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TSX-V, LSE-AIM: XEL

April 18, 2008

Xcite Energy Limited
("Xcite Energy" or "the Company")

Results for the 14 Month Period Ended December 31, 2007

Xcite Energy is a heavy oil company focused on the development of discovered resources in the United Kingdom North Sea. The Company holds a 100% working interest in the 9/3b block, the Bentley field, one of the largest undeveloped discoveries in the United Kingdom North Sea.

The Company is listed on the AIM Market of the London Stock Exchange (AIM) and the TSX Venture Exchange (TSX-V).

The Company today announces its financial and operational results for the 14 month period ended December 31, 2007 and its outlook for the remainder of 2008.

PERIOD HIGHLIGHTS and KEY MILESTONES

Operational

- December 2007 – drilling operations commenced on the 9/3b-5 appraisal well
  - Successful appraisal well completed on Bentley in February 2008
  - All key objectives were met and results confirmed commercial potential of the field
  - Licence secured for a further 4 years beyond the initial term through completion of the required work programme
  - Plans now in place for the next phase in the commercialisation of Bentley

Financial

- June 2007 **-** completion of an oversubscribed Private placement of shares
  - Raised US$20million (approximately £10 million)
- November 2007 **-** completion of an oversubscribed Initial Public Offering of shares
  - Listed on the TSX-V and AIM
  - Raised CAD$30 million (approximately £15 million)
- Cash balance as at December 31, 2007 was £21.07 million, compared with £0.14 million as at October 31, 2006

2008 OUTLOOK

- RPS Energy, independent reserve engineers, have been engaged to prepare an updated Competent Person's Report incorporating the technical data collected from the 9/3b-5 appraisal well
- The Company intends to participate in the 25th Licence Round in the United Kingdom North Sea

- The Company continues to assess further opportunities to farm-in or swap into production to further enhance shareholder value, through close cooperation with selected groups
- The Company intends to submit a Field Development Plan to the UK Department for Business, Enterprise and Regulatory Reform by the end of 2008, and is targeting early phased development to commence in 2009

Richard Smith, Xcite Chief Executive Officer commented

"We are very pleased with the progress that we have made during 2007. The Company's management team has been putting the building blocks in place since 2003 when we were first awarded the block, and 2007 saw us able to pass a number of key milestones, in both operational and financial terms, as Xcite progresses towards the development of the Bentley Field.

Following the successful fundraisings in Toronto and London and the successful appraisal drilling result on our Bentley well, we are confident that we will continue the momentum through 2008 and beyond.

The Company has filed the following reports required under National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities: Form 51-101F1 Statement of Reserves Data and Other Oil and Gas Information; and Form 51-101F3 Report of Management and Directors on Oil and Gas Disclosure. In addition to these forms, the Company has also filed its Management Discussion and Analysis and Audited Financial Statements. These documents can be found for viewing by electronic means on the System for Electronic Document and Analysis Retrieval at www.sedar.com

ENQUIRIES:

Formatted Table

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Rupert Cole	Chief Financial Officer	
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Alisdair Haythornthwaite	Director	
Katherine Stewart	Account Executive	

The TSX-V does not accept responsibility for the adequacy or accuracy of this release.

Forward-Looking Statements

Certain statements contained in this announcement constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to the Company’s future outlook and anticipated events or results and, in some cases, can be identified by terminology such as “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “believe”, “intend”, “estimate”, “predict”, “target”, “potential”, “continue” or other similar expressions concerning matters that are not historical facts. These statements are based on certain factors and assumptions including expected growth, results of operations, performance and business prospects and opportunities. While the Company considers these assumptions to be reasonable based on information currently available to us, they may prove to be incorrect. Forward-looking information is also subject to certain factors, including risks and uncertainties that could cause actual results to differ materially from what we currently expect. These factors include changes in market and competition, governmental or regulatory developments and general economic conditions. Additional information identifying risks and uncertainties are contained in the Company’ prospectus filed with the Canadian securities regulatory authorities, available at www.sedar.com. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

XCITE ENERGY LIMITED – FINANCIAL STATEMENTS
For the 14 month period ended December 31, 2007

Officers and Professional Advisors

Directors
Richard E. Smith (appointed July 5, 2007)
Rupert E. Cole (appointed January 18, 2008)
Stephen A. Kew (appointed July 5, 2007)

Non-Executive Directors
Roger S. Ramshaw (appointed August 30, 2007)
A. Murray Sinclair (appointed September 26, 2007)
Gregory J. Moroney (appointed September 26, 2007)
Scott R. Cochlan (appointed January 18, 2008)

Company Secretary
Rupert E. Cole

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Stock exchanges
AIM, London Stock Exchange
Code: XEL

TSX, TSX-Venture Exchange
Code: XEL

Board of Directors

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

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

Stephen A. Kew is Exploration and Development Director of XER and the Company. Mr. Kew has been a director for 3 Sigma Limited since 1999, a petroleum engineering consultancy company in the upstream oil and gas business. Mr. Kew is a Petroleum Engineer and has over 34 years of development engineering and project management experience in the oil and gas industry, including previous experience in respect of Block 9/3b. He is an associate of the Institution of Chemical Engineers, a member of the Society of Petroleum Engineers and former President of the Scottish Oil Club.

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

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

A. Murray Sinclair is a Non-Executive Director of the Company and Chairman of the Audit Committee. Since June 2003, Mr. Sinclair has been the Managing Director of Quest Capital Corp., an asset-backed lending organisation listed on the TSX, AMEX and AIM Stock Exchanges which focuses on providing financial services, specifically mortgages and bridge loans, to small and mid-cap companies. Since December 1996, Mr. Sinclair has also been a director of Quest Management Corp., a management company wholly-owned by Quest Capital Corp. Mr. Sinclair serves on the board of directors of a number of public companies.

Scott R. Cochlan is a Non-Executive Director of the Company and was appointed January 18, 2008. Mr. Cochlan is a partner at the law firm of Blake, Cassels & Graydon LLP in the securities group. Mr. Cochlan has represented senior and junior public issuers in numerous aspects of general corporate law and securities regulatory matters including corporate governance, continuous disclosure, regulatory compliance and transaction negotiation and completion. Mr. Cochlan also has extensive experience in representing both issuers and underwriters in a wide variety of complex private and public financing matters (equity and debt), including cross-border financings, mergers, acquisitions and other business reorganizations and restructurings. Mr. Cochlan holds a law degree from the University of Calgary and a B.A. from the University of Western Ontario. Mr. Cochlan has received a number of recognitions as a leading lawyer in his field.

Chairman's and Chief Executive's review

The founders of the operational company, Xcite Energy Resources Limited ("XER"), have been pursuing their ambition to become a significant independent producer of heavy oil from the North Sea since 2003 when they were awarded their core licence in Block 9/3b, but 2007 has been the first period of operations for Xcite Energy Limited ("XEL" or the "Company"). It is a period which has seen several significant steps made towards that goal and we are very pleased with the results from the 9/3b-5 appraisal well that was spudded on the Bentley field at the end of the year.

Although XEL and XER, together the "Group", will consider additional attractive heavy oil properties by participating in future Seaward Licensing Rounds and consider any aligned acquisition or joint venture opportunities, the primary focus during 2007 has been to obtain financing to appraise and conduct preliminary development planning for the Bentley field in which it has a 100% working interest. Three previous wells had confirmed a large accumulation of oil in the Dornoch formation on Bentley, but no samples were obtained and two attempts to perform drill stem tests were unsuccessful. Key successes for the Group have been:

1. To secure the Bentley licence by completing the required work programme; and

2. Due to the excellent work of our technical team, we were able to design and manage a drilling and testing program that obtained significant samples and characterised the reservoir fluids by testing the 9/3b-5 well using technical insights obtained since the original wells were drilled in the 1970's and 1980's.

Some key milestones during 2007 have been:

June:	XEL became the holding company of XER and the funding vehicle for the Group; and Completion of an oversubscribed Private Placement of shares raised US$20 million (£10 million).
November:	Completion of an oversubscribed Initial Public Offering of shares and listing on the TSX-Venture Exchange in Canada and AIM in London raised CAD$30 million (£15 million).
December:	Drilling operations on the 9/3b-5 appraisal well began.

Changes in the business environment during 2007 have continued to support the Group's strategy. High oil prices have persisted and, although most forecasters predict a fall-back from recent peaks, general sentiment is that the longer-term floor prices have risen. The UK authorities continue to encourage the involvement of small companies prepared to bring new ideas and approaches to the exploitation of the nation's undeveloped resources.

Also, a number of prominent heavy oil projects, for example, the Captain and Grane fields, have benefited greatly from the application of new technology to improve production rates and recovery. They have been very successful. This has engendered a growing interest in the undeveloped heavy oil resources of the North Sea, estimated by the BERR to be in excess of 9 billion barrels.

In particular, the move by StatoilHydro (the Grane operator) into the Mariner and Bressay fields, both in the same Quadrant 9 as the Bentley field, is seen as a very positive development for the Group.

The original Board of Directors comprising Richard Smith, Stephen Kew and Rupert Cole was joined prior to the Initial Public Offering in November by Roger Ramshaw as Non-Executive Chairman, together with Non-Executive Directors Greg Moroney and Murray Sinclair. We were pleased to welcome Scott Cochlan to the Board in January 2008, completing the intended Board composition and providing a well balanced team. As the Group develops beyond its current phase, we believe the very diverse range of experience we have succeeded in attracting to the Board will be a huge asset to us.

The Board has put in place the appropriate structure to meet the requirements of being a public company and to implement the appropriate practices of good governance taking guidance from the ‘Guidance for Smaller Quoted Companies' of the Quoted Companies Alliance, 2004. Audit and Remuneration and Nominating committees have been established and are chaired by Murray Sinclair and Greg Moroney respectively.

We are very pleased with the results from the Bentley well test, which was announced on February 4, 2008 and we look forward to an exciting period ahead when we can lay the foundations for significant oil production and revenue from what have, until now, been neglected assets. Of course there will be many challenges on the road but we have the right team to tackle them.

Roger Ramshaw
Chairman

Richard Smith
Chief Executive Officer

April 17, 2008

Management Discussion and Analysis

The Management's Discussion and Analysis (“MD&A”) of the operating and financial results of Xcite Energy Limited (“XEL” or the “Company”) should be read in conjunction with the Company's audited consolidated financial statements and related notes for the fourteen month period ended December 31, 2007. This MD&A is dated April 17, 2008. These documents and additional information about XEL are available on SEDAR at www.sedar.com.

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

This MD&A includes an analysis of the XEL results from its date of incorporation on January 5, 2007 to December 31, 2007, which include the results of the operating subsidiary Xcite Energy Resources Limited (“XER”) for the fourteen months from November 1, 2006 to December 31, 2007. XEL acquired XER on June 26, 2007. The comparative results comprise the twelve months for XER to October 31, 2006. In this MD&A, XEL and XER are together defined as the “Group”. All figures and the comparatives figures contained herein are expressed in Pounds Sterling unless otherwise noted.

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

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

Summary of Results

The following table summarises the Group's performance in the fourteen months to December 31, 2007 and the comparative of the twelve months to October 31, 2006. The Group has no trading revenue in either period. The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS and IFRIC interpretations) issued by the International Accounting Standards Board (IASB). The consolidated financial statements of the Company have also been prepared in accordance with IFRS's adopted by the European Union and therefore they comply with Article 4 of the EU IAS Regulation.

	14 Months ended December 31 £ 2007	12 Months ended October 31 £ 2006
Net (loss)/profit	(730,289)	48
Loss per share (basic and diluted)	(0.02p)	0.00p
Total assets	27,732,099	2,248,620

Liquidity and Capital Resources
In June 2007, the Company completed the Private Placement of new shares, with aggregate proceeds £10 million and associated costs of £0.83 million, resulting in net proceeds of £9.17 million.

In November 2007, the Company completed an Initial Public Offering of new shares and dual public listing on AIM in London and the TSX-Venture Exchange in Canada, with aggregate proceeds of £14.92 million and associated costs of £2.00 million, resulting in net proceeds of £12.92 million.

Of the aggregate costs of £2.83 million in relation to the Private Placement and Initial Public Offering, £2.35 million has been offset against share capital in the Balance Sheet and £0.48 million has been charged to the Income Statement.

The net funds from the Private Placement and the Public Offering were allocated to drilling the appraisal well on Block 9/3b to satisfy the work programme obligations to the BERR. XER spudded the Block 9/3b appraisal well in December 2007 and continued into February 2008 to conduct a successful drill stem test.

The cash balance as at December 31, 2007 was £21.07 million, compared with £0.14 million as at October 31, 2006, the increase being attributable to the net proceeds of the Private Placement and Initial Public Offering less the operating costs of the Group during the period.

Lease and Contractual Commitments
On November 12, 2007 the Group committed to a work programme to drill the appraisal well on Block 9/3b through a contract with AGR Peak Well Management Limited for £7.5 million (US$15 million), of which £7.0 million remained committed at the Balance Sheet date.

Operations and Administrative Expenses
As noted above, the net proceeds received from the Private Placement and Initial Public Offering were, in aggregate, £22.09 million.

Since these financing transactions occurred, XEL has incurred the costs of operating as a public company, including investor relations, non-executive directors' fees and stock exchange fees amounting to £0.06 million for the period to December 31, 2007.

XER significantly increased its operational expenditure in the period since June 2007 in support of the work programme to drill the Bentley well in December 2007, including the costs of an operational office in Aberdeen, increased external contractor support, seismic data licences and staff costs.

In the period under review, total costs of £4.74 million (2006: £0.62 million) has been capitalised as Exploration and Evaluation Assets in Intangible Assets relating to Block 9/3b, which reflect the work that has been done by XER in the period in bringing Block 9/3b forward, both technically and commercially and the drilling of the appraisal well on Block 9/3b. These costs have been capitalised in accordance with the Group's accounting policies and will be amortised against the revenue from production, if any, from the Bentley field.

In October 2006 and January 2007, XER received £0.27 million and £0.26 million respectively, from a former business partner as non-performance payments in respect of costs relating to the Block 9/3b asset following that partner's withdrawal from its relationship with XER under its contractual terms. This aggregate cash injection enabled XER to settle a number of third party liabilities with business partners, with the remaining amount being used for further expenditure relating to Block 9/3b. These non-performance payments have been offset against the capitalised costs of Block 9/3b.

Share Options, Warrants and Rights
In the period to December 31, 2007, the Company issued aggregate share options to Directors and management of 3,800,000 under the Stock Option Plan. The total cost to the Company in respect of share based payment transactions under the Stock Option Plan is £0.82 million (2006: £nil). Of this total, £0.30 million has been charged to the Income Statement and £0.52 million has been capitalised under intangible assets in accordance with the Company's accounting policy.

In the period to December 31, 2007, the Company issued aggregate warrants over a total of 12,688,500 shares in the Company in connection with the Private Placement and the Initial Public Offering. The total charge to the Company in respect of these warrants is £0.82 million, of which £0.80 million has been offset against share capital in the Balance Sheet and £0.02 million has been charged to the Income Statement.

Income
Interest income received on funds invested up to December 31, 2007 amounted to £0.25 million.

Related Party Transactions
Related party transactions are detailed in Note 14 to the financial statements.

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

Outstanding Share Capital
The following table outlines the ordinary share issues, warrants and share option exercises during the period.

	Ordinary Shares
As at November 1, 2006	-
Initial share subscription	1
Share exchange	21,799,999
Issued at Private Placement	20,000,000
Issued at Initial Public Offering	18,750,000
As at December 31, 2007	60,550,000

As at the date of signing these financial statements, the number of shares in issue was 61,413,800 as set out in Note 15.

Risk Management
The principal risk factors facing the Group are as follows:

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

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

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

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

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

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

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

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

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

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

Financial Instruments and Other Derivatives
Details regarding the Group's policies in respect of financial instruments are disclosed in Notes 1 and 10 to the financial statements.

2008 Outlook
Management believe that after meeting the costs of the appraisal well, there will be sufficient funds in the Group to enable it to move forward to plan the next stage of the programme to commercialise the Bentley field on Block 9/3b, to compete successfully in future UK licensing rounds and to pursue other identified business opportunities in accordance with its business strategy.

Following the successful drilling and testing of the appraisal well in January 2008, the Group's long term prospects are dependent on the investment of significant capital sums for the commercialisation of the Bentley field on Block 9/3b.

Report of the Remuneration and Nominating Committee

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

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

Basic salary and benefits
The remuneration of the Directors during the 14 month financial period (2006: 12 month) was as follows:

	Basic Salary	Other compensation (a)	**2007 Total**	2006 Total (b)
	£	£	**£**	£
Richard E Smith	188,284	41,833	**230,117**	7,725
Rupert E Cole	188,284	41,833	**230,117**	7,725
Stephen A Kew	157,034	33,237	**190,271**	-

(a) Other compensation comprises cash allowances in lieu of pension contributions, company car and fuel allowances, private healthcare allowances and allowances for life insurance and permanent health insurance cover.
(b) The employment agreements between XER and Mr Smith, Mr Cole and Mr Kew in their capacity as Executive Directors did not become effective until October 2006. They provided that all three directors be paid a salary of £150,000 and other compensation benefits equal to a cash allowance of £35,400.

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

The Groups' policy is to review salary and benefits annually against market data and analysis and to adjust accordingly. The service and employment contracts for the Executive Directors are not of fixed duration but continuation in office as a director is subject to annual re-election by shareholders. The Group's policy is for Executive Directors to have service and employment contracts with provision for termination of no longer than twelve months notice.

The fees for the Non-Executive Directors in respect of their duties are determined by the Board and are reviewed on an annual basis. Letters of Appointment for the Non-Executive Directors provide for termination of the appointment with one month notice by either party. In accordance with the Company's Articles of Association, Non-Executive Directors will retire after a term of two years at which point they may, subject to being eligible, offer themselves for re-election.

All Non-Executive Directors receive remuneration at the rate of £1,500 per day in respect of their services to the Group. During the period the Group paid to Roger Ramshaw and Gregory Moroney in their capacity as Non-Executive Directors of the Company fees of £13,500 and £6,000 respectively. There were no such equivalent payments for 2006.

Charges in respect of share based payments for the Non-Executive Directors in the period to December 31, 2007 were £86,441 (2006: £nil).

Beneficial Interests
The beneficial interests of the Directors in the ordinary share capital of the Company are as follows:

	Shares	**Options**	**Warrants(2)**
Richard E. Smith	6,300,000	1,000,000	-
Rupert E. Cole	6,300,000	1,000,000	-
Stephen A. Kew	6,300,000	1,000,000	-
Roger S. Ramshaw	-	200,000	-
Gregory J. Moroney	-	100,000	67,575
A. Murray Sinclair	-	100,000	-
Scott R. Cochlan (1)	25,000	100,000	-

(1) Scott R. Cochlan was appointed to the Board on January 18, 2008 at which time 100,000 share options were awarded and vested immediately with an exercise price of CAD$2.09 (£1.04) and a term of five years.
(2) See Note 14 for information about these warrants

All share options, which vested immediately, were granted to the Directors on November 16, 2007 at the date of the Initial Public Offering (except for Scott R. Cochlan as noted below) with an exercise price of CAD$1.60 (£0.805) and a term of five years. Further details of the stock options in issue are given in Note 11 to the financial statements.

There has been no trading of shares by the Directors since the period end.

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

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

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

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

Signed on behalf of the Remuneration and Nominating Committee by:

Gregory J. Moroney
Non-Executive Director
April 17, 2008

Report of the Independent Auditors

To the Directors of Xcite Energy Limited

We have audited the consolidated financial statements of Xcite Energy Limited and its subsidiary (collectively referred to as the "Group") for the 14 month period ended December 31, 2007, which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, and related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors
The Group's directors are responsible for the preparation of the financial statements in accordance with International Financial Reporting Standard (IFRS) as adopted by the European Union.

The Directors prepare financial statements for each financial period/year which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period/year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgements and estimates that are reasonable and prudent; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

All of the current directors are responsible for having taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's auditors for the purposes of their audit and to establish that the auditors are aware of that information.

Our responsibility is to audit the financial statements in accordance with International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view. We read the Management's Discussion and Analysis, the Chairman's and Chief Executive's Review and the Report of the Remuneration and Nominating Committee and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. We also report to you if we have not received all the information and explanations we require for our audit.

This report is made solely to the Group's directors as a body. Our audit work has been undertaken so that we might state to the Group's directors those matters we are required to state to them in the 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

Group and the Group's directors as a body, for our audit work, for this report, or for the opinions we have formed.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion the Group financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Group's affairs as at December 31, 2007 and of its loss for the period then ended.

BDO Stoy Hayward LLP
Chartered Accountants
Epsom, Surrey, England.
April 17, 2008.

CONSOLIDATED INCOME STATEMENT
For the 14 months ended December 31, 2007
(In Pounds Sterling)

	NOTES	14 Months ended December 31, 2007 £	12 Months ended October 31, 2006 £
Administrative expenses		(981,846)	(188)
Operating loss	3	(981,846)	(188)
Finance income – bank interest		251,557	257
(Loss)/profit before tax		(730,289)	69
Tax expense	5	-	21
(Loss)/profit for the period attributable to equity holders		(730,289)	48
Loss per share attributable to equity holders of the parent Company			
- Basic and diluted	6	(0.02p)	0.00p

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All results are derived from continuing operations.

The notes on pages 19 to 34 form part of these financial statements.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
For the 14 months ended December 31, 2007
(In Pounds Sterling)

	NOTES	**14 Months ended**	**12 Months ended**
		December 31, 2007	**October 31, 2006**
		£	£
(Loss)/profit for the financial period		(730,289)	48
Total recognised income and expense for the period		(730,289)	48
Attributable to:			
Equity holders of the Company		(730,289)	48

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CONSOLIDATED BALANCE SHEET
At December 31, 2007
(In Pounds Sterling)

	Notes	December 31, 2007 £	October 31, 2006 £
Assets			
Non-current assets			
Intangible assets	7	6,582,176	2,103,110
Current assets			
Trade and other receivables	8	82,789	3,132
Cash and cash equivalents		21,067,134	142,378
Total current assets		21,149,923	145,510
Total assets		27,732,099	2,248,620
Liabilities			
Current liabilities			
Trade and other payables	9	5,042,672	2,248,535
Total liabilities		5,042,672	2,248,535
Net assets		22,689,427	85
Equity			
Share capital	11	21,774,150	-
Retained earnings	12	(730,422)	(133)
Merger reserve	12	218	218
Other reserves	12	1,645,481	-
Total equity		22,689,427	85

The financial statements were approved by the Board of Directors and authorised for issue on April 17, 2008 and were signed on its behalf by:

Richard Smith
Chief Executive Officer

Rupert Cole
Chief Financial Officer

CONSOLIDATING CASH FLOW STATEMENT
For the 14 months ended December 31, 2007
(In Pounds Sterling)

	14 Months ended December 31, 2007 £	**12 Months ended October 31, 2006 £**
Net cash flow from operating activities		
(Loss)/profit for the period after tax	(730,289)	48
Adjustment for interest received	(251,557)	(257)
Adjustment for share based payments	840,818	-
Adjustment for share issue costs	484,534	-
Movement in working capital		
- trade and other receivables	(79,657)	32,507
- trade and other payables	2,794,137	455,516
Net cash flow from operations	3,057,986	487,814
Cash flow from investing activities		
Exploration and evaluation assets	(4,479,066)	(348,457)
Interest received	251,557	257
Net cash flow from investing activities	(4,227,509)	(348,200)
Cash flow from financing activities		
Net proceeds from issue of shares	22,094,279	4
Cash flow from financing activities	22,094,279	4
Net increase in cash and cash equivalents	20,924,756	139,618
Cash and cash equivalents at November 1	142,378	2,760
Cash and cash equivalents at December 31/October 31	21,067,134	142,378
Cash and cash equivalents comprise:		
Cash available on demand	21,067,134	142,378

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XCITE ENERGY LIMITED – NOTES TO THE FINANCIAL STATEMENTS
For the 14 months ended December 31, 2007

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

The consolidated financial statements have been prepared on a going concern basis.

Basis of consolidation

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

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

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

- New shares issued by XEL as consideration for the merger are recorded at their nominal amount in books of XEL;

- The net assets of XER and XEL are combined using existing book values;

- No amount is recognised as consideration for goodwill or negative goodwill; and
- The consolidated profit and loss includes profits of each company for the entire period, regardless of the date of the merger, and the comparative amounts in the consolidated accounts are restated to the aggregate of the amounts recorded by the two companies.

Revenue
Revenue arises from the sale of oil produced from Block 9/3b on the UK Continental Shelf and reflects the actual sales value, net of VAT and overriding royalties. Revenues are recognised when the risks and rewards of ownership together with effective control are transferred to the customer and the amount of revenue and associated costs incurred in respect of the relevant transaction can be reliably measured. Revenue is not recognised unless it is probable that the economic benefits associated with the sales transaction will flow to the Group.

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

Share based payments
The Company has a Stock Option Plan as described in Note 11. The share based payment expense arising under this Stock Option Plan is recorded in the Income Statement or as a direct reduction in share capital or as an increase in exploration and evaluation assets for all options granted in the period, with a corresponding increase recorded in the appropriate reserve account. The share based expense is calculated on the estimated fair values at the time of the grant and the expense is recognised over the vesting period of the options. Upon the exercise of the stock options, consideration paid together with the amount previously recognised in reserves is recorded as an increase in share capital. In the event that vested options expire unexercised, previously recognised share based payment expense associated with such stock options is not reversed. In the event that options are cancelled, previously recognised share based payment expense associated with the unvested portion of such stock options is reversed.

Where equity instruments are granted to persons other than employees, the Income Statement is charged with the fair value of the goods and services received.

Intangible fixed assets – Exploration and Evaluation Assets
Capitalisation
Certain costs (other than payments to acquire the legal right to explore) incurred prior to acquiring the rights to explore are charged directly to the Income Statement. All costs incurred after the rights to explore an area have been obtained, such as geological and geophysical costs and other direct costs of exploration (drilling, trenching, sampling and technical feasibility and commercial viability activities) and appraisal are accumulated and capitalised as intangible Exploration and Evaluation (“E&E”) assets.

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

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 and any resulting 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.

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

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

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

Cash and cash equivalents – comprise cash on hand and are subject to an insignificant risk of changes in value.

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

Current taxation
The total tax expense represents the sum of current and deferred tax. Current tax is based on the taxable profit 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 Balance Sheet date.

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

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the Balance Sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). Deferred tax assets and liabilities are offset when the 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.

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

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

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

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

(c) Impairment of Exploration and Evaluation (“E&E”) assets
A review is performed at the end of each financial period for any indication that the value of the Group's E&E assets may be subject to an impairment. In the event of any such indication, an impairment test is carried out and, if necessary, an impairment representing the surplus of capitalised cost over estimated recoverable value of the

related commercial oil reserves is charged. Estimated recoverable value is based upon anticipated discounted net cash flows attributable to such reserves.

New accounting standards adopted during the period
During the period the Group has adopted the following new standards for the first time:

IFRIC 10 'Interim Financial Reporting and Impairment'; and
IFRS 7 'Financial Instruments: Disclosures'.

IFRIC 10 prohibits impairment losses recognised in Interim Reports from being reversed in the next annual financial statements. There has been no affect on the Group's reported results on financial position arising from the adoption of IFRIC 10.

IFRS 7, and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', revises and enhances the previous disclosures required by IAS 32 and IAS 30. The impact of the adoption of IFRS 7 has been to expand the disclosures provided in these Financial Statements (see note 10). There has been no effect on the Group's reported results or financial position.

New standards and interpretations not yet applied
The following new standards and interpretations, which have been issued by the IASB and the IFRIC, are effective for future periods and have not been adopted early in these financial statements. A description of these standards and interpretations, together with (where applicable) an indication of the effect of adopting them, is set out below. None are expected to have a material effect on the reported results or financial position of the Group.

The IASB issued a revised IAS 1 'Presentation of Financial Statements' in September 2007 effective for accounting periods beginning on or after 1 January 2009.

The IASB published revisions to IAS 32 'Financial Instruments: Presentation' and consequential revisions to other standards in February 2008 to improve the accounting for and disclosure of puttable financial instruments. The revisions are effective for accounting periods beginning on or after 1 January 2009 but together they may be adopted earlier.

The IASB published a revised IFRS 3 'Business Combinations' and related revisions to IAS 27 'Consolidated and Separate Financial Statements' following the completion in January 2008 of its project on the acquisition and disposal of subsidiaries. The standards improve convergence with US GAAP and provide new guidance on accounting for changes in interests in subsidiaries. The cost of an acquisition will comprise only consideration paid to vendors for equity; other costs will be expensed immediately. Groups will only account for goodwill on acquisition of a subsidiary; subsequent changes in interest will be recognised in equity and only on a loss of control will there be a profit or loss on disposal to be recognised in income. The changes are effective for accounting periods beginning on or after 1 July 2009, but both standards may be adopted together for accounting periods beginning on or after 1 July 2007.

Amendment to IAS 23 ‘Borrowing Costs' was issued in May 2007 and is effective for accounting periods beginning on or after January 1, 2009. The amendment requires borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset to be added to the cost of that asset.

IFRIC 11 ‘IFRS 2 – Group and Treasury Share Transactions' was issued in November 2006 and is effective for annual periods beginning on or after March 1, 2007. IFRIC 11 clarifies the accounting for share based transactions which fall within the scope of IFRS 2.

IFRIC 12 ‘Service Concession Arrangements' was issued in November 2006 and is effective for annual periods beginning on or after January 1, 2008. IFRIC 12 prohibits private sector operators from recognising as their own those infrastructure assets which are owned by the grantor.

IFRIC 13 ‘Customer Loyalty Programmes' was issued in June 2007 and is effective for annual periods beginning on or after July 1, 2008. IFRIC 13 requires the fair value of revenue relating to customer loyalty rewards to be deferred until all related obligations to the customer have been fulfilled.

IFRIC 14 ‘IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction', was issued in June 2007 and is effective for annual periods beginning on or after January 1, 2008. IFRIC 14 clarifies how any asset to be recognised should be determined, in particular where a minimum funding requirement exists.

IFRS 8 ‘Operating Segments' was issued in November 2006 and is effective for annual periods beginning on or after January 1, 2009. It requires reportable operating segments to be based on the entity's own internal reporting structure. It also extends the scope and disclosure requirements of IAS 14 Segmental Reporting, the standard which it is replacing. IFRS 8 will require the publication of segment reports, which will, as a minimum, disclose net result and total assets on a segment by segment basis based on management's own internal accounting information.

Status of EU endorsement

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

- IFRIC 12 ‘Service Concession Arrangements';
- IFRIC 13 ‘Customer Loyalty Programmes';
- IFRIC 14 ‘IAS 19 - The limit on a defined benefit asset';
- Amendment to IAS 23 ‘Borrowing Costs'; and
- IFRS 3 ‘Business Combinations (revised)'.

2 Segment Information

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

3 Operating Loss

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

	2007	2006
	£	£
Auditors' remuneration:		
Group audit fee	25,000	-
Audit of subsidiary pursuant to legislation	20,000	-
Tax advisory	9,500	-
Fees in respect of Initial Public Offering	65,000	-
Non-statutory audit and advisory fees (1)	39,500	-
Operating lease costs	22,050	-

(1) Pursuant to the Initial Public Offering, the Company's auditors provided non-statutory audit and advisory services to XER for the period from incorporation to July 2006.

4 Staff Costs and Directors' Emoluments

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

	2007	**2006**
Technical and administration	4	3

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

	2007 **£**	**2006** **£**
Wages and salaries	704,367	15,458
Social security costs	87,731	1,334
Share based payments charge	691,529	-
	1,483,627	16,792

b) Executive Directors' emoluments

	2007 **£**	**2006** **£**
Wages and salaries	654,367	15,458
Social security costs	81,115	1,334
Share based payments charge	648,309	-
	1,383,791	16,792

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

In addition to the above, during the period the Group paid to Roger Ramshaw and Gregory Moroney in their capacity as Non-Executive Directors of the Company fees of £13,500 and £6,000 respectively. There were no such equivalent payments for 2006. Charges in respect of share based payments for the Non-Executive Directors in the period to December 31, 2007 were £86,441 (2006: £nil).

5 Taxation

	2007	2006
	£	£
Overseas tax charges	-	21

Current tax is calculated at the rates prevailing in the respective jurisdictions. XEL is incorporated in the British Virgin Islands, a jurisdiction subject to a tax exemption. XER is incorporation in the UK and therefore subject to current tax on taxable profits at a rate of 30% (2006: 30%).

6 Loss per Share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The calculation of basic loss per ordinary share is based on a loss of £730,289 (2006: £48 profit) and on 32,380,357 (2006: 21,800,000), being the weighted average number of ordinary shares in issue during the period.

Details of potentially dilutive financial instruments are given in Note 11 to these financial statements. Details of shares issued since the period end are given in Note 15 to these financial statements.

7 Intangible Assets

Exploration and Evaluation Assets

	Licence fees	
	December 31, 2007	**October 31, 2006**
Cost and carrying value	**£**	**£**
At November 1	66,297	36,162
Additions	60,270	30,135
At December 31/October 31	126,567	66,297

	Appraisal and exploration costs	
	December 31, 2007	**October 31, 2006**
Cost and carrying value	**£**	**£**
At November 1	2,036,813	1,718,491
Additions		
- Costs capitalised	4,676,479	585,613
- Contributions to costs received	(257,683)	(267,291)

At December 31 /October 31	6,455,609	2,036,813

	TOTAL	
	December 31, 2007	**October 31, 2006**
Cost and carrying value	**£**	**£**
At November 1	2,103,110	1,754,653
Additions		
- Costs capitalised	4,736,749	615,748
- Contributions to costs received	(257,683)	(267,291)
At December 31 /October 31	6,582,176	2,103,110

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

Based on the Group's success in drilling its final appraisal well on Block 9/3b, and in view of the forecast revenue streams and cash flows of this project, the Board is satisfied that the carrying amount of the related intangible assets as disclosed above will be recovered in full and that there is no need for any impairment provision. The situation will be monitored by management and adjustments made in future periods if future events indicate that such adjustments are appropriate.

8 Trade and Other Receivables

	December 31, 2007 £	October 31, 2006 £
Indirect taxes receivable	79,114	-
Other receivables	3,675	3,132
	82,789	3,132

9 Trade and Other Payables

	December 31, 2007 £	October 31, 2006 £
Trade payables	2,857,762	170,148
Directors' loan accounts	-	1,954,125
Social security and other taxes payable	33,919	28,262
Accruals and other creditors	2,150,991	96,000
	5,042,672	2,248,535

10 Financial Instruments

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

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

Non-market risk
a) Credit risk
Receivables relate to VAT recoverable and an office rent deposit. As such, they are regarded as low risk.

b) Liquidity risk
Group management has responsibility for reducing exposure to liquidity risk and for ensuring that adequate funds are available to meet anticipated requirements. It operates according to the policies and guidelines established by the Board. Cash management is carried out centrally.

	Carrying Amount	
	December 31, 2007 £	October 31, 2006 £
Financial assets – loans and receivables		
- Cash	21,067,134	142,378
- Receivables (current)	82,789	3,132
	21,149,923	145,510

Financial liabilities – measured at amortised cost		
- Payables (current)	5,042,672	2,248,535

The period end position in relation to financial instruments as shown above is not considered to be materially representative of the position during the financial period. This is due to the significant funding transactions that occurred in June and November 2007 and the resulting significant increase in expenditure to undertake the drilling of the appraisal well on Block 9/3b.

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

Of the above cash balance of £21.07 million, the Group had a cash balance of £7.11 million (2006: £nil) held in escrow by an independent firm of solicitors in order to satisfy certain contractual requirements for the drilling of the final appraisal well on Block 9/3b.

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

Market risk

c) Interest rate and foreign currency risks

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

	Interest free liabilities December 31, 2007 £	**Interest free liabilities October 31, 2006 £**
Sterling	2,807,605	2,248,535
CAD$	62,947	-
US$	2,172,120	-
	5,042,672	2,248,535

	Floating rate assets December 31, 2007 £	**Interest free assets December 31, 2007 £**	**Total £**
Sterling	16,460,016	82,789	16,542,805
US$	4,607,118	-	4,607,118

	21,067,134	82,789	21,149,923

	Floating rate assets October 31, 2006	**Interest free assets October 31, 2006**	**Total**
	£	**£**	**£**
Sterling	142,378	3,132	145,510

Sterling floating rate assets earn interest at circa 25 basis points below the Bank of England Base Rate per annum. US$ floating rate assets earn interest at circa 25 basis points below the Federal Reserve Rate per annum. Cash deposits are only kept with banks with "AA" rating. 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.

(d) Interest rate sensitivity analysis

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

Based on the Group's cash balances during the period, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the period ended December 31, 2007 would decrease/increase by £25,650 (2006; the Group's profit would increase/decrease by £26).

11 Share Capital

	Number of shares	
	December 31, 2007	**October 31, 2006**
Authorised		
- Ordinary shares of no par value each	Unlimited	Unlimited
Issued and paid up		
- Ordinary shares of no par value each	60,550,000	21,800,000

	£ value of shares	
	December 31, 2007	October 31, 2006
Authorised		
- Ordinary shares of no par value	Unlimited	Unlimited
Issued and paid up		
- Ordinary shares of no par value	21,774,150	-

Xcite Energy Limited is registered in the British Virgin Islands under the BVI Business Companies Act 2004. Under BVI laws and regulations there is no concept of “share premium”, and all proceeds from the sale of no par value equity shares is deemed to be share capital of the Company. The costs of the Private Placement of £0.83 million and certain costs totalling £1.52 million of the Initial Public Offering have been offset against the gross proceeds from the issue of new shares in the period. In addition, share based payment charges and charges in respect of the fair value of share warrants of £0.80 million have been offset against the gross proceeds from the issue of these shares.

Shares issued
XEL was incorporated on January 5, 2007. On June 5, 2007 one ordinary share was issued to the subscriber to the Memorandum of Association of the Company.

On June 26, 2007, pursuant to a reorganisation transaction, XEL issued 21,799,999 ordinary shares to the existing shareholders of XER in exchange for the entire share capital of XER.

On June 26, 2007 XEL undertook a private placement of 20,000,000 ordinary shares raising proceeds of £10 million (£9.17 million net of expenses).

On November 16, 2007 XEL completed an Initial Public Offering of 13,168,750 new ordinary shares at CAD$1.60 per share to raise £10.43 million and 5,581,250 new ordinary shares at £0.805 per share to raise a further £4.49 million. This Initial Public Offering realised total new equity funds of £14.92 million (£12.92 million net of expenses) and was immediately followed by a dual listing of the Company's shares on the Toronto Stock Exchange – Venture division and the AIM in London.

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

The Stock Option Plan is administered by the Remuneration and Nominating Committee. At December 31, 2007 there were 3,800,000 options outstanding (2006: nil). Details of the Directors' interests in ordinary shares held under the Stock Option Plan are given in the Report of the Remuneration and Nominating Committee.

The following input assumptions were used in the share option pricing model:

Share bid price	CAD$1.45
Exercise price	CAD$1.60
Expected volatility	31.0%
Expected life	5 years
Expected dividends	0.0%
Risk-free interest rate	3.97%

In light of the Company's recent dual-listing on the TSX-V and AIM Stock Exchanges, the expected share price volatility was determined by a review of the share trading performance of comparable oil and gas companies in the same industry sector.

The total cost to the Company in respect of share based payment transactions under the Stock Option Plan in the period to December 31, 2007 was £0.82 million (2006: £nil). Of this total, £0.30 million has been charged to the Income Statement and £0.52 million has been capitalised under intangible assets in accordance with the Company's accounting policy.

Share warrants

The Company had the following outstanding warrants over the ordinary share capital of the Company at December 31, 2007:

Security	**Holder**	**Number of ordinary shares**	**Exercise price**	**Market price at grant date**	**Expiry date**
Warrants (1)	Shareholders of the company	10,000,000	US$1.50	US$1.00	May 7, 2009
Broker warrants (2)	Thomas Weisel Partners (UK) Limited	1,400,000	US$1.00	US$1.00	June 26, 2009
Broker warrants (3)	Various	1,125,000	CAD$1.60	CAD$1.60	Nov 15, 2009
Warrants (4)	Ammonite	163,500	US$1.00	US$1.00	Nov 15, 2009

(1) On June 26, 2007, pursuant to the Private Placement, XEL issued 20,000,000 units consisting of ordinary shares and 20,000,000 half-warrants at US$1.00 per unit. Each whole warrant entitles the holder to purchase one ordinary share in XEL at an exercise price of US$1.50 per share at any time until May 7, 2009.

(2) Pursuant to the Private Placement, the Company issued to Thomas Weisel Partners (UK) Limited (formerly Westwind Partners (UK) Limited) 1,400,000 broker warrants to purchase 1,400,000 ordinary shares at an exercise price of US$1.00 at any time until June 26, 2009.

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

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

The following input assumptions were used in the option pricing model for the respective warrants:

	Warrants(1)	**Broker Warrants(2)**	**Broker Warrants(3)**	**Warrants(4)**

Share bid price	US$1.00	US$1.00	CAD$1.45	US$1.00
Exercise price	US$1.50	US$1.00	CAD$1.60	US$1.00
Expected volatility	36.0%	36.0%	36.0%	36.0%
Expected life	2 years	2 years	2 years	2 years
Expected dividends	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	4.77%	4.77%	3.97%	4.77%

Notes (1) to (4) above refer to instrument classifications given above.

As set out above, in the period to December 31, 2007, the Company issued aggregate warrants over a total of 12,688,500 shares in the Company in connection with the Private Placement and the Initial Public Offering. The total charge to the Company in respect of these warrants is £0.82 million, of which £0.80 million has been offset against share capital in the Balance Sheet and £0.02 million has been charged to the Income Statement.

12 Retained earnings and other reserves

	Retained Earnings	Merger Reserve	Other Reserves	Total
	£	£	£	£
At November 1, 2005	(181)	214	-	33
Profit for the year to October 31, 2006	48	-	-	48
Share capital issued	-	4	-	4
At November 1, 2006	(133)	218	-	85
Loss for the period to December 31, 2007	(730,289)	-	-	(730,289)
Fair value of share options and warrants	-	-	1,645,481	1,645,481
At December 31, 2007	(730,422)	218	1,645,481	915,277

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

Retained Earnings	Cumulative net gains and losses recognised in the Group Balance Sheet.
Merger Reserve	The difference between the nominal value of the shares issued to acquire a

	subsidiary and the nominal value of the shares acquired.
Other Reserves	The fair value of share based payments and warrants over shares granted by the Company at the date of grant.

13 Commitments and contingencies

On November 12, 2007 the Group committed to a work programme to drill the appraisal well on Block 9/3b through a contract with AGR Peak Well Management Limited for £7.5 million (US$15 million), of which £7.0 million remained committed at the Balance Sheet date (2006: £nil).

14 Related party transactions

During the period XER paid consulting fees to Richard West for work undertaken by him in connection with the drilling of the Bentley appraisal well on Block 9/3b before he became a Director of XER and a member of the management team, amounting to £15,405 (2006: £nil).

XER entered into an agreement with Ammonite Capital Partners L.P. ("Ammonite") in January 2007 in connection with its proposed funding activities. Gregory J. Moroney is a consultant to Ammonite. The agreement contained provisions for XER to pay success fees to Ammonite and award it warrants over ordinary shares in XER under certain circumstances. XEL assumed responsibility for this agreement at the time that XEL acquired XER. The agreement provided for Ammonite to receive a total of 163,500 warrants, each over one ordinary share in XEL, at the time of the public offering and listing of XEL (the "Ammonite Warrants"). In the event that XEL undertakes a second significant offering of ordinary shares, Ammonite would become entitled to receive a further 109,000 warrants, each over one ordinary share in XEL (the "Second Ammonite Warrants").

Ammonite was awarded, pursuant to the agreement, a success fee of US$134,435 (£62,218). Mr Moroney has personally received through Ammonite (i) 40.5% of this success fee, representing US$54,496 (£27,248), (ii) work fees of US$33,543 (£16,772) and (iii) 41% of the Ammonite Warrants, entitling him to receive 67,575 Ordinary Shares issuable upon the exercise of the Ammonite Warrants. In the event of a further significant offering of ordinary shares by XEL, Mr Moroney would be entitled to 45% of the Second Ammonite Warrants, which would entitle him to receive 49,050 ordinary shares issuable upon the exercise of the Second Ammonite Warrants.

15 Subsequent events

On February 4, 2008 the Company was pleased to announce the results of its successful appraisal well on the Bentley field, with all principal objectives of the reservoir evaluation programme being met. These objectives included:

- Obtaining a crude oil sample to establish the key fluid parameters including API gravity, viscosity, TAN (total acid number) and the metals content of the oil;

- Flowing crude oil to surface through a drill stem test at rates commensurate with the well conditions, completion approach and pump capacity, and to recover the oil produced;
- Obtaining a water sample from the aquifer for chemical analysis and for calibration of wireline logs;
- Confirming the characteristics of the reservoir; and
- Obtaining productivity data on which to model potential production profiles.

Based on the success of the 9/3b-5 appraisal well, the Company now intends to re-process the 3D seismic data over the Block to confirm the results of its recent 3D interpretation, which indicated a material increase in STOIIP compared to the 2D seismic.

In addition, the Company will move forward to plan further and identify the optimum methodology for the future commercial development of the Bentley field. As part of this work programme, the Company intends to update the work performed by RPS Energy Canada Ltd to provide a revised Competent Person's Report.

Since December 31, 2007, certain warrants over the Company's shares have been exercised resulting in 863,800 additional shares being issued and aggregate funds of £0.48 million being received by the Company. The total number of shares in issue at the date of these financial statements was 61,413,800.

END