(0.2p)

All results relate to continuing operations.

Consolidated Statement of Comprehensive Income

	3 months ended March 31 2010 (unaudited) £	3 months ended March 31 2009 (unaudited) £
Loss for the period	**(265,088)**	(126,959)
Total comprehensive income for the period	**(265,088)**	(126,959)
Attributable to:		
Equity shareholders	**(265,088)**	(126,959)

The notes on pages 13 to 24 form part of these financial statements.

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Consolidated Condensed 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	1,947,646	-	-	-	1,947,646
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 period to March 31, 2010	-	(265,088)	-	-	(265,088)
Total comprehensive loss for the period ended March 31, 2010	**-**	**(265,088)**	**-**	**-**	**(265,088)**
Transactions with owners:					
Issue of shares	23,138,508	-	-	-	23,138,508
Broker warrant issue	(431,419)	-	-	431,419	-
Fair value of share warrants and options	-	-	-	337,586	337,586
At March 31, 2010	**46,907,360**	**(2,327,975)**	**218**	**2,704,671**	**47,284,274**

The notes on pages 13 to 24 form part of these financial statements.

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Consolidated Statement of Financial Position (in Pounds Sterling)

	Note	**March 31 2010 (unaudited) £**	December 31 2009 (audited) £
Assets			
Non-current assets			
Intangible assets	7	**23,974,271**	23,022,835
Property, plant and equipment	8	**34,685**	12,775
Total non-current assets		**24,008,956**	23,035,610
Current assets			
Trade and other receivables	9	**28,797**	17,767
Cash and cash equivalents		**24,243,904**	1,736,367
Total current assets		**24,272,701**	1,754,134
Total assets		**48,281,657**	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	**492,216**	211,309
Total current liabilities		**492,216**	211,309
Net assets		**47,284,274**	24,073,268
Equity			
Share capital	13	**46,907,360**	24,200,271
Retained earnings	14	**(2,327,975)**	(2,062,887)
Merger reserve	14	**218**	218
Other reserves	14	**2,704,671**	1,935,666
Total equity		**47,284,274**	24,073,268

The notes on pages 13 to 24 form part of these financial statements. These interim unaudited consolidated financial statements were approved by the Board of Directors and authorised for issue on May 26, 2010 and were signed on its behalf by:

Richard Smith
Chief Executive Officer

Rupert Cole
Chief Financial Officer

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Consolidated Statement of Cash Flows (in Pounds Sterling)

	3 months ended March 31 2010 (unaudited)	3 months ended March 31 2009 (unaudited)
	£	£
Loss for the period before tax	**(265,088)**	(126,959)
Adjustment for share based payments	**120,906**	4,744
Adjustment for interest income	**(856)**	(4,410)
Adjustment for depreciation	**3,738**	2,291
Movement in working capital		
- Trade and other receivables	**(11,030)**	(5,853)
- Trade and other payables	**280,907**	40,338
Net cash flow from operations	**128,577**	(89,849)
Additions to exploration and evaluation assets	**(734,756)**	(463,332)
Purchase of fixed assets	**(25,648)**	-
Interest income	**856**	4,410
Net cash flow from investing	**(759,548)**	(458,922)
Net proceeds from issue of new shares	**23,138,508**	-
Cash flow from financing	**23,138,508**	-
Net increase/(decrease) in cash and cash equivalents	**22,507,537**	(548,771)
Cash and cash equivalents as at January 1	**1,736,367**	1,828,183
Cash and cash equivalents as at March 31	**24,243,904**	1,279,412
Cash and cash equivalents comprise:		
Cash available on demand	**24,243,904**	1,279,412

The notes on pages 13 to 24 form part of these financial statements.

Notes to the Interim Consolidated Financial Statements

1 Accounting Policies

Basis of preparation

The interim unaudited consolidated financial statements for the three months ended March 31, 2010 have been prepared in accordance with International Accounting Standards 34 Interim Financial Reporting. However, the interim unaudited consolidated financial statements for the three months ended March 31, 2010 have not been reviewed or audited by the Company's auditors.

These interim unaudited consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") following the same accounting policies and methods of computation as the audited consolidated financial statements for the financial year ended December 31, 2009. These interim unaudited consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Xcite Energy Limited ("XEL" or "the Company") annual report for the year ended December 31, 2009.

Basis of consolidation

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

New accounting standards adopted during the period

During the period the Group has adopted the amendments to IFRS 2 in respect of 'Group Cash-settled Share-based Payment Transactions', although the adoption of these amendments had no impact on the results of the Group.

New standards and interpretations not yet applied

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

Status of EU endorsement

Entities in EU Member States which report in accordance with EU-endorsed IFRS can only apply IFRS and IFRIC 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 EU at the date these interim unaudited consolidated financial statements were authorised for issue:

- IFRS 9 'Financial Instruments';
- Amendment to IFRIC 14 'Prepayments of a Minimum Funding Requirement';
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments';
- Amendments to IFRS 1 'Additional Exemptions for First-Time Adopters';
- Revised IAS 24 'Related Party Disclosures'; and
- Amendments to IFRS 1 'Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters'.

2 Segment Information

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

3 Operating Loss

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

	3 months ended March 31, 2010 (unaudited)	3 months ended March 31, 2009 (unaudited)
	£	£
Share based payment charges	**120,906**	140

The Company incurred total charges in respect of share based payments in the three month period to March 31, 2010 of £337,586 (three months to March 31, 2009: £4,744). Of this, £318,218 (three months to March 31, 2009: £3,628) was in respect of employees and non-executive directors (see Note 4) and a further £19,368 (three months to March 31, 2009: £1,116) in respect of a third party contractor. In accordance with the Company accounting policy, £216,680 (three months to March 31, 2009: £4,604) has been capitalized within Exploration and Evaluation ("E&E") assets and the balance of £120,906 (three months to March 31, 2009: £140) expensed within operating loss.

4 Staff Costs and Directors' Emoluments

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

	3 months ended March 31, 2010 (unaudited)	3 months ended March 31, 2009 (unaudited)
Technical and administration	**7**	8

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

	3 months ended March 31, 2010 (unaudited)	3 months ended March 31, 2009 (unaudited)
	£	£
Wages and salaries	**282,175**	287,635
Social security costs	**34,840**	35,428
Share based payments	**287,119**	3,628
	604,134	326,691

b) Executive Directors' emoluments

	3 months ended March 31, 2010 (unaudited)	3 months ended March 31, 2009 (unaudited)
	£	£
Wages and salaries	**159,675**	159,675
Social security costs	**19,891**	19,919
Share based payments	**193,823**	-
	373,389	179,594

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

In addition to the above, during the three month period ended March 31, 2010, the Group paid to Roger Ramshaw, Gregory Moroney, Scott Cochlan and Timothy Jones in their capacity as Non-Executive Directors of the Company fees of £8,250, £3,000, £1,500 and £3,750 respectively. The comparatives for the three month period ended March 31, 2009 were £7,500, £3,000, £1,500 and £4,500 respectively. Charges in respect of share based payments for the Non-Executive Directors in the three month period to March 31, 2010 were £31,099 (three month period to March 31, 2009: £nil).

5 Taxation

	3 months ended March 31, 2010 (unaudited)	3 months ended March 31, 2009 (unaudited)
	£	£
Overseas tax charges	**-**	-

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, is considered a company which profits from oil extraction and oil rights, and is therefore subject to current tax on taxable profits at a rate of 30% (March 31, 2009: 30%).

6 Loss per Share

The basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The calculation of basic loss per ordinary share for the three month period ended March 31, 2010 is based on a three month period loss of £265,088 (three months to March 31, 2009: loss of £126,959) and on 80,507,366 (three months to March 31, 2009: 61,413,800), being the weighted average number of ordinary shares in issue during the period.

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

7 Intangible Assets

	Licence Fees	
	March 31 2010 (unaudited)	December 31 2009 (audited)
Exploration and Evaluation Assets	**£**	£
Cost and carrying value:		
At January 1, 2010 / January 1, 2009	**475,047**	253,287
Additions during period/year	**-**	221,760
At March 31, 2010 / December 31, 2009	**475,047**	475,047

	Appraisal and Exploration Costs	
	March 31 2010 (unaudited)	December 31 2009 (audited)
	£	£
Cost and carrying value:		
At January 1, 2010 / January 1, 2009	**22,547,788**	21,743,584
Additions during period/year	**951,436**	804,204
At March 31, 2010 / December 31, 2009	**23,499,224**	22,547,788

	Total	
	March 31 2010 (unaudited)	December 31 2009 (audited)
	£	£
Cost and carrying value:		
At January 1, 2010 / January 1, 2009	**23,022,835**	21,996,871
Additions during period/year	**951,436**	1,025,964
At March 31, 2010 / December 31, 2009	**23,974,271**	23,022,835

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

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

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
Net book amount	12,775

Period ended March 31, 2010	
Opening net book amount at January 1, 2010	12,775
Additions	25,648
Depreciation charge	3,738
Closing net book amount at March 31, 2010	**34,685**

At March 31, 2010	
Cost or valuation	53,883
Accumulated depreciation	19,198
Net book amount	**34,685**

9 Trade and Other Receivables

	March 31 2010 (unaudited)	December 31 2009 (audited)
	£	£
Indirect taxes receivable	**25,122**	13,842
Other receivables	**3,675**	3,925
	28,797	17,767

10 Deferred tax

	March 31 2010 (unaudited)	December 31 2009 (audited)
	£	£
At January 1, 2010 / January 1, 2009	**505,167**	-
Profit and loss charge	**-**	505,167
At March 31, 2010 / December 31, 2009	**505,167**	505,167

The total deferred tax liability at March 31, 2010 comprised temporary differences arising from a Research and Development tax claim in the UK. As at March 31, 2010 the Group had pre-trading losses of £757,754 (December 31, 2009: £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

	March 31 2010 (unaudited)	December 31 2009 (audited)
	£	£
Trade payables	**403,841**	118,739
Social security and other taxes payable	**46,532**	46,527
Accruals and other creditors	**41,843**	46,043
	492,216	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 customers and therefore advances no credit. Deposits held by suppliers comprise an office rent deposit recorded as receivables and, as such, it is regarded as low risk. On this basis, Group management is satisfied that any credit risk has been minimised.

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

b) Liquidity risk

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

	Carrying Amount	
	March 31 2010 (unaudited)	December 31 2009 (audited)
	£	£
Financial assets – loans and receivables		
- Cash	**24,243,904**	1,736,367
- Receivables (current)	**3,675**	3,925
	24,247,579	1,740,292
Financial liabilities – measured at amortised cost		
- Payables (current)	**443,110**	164,782

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

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

Market risk

c) Interest rate and foreign currency risks

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

	Interest Free Liabilities	
	March 31 2010 (unaudited)	December 31 2009 (audited)
	£	£
Sterling	**561,999**	158,756
USD$	**19,903**	-
CAD$	**27,208**	6,026
	609,110	164,782

	Floating rate assets **March 31 2010 (unaudited)**	**Interest free assets** **March 31 2010 (unaudited)**	**Total** **March 31 2010 (unaudited)**
	£	**£**	**£**
Sterling	**17,785,692**	**3,675**	**17,789,367**
CAD$	**23,864**	**-**	**23,864**
USD$	**6,434,348**	**-**	**6,434,348**
	24,243,904	**3,675**	**24,247,579**

	Floating rate assets December 31 2009 (audited)	Interest free assets December 31 2009 (audited)	Total December 31 2009 (audited)
	£	£	£
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 circa 25 basis points below the Bank of England Base Rate per annum. US Dollar floating rate assets earn interest at circa 25 basis points below the Federal Reserve Rate per annum. Cash deposits are only kept with banks with “AA” equivalent rating or better. The policy of the Group is to ensure that all cash balances earn a market rate of interest and that interest rate exposures are regularly reviewed and managed.

Foreign currency risk arises where purchase transactions are undertaken in a currency other than Sterling (transactional risk) and where non-Sterling financial derivatives are held at the Balance Sheet date (translational risk). The Group is exposed to exchange rate movements in the US Dollar and, to a lesser extent, the Canadian Dollar and the Euro. In light of the infrequency and relative small value of such non-Sterling denominated transactions and balances, the Group considers that at present its foreign currency risk is not material. The Group will continue to monitor its exposure to such foreign currency risks and will manage future risks using derivative financial instruments as considered appropriate.

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

(d) Interest rate sensitivity analysis

Interest rate sensitivity analysis has been determined based on the exposure to interest rates for financial instruments during the financial period.

Based on the Group's cash balances during the period, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the three month period ended March 31, 2010 would decrease/increase by £856 (March 31, 2009; the Group's loss would decrease/increase by £2,358).

13 Share Capital

	March 31 2010 (unaudited)	December 31 2009 (audited)
	Number of shares	Number of shares
Authorised		
- Ordinary shares of no par value each	**Unlimited**	Unlimited
Issued and fully paid up		
- Ordinary shares of no par value each	**133,528,192**	71,555,798

	March 31 2010 (unaudited)	December 31 2009 (audited)
	£	£
Authorised		
- Ordinary shares of no par value	**Unlimited**	Unlimited
Issued and fully paid up		
- Ordinary shares of no par value	**46,907,360**	24,200,271

Shares issued

During the three months ended March 31, 2010 the Company issued a total of 61,972,394 ordinary shares for a total consideration of £23.1 million after the deduction of transaction costs. The Company issued no new ordinary shares during the three months ended March 31, 2009.

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 administered by the Remuneration and Nominating Committee. At March 31, 2010 there were 10,623,000 options outstanding.

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

Grant Date	March 18, 2010 Warrants	March 26, 2010 Options
Share bid price	CAD$0.62	CAD$0.68
Exercise price	CAD$0.62	CAD$0.68
Expected volatility	58%	58%
Expected life	2 years	5 years
Expected dividends	0.0%	0.0%
Risk-free interest rate	1.69%	2.98%

Share warrants

The Company had the following outstanding warrants over the ordinary share capital of the Company at March 31, 2010:

Security	**Holder**	**Number of ordinary shares**	**Exercise price**	**Market price at grant date**	**Expiry date**
Broker warrants	Arbuthnot Securities Limited	2,240,878(a)	CAD$0.62	CAD$0.62	18 March 2012
Broker warrants	Octagon Capital Corporation	1,029,290	CAD$0.62	CAD$0.62	18 March 2012

(a) On May 12, 2010 Arbuthnot Securities Limited exercised 740,878 broker warrants at an exercise price of £0.40 (CAD$0.62) for a total consideration of £296,351.

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

15 Commitments and contingencies

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

	2009	2008
	£	£
Within one year	**593**	593

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 provided, using a loan facility, its wholly owned subsidiary, XER, with net cash funding of £0.59 million during the three month period to March 31, 2010 (three months to March 31, 2009: £0.52 million) to finance XER's operational requirements. No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand. The total balance owing by XER to XEL at March 31, 2010 was £23.2 million (as at March 31, 2009: £21.3 million).

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