Xcite Energy Limited

Interim consolidated financial statements

For the 3 and 9 month periods ended 30 September 2012

(Unaudited)

Xcite Energy Limited

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for the 3 and 9 month periods ended 30 September 2012

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For the 3 and 9 month periods ended 30 September 2012

Consolidated Income Statement (in Pounds Sterling)

	Note	**9 month period ended 30 September 2012** (unaudited) £	**3 month period ended 30 September 2012** (unaudited) £	9 month period ended 30 September 2011 (unaudited) £	3 month period ended 30 September 2011 (unaudited) £
Revenue	3	**13,288,989**	**13,288,989**	-	-
Cost of sales	4	**(13,288,989)**	**(13,288,989)**	-	-
Gross profit		**-**	**-**	**-**	-
Share-based payment charges		**(114,843)**	**(33,153)**	(410,777)	(344,828)
Foreign exchange gains/(losses)		**391,027**	**(48,746)**	266,245	(28,129)
Other expenses		**(1,260,865)**	**(542,547)**	(928,297)	(348,795)
Net administrative expenses		**(984,681)**	**(624,446)**	(1,072,829)	(721,752)
Operating loss	5	**(984,681)**	**(624,446)**	(1,072,829)	(721,752)
Finance income – bank interest		**147,702**	**56,848**	83,005	39,084
Other income		-	-	21,119	21,119
Loss before taxation		**(836,979)**	**(567,598)**	(968,705)	(661,549)
Tax expense	7	**-**	**-**	-	-
Loss for the period attributable to equity holders of the parent company		**(836,979)**	**(567,598)**	(968,705)	(661,549)

Loss per share attributable to the equity holders of the parent company:

Basic and diluted	8	**(0.3p)**	**(0.2p)**	(0.6p)	(0.4p)

All results relate to continuing operations. The notes on pages 6 to 21 form part of these financial statements.

Xcite Energy Limited
For the 3 and 9 month periods ended 30 September 2012

Consolidated Statement of Comprehensive Income (in Pounds Sterling)

	9 months ended 30 September 2012 (unaudited) £	**3 months ended 30 September 2012 (unaudited) £**	9 months ended 30 September 2011 (unaudited) £	3 months ended 30 September 2011 (unaudited) £
Loss for the period	**(836,979)**	**(567,598)**	(968,705)	(661,549)
Total comprehensive loss for the period	**(836,979)**	**(567,598)**	(968,705)	(661,549)
Attributable to:				
Equity holders of the parent company	**(836,979)**	**(567,598)**	(968,705)	(661,549)

The notes on pages 6 to 21 form part of these financial statements.

Consolidated Condensed Statement of Changes in Equity (in Pounds Sterling)

	Share Capital	Retained Earnings	Merger Reserve	Other Reserves	Total
	£	£	£	£	£
At 1 January 2011	**76,487,362**	**(4,220,248)**	**218**	**6,317,213**	**78,584,545**
Loss for the 9 months to 30 September 2011	-	(968,705)	-	-	(968,705)
Total comprehensive loss for the 9 months to 30 September 2011	**-**	**(968,705)**	**-**	**-**	**(968,705)**
Transactions with owners:					
Issue of shares	44,607,100	-	-	-	44,607,100
Associated share issue costs	(822,018)	-	-	-	(822,018)
Transfer upon exercise of share warrants	-	1,711	-	(1,711)	-
Fair value of share warrants and options	-	-	-	1,301,106	1,301,106
At 30 September 2011	**120,272,444**	**(5,187,242)**	**218**	**7,616,608**	**122,702,028**
Profit for the 3 months to 31 December 2011	-	1,098,268	-	-	1,098,268
Total comprehensive gain for the 3 months to 31 December 2011	**-**	**1,098,268**	**-**	**-**	**1,098,268**
Transactions with owners:					
Issue of shares	20,794,334	-	-	-	20,794,334
Associated share issue costs	(1,829,322)	-	-	-	(1,829,322)
Share warrant issue	(2,177,459)	-	-	2,177,459	-
Transfer upon exercise of share warrants	-	43,559	-	(43,559)	-
Fair value of share warrants and options	-	-	-	-	-
At 31 December 2011	**137,059,997**	**(4,045,415)**	**218**	**9,750,508**	**142,765,308**
Loss for the 9 months to 30 September 2012	-	(836,979)	-	-	(836,979)
Total comprehensive loss for the 9 months to 30 September 2012	**-**	**(836,979)**	**-**	**-**	**(836,979)**
Transactions with owners:					
Issue of shares	**64,979,550**	-	-	**-**	**64,979,550**
Associated share issue costs	**(1,636,086)**	-	-	**-**	**(1,636,086)**
Share warrant issue	**(2,830,371)**	-	-	**2,830,371**	-
Transfer upon exercise of share warrants	**-**	**3,376,573**	-	**(3,376,573)**	-
Fair value of share warrants and options	**-**	**-**	-	**1,242,802**	**1,242,802**
At 30 September 2012	**197,573,090**	**(1,505,821)**	**218**	**10,447,108**	**206,514,595**

The notes on pages 6 to 21 form part of these financial statements.

Consolidated Statement of Financial Position (in Pounds Sterling)

	Note	**30 September 2012 (unaudited) £**	31 December 2011 (audited) £
Assets			
Non-current assets			
Intangible assets	9	**189,985,412**	88,080,610
Property, plant and equipment	10	**256,766**	186,545
Total non-current assets		**190,242,178**	88,267,155
Current assets			
Trade and other receivables	11	**15,828,687**	380,729
Cash and cash equivalents	15b	**54,633,561**	64,123,406
Total current assets		**70,462,248**	64,504,135
Total assets		**260,704,426**	152,771,290
Liabilities			
Current liabilities			
Trade and other payables	12	**14,707,478**	9,500,815
Short term loans	13	**38,977,186**	-
Total current liabilities		**53,684,664**	9,500,815
Non-current liabilities			
Deferred tax	14	**505,167**	505,167
Total non-current liabilities		**505,167**	505,167
Net assets		**206,514,595**	142,765,308
Equity			
Share capital	16	**197,573,090**	137,059,997
Retained earnings	17	**(1,505,821)**	(4,045,415)
Merger reserve	17	**218**	218
Other reserves	17	**10,447,108**	9,750,508
Total equity		**206,514,595**	142,765,308

The notes on pages 6 to 21 form part of these financial statements. These interim unaudited consolidated financial statements were approved by the Board of Directors and authorised for issue on 9 November 2012 and were signed on its behalf by:

Stephen Kew
Chief Operating Officer

Rupert Cole
Chief Executive Officer

Consolidated Statement of Cash Flows (in Pounds Sterling)

	9 months ended 30 September 2012	**3 months ended 30 September 2012**	9 months ended 30 September 2011	3 months ended 30 September 2011
	(unaudited)	**(unaudited)**	(unaudited)	(unaudited)
	£	**£**	£	£
Loss for the period after tax	**(836,979)**	**(567,598)**	(968,705)	(661,549)
Adjustment for share-based payments	**114,843**	**33,153**	410,777	344,828
Adjustment for interest income	**(147,702)**	**(56,848)**	(83,005)	(39,084)
Adjustment for depreciation	**94,507**	**37,275**	25,484	10,118
Movement in working capital				
Trade and other receivables	**(15,447,958)**	**(14,808,977)**	548,755	(16,961)
Trade and other payables	**8,064,815**	**2,394,611**	(16,699,582)	1,101,961
Net cash flow from operations	**(8,158,474)**	**(12,968,384)**	(16,766,276)	739,313
Additions to exploration and evaluation assets	**(100,776,842)**	**(35,401,419)**	(12,151,376)	(4,901,991)
Purchase of fixed assets	**(164,728)**	**(61,583)**	(120,015)	(48,484)
Interest income	**147,702**	**56,848**	83,005	39,084
Net cash flow from investing	**(100,793,868)**	**(35,406,154)**	(12,188,386)	(4,911,391)
Net proceeds from issue of new shares	**63,343,464**	**15,790,629**	43,785,082	10,619,900
Net proceeds from issue of loan notes	**36,119,033**	**5,464,055**	-	-
Cash flow from financing	**99,462,497**	**21,254,684**	43,785,082	10,619,900
Net (decrease)/increase in cash and cash equivalents	**(9,489,845)**	**(27,119,854)**	14,830,420	6,447,822
Cash and cash equivalents as at beginning of period	**64,123,406**	**81,753,415**	35,952,447	44,335,045
Cash and cash equivalents as at end of period	**54,633,561**	**54,633,561**	50,782,867	50,782,867
Cash and cash equivalents comprise:				
Short term deposits	**43,965,656**	**43,965,656**	38,256,498	38,256,498
Cash available on demand	**10,667,905**	**10,667,905**	12,526,369	12,526,369

The notes on pages 6 to 21 form part of these financial statements.

Notes to the Interim Consolidated Financial Statements

1 Accounting Policies

Basis of preparation

The interim unaudited consolidated financial statements for the three and nine months ended 30 September 2012 have been prepared in accordance with International Accounting Standards ("IAS") 34 Interim Financial Reporting. However, the interim unaudited consolidated financial statements for the three and nine months ended 30 September 2012 have not been reviewed or audited by the Company's auditors.

These interim unaudited consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") following the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended 31 December 2011 but with the adoption of a new accounting policy for loan notes, the policy for which is given below. These interim unaudited consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Xcite Energy Limited ("XEL" or "the Company") annual report for the year ended 31 December 2011.

Financial liabilities

The group's unsecured loan notes are initially recognised at fair value net of any transaction costs directly attributable to their issue. The loan notes are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. Interest expense in this context includes initial transaction costs as well as any interest payable while the liability is outstanding.

Basis of consolidation

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

New accounting standards adopted during the period

Whilst the Group has early adopted Amendments to IAS 19 'Employee Benefits' during the nine month period ended 30 September 2012, it has not had a material effect on the reported results or financial position of the Group. The requirements of recently endorsed Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income' and Amendments to IFRS 7 'Financial Instruments: Disclosures – Transfers of financial assets' did not have a material effect on the reported results or financial position of the Group.

New standards and interpretations not yet applied

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

Status of EU endorsement

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

- IFRS 9 'Financial Instruments';
- IFRS 10 'Consolidated Financial Statements';
- IFRS 11 'Joint Arrangements';
- IFRS 12 'Disclosures of Interests in Other Entities';
- IFRS 13 'Fair Value Measurement';
- IAS 27 'Separate Financial Statements';
- IAS 28 'Investments in Associates and Joint Ventures';
- IFRIC 20 'Stripping costs in the production phase of a surface mine'
- Amendments to IAS 12 'Deferred tax: Recovery of underlying assets';
- Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities';
- Amendments to IFRS 1 'Severe hyperinflation and removal of fixed dates for first-time adopters';
- Amendments to IFRS 1 'Government Loans';
- Amendments to IFRS 7 'Disclosures: Offsetting Financial Assets and Financial Liabilities';
- Amendments to IFRS 10, IFRS 11 and IFRS 12 'Transition Guidance'; and
- Improvements to IFRSs (2009-2011, issued May 2012).

2 Segment Information

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

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 Revenue

Revenue represents the sale of crude oil from the Bentley field and reflects the actual sales value, net of discounts, VAT and other sales-related taxes.

4 Cost of Sales

The Company is reporting what it regards as test volumes of crude oil production as revenue in the current period. In accordance with the Oil and Gas SORP, such revenue should be recorded at zero-margin in the income statement. Accordingly, a total value of £13.29 million has been charged to cost of sales in the current period, which includes the costs of diluent and a balancing charge from E&E assets (see note 9).

5 Operating Loss

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

	9 months ended 30 September 2012 (unaudited)	**3 months ended 30 September 2012 (unaudited)**	9 months ended 30 September 2011 (unaudited)	3 months ended 30 September 2011 (unaudited)
	£	**£**	£	£
Share-based payment charges	**114,843**	**33,153**	410,777	344,828

The Company incurred total charges in respect of share-based payments in the three month period to 30 September 2012 of £66,306 (three months to 30 September 2011: £1,094,424). Of this, £66,306 was in respect of employees (see Note 4) (three months to 30 September 2011: £180,847). In accordance with the Company accounting policy, £33,153 has been expensed within operating loss and the balance of £33,153 has been capitalised within E&E assets (three months to 30 September 2011: £749,596 was capitalised within E&E assets and the balance of £344,828 was expensed within operating loss charge).

In the nine month period to 30 September 2012 the Company incurred total charges in respect of share-based payments of £4,073,174 (nine months to 30 September 2011: £1,301,106). Of this, £1,108,151 was in respect of employees and Non-Executive Directors (nine months to 30 September 2011: £387,529). In accordance with the Company accounting policy, £1,127,960 has been capitalised within E&E assets, £114,843 expensed within operating loss and the balance of £2,830,371 charged against the share capital account (nine months to 30 September 2011: £890,329 was capitalised within E&E assets and the balance of £410,777 was expensed within operating loss).

6 Staff Costs and Directors' Emoluments

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

	9 months ended 30 September 2012 (unaudited)	**3 months ended 30 September 2012 (unaudited)**	9 months ended 30 September 2011 (unaudited)	3 months ended 30 September 2011 (unaudited)
Technical and administration	**18**	**20**	11	14

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

	9 months ended 30 September 2012 (unaudited)	**3 months ended 30 September 2012 (unaudited)**	9 months ended 30 September 2011 (unaudited)	3 months ended 30 September 2011 (unaudited)
	£	**£**	£	£
Wages and salaries	**1,987,824**	**809,454**	1,338,260	456,897
Social security costs	**261,131**	**106,685**	173,574	59,804
Share-based payments	**1,105,626**	**66,306**	349,657	163,174
	3,354,581	**982,445**	1,861,491	679,875

b) Executive Directors' emoluments and performance based remuneration:

	9 months ended 30 September 2012 (unaudited)	**3 months ended 30 September 2012 (unaudited)**	9 months ended 30 September 2011 (unaudited)	3 months ended 30 September 2011 (unaudited)
	£	**£**	£	£
Wages and salaries	**663,677**	**344,327**	531,525	159,675
Social security costs	**89,390**	**46,828**	69,558	21,303
Share-based payments	**15,736**	**-**	236,040	110,152
	768,803	**391,155**	837,123	291,130

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

In addition to the above, during the three month period ended 30 September 2012, the Group paid to Roger Ramshaw, Gregory Moroney, Scott Cochlan and Tim Jones in their capacity as Non-Executive Directors of the Company fees of £15,000, £8,750, £8,125 and £8,750 respectively. The comparatives for the three month period ended 30 September 2011 were £15,000, £8,750, £8,124 and £8,750 respectively.

In the nine months ended 30 September 2012 the total fees for Roger Ramshaw, Gregory Moroney, Scott Cochlan and Tim Jones were £45,000, £26,250, £24,375 and £26,250 respectively. The comparatives for the nine months ended 30 September 2011 were £36,500, £17,667, £18,332 and £22,916 respectively.

Charges in respect of share-based payments for the Non-Executive Directors in the three month period to 30 September 2012 were £nil (three month period to 30 September 2011: £17,673). Charges in respect of share-based payments for the Non-Executive Directors in the nine month period to 30 September 2012 were £2,525 (nine month period to 30 September 2011: £37,872).

7 Taxation

	9 months ended 30 September 2012 (unaudited)	**3 months ended 30 September 2012 (unaudited)**	9 months ended 30 September 2011 (unaudited)	3 months ended 30 September 2011 (unaudited)
	£	**£**	£	£
Overseas tax charges	-	-	-	-

XER is considered to be a company which profits from oil extraction and oil rights in the UK and the UK Continental Shelf and is, therefore, subject to corporation tax on taxable profits at a rate of 30% or 19% where the profits fall within the limit of the small companies rate.

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

8 Earnings per Share

The basic earnings per share ("EPS") is calculated by dividing the profit/loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The diluted EPS is calculated by dividing the profit/(loss) 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.

The basic EPS for the three month period ended 30 September 2012 is based on a three month period loss of £567,598 (three months to 30 September 2011: period loss of £661,549) and on ordinary shares of 280,100,470 (three months to 30 September 2011: 178,713,677).

The basic EPS for the nine month period ended 30 September 2012 is based on a nine month period loss of £836,979 (nine months to 30 September 2011: period loss of £968,705) and on ordinary shares of 247,978,700 (nine months to 30 September 2011: 169,071,384).

Details of potentially dilutive financial instruments are given in Note 15 to these financial statements.

9 Intangible Assets

	Licence Fees	
	30 September 2012 (unaudited)	31 December 2011 (audited)
Exploration and Evaluation Assets	**£**	£
Cost and carrying value:		
At 1 January 2012 /1 January 2011	**1,215,387**	791,847
Additions during period	**518,580**	423,540
At 30 September 2012 / 31 December 2011	**1,733,967**	1,215,387

	Appraisal and Exploration Costs	
	30 September 2012 (unaudited)	31 December 2011 (audited)
	£	£
Cost and carrying value:		
At 1 January 2012 / 1 January 2011	**86,865,223**	64,471,530
Net additions during period	**101,386,222**	22,393,693
At 30 September 2012 / 31 December 2011	**188,251,445**	86,865,223

	Total	
	30 September 2012 (unaudited)	31 December 2011 (audited)
	£	£
Cost and carrying value:		
At 1 January 2012 / 1 January 2011	**88,080,610**	65,263,377
Net additions during period	**101,904,802**	22,817,233
At 30 September 2012 / 31 December 2011	**189,985,412**	88,080,610

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

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

10 Property, Plant and Equipment

	Furniture, fittings and computing equipment
Year ended 31 December 2011	£
Opening net book amount at 1 January 2011	30,225
Additions	197,340
Depreciation charge	(41,020)
Closing net book amount at 31 December 2011	186,545
At 31 December 2011	
Cost or valuation	262,355
Accumulated depreciation	(75,810)
Net book amount	186,545
Period ended 30 September 2012	
Opening net book amount at 1 January 2012	**186,545**
Additions	**164,728**
Depreciation charge	**(94,507)**
Closing net book amount at 30 September 2012	**256,766**
At 30 September 2012	
Cost or valuation	**427,083**
Accumulated depreciation	**(170,317)**
Net book amount	**256,766**

11 Trade and Other Receivables

	30 September 2012 (unaudited)	31 December 2011 (audited)
	£	£
Trade receivable	**13,288,989**	-
Indirect taxes receivable	**149,288**	309,729
Prepayments	**2,319,410**	-
Other receivables	**71,000**	71,000
	15,828,687	380,729

12 Trade and Other Payables

	30 September 2012 (unaudited)	31 December 2011 (audited)
	£	£
Trade payables	**8,866,655**	3,962,950
Social security and other taxes payable	**113,391**	79,385
Accruals and other creditors	**5,727,432**	5,458,480
	14,707,478	9,500,815

13 Short Term Loans

	30 September 2012 (unaudited)	31 December 2011 (audited)
	£	£
Loan notes	**36,657,010**	-
Interest accrual	**2,320,176**	-
Interest-bearing loan notes	**38,977,186**	-

On 5 April 2012 the Company announced that it had issued USD$50 million of unsecured loan notes bearing interest at 14%, payable in arrears, and with a maturity of 360 days. On 8 August 2012 the Company announced that it had issued a further USD$10 million of unsecured loan notes bearing interest at 14%, and with a maturity of 236 days. Interest can be rolled up into the principal amount of the loan notes or paid at the Company's discretion.

Given their short term nature, the book value of the loan notes is considered to be materially representative of their fair value.

14 Deferred tax

	30 September 2012 (unaudited)	31 December 2011 (audited)
	£	£
At 1 January 2012 / 1 January 2011	**505,167**	505,167
Profit and loss charge	**-**	-
At 30 September 2012 / 31 December 2011	**505,167**	505,167

The total deferred tax liability at 30 September 2012 comprised temporary differences arising from a Research and Development tax claim in the UK. The Group no longer has pre-trading losses within XER as it is now trading following the decision to proceed with the development of the Bentley field. No deferred tax asset has been recognised on these losses until such time as the Group is expected to have sufficient taxable profits in future periods against which the asset can be relieved.

15 Financial Instruments

The Group's principal financial instruments are other receivables, trade and other payables, 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 period, are shown below.

Non-market risk

a) Credit risk

Group management has a responsibility to minimise the risk of default on credit advanced to customers and on deposits held by suppliers. Credit advance value is to one customer alone, whose credit rating was upper-medium to high-grade during the period of credit and the invoiced balance received in full in October 2012. Deposits held by suppliers comprise an office rent deposit recorded as receivables and, as such, it is regarded as low risk. On this basis, Group management is satisfied that any credit risk has been minimised.

Credit risk also arises from cash and cash equivalents and deposits held by banks and financial institutions. To minimise the credit risk on banks and financial institution deposits, only independently rated parties with a minimum 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. It operates according to the policies and guidelines established by the Board. Cash management is carried out centrally.

	Carrying Amount	
	30 September 2012 (unaudited)	31 December 2011 (audited)
	£	£
Financial assets – loans and receivables		
- Cash	**54,633,562**	64,123,406
- Receivables (current)	**13,359,989**	71,000
- Prepayments	**2,319,410**	-
	70,312,961	64,194,406
Financial liabilities – measured at amortised cost		
- Loans (all USD$)	**38,977,186**	-
- Payables (current)	**14,594,087**	9,421,431
	53,571,273	9,421,431

Included in cash balances are amounts held in escrow of £44.0 million (31 December 2011: £47.1 million). The balance held in escrow is not currently available for use by the Group but is only available for the purposes of meeting the drilling and well management commitments under the 9/03b-7 and 9/03b-7z well programme for Phase 1A of the Bentley field development, which has now been successfully completed.

These escrow accounts will remain in place and the funds used to settle associated expenditure until such time as all associated contractor obligations have been satisfied under the Phase 1A Bentley work programme, with the surplus balances being returned to the Company in due course.

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

c) Capital disclosures

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

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

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

Market risk

d) Interest rate and foreign currency risks

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

	Fixed Rate Liabilities		**Interest Free Liabilities**	
	30 September 2012 (unaudited)	31 December 2011 (audited)	**30 September 2012 (unaudited)**	31 December 2011 (audited)
	£	£	**£**	£
Sterling	**-**	**-**	**3,332,087**	3,941,333
USD$	**38,977,186**	**-**	**11,253,169**	5,474,040
CAD$	**-**	**-**	**8,831**	6,058
	38,977,186	**-**	**14,594,087**	9,421,431

	Floating rate assets	**Interest free assets**	**Total**
	30 September 2012 (unaudited)	**30 September 2012 (unaudited)**	**30 September 2012 (unaudited)**
	£	**£**	**£**
Sterling	**31,148,396**	**2,390,495**	**35,538,891**
CAD$	**25,323**	**151**	**25,474**
Euro	**16,812**	**75**	**16,887**
Norwegian Kroner	**20,775**	**38**	**20,813**
USD$	**23,421,871**	**13,289,025**	**36,710,896**
	54,633,177	**15,679,784**	**70,312,961**

	Floating rate assets	Interest free assets	Total
	31 December 2011 (audited)	31 December 2011 (audited)	31 December 2011 (audited)
	£	£	£
Sterling	23,498,964	71,298	23,570,262
CAD$	74,343	151	74,494
Euro	4,740	191	4,931
Norwegian Kroner	-	38	38
USD$	40,544,645	36	40,544,681
	64,122,692	71,714	64,194,406

Sterling floating rate assets earn interest at rates linked to the Bank of England Base Rate, with higher rates of return being achieved on deposits placed on longer maturities. The Company currently earns interest on Sterling deposits in the range of 0.0% to 0.65%. At 30 September 2012 the weighted average rate of interest being earned on Sterling deposits was 0.65% (30 September 2011: 0.25%; 31 December 2011: 0.63%).

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 30 September 2012 the weighted average rate of interest being earned on US Dollar deposits was 0.07% (30 September 2011: 0.11%; 31 December 2011: 0.06%).

The Company also maintains working capital balances of Euros, Norwegian Kroner 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 Sterling (transactional risk) and where non-Sterling financial derivatives are held at the Balance Sheet date (translational risk). The Group is exposed to exchange rate movements in the US Dollar and, to a lesser extent, the Canadian Dollar, the Euro and the Norwegian Kroner. During well drilling programmes the Group aligns its expected future foreign expenditure with the necessary foreign currency cash balances, in effect creating a natural hedge. The Group will continue to monitor its exposure to such foreign currency risks and will manage future risks using derivative financial instruments as considered appropriate.

(e) 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 reporting currency of Pounds Sterling (the “base currency”) as at the Balance Sheet date.

Based on the Group’s financial instruments at the Balance Sheet date, had the base currency been stronger than the transactional currencies by 2% then the Group would have reported an additional unrealised exchange loss in the Income Statement of £401,804 (three months to 30 September 2011; the Group would have reported an additional unrealised exchange loss of £778,407). Had the base currency been weaker than the transactional currencies by 2% then the Group would have reported an additional unrealised exchange gain in the Income Statement of £418,161 (three months to 30 September 2011; the Group would have reported an additional unrealised exchange gain of £810,179).

(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 period.

Based on the Group's cash balances during the period, if interest rates had been 50 basis points higher and all other variables were held constant, the Group's loss for the three month period ended 30 September 2012 would decrease by £97,292 (three month period to 30 September 2011; the Group's loss would decrease by £60,499). If interest rates had been 50 basis points lower and all other variables were held constant, the Group's loss for the three month period ended 30 September 2012 would increase by £56,774 (three month period to 30 September 2011; the Group's loss would increase by £17,894).

On a similar basis, for the nine month period ended 30 September 2012 if interest rates had been 50 basis points higher and all other variables were held constant, the Group's loss for the nine month period ended 30 September 2012 would decrease by £270,781 (nine month period to 30 September 2011; the Group's loss would decrease by £142,806). If interest rates had been 50 basis points lower and all other variables were held constant, the Group's loss for the nine month period ended 30 September 2012 would increase by £147,541 (nine month period to 30 September 2011; the Group's loss would increase by £61,179).

16 Share Capital

	30 September 2012 (unaudited)	31 December 2011 (audited)
	Number of shares	Number of shares
Authorised		
- Ordinary shares of no par value each	**Unlimited**	Unlimited
Issued and fully paid up		
- Ordinary shares of no par value each	**290,280,000**	206,005,364

	30 September 2012 (unaudited)	31 December 2011 (audited)
	£	£
Authorised		
- Ordinary shares of no par value	**Unlimited**	Unlimited
Issued and fully paid up		
- Ordinary shares of no par value	**197,573,090**	137,059,997

Shares issued

During the nine months ended 30 September 2012 the Company issued a total of 24,439,997 new ordinary shares under the Equity Line Facility for a total consideration of £29.07 million after the deduction of transaction costs.

In February 2012, the Company completed the placing of the second tranche of new equity funding from Socius, receiving gross funds of £12.6 million in respect of the issue of 13,353,038 new ordinary shares. Additionally the Company received consideration of CAD$18,802 (£11,780) in respect of the exercise of 30,325 broker warrants.

In May 2012 a total of 6,676,519 warrants were exchanged for a total of 6,449,599 new ordinary shares in the Company for nil consideration.

In June 2012, the Company announced the private placing of a total of 30 million new ordinary shares with Global, to occur in three tranches, the first of which closed on 13 June 2012 with the issuance of 8 million new ordinary shares for gross proceeds of £6.4 million. The second tranche closed on 19 July 2012 with the issuance of 12.5 million new ordinary shares for gross proceeds of £8.33 million.

Additionally in July 2012 a further 7,597,647 warrants were exchanged for 7,501,677 new ordinary shares in the Company for nil consideration.

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

Stock Option Plan

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

During the three month period ended 30 September 2012 the Company issued 1,050,000 new options to the XER management team under the Stock Option Plan with an exercise price of CAD$1.25 (£0.80) and a life of five years (three month period ended 30 September 2011: 1,850,000 new share options were issued with an exercise price of CAD$2.30 (£1.46) and a life of five years). A total of 100,000 vested but unexercised options expired during the three months to 30 September 2012. No share options were issued to XEL Directors during this three month period.

During the nine month period ended 30 September 2012 the Company issued a total of 5,750,000 new options to the XER management team under the Stock Option Plan with an average exercise price of CAD$1.20 (£0.75) and a life of five years (nine month period ended 30 September 2011: 1,850,000 new share options were issued with an average exercise price of CAD$2.30 (£1.46) and a life of five years). A total of 100,000 vested but unexercised options expired during the nine months to 30 September 2012. No share options were issued to XEL Directors during this nine month period.

At 30 September 2012 there were 22,873,000 total share options outstanding (31 December 2011: 17,223,000 total share options outstanding), with exercise prices ranging from CAD$0.10 to CAD$5.95 and with a weighted average exercise price of CAD$1.81 per option. Of the total outstanding at 30 September 2012, 20,073,000 were exercisable at that date (31 December 2011: 17,223,000 exercisable share options).

Share warrants

In the three month period to 30 September 2012, the Company issued 12,250,000 warrants with an average exercise price of CAD$1.28 (£0.82) and a life of three years (three months to 30 September 2011: no warrants were issued).

In the nine month period to 30 September 2012, the Company issued a total of 22,926,519 new warrants (nine months to 30 September 2011: no warrants were issued) with an average exercise price of CAD$1.48 (£0.94) and with an average life of three years.

17 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.

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

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

18 Commitments and contingencies

At 30 September 2012 the Company had minimum lease commitments under non-cancellable operating leases as follows:

	30 September 2012 £	31 December 2011 £
Amounts payable on leases which expire:		
Within one year	**31,452**	7,800
In two to five years	**344,674**	415,950

In preparation for the Phase 1B on the Bentley field, XER has committed purchases for long-lead items at 30 September 2012 of approximately £0.9 million in respect of power generation equipment (30 September 2011: approximately £4.5 million).

19 Related parties

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

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

Using a loan facility, XEL has continued to provide its wholly owned subsidiary, XER, with net cash funding of £0.55 million during the three month period to 30 September 2012 (three months to 30 September 2011: £18.4 million) to finance XER's operational requirements. The cumulative nine month period funding to 30 September 2012 by XEL to XER was £21.5 million (nine months to 30 September 2011: £38.8 million). No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand. The total balance owing by XER to XEL at 30 September 2012 was £86.3 million (as at 30 September 2011: £64.5 million).

In the normal course of business XER incurred charges totalling £4,998 during the three month period to 30 September 2012 and £14,992 for the nine months to 30 September 2012 (three and nine months to 30 September 2011: £4,825 and £11,109 respectively) 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 30 September 2012 (30 September 2011: £nil).

The Executive Directors have received performance based remuneration, details of which are given in Note 6 to these financial statements. The Executive and Non-Executive Directors have also been granted certain share options over the ordinary share capital of the Company, details of which are given in these interim unaudited financial statements.