Xcite Energy Limited

Annual Report and Financial Statements

for the year ended 31 December 2015

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Contents

Board of Directors

Timothy S. Jones is the Chairman and a Non-Executive Director of the Company. He is also Chairman of the Audit Committee and a member of the Remuneration and Nominating Committee. Mr. Jones is a Chartered Accountant with over 20 years of 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.

Rupert E. Cole is Chief Executive 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 30 years of experience in corporate finance.

Stephen A. Kew is Chief Operating Officer and Director of XER and the Company. After leaving Conoco in 1999 after 25 years, he provided petroleum engineering consulting in the upstream oil and gas industry for a wide range of clients before joining XER in 2003. 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.

Andrew J. Fairclough is Chief Financial Officer and Director of XER and the Company. Mr. Fairclough joined XER as Director of Corporate Affairs in August 2012 and took up the position of CFO in February 2014. He has over 17 years of investment banking experience. After leaving the Army in 1995, he joined Flemings' corporate finance department, working both in London and New York, then subsequently moved to Rothschild in 1998, where he worked on a wide range of transactions, latterly with a focus on private equity. In 2004, he joined the corporate broking team at Merrill Lynch, where he advised mid and large cap clients. On leaving Merrill Lynch in 2009, he focused on the mid cap advisory arena before joining the Company.

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 and is co-head of the Capital Markets Practice. 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.

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 Jupiter, Florida, 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.

Henry G. Wilson is a Non-Executive Director of the Company. He has over 35 years' international experience in upstream oil and gas, initially as an explorer and latterly in corporate finance with British Petroleum. He is the founder and Chief Executive Officer of a number of independent oil businesses and has led listings for several companies. He has been a director of public companies both in the UK and abroad across a number of sectors. Mr. Wilson graduated with a BSc Hons in Physics from Manchester University and attended the Insead Business School in France.

Chairman's Review

At the time of our last annual report, the price of oil was about $55 per barrel and the industry was facing major challenges. As we finalised this year's report, the price had fallen much further and has now recovered slightly to about $40 per barrel but the industry continues to be under intense pressure. There is a general consensus that the oil price will eventually recover, though the timing of this recovery is unclear. The poor sentiment and reduced capital available to the industry have both had a significant adverse impact in the short term for those companies seeking development funding.

However, this environment does present an opportunity to lock in a lower project cost base and enable us to benefit from any future upturn in the oil price in due course. We have been actively engaged with suppliers and contractors to receive updated quotes for key services and materials in order to update and validate our costs. Our recent reserves assessment report as at 31 December 2015, dated 17 March 2016, demonstrates that our current cost base is benefitting from this environment and has reduced further to approximately $30 per barrel. In the current market, this represents demonstrable support for the economics and financial viability of the Bentley project.

After careful evaluation, the Board took the decision to delist the Company's shares from trading on the TSX-Venture Exchange. The decision was not made lightly, but reflected the continuing decline in the volume of trading on the TSX exchange (less than 1% of total volume traded in the nine months to September 2015) and the conclusion that the associated legal, administrative and regulatory costs involved with the maintenance of the trading facility far outweighed the benefits of the listing. Given the significant dominance of trading on AIM, we believe that the London listing on AIM continues to provide suitable liquidity in the Company's shares.

In line with the whole sector, our share price continues to perform poorly irrespective of our actions and the material progress that we have made. Success for Xcite Energy relies on our ability to attract the funding required to develop the Bentley project. This is our continuing priority and we are firmly focused on translating the funding initiatives that we have identified into a development financing package that will allow the project to proceed. As shareholders will be aware, our bonds mature at the end of June 2016 and, as you would expect, we have initiated discussions with the principal bondholders in order to develop financial flexibility for the Group. The team remains entirely focused on pursuing the financing and commercial opportunities to develop the Bentley field, and I would like to take this opportunity to thank them for their efforts in 2015 in the most difficult of circumstances.

Timothy Jones
Chairman

Chief Executive's Review of 2015

2015 was about creating the commercial structures that we need to attract the development capital required to move forward with the Bentley project and repay the outstanding bonds.

As the Chairman has already highlighted, sentiment in the industry, particularly in the North Sea, is extremely negative and the majority, if not all, major oil companies have significantly reduced their capital expenditure programmes. This is widely regarded as the worst and most sustained downtown the industry has seen.

As we have said repeatedly, this industry backdrop is one of the reasons we have placed emphasis on our concurrent strategy to pursue development and asset funding options, while maintaining dialogue and processes with the more traditional sources of funding from industry partners. Whilst these routes have their challenges and we have had to adapt and flex the model, our efforts are gaining traction and, as announced on 18 February 2016, we have received indicative proposals for development funding to support the Bentley project.

These proposals remain subject to completion of commercial structuring and diligence, but we are working hard to convert them into a deliverable funding package, which would meet the project expenditure and the delivery of key assets, principally being the mobile offshore production unit ("MOPU") and the floating storage offtake ("FSO") facility, in return for long term leases, thereby reducing a significant part, if not all, of the upfront capital required for the project. It is a common financing structure to lease FSOs, but the mobile characteristics of the MOPU, as well as the reduced decommissioning costs of this type of asset, facilitate a leasing structure which is commercially attractive. We believe that this 'asset light' approach to developing projects is a good way to manage capital, particularly in the current market conditions. In conjunction with developing these funding proposals, we have invited a number of shipyards into a tender process in order to align yard selection with the funding strategy.

It should be noted that, as these proposals remain ongoing and there is still no certainty that any of them will result in funding being secured by the Group or, if funding is secured, the terms or timing of such funding, and as the Bonds are due for repayment on 30 June 2016, we have initiated discussions with our principal bondholders in order to develop financial flexibility for the Group.

During the latter half of the year, we successfully completed a technical review of the first phase of the Bentley field development with the Oil & Gas Authority ("OGA"), to ensure that aspects of the plan meet OGA's policy objectives to maximise the economic benefit to the UK of its oil and gas resources. This was an extensive and detailed process and is an important achievement for the Company, as it further reduced risk and uncertainty around the First Phase Development project for us and potential funding partners. The OGA has identified the Bentley Field development as a priority and we found their approach to be supportive and pragmatic; we look forward to continuing our good relationship with them as we progress towards Field Development Plan approval. The industry needs to adapt and develop new, innovative ways to re-vitalise the UK North Sea, and we see OGA as a key part of supporting and facilitating such initiatives.

We have also completed the pre-FEED engineering required at this stage to support the development concept, and the OGA technical evaluation demonstrated that we have done enough technical work to support a field development approval process which, importantly, has enabled us to demonstrate this to potential funding partners. These are important milestones, but we continue to look for opportunities to maximise the value and reduce the risk in the Bentley development plan.

One clear benefit of the current low oil price environment is the impact on costs across the industry. We believe that there is a significant opportunity to lock in the lower costs at this point in the cycle and subsequently capitalise on any upturn in the oil price once the project achieves first oil in approximately three years after sanction. We have done a lot of work with suppliers and contractors on all aspects of the cost base to reduce risk and improve cost definition and analysis as the basis for the revised quotes received. This has delivered reductions in capex, opex, drillex and decommissioning, and the latest reserves assessment report from AGR TRACS as at 31 December 2015, dated 17 March 2016, delivers an updated unescalated, full life cycle cost for Bentley of approximately $30 per barrel. The Bentley 2P reserves have increased slightly to 267 MMstb due to accelerated production in earlier years from a revised drilling strategy which, combined with the revised cost base and taxation changes, has more than balanced the impact of the lower McDaniels 1 January 2016 oil price forecast to generate an NPV(10) post tax valuation of $2.5 billion for the full field development. At a time when material asset value write downs are commonplace, we believe this is a further endorsement of the economics of Bentley field and the Xcite Energy development plan.

The coming period is clearly critical for the Company and its future and we are working extremely hard to deliver an executable development funding package. We cannot influence the oil price or the market conditions, but we can continue to pursue all the options available to us and we remain focused on delivering a funding package that enables us to apply for Field Development Plan approval. However, as noted above, and by the Chairman, as the Bonds are due for repayment on 30 June 2016 we have begun engagement with our principal bondholders in order to develop financial flexibility for the Group.

In the Bentley field, Xcite Energy has an excellent, long term asset which we have thoroughly appraised and understood. We have developed a cost effective development plan that is economically robust throughout the oil price cycle and which has been technically evaluated by the OGA; we believe there remains significant upside from further management of costs at this point in the cycle. These are some of the key features underpinning our pursuit of a development funding strategy, which is beginning to gain the traction needed in spite of the unhelpful economic backdrop. We will continue to pursue all the options available to us, as we believe that Bentley will be a major contributor to future North Sea oil production.

Rupert Cole
Chief Executive Officer

Financial Review

The financial statements 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 31 December 2015. These financial statements are dated 18 March 2016. These documents and additional information about XEL are available on SEDAR at www.sedar.com and on the Company's website at www.xcite-energy.com.

XEL is a public limited company incorporated and domiciled 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. Its principal activity is as an oil appraisal and development company with current interests in the UK Northern North Sea.

The Company is a "designated foreign issuer" as that term is defined under National Instrument 71-102 - Continuous Disclosure and Other Exemptions Relating to Foreign Issuers. The Company is subject to the regulatory requirements of the AIM Market of the London Stock Exchange plc of the United Kingdom ("AIM"). XEL is an oil issuer and disclosures pertaining to oil activities are presented in accordance with National Instrument 51-101 ("NI-51-101") of the Canadian Securities Administrators.

On 16 September 2015 the Company announced that it had applied for the voluntarily delisting of its ordinary share capital from the Toronto Stock Exchange, Venture Division ("TSX-V"). This delisting was accepted and became effective at close of TSX-V trading on 30 September 2015. The Company's ordinary shares continue to be actively traded on AIM.

These financial statements include an analysis of the XEL results for the year ended 31 December 2015 which include the results of the operating subsidiary Xcite Energy Resources plc ("XER") for the year ended 31 December 2015. The comparative results for both companies comprise the year ended 31 December 2014 and in these financial statements XEL and XER are together defined as the "Group". All figures and the comparatives figures contained herein are expressed in US dollars ($) unless otherwise noted.

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

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

Summary of Financial Results

The following table summarises the Group's performance in the year ended 31 December 2015 and the comparatives for the years ended 31 December 2014 and 31 December 2013. Following a decision by the Company to amend its presentation and functional currency to US Dollars from 1 January 2015, the comparative results for the years ending 31 December 2014 and 31 December 2013 are restated. As of 1 January 2015, the Group's functional currency changed from Pounds Sterling (GBP) to United States Dollar ($). This change was made as the Directors now consider $ to best represent the currency of the primary economic environment in which the Group operates. This change acknowledges that the Group's financing activities are predominantly in $, it now primarily expends cash in $, and its long-term project economics, such as its Reserve and Resources Assessment Reports, are $ denominated. Furthermore, the market for the Group's anticipated future crude oil production is in $. 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 Group have also been prepared in accordance with IFRSs adopted by the European Union ("EU").

	Year ended 31 December	Year ended 31 December	Year ended 31 December
	2015	2014 (restated)	2013 (restated)
	$'000s	$'000s	$'000s
Net profit/(loss)	**812**	(5,106)	9,824
Basic earnings/(loss) per share in cents	**0.3**	(1.7)	3.4
Diluted earnings/(loss) per share in cents	**0.2**	(1.7)	3.0
Total assets	**489,843**	482,235	444,389
Total liabilities	**138,114**	131,318	86,549

The net profit for the year ended 31 December 2015 of $0.81 million arises from underlying expenditure of $1.73 million offset by bank interest received of $0.04 million and a deferred tax credit of $2.50 million. The comparative net loss/profit results have been significantly influenced by foreign exchange gains and losses whilst the Group had Pounds Sterling as its functional and presentation currency.

The following table summarises the Group's performance for the eight most recent quarters. The financial data contained within the following table has been prepared in accordance with accounting policies that have been applied consistently for all eight reporting periods. The results for each of the four quarters in 2014 in the table below have been restated from £'000s to equivalent values in $'000s, following the change in functional and presentation currency with effect from 1 January 2015.

All values stated in $'000s	**Q4'15**	Q3'15	Q2'15	Q1'15	Q4'14	Q3'14	Q2'14	Q1'14
Net profit/(loss)	**1,950**	(307)	(380)	(451)	(1,582)	(4,335)	875	(64)
Basic EPS/(LPS) *	**0.6**	(0.1)	(0.1)	(0.2)	(0.5)	(1.5)	0.3	(0.0)
Total assets	**489,843**	488,561	485,354	482,602	482,235	498,814	514,680	447,268
Total liabilities	**138,114**	138,782	135,268	132,136	131,318	80,249	73,713	51,811

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

Fourth Quarter 2015 Highlights

During the fourth quarter of 2015, Xcite Energy Resources plc entered into an agreement with Azinor Catalyst Limited ("Catalyst") in relation to its UKCS Licence P.1979, containing Blocks 9/4a, 98b and 9/9/h (the "Licence"). Under the agreement, Catalyst will undertake a detailed technical evaluation of the Licence area at its own sole cost to further delineate and de-risk the prospects. In return, Catalyst will become entitled to 40% of the equity of the Licence.

The Company incurred additional spend on Exploration and Evaluation ("E&E") assets of $8.40 million in the fourth quarter of 2015, with a principal focus of advancing Bentley's Field Development Plan ("FDP"). This value includes capitalised project finance costs of $7.14 million. The Company booked a tax credit of $2.50 million in the fourth quarter to reflect the reduction in estimated deferred tax liabilities. In all other material respects, the underlying expenditure of the Company was consistent with previous quarters.

Income

Revenue

The Group has no reported revenues in the year ended 31 December 2015, reflecting no offshore oil production activities during the year (for the year ended 31 December 2014: $nil).

Interest Income

Interest income received on funds invested in the year ended 31 December 2015 amounted to $0.04 million (year ended 31 December 2014: $0.06 million). Interest income remains low during the current period of sustained historical lows on US and UK base rates. The Group policy is to ensure that all cash balances earn a market rate of interest, whilst maintaining an acceptable level of deposit risk, and that interest rate exposures are regularly reviewed and managed.

Operations and Administrative Expenses

During 2015 a total of $37.62 million was charged to E&E assets (year ended 31 December 2014: $54.94 million), of which $28.29 million was in respect of bond finance interest and amortised costs, $3.48 million for staff costs and $2.40 million on consultancy costs in addition to spend on capitalised direct overheads.

A total of $1.04 million (year ended 31 December 2014: $1.17 million) , which has been capitalised within E&E assets, was paid in respect of XER's obligations under its UK North Sea licensing agreements, which now includes Blocks 9/3b, 9/4a, 9/8b and 9/9h. Licences for Blocks 9/3c and 9/3d were relinquished in January 2015 in accordance with their terms. This relinquishment resulted in a disposal of $0.09 million of E&E asset value for nil proceeds.

During the year ended 31 December 2015 the Group had total net administrative expenses of $1.73 million (year ended 31 December 2014: net gains of $2.66 million). When removing the effect of foreign exchange ("forex"), the net administrative expenses incurred in the year ended 31 December 2015 were $1.73 million compared with $3.01 million for the comparable period in 2014. The decrease in net administrative expenses for the year ended 31 December 2015 is as a result of no share-based payment charges to the Income Statement in addition to a 25% reduction in wages and salary costs reflecting no performance related bonuses in the year.

The Group charged to the Income Statement other expenses (within total administrative expenses) of $1.73 million compared to $2.55 million in the year ended 31 December 2014. These 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, together with fees for the Nominated Adviser, stockbrokers, legal advice, registrars and stock exchanges. In light of the oil price pressures during 2015 the Group undertook initiatives to reduce overheads and its cost base, with a resulting reduction in the administrative costs of the Group during 2015 compared with previous years.

Taxation

A tax credit of $2.50 million has been recorded for the year ended 31 December 2015 (2014: tax credit of $2.87 million). This credit has arisen due to the reduction in the statutory rate of supplementary charge in the UK from 32% to 20% as it applies to XER and due to an increased deferred tax asset due to UK tax losses over and above the estimated deferred tax liability, comprising of temporary differences for tax relief claimed on capital expenditure.

Liquidity and Capital Resources

The cash balance as at 31 December 2015 was $20.78 million, compared with $50.43 million as at 31 December 2014. The decrease in cash balance during the year ended 31 December 2015 has arisen due to continued investment by the Group into the Bentley field development, including servicing of the Group's senior secured bond liabilities (the "Bonds").

On 30 June 2015 the Group elected under the terms of the XER bond agreement to issue a total of $4.05 million new 12.0% senior secured bonds in lieu of payment-in-kind ("PIK") interest otherwise falling due under the Bonds at that date. These new bonds rank *pari passu* with the Bonds as at 30 June 2015 and fall due for repayment on 30 June 2016. Accordingly, the Group now has a capital balance of $139.05 million of Bonds, with maturity on 30 June 2016.

Ahead of approval of an FDP by Oil and Gas Authority ("OGA"), the accumulated costs to date in appraising the Bentley field remain within E&E assets. It is anticipated that once a FDP has been approved by the OGA, and the Group has decided to commit to commercial production, the Group will undertake an impairment review prior to transferring the E&E asset carrying value within intangible assets into tangible Production Assets.

Of the $20.78 million cash balance held at 31 December 2015, $8.34 million (31 December 2014: $22.33 million) is held in escrow accounts and therefore has been classified as restricted cash with a designated purpose of payment of Bond interest due on the remainder of the second year of the Bonds' 2-year term. Whilst title remains with the Group, funds are held under the control of the Bond Trustee.

As at the date of these financial statements there remains unused Equity Line Facility ("ELF") capacity of £30.84 million ($45.65 million), available until July 2017, to provide the Group with additional sources of capital, if required, to be used at its sole discretion.

Going Concern and Basis of Preparation

The Bonds were issued by XER in June 2014 and fall due for repayment on 30 June 2016. The Group has met all of its covenants and has paid in full all interest falling due under the Bonds to date. The remaining coupon interest due under the Bonds to maturity is included in restricted cash in an escrow account for the benefit of the Bondholders. However, the Group's current and forecast cash position is insufficient to repay the Bond capital in full by 30 June 2016 and, accordingly, it has initiated discussions with the principal bondholders in order to develop financial flexibility for the Group as it continues its efforts to secure a development financing package that meets its long-term field development funding requirements, in addition to the funds required for the settlement in full of the Bonds.

It should be noted that there is no certainty that these efforts will result in funding being secured by the Group or, if funding is secured, the terms or timing of such funding and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

These circumstances indicate the existence of material uncertainty in relation to the Group's ability to continue as a going concern. This is dependent on the Group's ability to repay or renegotiate the key terms of the Group's Bonds which fall due for settlement on 30 June 2016. However, having regard to the legal and financial advice received by the Board of Directors and having carefully considered the current liquidity position of the Group and the financing initiatives being pursued, the Board of Directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. On this basis, the Group continues to adopt the going concern basis of accounting in preparing the consolidated financial statements and these consolidated financial statements do not include the adjustments that would result if the Group was unable to secure its long-term funding and to continue as a going concern.

Lease and Contractual Commitments

At 31 December 2015, the Company had remaining lease commitments relating to business premises of $0.21 million (31 December 2014: $0.32 million). The decrease in commitments is in line with the remaining lease commitment on XER's Aberdeen office premises.

Off-Balance Sheet Arrangements

The Group continues to have no current and no anticipated off-balance sheet arrangements.

Related Party Transactions

Using a loan facility, XEL has continued to provide its wholly owned subsidiary, XER, with net cash funding. During the year ended 31 December 2015, XER received funding of $10.26 million (year ended 31 December 2014: net repayment of $63.83 million) to finance XER's operational requirements. No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand. The total balance owing by XER to XEL at 31 December 2015 was $102.56 million (as at 31 December 2014: $92.30 million).

During the year ended 31 December 2015, each of Rupert E. Cole, Andrew J. Fairclough and Stephen A. Kew were executive directors of XEL (the "Executive Directors"). The Executive Directors have received remuneration, details of which are given below:

	Year ended 31 December 2015 $'000s	Year ended 31 December 2014 $'000s (restated)
Wages and salaries	**1,159**	1,548
Social security costs	**155**	208

Share-based payment charges	**-**	600
	1,314	2,356

The reduction in wages and salaries by 25% during 2015 reflect that there were no performance awards made during the year. In addition, there were no share based payment charges having been no share option awards under the Group's Share Option Plan. In the normal course of business XER incurred charges totalling $0.02 million during the year ended 31 December 2015 for consultancy services from Esher Management Services Limited, a company for which Timothy Jones is a Director. There were no such charges incurred for the year ended 31 December 2014.

In the normal course of business XER incurred charges totalling $0.03 million during year ended 31 December 2015 (year ended 31 December 2014: $0.04 million) for property rentals from Seaburome Limited, a company in which Rupert E. Cole is a Director. There was no outstanding balance payable by XER at 31 December 2015 (31 December 2014: $nil).

Outstanding Share Capital

There was no issue of ordinary shares in the Company in the year ended 31 December 2015. The total number of ordinary shares in issue was 309,930,421 as at 31 December 2015.

As at the date of signing these financial statements, the number of shares in issue was 309,930,421.

Share Options, Warrants and Rights

During the year ended 31 December 2015 the Company issued no new share options, and no share options expired or were exercised. In the year ended 31 December 2014 the Company issued a total of 6,850,000 new share options at an average weighted exercise price of £0.64 ($0.95) and with an average life of 5 years to the Board of Directors, XER staff and management team. During the year ended 31 December 2014 a total of 1,200,000 share options were exercised at an average exercise price of £0.18 ($0.28) providing gross proceeds to the Company of £0.20 million ($0.29 million) and a total of 1,140,000 share options expired unexercised with an average weighted exercise price of £1.34 ($1.98).

No new share warrants were issued in either the year ended 31 December 2014 or in the year ended 31 December 2015. A total of 16,250,000 share warrants expired unexercised during the year ended 31 December 2015.

As at the date of signing these financial statements there were 30,162,000 share options outstanding with a weighted average exercise price of £1.02 ($1.51), and 1,000,000 share warrants outstanding with a weighted average exercise price of £0.98 ($1.45).

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 ended 31 December 2015 is given below. The Full Board held a total of four meetings, and both the Audit Committee and the Remuneration and Nominating (“R&N”) Committees held a total of four meetings during the year.

	Board	Audit Committee	R&N Committee
Scott R. Cochlan	3 / 4	n/a	3 / 4
Rupert E. Cole	4 / 4	n/a	n/a
Andrew J. Fairclough	3 / 4	n/a	n/a
Timothy S. Jones	4 / 4	4 / 4	4 / 4
Stephen A. Kew	4 / 4	n/a	n/a
Gregory J. Moroney	4 / 4	4 / 4	4 / 4
Henry G. Wilson	4 / 4	4 / 4	n/a

Risk Management

The principal risk factors facing the Group, together with their mitigations, where appropriate, are as follows:

Exploration and development

The nature of oil exploration is such that there is no assurance that exploration activities will be successful. Industry statistics show that few properties that are explored go on to being fully developed. Operations can also be adversely affected by weather conditions and drilling rig and other operating equipment availability outside the control of the Group. Exploration and development risk is mitigated by a process of detailed subsurface technical analysis using industry professionals to help identify those prospects with the highest chance of success. Detailed project planning, concept and design engineering and effective cost control all help to mitigate the risk associated with not delivering a project safely, on specification, on time, and on budget.

Licensing and consents

The Group is dependent on the good standing of its oil field asset licences, all of which are administered by the OGA in the United Kingdom, in order to conduct offshore exploration, appraisal, development and production activities. Each licence has its own terms and conditions, with defined licence periods, and maintenance of these licences is critical to the ability of the Group to continue to conduct its core business. In addition to the licences, the Group requires specific field development consent from the OGA in order to conduct any offshore operations, including drilling and production. The Group maintains regular and constructive dialogue with the OGA, not only for licensing and field development consents, but also for UK oil and gas regulatory matters.

Fiscal and political regime

The decision making process in the oil and gas industry is focused on long-term field economics, which rely heavily upon a stable fiscal and political regime to provide the necessary confidence in proceeding, or otherwise, with project sanction. Prevailing rates of taxation and the availability of field allowances can change, which may then change previous oil field sanction decisions. Whilst it is not possible to forecast such changes or the impact these may have, membership of various industry associations ensures that the Group keeps up to date with industry consensus and has the ability to participate in relevant representations.

Offshore exploration and development

The Group faces additional risks due to its concentration on offshore activities. In particular, drilling conditions, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. The Group has a comprehensive Safety, Health, Environment and Quality management system in place which provides suitable mitigation to the manageable risks presented by offshore activity, and this management system is independently verified to be operating effectively on a periodic basis. The Group also maintains a comprehensive offshore insurance policy to help mitigate operational and environmental risk.

Commodity pricing

The Group has no control over the market price of crude oil. Accordingly, suitable hedging programmes will be used to mitigate the volatility of oil prices, and in particular to protect the downside risk, as and when the Group approaches the production phase.

Financing

Future field development will depend upon the ability of the Group to secure financing, whether this is by joint venture projects, farm down arrangements, public financing, asset financing or by other means. By using appropriate financial management and cash forecasting, the Group monitors its projected cash requirements on a regular basis. The Group has delivered capital and debt market transactions, often during difficult market conditions, in order to provide the necessary financing for field development projects.

The Group's $139.05 million of Bonds fall due for repayment on 30 June 2016. The Group has ring-fenced cash to fully service the interest obligations under the Bonds through to maturity; however, the Group's current cash balance is insufficient to meet the capital repayment requirement in full and, as noted under the Going Concern accounting judgement, new financing arrangements will be required prior to the maturity date of the Bonds on 30 June 2016.

Currency

The Group's presentation and functional currency is US dollars. However, certain Group expenditure is denominated in Pounds Sterling and other currencies. The Group does not currently engage in active hedging to minimise exchange rate risk, although this will remain under review as the Group approaches the production phase.

Resource estimation

Oil resource estimation techniques are inherently judgemental and involve a high degree of technical interpretation and modelling techniques. Incorrect resource estimation may result in inappropriate capital investment decisions being made. To mitigate this risk, Group resources are independently assessed on an annual basis to provide additional assurance over the accuracy of internal estimates.

Dependence on key executives and personnel

The Group's development and future potential are dependent upon the continued services and performance of its senior management and other key personnel. The loss of the services of any of the senior management or key personnel may have an adverse impact on the Group. Executive reward structures are reviewed annually to ensure that there is an appropriate balance of executive reward and retention risk mitigation.

Early stage of development

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

Significant Accounting Judgements and Estimates

Accounting judgements and estimates 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) Taxation

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 tax and deferred tax provisions in the period in which such determination is made. The recognition of a material deferred tax asset, due to tax losses arising in the UK, is based upon management’s view of future taxable profits against which these losses can be utilised. The estimate of future taxable profits is based on a number of key underlying estimates and assumptions, including, but not limited to, FDP approval for the Group’s key oilfield assets, the availability of sufficient development funding, future crude oil price forecasts and budgeted development spend.

(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 principally based on market conditions existing at the option issue date.

(c) Impairment of E&E assets

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

(d) Fair value of Bond call option

The Bonds are callable at the option of XER at any time at a price comprising the present value of the Bonds on the relevant record date of 106.5% of par value (plus any accrued interest on redeemed Bonds). Call options have nominal value at inception and there remains no current indicator to suggest that the Bond call option has any material value and, therefore, no financial asset has been recognised in respect of the call option. In the absence of a current liquid market in the Bonds, the management considers the carrying value of the Bonds to not be materially different from their fair value.

(e) Going concern

The Bonds were issued by XER in June 2014 and fall due for repayment on 30 June 2016. The Group has met all of its covenants and has paid in full all interest falling due under the Bonds to date. The remaining coupon interest due under the Bonds to maturity is included in restricted cash in an escrow account for the benefit of the Bondholders. However, the Group's current and forecast cash position is insufficient to repay the Bond capital in full by 30 June 2016 and, accordingly, it has initiated discussions with the principal bondholders in order to develop financial flexibility for the Group as it continues its efforts to secure a development financing package that meets its long-term field development funding requirements, in addition to the funds required for the settlement in full of the Bonds.

It should be noted that there is no certainty that these efforts will result in funding being secured by the Group or, if funding is secured, the terms or timing of such funding and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

These circumstances indicate the existence of material uncertainty in relation to the Group's ability to continue as a going concern. This is dependent on the Group's ability to repay or renegotiate the key terms of the Group's Bonds which fall due for settlement on 30 June 2016. However, having regard to the legal and financial advice received by the Board of Directors and having carefully considered the current liquidity position of the Group and the financing initiatives being pursued, the Board of Directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. On this basis, the Group continues to adopt the going concern basis of accounting in preparing the consolidated financial statements and these consolidated financial statements do not include the adjustments that would result if the Group was unable to secure its long-term funding and to continue as a going concern.

Changes in Accounting Policies

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

Following a decision by the Group to amend its presentation and functional currency to US Dollars from 1 January 2015, the comparative results for the year ending 31 December 2014 are restated in US Dollars, having been presently previously in Pounds Sterling. Further, in accordance with IAS 8, an additional comparative Statement of Financial Position has been presented for the year ended 31 December 2013. The change in functional currency has created a Translation Reserve.

During 2015 the Company and Group changed its accounting policy in respect of share-based payments so as to account for the fair value charge transfer from the Share-Based Payments Reserve (disclosed within Other Reserves) to Retained Earnings on the events of cancellation or expiry of the Company's share options and warrants. In years prior to 2015 the Company only recorded the fair value charge transfer from the Share-Based Payments Reserve to Retained Earnings on the event of an exercise of share options or warrants. This change of accounting policy more accurately presents the carrying value held within the Share-Based Payments Reserve to represent unexercised share options and warrants at any given time and has no effect on the previously reported results of the Company or of the Group. The change of accounting policy has been applied retrospectively, with the following values disclosed as an additional transfer from Other Reserves to Retained Earnings to those previously disclosed on the face of the Consolidated Statement of Changes in Equity and as reflected in the carrying values of the Retained Earnings and Other Reserves accounts on the Consolidated Statement of Financial Position; year ended 31 December 2014: $0.78 million, year ended 31 December 2013: $0.81 million, opening balance as at 1 January 2013; $3.58 million.

As a result of the changes to functional and presentation currency and the accounting policy in respect of Share-Based Payments, the comparatives for the years ended 31 December 2014 (and 31 December 2013, where appropriate) are shown as "restated".

Financial Instruments and Other Derivatives

Details regarding the Group's policies in respect of financial instruments are disclosed in Notes 1 and 13 to these audited consolidated financial statements for the year ended 31 December 2015.

Outlook

The coming period is clearly critical for Xcite Energy and its future and it is working extremely hard to deliver an executable development funding package. The Company cannot influence the oil price or the market conditions, but it can continue to pursue all the options available to it and it remains focused on delivering a funding package that enables it to apply for Field Development Plan approval. However, as the Bonds are due for repayment on 30 June 2016, management has also begun engagement with the principal bondholders in order to seek to increase the financial flexibility for the Company.

In the Bentley field, Xcite Energy has an excellent, long term asset which it has thoroughly appraised and understood. Xcite Energy has developed a cost effective and economically robust development plan that would deliver attractive returns throughout the oil price cycle and which has been technically evaluated by the

OGA; the Board of Directors believe there remains significant upside from further management of costs at this point in the cycle. These are some of the key features underpinning the pursuit of a development funding strategy, which is beginning to gain the traction needed in spite of the lack of industry investment. Xcite Energy will continue to pursue all the options available to the Company, as it believes that Bentley will be a major contributor to future North Sea oil production.

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements for the Group. The Directors have prepared the financial statements for each financial year which present fairly the state of affairs of the Group and of the profit or loss of the Group for that year.

The Directors have chosen to use the International Financial Reporting Standards ("IFRS") as adopted by the European Union in preparing the Group's financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of financial statements.

International Accounting Standards require that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'.

In virtually all circumstances a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. 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.

A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and accounting estimates that are reasonable and prudent;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance;
- state that the Group has complied with IFRS as adopted by the European Union, 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 company will continue in business.

Website publication

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.

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, benefits and performance of executive management and Directors.

The Remuneration and Nominating Committee consists of three independent Non-Executive Directors. The chairman of the Remuneration and Nominating Committee is Gregory J. Moroney.

Executive and Non-Executive Director Remuneration

The remuneration of the Executive Directors, who are the key personnel, and of the Non-Executive Directors for the year ended 31 December 2015 was as follows:

	Basic salary $'000s	Fees $'000s	Other compensation(i) $'000s	**2015 Total $'000s**	2014 Total $'000s (restated)
Scott R. Cochlan	-	68,711	-	**68,711**	69,908
Rupert E. Cole(ii)	383,421	-	69,782	**453,203**	603,154
Andrew Fairclough(iii)	268,395	-	26,839	**295,234**	398,475
Timothy S. Jones(iv)	-	122,847	-	**122,847**	105,462
Stephen A. Kew(ii)	345,079	-	65,948	**411,027**	546,229
Gregory J. Moroney	-	69,514	-	**69,514**	69,908
Roger S. Ramshaw(v)	-	-	-	**-**	43,242
Henry G. Wilson(vi)	-	68,833	-	**68,833**	45,478

(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.
(ii) The XER service contracts for Mr. Cole and Mr. Kew were effective 1 September 2003 and last amended on 24 October 2007.
(iii) The XER service contract for Mr. Fairclough was effective 1 August 2012. Salary details provided above are for the entire year ended 31 December 2014, including one month in which Mr Fairclough was not a Director.
(iv) The fees for Mr. Jones are for his services as a Non-Executive Director of the Company for the period 1 January 2014 to 7 May 2014, and thereafter for his services as Chairman of the Company.
(v) The fees in 2014 for Mr. Ramshaw are for his services as Chairman of the Company for the period 1 January 2014 until his retirement on 7 May 2014.
(vi) The fees in 2014 for Mr. Wilson are for his services as a Non-Executive Director of the Company from the date of his appointment on 7 May 2014.

During the year ended 31 December 2015 no performance-related bonuses were paid to any Director, nor were there any share-based payment awards.

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 a notice requirement for termination of no longer than twelve months.

The fees for the Non-Executive Directors in respect of their duties are determined by the Board and are reviewed on an annual basis. There have been no changes to Non-Executive Director fee levels in the year.

The fees for the individual Non-Executive Directors are as follows; Mr. Moroney, Mr. Cochlan and Mr. Wilson all receive £45,000 per annum. Mr. Jones as Chairman of the Company receives fees of £80,000 per annum. Mr. Moroney receives his Non-Executive Director fees denominated in a US Dollar equivalent and Mr. Cochlan in a Canadian Dollar equivalent. With variations in the exchange rate between Pounds Sterling and US Dollars during the year, the equivalent comparative values for 2014 are higher for Mr. Jones and Mr. Wilson due to a weaker US dollar during 2014.

Letters of Appointment for the Non-Executive Directors provide for termination of the appointment with one month's notice by either party. In accordance with the Company's Articles of Association, each of the Directors, including Non-Executive Directors, will retire at least once every three years and, for this purpose, at each annual general meeting of the shareholders one third of the Directors, including Non-Executive Directors, shall retire from office by rotation. Those retiring by rotation will be those who have been longest in office, at which point they may, subject to being eligible, offer themselves for re-election at such meeting.

Beneficial Interests

The beneficial interests, shown in thousands, of the Directors in the ordinary share capital of the Company as at 31 December 2015 are as follows:

	Shares		**Share Option Tranche (in '000s)**								**Total Options**
	('000s)	**1**	**2***	**3***	**4***	**5***	**6**	**7**	**8**	**9**	**('000s)**
Scott R. Cochlan	25	-	100	100	100	90	100	200	-	100	790
Rupert E. Cole	7,000	-	100	831	400	90	100	1,900	-	650	4,071
Andrew Fairclough	88	750	-	-	-	-	-	500	-	850	2,100
Timothy S. Jones	125	-	100	100	100	90	100	100	-	200	790
Stephen A. Kew	6,213	-	100	831	400	90	100	1,900	-	650	4,071
Gregory J. Moroney	100	-	-	100	100	90	100	200	-	100	690
Henry G. Wilson	40	-	-	-	-	-	-	-	150	100	250

* Under the terms of the Share Option Plan, due to these share options having expired during a period in which the Company is in a closed period, the expiry period has been extended to be ten business days after the expiry of the current closed period.

Tranche 1 – These share options, one third of which vested immediately and the remaining balance vesting in two equal tranches over a further two year period, were granted to Mr. Fairclough on 9 August 2012 with an exercise price of £0.80 ($1.18) and a term of five years.

Tranche 2 – These share options, which vested immediately, were granted to the Directors on 30 November 2009 with an exercise price of £0.42 ($0.62) and a term of five years.

Tranche 3 – These share options, which vested in three equal tranches over a two year period, were granted to the Directors on 26 March 2010 with an exercise price of £0.44 ($0.65) and a term of five years.

Tranche 4 – These share options, which vested immediately, were granted to the Directors on 3 November 2010 with an exercise price of £1.80 ($2.66) and a term of five years.

Tranche 5 – These share options, which vested immediately, were granted to the Directors on 31 December 2010 with an exercise price of £3.85 ($5.69) and a term of five years.

Tranche 6 – These share options, which vested immediately, were granted to the Directors on 6 August 2011 with an exercise price of £1.46 ($2.16) and a term of five years.

Tranche 7 – These share options, which vested immediately, were granted to the Directors on 21 June 2013 with an exercise price of £1.01 ($1.50) and a term of five years.

Tranche 8 – Mr Wilson was appointed to the Board on 7 May 2014 and, on 8 July 2014, 150,000 share options were awarded and vested immediately with an exercise price of £0.68 ($1.01) and a term of five years.

Tranche 9 - These share options, which vested immediately, were granted to the Directors on 18 August 2014 with an exercise price of £0.64 ($0.95) and a term of five years.

Further details of the share options in issue are given in Note 14 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 Share 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 Share 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 Share 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.

During the year ended 31 December 2015 no share options were exercised by any Executive or Non-Executive Directors. During the year ended 31 December 2014 Timothy S. Jones exercised 100,000 share options and Roger S. Ramshaw 200,000 share options.

Signed on behalf of the Remuneration and Nominating Committee by:

Gregory J. Moroney
Non-Executive Director
18 March 2016

Report of the Independent Auditors

To the Shareholders of Xcite Energy Limited

We have audited the financial statements of Xcite Energy Limited for the year ended 31 December 2015 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, consolidated statement of financial position, the consolidated statement of cash flows and a summary of significant accounting policies and other explanatory information The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

This report is made solely to the Company's Members, as a body in accordance with our terms of engagement letter dated 15 January 2016 and for no other purpose. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' responsibility for the financial statements

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (as issued by *the International Federation of Accountants (IFAC)*). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design appropriate audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on financial statements

In our opinion the consolidated financial statements present fairly, in all material respects the financial position of Xcite Energy Limited as at 31 December 2015 and its financial performance and its cash flows for the year then ended in accordance with IFRS as adopted by the European Union.

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Group's ability to continue as a going concern. This is dependent on the Group's ability to repay or renegotiate the key terms of the Group's senior secured bond liabilities (the "Bonds") which fall due for settlement in June 2016. The Directors have a reasonable expectation that the Group will be able to secure the necessary funds required for the settlement of the Bonds or renegotiate the key terms. The Directors have initiated discussions with the Bondholders and are considering alternative funding negotiations with a number of parties but there are currently no binding agreements in place. These conditions together with the other matters referred to in note 1 indicate the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the Group was unable to continue as a going concern which would principally relate to impairment of the Group's non-current assets.

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 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 have been properly prepared in accordance with IFRSs as issued by the IASB.

BDO LLP
London United Kingdom
Date: 18 March 2016

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Income Statement

	Note	**Year ended 31 December 2015** **$'000s**	Year ended 31 December 2014 (restated) $'000s
Share-based payment charges		**-**	(456)
Foreign exchange gains		**2**	5,666
Other expenses		**(1,729)**	(2,549)
Total administrative (expenses)/gains		**(1,727)**	2,661
Operating (loss)/gain	3	**(1,727)**	2,661
Finance income – bank interest		**37**	55
Foreign exchange losses – bonds	11	**-**	(10,691)
Loss before taxation		**(1,690)**	(7,975)
Tax credit	5	**2,502**	2,869
Profit/(loss) for the year attributable to equity holders of the parent company		**812**	(5,106)
Earnings/(loss) per share attributable to equity holders of the Company			
- Basic (in cents)	6	**0.3c**	(1.7c)
- Diluted (in cents)	6	**0.2c**	(1.7c)

All results relate to continuing operations. The notes on pages 28 to 51 form part of these financial statements.

Consolidated Statement of Comprehensive Income

	Year ended 31 December 2015 $'000s	Year ended 31 December 2014 (restated) $'000s
Profit/(loss) for the year	**812**	(5,106)
Items that may be reclassified to profit or loss:		
Other comprehensive loss – foreign currency exchange	**-**	(22,169)
Total comprehensive income/(loss) for the year	**812**	(27,275)
Attributable to:		
Equity holders of the parent Company	**812**	(27,275)

The notes on pages 28 to 51 form part of these financial statements.

Consolidated Statement of Changes in Equity

	Share Capital	Retained Earnings	Translation Reserve	Other Reserves	Total
	$'000s	$'000s	$'000s	$'000s	$'000s
At 1 January 2014 (restated)	**311,710**	**10,779**	**16,273**	**19,078**	**357,840**
Loss for the year ended 31 December 2014	-	(5,106)	-	-	(5,106)
Other comprehensive loss for the year ended 31 December 2014	-	-	(22,169)	-	(22,169)
Total comprehensive loss for the year ended 31 December 2014	**-**	**(5,106)**	**(22,169)**	**-**	**(27,275)**
Transactions with owners:					
Issue of shares	18,841	-	-	-	18,841
Associated share issue costs	(423)	-	-	-	(423)
Transfer upon expiry and exercise of share options	-	994	-	(994)	-
Fair value of share warrants and share options	-	-	-	1,934	1,934
At 1 January 2015 (restated)	**330,128**	**6,667**	**(5,896)**	**20,018**	**350,917**
Profit for the year ended 31 December 2015	-	812	-	-	812
Total comprehensive income for the year ended 31 December 2015	**-**	**812**	**-**	**-**	**812**
Transactions with owners:					
Transfer upon expiry of share warrants	-	4,528	-	(4,528)	-
At 31 December 2015	**330,128**	**12,007**	**(5,896)**	**15,490**	**351,729**

The notes on pages 28 to 51 form part of these financial statements.

Xcite Energy Limited
For the year ended 31 December 2015

Consolidated Statement of Financial Position

	Note	**31 December 2015 $'000s**	31 December 2014 (restated) $'000s	31 December 2013 (restated) $'000s
Assets				
Non-current assets				
Intangible assets	7	**460,332**	422,807	390,495
Property, plant and equipment	8	**8,523**	8,623	9,352
Total non-current assets		**468,855**	431,430	399,847
Current assets				
Trade and other receivables	9	**205**	378	8,376
Cash and cash equivalents	13b	**12,440**	28,101	36,166
Restricted cash	13b	**8,343**	22,326	-
Total current assets		**20,988**	50,805	44,542
Total assets		**489,843**	482,235	444,389
Liabilities				
Current liabilities				
Trade and other payables	10	**994**	3,511	3,257
Short Term Loan Notes		**-**	-	77,592
Interest on Bonds	11	**2,086**	2,025	-
Bonds	11	**135,034**	-	-
Total current liabilities		**138,114**	5,536	80,849
Non-current liabilities				
Bonds	11	**-**	123,280	-
Deferred tax	12	**-**	2,502	5,700
Total non-current liabilities		**-**	125,782	5,700
Net assets		**351,729**	350,917	357,840
Equity				
Share capital	14	**330,128**	330,128	311,710
Retained earnings	15	**12,007**	6,667	10,779
Translation reserve	15	**(5,896)**	(5,896)	16,273
Other reserves	15	**15,490**	20,018	19,078
Total equity		**351,729**	350,917	357,840

The notes on pages 28 to 51 form part of these financial statements. These financial statements were approved by the Board of Directors and authorised for issue on 18 March 2016 and were signed on its behalf by:

Rupert Cole
Chief Executive Officer

Andrew Fairclough
Chief Financial Officer

Consolidated Statement of Cash Flows

	Year ended 31 December 2015 $'000s	Year ended 31 December 2014 (restated) $'000s
Loss for the year before tax	**(1,690)**	(7,975)
Adjustment for share-based payment charges	**-**	456
Adjustment for interest income	**(37)**	(56)
Adjustment for disposal of E&E assets	**91**	-
Adjustment for foreign exchange	**(2)**	8,205
Movement in working capital:		
- Trade and other receivables	**174**	(198)
- Trade and other payables (Note 10)	**(2,517)**	1,000
Net cash flow from operations	**(3,981)**	1,432
Additions to exploration and evaluation assets	**(9,231)**	(16,874)
Purchase of fixed assets	**-**	(73)
Interest income	**37**	56
Net cash flow used by investing activities	**(9,194)**	(16,891)
Net proceeds from issue of new shares	**-**	18,418
Interest Paid	**(16,443)**	(16,990)
Settlement of loan notes	**-**	(89,872)
Net proceeds from issue of bonds	**-**	118,164
Net transfer from/(to) restricted cash	**13,983**	(22,326)
Cash flow (used in)/from financing	**(2,460)**	7,394
Net (decrease)/increase in cash and cash equivalents	**(15,635)**	(8,065)
Cash and cash equivalents as at beginning of year	**28,101**	36,166
Effect of foreign exchange rate changes	**(26)**	-
Cash and cash equivalents at the end of the year	**12,440**	28,101

The notes on pages 28 to 51 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. The new standards and interpretations which have been issued by the IASB and the IFRIC but have yet to be endorsed by the European Union have not been adopted in these consolidated financial statements. These standards and interpretations are not yet effective under the full IFRS. None of these are expected to have a material effect on the reported results or financial position of the Group.

The consolidated financial statements have been prepared on a going concern basis, which takes into account the going concern and basis of preparation risk identified under "Critical accounting estimates and judgements" on page 35 of these consolidated financial statements. This is dependent on the Group's ability to repay or renegotiate the key terms of the Group's senior secured bond liabilities (the "Bonds") which fall due for settlement on 30 June 2016. The Group currently has insufficient cash resources to fund the repayment in full of the Group's Bonds within the next 12 months. The $139.05 million of senior secured bonds, issued by XER in June 2014, fall due for repayment on 30 June 2016. In order to fulfil the financial capability requirements of the FDP approval process for the Bentley field development, the Group intends to secure a financing package which meets its long-term funding requirements, including re-financing of the Statement of Financial Position where appropriate. There is, however, no guarantee of this future long-term funding being available. The Group continues to adopt the going concern basis of accounting in preparing the consolidated financial statements and these consolidated financial statements do not include the adjustments that would result if the Group was unable to secure its long-term funding and to continue as a going concern.

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

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

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

During 2015 the Company and Group changed its accounting policy in respect of share-based payments so as to account for the fair value charge transfer from the Share-Based Payments Reserve (disclosed within Other Reserves) to Retained Earnings on the events of cancellation or expiry of the Company's share options and warrants. In years prior to 2015 the Company only recorded the fair value charge transfer from the Share-Based Payments Reserve to Retained Earnings on the event of an exercise of share options or warrants. This change of accounting policy more accurately presents the carrying value held within the Share-Based Payments Reserve to represent unexercised share options and warrants at any given time and has no effect on the previously reported results of the Company or of the Group. The change of accounting policy has been applied retrospectively, with the following values disclosed as an additional transfer from Other Reserves to Retained Earnings to those previously disclosed on the face of the Consolidated Statement of Changes in Equity and as reflected in the carrying values of the Retained Earnings and Other Reserves accounts on the Consolidated Statement of Financial Position; year ended 31 December 2014: $0.78 million, year ended 31 December 2013: $0.81 million, opening balance as at 1 January 2013; $3.58 million.

Basis of consolidation

The Company was incorporated with the sole purpose of acquiring the controlling interest in its directly held, wholly owned subsidiary, Xcite Energy Resources plc ("XER"). XER was acquired on 26 June 2007 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.

Having considered the requirements of IAS 8, it is considered appropriate to apply an accounting treatment:

- 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.

Where the Group has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiary, XER ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

Intangible fixed assets – Exploration & 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 project loan interest costs, certain payroll costs and associated employee share-based payment charges, are accumulated and capitalised as 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 Group 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.

The annual licence fees charged by DECC in respect of the Group's oilfield assets, which enable the Group to explore, appraise, develop and exploit natural resources within its licensed Blocks, are fully capitalised to E&E assets as incurred.

Borrowing costs

Borrowing costs incurred specifically for the appraisal and development of the Group's oilfield assets are capitalised as E&E assets. Amortised charges use the effective interest rate method, and include initial discount transaction costs as well as any interest payable.

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 in use 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
Other oilfield equipment	5 years

Assets capitalised not yet available for use are not depreciated, but are held at the lower of cost and net realisable value.

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 the Income Statement when there is objective evidence that the asset value is impaired.

Trade receivables – these assets arise through the provision of goods and services to customers or from credit notes due from suppliers, and are measured on initial recognition at fair value and are subsequently measured at amortised cost.

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.

Restricted cash and cash equivalents- These are balances which meet the definition of cash and cash equivalents but are not available for use by the Group, arising from 'pledged' bank balances and amounts placed in escrow accounts.

Prepayments

Prepayments comprise advance payments made by the Group and are recognised on initial recognition at cost.

Financial liabilities

The Group's financial liabilities of trade payables, other payables and bonds and are recognised on initial recognition at fair value less transaction costs and are subsequently measured at amortised cost.

Bond liabilities

The Group's senior secured bonds (the "Bonds") are measured at amortized cost, taking into account any initial discount, fees or costs directly associated with the issuance of the Bonds which are capitalised at inception and amortized over their term on a straight-line basis. Interest liabilities accruing under the Bonds are classified as current liabilities.

The Bonds are callable at the option of XER at any time with a call option premium comprising 106.5% of par value and any accrued interest on the redeemed Bonds. Call options have nominal value at inception and there remains no current indicator to suggest that the Bond call option has any material value, and, therefore, no financial asset has been recognised in respect of the call option. In the absence of a current liquid market in the Bonds, the management consider that the carrying value of the Bonds is not materially different from their fair value.

Revenue

Revenue arises from the sale of oil produced and reflects the actual sales value, net of value-added-tax ("VAT") and overriding royalties. Revenue earned on test production prior to establishing the technical feasibility and commercial viability of the project is credited to the Income Statement. 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

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

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 Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the date of the Consolidated Statement of Financial Position.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the Consolidated Statement of Financial Position 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 date of the Consolidated Statement of Financial Position and are expected to apply when the deferred tax liabilities/assets are settled/recovered. Deferred tax assets and liabilities are offset when the Group 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 Share Option Plan as described in Note 14. The share-based payment charges arising under this Share Option Plan and in relation to share-based payment charges for share warrants are 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 assets where the charge relates to employees or contractors employed wholly for the benefit of such E&E assets for all options granted in the period, with a corresponding increase recorded in other reserves. The share-based payment charge is calculated on the estimated fair values at the time of the grant and the charge is recognised over the vesting period of the options. Upon the exercise of the share options or warrants, or upon cancellation or expiry, any 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 or warrants expire unexercised or are cancelled, the previously recognised share-based payment charge associated with such share options and warrants is not reversed.

During 2015 the Company and Group changed its accounting policy in respect of share-based payments so as to account for the fair value charge transfer from the Share-Based Payments Reserve (disclosed within Other Reserves) to Retained Earnings on the events of cancellation or expiry of the Company's share options and warrants. In years prior to 2015 the Company only recorded the fair value charge transfer from the Share-Based Payments Reserve to Retained Earnings on the event of an exercise of share options or warrants. This change of accounting policy more accurately presents the carrying value held within the Share-Based Payments Reserve to represent unexercised share options and warrants at any given time and has no effect on the previously reported results of the Company or of the Group.

The Black-Scholes model is used to fair value share option rights and warrants granted, unless the underlying market value of the goods or services for which the share options, rights or warrants are being granted can be reliably determined, in which case market value is considered to be equal to fair value.

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

Operating leases

All leases are treated as operating leases. Rental premiums are charged to the Income Statement or capitalised within E&E assets on a straight-line basis over the term of the lease. Reverse premiums or other such incentives to enter into operating lease agreements are released to the Income Statement or as a credit to E&E assets over the lease term.

Foreign currency

The functional currency of the Group is US dollars. 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 date of the Consolidated Statement of Financial Position.

Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the Income Statement. Foreign currency exchange gains and losses arising from the retranslation of financial instruments, such as the Group's Bonds, are separately disclosed in the finance section of the Income Statement, with all other foreign exchange gains and losses disclosed within net administrative expenses.

Share Capital

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's ordinary shares are classified as equity instruments.

Critical accounting estimates and judgements

Accounting 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 Group 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) Taxation

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. The recognition of a material deferred tax asset, due to tax losses arising in the UK, is based upon management’s view of future taxable profits against which these losses can be utilised. The estimate of future taxable profits is based on a number of key underlying estimates and assumptions, including, but not limited to, FDP approval for the Group’s key oilfield assets, the availability of sufficient development funding, future crude oil price forecasts and budgeted development spend.

(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 principally based on market conditions existing at the date of grant. The methods and assumptions applied and valuations models used are disclosed in note 14.

(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 and gas reserves. Estimated recoverable value is based upon anticipated discounted pre-tax and pre-financing net cash flows attributable to the Group’s asset base. No impairments were recognised in 2015 and 2014. See Note 7.

(d) Fair value of Bond call option

The Bonds are callable at the option of XER at any time at a price comprising the present value of the Bonds on the relevant record date of 106.5% of par value (plus any accrued interest on redeemed Bonds). Call options have nominal value at inception and there remains no current indicator to suggest that the Bond call option has any material value and, therefore, no financial asset has been recognised in respect of the call option. In the absence of a current liquid market in the Bonds, the management considers the carrying value of the Bonds to not be materially different from their fair value.

(e) Going concern – basis of preparation

The Bonds were issued by XER in June 2014 and fall due for repayment on 30 June 2016. The Group has met all of its covenants and has paid in full all interest falling due under the Bonds to date. The remaining coupon interest due under the Bonds to maturity is included in restricted cash in an escrow account for the benefit of the Bondholders. However, the Group's current and forecast cash position is insufficient to repay the Bond capital in full by 30 June 2016 and, accordingly, it has initiated discussions with the principal bondholders in order to develop financial flexibility for the Group as it continues its efforts to secure a development financing package that meets its long-term field development funding requirements, in addition to the funds required for the settlement in full of the Bonds.

It should be noted that there is no certainty that these efforts will result in funding being secured by the Group or, if funding is secured, the terms or timing of such funding and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

These circumstances indicate the existence of material uncertainty in relation to the Group's ability to continue as a going concern. This is dependent on the Group's ability to repay or renegotiate the key terms of the Group's Bonds which fall due for settlement on 30 June 2016. However, having regard to the legal and financial advice received by the Board of Directors and having carefully considered the current liquidity position of the Group and the financing initiatives being pursued, the Board of Directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. On this basis, the Group continues to adopt the going concern basis of accounting in preparing the consolidated financial statements and these consolidated financial statements do not include the adjustments that would result if the Group was unable to secure its long-term funding and to continue as a going concern

New accounting standards adopted during the year

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

New standards and interpretations not yet applied

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

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

2 Segment Information

The Group only operates in a single business and geographical segment. The reporting of this segment is in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as the management team including the Chief Executive Officer, Chief Operating Officer and the Chief Financial Officer. The Group's single line of business is the appraisal and development of oil and gas reserves and the geographical segment in which it currently operates is the North Sea.

Financial information is presented to management in accordance with the measurement principles of IFRS. There are no adjustments or eliminations made in preparing the Group's financial statements from the reportable segment revenues, profit or loss, asset and liabilities.

3 Operating (Loss)/Gain

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

	Year ended 31 December 2015 $'000s	Year ended 31 December 2014 (restated) $'000s
Foreign exchange gains	**(2)**	(5,666)
Auditors' remuneration		
- Group audit fee	**38**	39
- Audit of subsidiary pursuant to legislation	**30**	23
- Other audit services	**8**	-
Share based payment charges	**-**	456

The Group incurred no charges in respect of share-based payments in the year ended 31 December 2015. For the year ended 31 December 2014, the Group incurred charges of $1.83 million. Of this, $1.58 million was in respect of employees (see Note 4). In accordance with the Group's accounting policy, $0.46 million was expensed within operating profit and the balance of $1.37 million was capitalised within E&E assets.

The Group incurred total charges in respect of property leases in the current year of $0.44 million (year ended 31 December 2014: $0.39 million). These have all been capitalised to E&E assets 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 year was as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Technical and administration	**17**	18

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

	Year ended 31 December 2015 $'000s	Year ended 31 December 2014 (restated) $'000s
Wages and salaries	**3,691**	4,928
Social security costs	**480**	649
Share-based payment charges	**-**	1,583
	4,171	7,160

Of the total payroll costs, a value of $3.48 million has been capitalised within E&E asset additions in the year ended 31 December 2015 ($5.66 million for the year ended 31 December 2014). The balance of payroll costs has been expensed within Other Expenses in the Income Statement in each relevant year.

b) Executive Directors' emoluments and performance based remuneration:

	Year ended 31 December 2015 $'000s	Year ended 31 December 2014 (restated) $'000s
Wages and salaries	**1,159**	1,548
Social security costs	**155**	208
Share-based payment charges	**-**	600
	1,314	2,356

During the year ended 31 December 2015, each of Rupert E. Cole, Andrew J. Fairclough and Stephen A. Kew were executive directors of XEL (the "Executive Directors"). The values in the table for 2014 include emoluments for Andrew J. Fairclough with effect from his appointment to the Board on 3 February 2014. The Executive Directors comprise the key management personnel of the Group.

In addition to the above, during the year ended 31 December 2015, the Group paid to Scott Cochlan, Timothy Jones, Gregory Moroney and Henry Wilson (the "Non-Executive Directors") in their capacity as Non-Executive Directors of the Company fees of $68,711, $122,847, $69,514 and $68,833 respectively (2014: $69,908, $105,462, $69,908, and $45,478 (for the period of 7 May 2014 to 31 December 2014) respectively). In addition, in the year ended 31 December 2014 a fee of $43,242 was paid to Roger Ramshaw in his capacity as Chairman of the Company prior to his retirement on 7 May 2014.

There were no charges in respect of share-based payments for the Non-Executive Directors in the year ended 31 December 2015 (year ended 31 December 2014: $183,853).

5 Taxation

	Year ended 31 December 2015 $'000s	Year ended 31 December 2014 (restated) $'000s
Deferred tax – current year	**19,479**	(2,801)
Deferred tax – adjustment in respect of prior year claims	**(25,876)**	(68)
Effect of changes in tax rates	**3,895**	-
Total tax credit	**(2,502)**	(2,869)

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 31 December 2015 $'000s	Year ended 31 December 2014 (restated) $'000s
Loss before tax	**(1,690)**	(7,975)
Loss before tax multiplied by the standard rate of corporation tax in the British Virgin Islands of 0% (2014: 0%)	**-**	-
Prior period adjustments relating to UK tax claims	**(25,876)**	(68)
UK tax on activities in the UK at the combined rate of 50% (2014: 62%)	**23,374**	(2,801)
Tax credit for the year	**(2,502)**	(2,869)

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. With the application of the UK supplementary charge, which reduced from 32% to 20% during 2015, the combined rate of corporation tax for ring-fenced trading profits for UK North Sea producing oil companies is 50%.

6 Earnings/(loss) per Share

The basic earnings per share ("EPS") is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. The diluted EPS is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of potentially outstanding ordinary shares, which takes into account issued ordinary shares in addition to all outstanding share options and share warrants that may yet be converted into ordinary shares in the Company in the future. Details of potentially dilutive financial instruments are given in Note 14 to these consolidated financial statements. When a loss for the year is presented the calculation of the diluted EPS is anti-dilutive, and, therefore, under IAS 33 'Earnings Per Share' the potential ordinary shares are ignored for the purposes of calculating EPS.

The calculation of the basic and diluted earnings per share for the current and prior year is based on the following values:

	Year ended 31 December 2015	Year ended 31 December 2014 (restated)
Earnings/(loss) in year (in $'000s)	**812**	(5,106)
Weighted average number of shares in issue:		
Basic	**309,930,421**	301,680,341
Fully diluted	**350,183,517**	346,283,053
Loss per share in cents:		
Basic EPS	**0.3**	(1.7)
Diluted EPS	**0.2**	(1.7)

7 Intangible Assets

	Licence Fees	
Exploration and Evaluation Assets	**2015 $'000s**	2014 (restated) $'000s
Opening cost and carrying value at 1 January	**4,876**	3,940
Additions during year	**1,039**	1,165
Disposals during year	**(91)**	-
Effects of foreign exchange rate changes	**-**	(229)
Closing cost and carrying value at 31 December	**5,824**	4,876

	Appraisal and Exploration Costs	
	2015 $'000s	2014 (restated) $'000s
Opening cost and carrying value at 1 January	**417,931**	386,555
Additions during year	**36,577**	53,775
Effects of foreign exchange rate changes	**-**	(22,399)
Closing cost and carrying value at 31 December	**454,508**	417,931

	Total	
	2015 $'000s	2014 (restated) $'000s
Opening cost and carrying value at 1 January	**422,807**	390,495
Additions during year	**37,616**	54,940
Disposals during year	**(91)**	-
Effects of foreign exchange rate changes	**-**	(22,628)

Closing cost and carrying value at 31 December	**460,332**	422,807

The costs associated with the appraisal of the Bentley field and its surrounding prospects have been capitalised in accordance with the Group's accounting policy in Note 1. Appraisal and Exploration Costs additions in the year ended December 2015 include an amount of $28.29 million in respect of capitalised interest and amortised fees in respect of the US Dollar Bonds (year ended 31 December 2014: $13.66 million of US Dollar Bond interest and amortised fees, $13.85 million of US Dollar loan note interest and amortised fees). This represents 100% of the eligible interest costs. Additions also include a value of $3.48 million (2014: $5.66 million) in respect of capitalised payroll costs which, for 2014, include certain staff share-based payment charges.

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. An impairment review into the Group's E&E asset carrying value is conducted annually and, whilst there has been a decline in the current price of crude oil, no impairment indicators exist at 31 December 2015. The situation will be monitored by management and adjustments made if future events indicate that such adjustments are appropriate.

8 Property, Plant and Equipment

Year ended 31 December 2014	Oilfield equipment $'000s	Furniture, fittings and computing equipment $'000s	Total $'000s
Opening net book amount at 1 January 2014 (restated)	9,005	347	9,352
Additions	-	73	73
Depreciation charge	-	(256)	(256)
Effects of foreign exchange rate changes	(522)	(24)	(546)
Closing net book amount at 31 December 2014 (restated)	8,483	140	8,623
At 31 December 2014			
Cost or valuation	8,483	1,056	9,539
Accumulated depreciation	-	(916)	(916)
Net book amount (restated)	8,483	140	8,623
Year ended 31 December 2015			
Opening net book amount at 1 January 2015	**8,483**	**140**	**8,623**

Depreciation charge	**-**	**(100)**	**(100)**
Closing net book amount at 31 December 2015	**8,483**	**40**	**8,523**
At 31 December 2015			
Cost or valuation	**8,483**	**1,056**	**9,539**
Accumulated depreciation	**-**	**(1,016)**	**(1,016)**
Net book amount	**8,483**	**40**	**8,523**

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

9 Trade and Other Receivables

	31 December 2015 $'000s	31 December 2014 (restated) $'000s
Indirect taxes receivable	**59**	241
Other receivables	**146**	137
	205	378

10 Trade and Other Payables

	31 December 2015 $'000s	31 December 2014 (restated) $'000s
Trade payables	**291**	1,350
Social security and other taxes payable	**160**	703
Accruals and other payables	**543**	1,458
	994	3,511

11 Senior Secured Bonds

	31 December 2015 $'000s	31 December 2014 (restated) $'000s
Current liabilities:		
Bond interest accrual	**2,086**	2,025
Bond capital less unamortised issue costs	**135,034**	-
Non-current liabilities:		
Bond capital less unamortised issue costs	**-**	123,280
12.0% Senior Secured USD Bonds 2014/2016	**137,120**	125,305

On 30 June 2014, the Group issued senior secured bonds ("Bonds") with a capital value of $135.00 million and a 10% initial issue discount. The Bonds have a term of two years, carry a cash interest coupon of 12% per annum, payable quarterly in arrears, together with an annual payment-in-kind interest coupon of 3% (payable either in cash or in the issue of additional Bonds at the discretion of the Group). The Bonds are listed on the Nordic ABM Stock Exchange. The Bonds have certain financial covenants attached, which include the maintenance of a minimum Group cash balance of not less than $6.00 million and a minimum Book Equity Ratio (Group Equity to Total Assets) of not less than 30% on a consolidated basis during the term of the Bonds. All covenants were met during the year ended 31 December 2015 and continued to be met by the date of the signing of these financial statements. At 31 December 2015, the Book Equity Ratio was 72%. In the absence of a current liquid market in the Bonds, management considers that the carrying value of the Bonds is not materially different from their fair value. The Bonds are secured by a charge over the assets of XER.

The Bonds are callable at the option of XER at any time with a call option premium comprising 106.5% of par value and any accrued interest on the redeemed Bonds. Call options have nominal value at inception and there remains no current indicator to suggest that the Bond call option has any material value, and, therefore, no financial asset has been recognised in respect of the call option. In the absence of a current liquid market in the Bonds, the management consider that the carrying value of the Bonds is not materially different from their fair value.

On 30 June 2015, the Group elected to issue an additional $4.05 million of senior secured bonds in settlement of the annual payment-in-kind interest coupon of 3% in respect of the period 30 June 2014 to 30 June 2015.

The carrying value of the Bonds has increased by payment-in-kind interest of $2.09 million , the $7.73 million amortisation of issue costs and issue of $4.05 million of senior secured bonds in settlement of the annual payment-in-kind interest in respect of the period 1 July 2014 to 30 June 2015. These items have been capitalised within the E&E asset in line with the Group's accounting policy, but are non-cash transactions.

12 Deferred tax

	2015 **$'000s**	2014 (restated) $'000s
At 1 January	**2,502**	5,700
Profit and loss credit	**(2,502)**	(2,869)
Effect of foreign exchange rate changes	**-**	(329)
At 31 December	**-**	2,502

There is a deferred tax liability of $208.70 million (2014: $238.59 million) comprising temporary differences arising from tax relief claimed for fixed asset expenditure in the UK. There are deferred tax assets of $228.66 million (2014: $236.09 million) arising on UK tax losses. The deferred tax liability has been offset by the deferred tax assets, resulting in a closing deferred tax liability of $nil, leaving an unrecognised deferred tax asset balance of $44.74 million.

13 Financial Instruments

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

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

Non-market risk

a) Credit risk

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

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

b) Liquidity risk

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

The following tables set out the contractual maturities (representing undiscounted contractual cash flows) of financial assets and financial liabilities.

	31 December 2015 $'000s	31 December 2014 (restated) $'000s
Financial assets – loans and receivables		
- Cash and cash equivalents	**12,440**	28,101
- Restricted cash	**8,343**	22,326
- Receivables (current)	**146**	137
	20,929	50,564
Financial liabilities – measured at amortised cost		
- Senior Secured Bonds (greater than one year)	**-**	123,280
- Senior Secured Bonds (current)	**137,120**	2,025
- Payables (current)	**834**	2,808
	137,954	128,113

As at 31 December 2015, the Group held a balance of $8.34 million in escrow accounts, managed by a Trustee (2014: $22.33 million). These balances have been categorised as "restricted cash" on the face of the Consolidated Statement of Financial Position.

Restricted cash is held in an escrow account with a designated purpose of payment of the interest on the Bonds for the second year of their two year term. Whilst title remains with the Group, funds are held under the control of the Bond Trustee. When due, the management will issue instruction to the Bond Trustee to draw the required funds from escrow to settle the quarterly interest to the Bondholders.

With the exception of the Bonds, the Management believes that as all financial instruments are short term, the fair values for all such items equate to their carrying amount. In respect of the Bonds, in the absence of a current liquid market in the Bonds, the Management considers that the carrying value of the Bonds is not materially different from their fair value. The Bonds incur interest with payments of $4.17 million maturing on a quarterly basis until the expiry of the Bonds in June 2016. On the expiry of the Bonds in June 2016 the face value of $139.05 million is payable.

As at the date of these financial statements there remains unused Equity Line Facility ("ELF") capacity of £30.84 million ($45.65 million), available until July 2017, to provide the Group with additional sources of capital, if required, to be used at its sole discretion.

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 material changes to the Company's capital management objectives, policies and processes during the period 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:

	Floating rate assets 31 December 2015 $'000s	**Interest free assets 31 December 2015 $'000s**	**Total 31 December 2015 $'000s**
Sterling	**1,819**	**146**	**1,965**
Euro	**199**	**1**	**200**
Norwegian Krone	**13**	**-**	**13**
CAD$	**22**	**-**	**22**
US$	**18,728**	**-**	**18,728**
Singapore Dollar	**-**	**1**	**1**
	20,781	**148**	**20,929**

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

	Fixed rate liabilities		**Interest free liabilities**	
	31 December 2015 $'000s	31 December 2014 (restated) $'000s	**31 December 2015 $'000s**	31 December 2014 (restated) $'000s
Sterling	**-**	-	**828**	2,674
Norwegian Krone	**-**	-	**-**	107
CAD$	**-**	-	**1**	2
US$	**137,120**	125,305	**5**	25
	137,120	125,305	**834**	2,808

Sterling floating rate assets earn interest at rates linked to the Bank of England Base Rate, with higher rates of return being achieved on deposits placed on longer maturities. The Group currently earns interest on Sterling deposits in the range of 0.0% to 0.40%. At 31 December 2015 the weighted average rate of interest being earned on Sterling deposits was 0.36% (31 December 2014: 0.35%).

US Dollar floating rate assets earn interest within the range of rates of 0.0% to 0.18%, depending upon the liquidity of the deposit placed. At 31 December 2015 the weighted average rate of interest being earned on US Dollar deposits was 0.08% (31 December 2014: 0.09%).

The Group also maintains working capital balances of Euros, Norwegian Krone and Canadian Dollars. These all earn nominal rates of interest. Cash deposits are only kept with banks with “A-” rating or better. The policy of the Group is to ensure that all cash balances earn a market rate of interest and that interest rate exposures are regularly reviewed and managed.

Foreign currency risk arises where purchase transactions are undertaken in a currency other than US dollars (2014: GBP) (transactional risk). The Group is exposed to exchange rate movements in Pounds Sterling and, to a lesser extent, the Canadian Dollar, the Euro and the Norwegian Krone. The Group aligns its expected future foreign expenditure with the necessary foreign currency cash balances, in effect creating a natural hedge. The Group will continue to monitor its exposure to such foreign currency risks and will manage future risks using derivative financial instruments as considered appropriate.

(e) Foreign exchange rate sensitivity analysis

Foreign exchange rate sensitivity analysis has been determined based on the exposure to financial instruments denominated in currencies (“transactional currencies”) other than the functional currency of US dollars (2014: GBP) (the “base currency”) as at the date of the Consolidated Statement of Financial Position.

Based on the Group’s financial instruments at the date of the Consolidated Statement of Financial Position, had the base currency been stronger than the transactional currencies by an additional 2% then the net unrealised foreign exchange gain reported in the Income Statement by the Group of $1,177 for the year ended 31 December 2015 would decrease by $35,106 (year ended 31 December 2014; the unrealised exchange gain of reported by the Group would have decreased by $80,288). Had the base currency been weaker than the transactional currencies by an additional 2% then the net unrealised foreign exchange gain reported in the Income Statement by the Group for the year ended 31 December 2015 would increase by $35,650 (year ended 31 December 2014; the unrealised foreign exchange gain reported by the Group would have increased by $83,565).

(f) Interest rate sensitivity analysis

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

Based on the Group’s cash balances during the year, if interest rates had been 50 basis points higher and all other variables were held constant, the Group’s profit for the year ended 31 December 2015 would increase by $205,576 (year ended 31 December 2014; the Group’s loss would decrease by $151,244). If interest rates had been 50 basis points lower and all other variables were held constant, the Group’s profit for the year ended 31 December 2015 would decrease by $37,105 (year ended 31 December 2014; the Group’s loss would increase by $55,889).

14 Share Capital

	31 December 2015 Number	31 December 2014 Number
Authorised:		
- Ordinary shares of no par value	**Unlimited**	Unlimited
Issued and fully paid up:		
- Ordinary shares of no par value	**309,930,421**	309,930,421

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

Shares issued

No new ordinary shares were issued during the year ended 31 December 2015. During the year ended 31 December 2014 the Company issued a total of 17,119,421 new ordinary shares. This comprised a total of 4,302,546 new ordinary shares for a consideration of $5.0 million, and 11,616,875 new ordinary shares for a consideration of $13.5 million, as announced by the Company on 16 June 2014 as part of the successful issuance of the Senior Secured Bonds, and a further 1,200,000 pursuant to the exercise of share options with total proceeds received of £0.20 million ($0.29 million).

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

Share Option Plan

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

No new share options were issued under the Share Option Plan during the year ended 31 December 2015. During the year ended 31 December 2014 the Company issued 6,850,000 new share options under the Share

Option Plan with an average exercise price of £0.64 ($0.95) and a term of five years to Board of Directors, XER staff and management team and key contractors.

No share options expired under the Share Option Plan during the year ended 31 December 2015. A total of 7,812,000 share options, with an average exercise price of £1.45 ($2.15), that would ordinarily have expired had it not been for a closed period, remain in circulation until the Company enters an open period, at which point these share options are exercisable for a period of 10 business days prior to expiry. During the year ended 31 December 2014 a total of 1,140,000 share options expired unexercised with a weighted average exercise price of £1.34 ($1.98).

No share options were exercised under the Share Option Plan during the year ended 31 December 2015. During the year ended 31 December 2014, a total of 1,200,000 share options were exercised with a weighted average price of £0.18 ($0.28) providing total proceeds of £200,168 ($341,368).

At 31 December 2015 there were 30,162,000 total share options outstanding (31 December 2014: 30,162,000 total share options outstanding), with exercise prices ranging from £0.42 to £3.85 and with a weighted average exercise price of £1.02 ($1.51) per option. Of the total outstanding at 31 December 2015, 30,162,000 were exercisable at that date (31 December 2014: 30,162,000 exercisable share options).

Exercise prices	**Quantity outstanding**	**Remaining term to expiry (days)**
CAD$0.74 (£0.42) *	700,000	-
CAD$0.68 (£0.44) *	3,162,000	-
CAD$1.17 (£0.64)	6,700,000	1,326
CAD$1.25 (£0.68)	150,000	1,284
CAD$1.19 (£0.74)	3,800,000	543
CAD$1.25 (£0.80)	1,050,000	587
CAD$1.62 (£1.01)	9,500,000	903
CAD$2.30 (£1.46)	1,150,000	216
CAD$2.92 (£1.80) *	2,700,000	-
CAD$5.95 (£3.85) *	1,250,000	-
Totals	**30,162,000**	**676 (weighted average)**

*Under the terms of the Share Option Plan, due to these share options having expired during a period in which the Company is in a closed period, the expiry period has been extended to be ten business days after the expiry of the current closed period.

Details of the Directors' interests in ordinary shares held under the Share Option Plan and options exercised by Directors in the year are given in the Report of the Remuneration and Nominating Committee.

The following assumptions were used in the share option pricing model for the vesting of options and warrants during the year ended 31 December 2014. As there were no share options or warrants issued or vesting in the year ended 31 December 2015 no pricing model inputs are presented.

Instrument	**Option**	**Option**	**Option**
Grant Date	9 August 2012	8 July 2014	18 August 2014
Vesting Date	9 August 2014	8 July 2014	18 August 2014
Share bid price	£0.80	£0.68	£0.64

Exercise price	CAD$1.25/£0.80	CAD$1.25/£0.68	CAD$1.17/£0.64
Expected volatility	59%	46%	45%
Expected life	2 years	2 years	2 years
Expected dividends	0%	0%	0%
Risk-free interest	1.16%	1.12%	1.09%

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

During the year ended 31 December 2014, the Group incurred total charges in respect of equity-settled share-based of $1.93 million, further details of which are provided in Note 3. There were no such charges in respect of the year ended 31 December 2015.

Share warrants

During the years ended 31 December 2015 and 31 December 2014 no share warrants were issued and, accordingly, there were no charges in respect of share-based payment transactions in either year. A total of 16,250,000 share warrants expired unexercised during the year with an average exercise price of £0.85 ($1.26).

The Group had 1,000,000 outstanding share warrants over the ordinary share capital of the Company at 31 December 2015 with a weighted average exercise price of £0.98 ($1.45) (as at 31 December 2014: 17,250,000 warrants with a weighted average exercise price of £0.86 ($1.27), and exercise prices ranging from £0.80 to £0.98).

At the date of these financial statements there were 1,000,000 exercisable share warrants outstanding with an exercise price of £0.98 ($1.45).

15 Retained earnings and other reserves

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

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

- Translation Reserves: represents the cumulative exchange differences arising on translation of functional to presentational currency.

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

16 Commitments and contingencies

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

	31 December 2015 $'000s	31 December 2014 (restated) $'000s
Amounts payable on leases which expire:		
Within one year	**214**	260
In two to five years	**-**	56

17 Related parties

XEL is a company incorporated in the British Virgin Islands and whose registered office is at Geneva Place, Waterfront Drive, PO Box 3469 Road Town, Tortola, VG1110, British Virgin Islands. In line with IAS24, the Group defines related parties as:

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

Using a loan facility, XEL has continued to provide its wholly owned subsidiary, XER, with net cash funding. During the year ended 31 December 2015, XEL provided XER with funding of $10.26 million (year ended 31 December 2014: net amount repaid of $63.83 million) to finance XER's operational requirements. No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand. The total balance owing by XER to XEL at 31 December 2015 was $102.56 million (as at 31 December 2014: $92.30 million).

In the normal course of business XER incurred charges totalling $17,359 during the year ended 31 December 2015 (year ended 31 December 2014: nil) for consultancy services from Esher Management Services Limited, a company for which Timothy Jones is a Director.

In the normal course of business XER incurred charges totalling $28,459 during the year ended 31 December 2015 (year ended 31 December 2014: $37,639) for property rentals from Seaburome Limited, a company in which Rupert E. Cole is a Director. There was no outstanding balance payable by XER at 31 December 2015 (31 December 2014: nil).

18 Subsequent Events

On 18 February 2016 the Secretary of State agreed to an extension to the Bentley field P1078 Seaward Production licence, extending the licence from 31 December 2016 to 30 June 2017.

The Company received the results of an updated Reserves and Resources Assessment Report (the "RAR"), prepared by AGR TRACS International Limited and dated 17 March 2016. This RAR, with an effective date of 31 December 2015, confirmed 2P Reserves for the Bentley field of 267 million stock tank barrels ("MMstb"), an increase of 2 MMstb since the previous report. The after-tax net present value of the Bentley field cash flows (discounted at 10%) was confirmed to be approximately US$2.5 billion. The RAR also assigned aggregate, unrisked mean Prospective Resources of 70 MMstb, relating to prospects in the Greater Bentley area. The RAR assigned a further 9 MMstb of P50 Contingent Resources to the Bentley field, representing the additional economic production that could be achieved after an estimated initial 35 year facilities life cut-off had been applied to the development plan.

Xcite Energy Limited
For the year ended 31 December 2015

Officers and Principal Advisers

Directors
Rupert E. Cole (Company Secretary)
Stephen A. Kew
Andrew J. Fairclough

Non-Executive Directors
Scott R. Cochlan
Timothy S. Jones (Chairman)
Gregory J. Moroney
Henry G. Wilson

Registered office
Geneva Place
Waterfront Drive
PO Box 3469 Road Town
Tortola, VG1110
British Virgin Islands

XER operations office
2 Queen's Gardens
Aberdeen
AB15 4YD

XER corporate office
1 Farnham Road
Guildford
Surrey, GU2 4RG

Auditors
BDO LLP
55 Baker Street
London
W1U 7EU

Tax Adviser
PricewaterhouseCoopers LLP
32 Albyn Place
Aberdeen
AB10 1YL

Principal bankers
Royal Bank of Scotland plc
40 Albyn Place
Aberdeen
AB10 1YL

Solicitors
United Kingdom
Stikeman Elliott
Dauntsey House
4B Fredericks Place
London EC2R 8AB

Canada
Stikeman Elliott LLP
5300 Commerce Court West
199 Bay Street
Toronto, ON
Canada M5L 1B9

British Virgin Islands
Conyers Dill & Pearman Limited
Commerce House
Wickhams Cay 1
PO Box 3140 Road Town
Tortola, VG1110

Joint broker and nominated adviser
Liberum Capital Limited
Ropemaker Place, Level 12
25 Ropemaker Street
London
EC2Y 9LY

Joint broker
Morgan Stanley Limited
20 Bank Street
Canary Wharf
London
E14 4AD

Registrars
Computershare Investor Services (BVI) Ltd.
Woodbourne Hall
PO Box 3162 Road Town
Tortola
British Virgin Islands

Stock exchange
AIM, London Stock Exchange
Code: XEL.L