Xcite Energy Limited

Interim consolidated financial statements

For the 3 and 9 month periods ended September 30, 2009

(Unaudited)

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Contents

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Management's Discussion and Analysis

The Management's Discussion and Analysis ("MD&A") of the operating and financial results of Xcite Energy Limited ("XEL" or the "Company") should be read in conjunction with the Company's interim unaudited consolidated financial statements and related notes thereto for the three month and nine month periods ended September 30, 2009, the audited consolidated financial statements and related notes thereto for the year ended December 31, 2008 and the annual MD&A of the Company. This MD&A is dated November 18, 2009. 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") of the Canadian Securities Administrators.

This MD&A includes an analysis of the XEL results from January 1, 2009 to September 30, 2009 and from January 1, 2008 to September 30, 2008, which include the results of the operating subsidiary Xcite Energy Resources Limited ("XER"). In this MD&A, XEL and XER are together defined as the "Group". All figures and the comparative figures contained herein are expressed in Pounds Sterling unless otherwise noted.

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

Information concerning resources may also be deemed to be forward looking statements as such estimates involve the implied assessment that the resources described can be profitably produced in the future. These statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, 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.

Overview

The Company, through its wholly owned subsidiary XER, is an oil appraisal and development company focused on the appraisal and development of heavy oil resources in the North Sea on the UK Continental Shelf. In 2003, XER was awarded its 100% working interest in the Bentley field in Block 9/3b in the UK North Sea.

The Company's strategy initially is to evaluate and develop the identified heavy oil discoveries in the Bentley field but also to pursue potential acquisitions and participate in future UK offshore licensing rounds to become a significant independent heavy oil producer in the North Sea by 2014. In the pre-development phase, the Company's aim is to maximise shareholder return on the funds invested until such time as production commences and operations become self-funding.

Summary of Results

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

	Q3 09	Q2 09	Q1 09	Q3 08	Q2 08	Q1 08	Q3 07	Q2 07
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Net loss	(249)	(145)	(127)	(90)	(281)	22	65	(-)
EPS *	(0.4p)	(0.2p)	(0.2p)	(0.1p)	(0.5p)	0.0p	0.0p	(0.0p)
Total assets	23,240	23,507	23,779	24,005	25,185	27,787	9,237	11,417

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

In the three months ended September 30, 2009 the Group has continued to progress the planning for the development of the Bentley oil field, with an emphasis being on the securing of field partners and the set up of the Bentley Alliance. Overall expenditure has been kept to a minimum, with a greater emphasis on internal use of resource during this detailed planning stage. The higher loss in the current period compared with the same period in 2008 was principally as a result of the net tax charge of £0.1 million resulting from a provision for deferred tax in addition to a material reduction in interest income.

Income

In the absence of production revenue from the Group's sole field asset, the Bentley field, the Group continues to have no revenue income. The increased loss in Quarter 3 of 2009 compared to Quarter 2 has arisen as a result of a charge for deferred tax due to a tax credit received from HM Revenue & Customs in the UK following the submission of a successful R&D tax relief claim. It is anticipated that the Group will submit future R&D claims as its research into the characteristics and new methods of extraction of heavy oil is further advanced.

Interest earned on funds invested during the three months ended September 30, 2009 amounted to £271 (September 30, 2008: £33,543). The significant fall in interest earned for the three months ended September 30, 2009 compared with the same period in 2008 has arisen primarily due to the significant reductions in UK interest rates from 5% in the comparable period in 2008 to an historic low of 0.5% only twelve months later. Additionally the reduced Group cash position in the three months to September 30, 2009 compared with September 30, 2008 resulted in lower interest earning capacity.

Interest income earned on funds invested during the nine months ended September 30, 2009 amounted to £5,304 (nine months to September 30, 2008: £314,294). This interest income earned is consistent with the reducing funds held on deposit during the relevant periods and the significant decrease in interest rates since late 2008. Given this significant decline in interest rates, future income from cash balances will be suppressed for the foreseeable future. The Group will continue to use all reasonable methods to maximise the earning potential of any surplus working capital whilst minimising unnecessary credit risk.

During the continued uncertainties of the financial markets during the nine months ended September 30, 2009, management has maintained its policy of keeping cash deposits with banks with "AA" rating or better. The policy of the Group is to ensure that all cash balances earn a market rate of interest and that interest rate exposures are regularly reviewed and managed.

Operations and Administrative Expenses

The Group only operates in a single business and geographical segment. The Group's single line of business is the appraisal and evaluation of oil and gas reserves and the geographical segment in which it currently operates is the North Sea. The Group's sole operational focus is the development of the Bentley field but it will continue to pursue other commercial opportunities as and when they arise.

In the nine months to September 30, 2009 the Group incurred total expenses of £0.42 million (nine months to September 30, 2008: £0.65 million). The reduction in expenditure to date in 2009 compared with that incurred in the same period in 2008 has been as a result of zero expenditure in respect of UK licensing rounds in addition to a reduction in expenditure on professional advisors, including fees for Non-Executive Directors and travel.

In the nine months ended September 30, 2009, total costs of £1.2 million (nine months ended September 30, 2008: £14.7 million) have been capitalised as Exploration and Evaluation ("E&E") Assets in Intangible Assets relating to the Bentley field in 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. The nature of the costs capitalised as E&E Assets during the nine months to September 30, 2009 include direct salary and office costs, third party study costs, and costs incurred in the preparation for the next well on the Bentley field, a pre-development well. The reduction noted between comparable periods in 2009 and 2008 is as a result of the high expenditure in early 2008 on the 9/3b-5 well on the Bentley field.

The expenditure in this latest three month period to September 30, 2009 predominantly comprises the costs of study work and planning for the next stage in the development of the Bentley field, including the preparation for the drilling of a technical borehole on Bentley, now expected in the fourth quarter of 2009, for the pre-development well. The Group has not incurred any additional material research and development costs or deferred development costs over and above those costs capitalised as E&E assets. XEL has incurred management costs and costs of operating as a public company amounting to £68,881 for the three months ended September 30, 2009, including investor relations, Directors' remuneration and Stock Exchange fees (three months ended September 30, 2008: £48,070).

Liquidity and Capital Resources

The cash balance of the Group as at September 30, 2009 was £0.54 million, compared with £1.83 million as at December 31, 2008. This decrease was attributable to general corporate working capital requirements, together with significant spend on the completion of the updated Competent Person's Report, the successful 3D seismic update, specific fluid studies and on preparation work for the next well as part of the work programme on the Bentley field. Additionally, spend has been incurred in preparation for the drilling of a technical borehole on Bentley.

On October 7, 2009 the Company announced the successful completion of a fund raising, comprising the placing of 10,141,998 new ordinary shares for an additional gross funding of £2.1 million. The additional cash will be used to pursue the Group's intention of securing the necessary industry partners and to further commercial arrangements which are expected to enable the Group to move forward with the development of the Bentley field.

The current cash balance, including the £2.1 million of new funding, is sufficient to meet the short-term operational cash requirements of the Group through 2010, but the Group will be reliant on securing additional funding in order to drill the pre-development well on the Bentley field. The Group has no capital commitments at this time which require to be financed.

The Company is currently evaluating a number of different initiatives to support its medium-term operational cash-flow requirements. There is no certainty of success with these initiatives due to the continuing economic downturn and restricted availability of capital, but management expects that a satisfactory outcome will be achieved in an appropriate timescale to enable the Bentley work programme to progress.

Lease and Contractual Commitments

At September 30, 2009 the Group had no material lease commitments or contractual obligations.

Related Party Transactions

XEL has continued to provide a loan facility its wholly owned subsidiary, XER, to finance XER's operational requirements, with net cash funding of £0.06 million during the three month period to September 30, 2009 (three month period to September 30, 2008: £1.33 million). No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand. The total funding provided to XER by XEL in the nine month period to September 30, 2009 was £1.12 million (nine months to September 30, 2008: £11.55 million).

The Executive Directors have received remuneration, details of which are given in Note 4 to these financial statements. Certain members of the management team and a Non-Executive Director have also been granted share options over the ordinary share capital of the parent undertaking during the nine month period, details of which are given below.

Share Options, Warrants and Rights

On January 8, 2009 the Company issued 650,000 share options over the Company's ordinary share capital to four members of the XER management team. All such options vested immediately with an exercise price of CAD$0.10 (£0.06) and a term of five years. The Company also issued on the same date a further 200,000 share options over the Company's ordinary share capital to a contractor in recognition of his contribution to the work programme on the Bentley field.

In accordance with the Stock Option Plan, a total of 55,000 share options held by a Non-Executive Director have expired in the nine months ended September 30, 2009 following his resignation on November 4, 2008. A further 45,000 such share options are eligible for expiry during the period to November 4, 2010 in the event that they are not exercised.

On April 23, 2009 the Company issued 100,000 share options over the Company's ordinary share capital to a Non-Executive Director, upon his appointment to the Board of Directors. All such share options vested immediately with an exercise price of CAD$0.29 (£0.16) and a term of five years.

No new share options, warrants or rights were issued in the three month period to September 30, 2009.

On October 12, 2009 the Company announced the granting to Paradox Public Relations of share options over 200,000 ordinary shares in XEL with a term of five years, vesting 25% on a quarterly basis over twelve months from the date of grant and with an exercise price of CAD$0.37 per share.

Disclosure Controls and Procedures

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

Outstanding Share Capital

There were no new shares issued in the nine months ended September 30, 2009. During the nine month period ended September 30, 2009 a total of 10,648,700 share warrants expired, having been issued as part of the June 2007 Private Placement. A further 1,176,000 share warrants issued as part of the November 2007 IPO expired on November 15, 2009.

On October 7, 2009 the Company announced the successful completion of a fund raising, comprising the placing of 10,141,998 new ordinary shares, resulting in the total shares in issue being 71,555,798.

As at the date of signing this MD&A, the number of shares in issue was 71,555,798 and the total number of outstanding share options over the ordinary share capital of the Company was 5,430,000, which would be equal to 5,430,000 further ordinary shares upon full conversion of these options.

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 option issue date.

(c) Impairment of Exploration and Evaluation ("E&E") assets

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

Changes in Accounting Policies

During the period the Group has adopted a number of new standards and amendments to standards which become mandatory for the first time for the financial year beginning January 1, 2009. The most significant adoption was that of IAS 1 (revised). The Group has elected under IAS 1 (revised) to present two statements: an income statement and a statement of comprehensive income. These interim unaudited consolidated financial statements have been prepared under the revised disclosure requirements. No restatements were required to prior period comparatives as a result of this adoption.

Whilst the Group has adopted IFRIC 13, IFRIC 14, IFRIC 15 and IFRIC 16 during the period, these are not considered relevant for the Group and have therefore had no impact in these financial statements.

Financial Instruments and Other Derivatives

Details regarding the Group's policies in respect of financial instruments are disclosed in Notes 1 and 12 to the interim unaudited consolidated financial statements.

Outlook for the Remainder of 2009

The status of the global equity and credit markets still appears to be somewhat suppressed, although recent gains in major market indices provide grounds for optimism. Management still believe that there is significant disparity between the market capitalisation value of the Company and the value of its underlying assets. The success of the new share capital issue in October 2009 is not to be underestimated in the current economic climate and management is encouraged by the support for its strategy from new and existing shareholders.

It remains difficult in the current economic climate to raise additional finance in order for the Group to enter into commitments to move forward with the next phase of the work programme on the Bentley field. The Group's long term prospects are dependent on the investment of significant capital sums for the commercialisation of the Bentley field, but the Group has no such capital commitments to fulfil at this time.

The Group is currently pursuing a number of commercial initiatives involving potential business partners and production sharing contractors to facilitate further work on the Bentley field. The Company was pleased to announce in October 2009 that Fugro Well Services Limited ("Fugro") has become the first partner to join the Bentley Alliance, the management and operational structure created by XER as the vehicle to direct the Bentley field to full field development. Fugro will undertake this well on a risked basis, such that it will bear a material percentage of the cost of the well in return for a commitment to be engaged to carry out future work on behalf of Xcite Energy Resources Limited ("XER") if the well is successful. The process of securing additional partners into the Bentley Alliance continues.

The final quarter of 2009 is likely to be characterised by a low expenditure rate, with the focus being on advancing the concept of the Bentley Alliance and the completion of drilling the geotechnical test well, for which there is no charge being made by Fugro Well Services Limited.

As noted above in 'Liquidity and Capital Resources', the Group has sufficient existing resources to meet its financial obligations through 2010, but is reliant on securing additional funding in order to finance working capital beyond that time and to drill the pre-development well on the Bentley field.

Consolidated Condensed Income Statement

	Note	**9 month period ended September 30 2009 (unaudited) £**	**3 month period ended September 30 2009 (unaudited) £**	9 month period ended September 30 2008 (unaudited) £	3 month period ended September 30 2008 (unaudited) £
Administrative expenses		**(421,893)**	**(144,382)**	(654,573)	(124,020)
Operating loss	3	**(421,893)**	**(144,382)**	(654,573)	(124,020)
Finance income - bank interest		**5,304**	**271**	314,294	33,543
Loss before tax		**(416,589)**	**(144,111)**	(340,279)	(90,477)
Tax charge	5	**(104,957)**	**(104,957)**	(9,443)	-
Loss for the period		**(521,546)**	**(249,068)**	(349,722)	(90,477)
Loss per share:					
Basic and diluted	6	**(0.01)**	**(0.00)**	(0.00)	(0.00)

All results relate to continuing operations.

The notes on pages 13 to 29 form part of these financial statements.

Consolidated Condensed Statement of Comprehensive Income

	9 months ended September 30 2009 (unaudited)	**3 months ended September 30 2009 (unaudited)**	9 months ended September 30 2008 (unaudited)	3 months ended September 30 2008 (unaudited)
	£	**£**	£	£
Loss for the period	**(521,546)**	**(249,068)**	(349,722)	(90,477)
Total comprehensive loss for the period	**(521,546)**	**(249,068)**	(349,722)	(90,477)
Attributable to:				
Equity shareholders	**(521,546)**	**(249,068)**	(349,722)	(90,477)

The notes on pages 13 to 29 form part of these financial statements.

Consolidated Condensed Statement of Changes in Equity

	Share Capital	Retained Earnings	Merger Reserve	Other Reserves	Total
	£	£	£	£	£
At January 1, 2008	21,774,150	(730,422)	218	1,645,481	22,689,427
Loss for the year to December 31, 2008	-	(554,021)	-	-	(554,021)
Total comprehensive loss for the year ended December 31, 2008	**-**	**(554,021)**	**-**	**-**	**(554,021)**
Transactions with owners:					
Issue of shares	478,475	-	-	-	478,475
Transfer upon exercise of share warrants	-	101,774	-	(101,774)	-
Fair value of share warrants and options	-	-	-	135,977	135,977
At January 1, 2009	**22,252,625**	**(1,182,669)**	**218**	**1,679,684**	**22,749,858**
Loss for the period to September 30, 2009	-	(521,546)	-	-	(521,546)
Total comprehensive loss for the period ended September 30, 2009	**-**	**(521,546)**	**-**	**-**	**(521,546)**
Transactions with owners:					
Fair value of share warrants and options	-	-	-	11,385	11,385
At September 30, 2009	**22,252,625**	**(1,704,215)**	**218**	**1,691,069**	**22,239,697**

The notes on pages 13 to 29 form part of these financial statements.

Xcite Energy Limited
For the 3 and 9 month periods ended September 30, 2009

Consolidated Balance Sheet

	Note	**September 30, 2009 (unaudited) £**	December 31, 2008 (audited) £
Assets			
Non-current assets			
Intangible assets	7	**23,181,575**	21,996,871
Property, plant and equipment	8	**15,159**	21,317
Total non-current assets		**23,196,734**	22,018,188
Current assets			
Trade and other receivables	9	**7,908**	14,098
Cash and cash equivalents		**539,990**	1,828,183
Total current assets		**547,898**	1,842,281
Total assets		**23,744,632**	23,860,469
Liabilities			
Non-current liabilities			
Deferred tax	10	**505,167**	-
Total non-current liabilities		**505,167**	-
Current liabilities			
Trade and other payables	11	**999,768**	1,110,611
Total current liabilities		**999,768**	1,110,611
Net assets		**22,239,697**	22,749,858
Equity			
Share capital	13	**22,252,625**	22,252,625
Retained earnings		**(1,704,215)**	(1,182,669)
Merger reserve		**218**	218
Other reserves		**1,691,069**	1,679,684
Total equity		**22,239,697**	22,749,858

The notes on pages 13 to 29 form part of these financial statements. These interim unaudited condensed consolidated financial statements were approved by the Board of Directors and authorised for issue on November 18, 2009 and were signed on its behalf by:

Richard Smith
Chief Executive Officer

Rupert Cole
Chief Financial Officer

Xcite Energy Limited
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Consolidated Cash Flow Statement

	9 months ended September 30 2009 (unaudited)	**3 months ended September 30 2009 (unaudited)**	9 months ended September 30 2008 (unaudited)	3 months ended September 30 2008 (unaudited)
	£	**£**	£	£
Loss for the period before tax	**(416,589)**	**(144,111)**	(340,279)	(90,477)
Adjustment for share based payments	**11,385**	**-**	82,070	-
Adjustment for interest income	**(5,304)**	**(271)**	(314,294)	(33,543)
Adjustment for depreciation	**6,903**	**2,321**	3,887	2,276
Movement in working capital				
- Trade and other receivables	**6,190**	**(3,983)**	53,297	16,508
- Trade and other payables	**(110,843)**	**(18,536)**	(3,937,988)	(1,089,236)
Net cash flow from operations	**(508,258)**	**(164,580)**	(4,453,307)	(1,194,472)
Additions to exploration and evaluation	**(1,184,704)**	**(363,815)**	(14,678,474)	(974,546)
Purchase of fixed assets	**(745)**	**(745)**	(27,309)	-
Research & Development tax claim	**400,210**	**400,210**	-	-
Interest income	**5,304**	**271**	314,294	33,543
Interest tax suffered at source	-	-	(9,443)	-
Net cash flow from investing	**(779,935)**	**35,921**	(14,400,932)	(941,003)
Net proceeds from issue of new shares	-	-	478,475	-
Cash flow from financing	-	-	478,475	-
Net decrease in cash and cash equivalents	**(1,288,193)**	**(128,659)**	(18,375,764)	(2,135,475)
Cash and cash equivalents as at beginning of period	**1,828,183**	**668,649**	21,067,134	4,826,845
Cash and cash equivalents as at end of period	**539,990**	**539,990**	2,691,370	2,691,370
Cash and cash equivalents comprise:				
Cash available on demand	**539,990**	**539,990**	2,691,370	2,691,370

The notes on pages 13 to 29 form part of these financial statements.

Notes to the Interim Consolidated Financial Statements

1 Accounting Policies

Basis of preparation

The interim unaudited condensed consolidated financial statements for the three months and nine month periods ended September 30, 2009 have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by The European Union. The interim unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2009 have not been reviewed or audited by the Company's auditors.

These interim unaudited condensed consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards following the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended December 31, 2008, except as described below. These interim unaudited condensed consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Xcite Energy Limited ("XEL" or "the Company") annual report for the year ended December 31, 2008.

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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning January 1, 2009:

- IAS 1 (revised) 'Presentation of Financial Statements' prohibits the presentation of items of income and expense (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement. The Group has elected to present two statements: an income statement and a statement of comprehensive income. These interim unaudited consolidated financial statements have been prepared under the revised presentation requirements for primary statements.

- IFRS 8 'Operating Segments' replaces IAS 14 'Segment Reporting'. Adoption of IFRS 8 has resulted in no changes in the Group's identification of reporting segments.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning January 1, 2009 but are currently not relevant for the Group:

- IFRIC 13 'Customer Loyalty Programmes;

- IFRIC 14 'The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction';
- IFRIC 15 'Agreements for the Construction of Real Estate'; and
- IFRIC 16' Hedges of a Net Investment in a Foreign Operation'.

New standards and interpretations not yet applied

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

In December 2007 the IASB issued an exposure draft on the amendments to IFRS 2 'Share-based Payment' and IFRIC 11 'Group and Treasury Share Transactions: Group Cash-settled Share-based Payment Transactions'. The proposals in the exposure draft respond to requests for guidance on how an entity that receives goods or services from its suppliers (including employees) should account for the certain cash-settled arrangements. The proposed amendment to IFRS 2 clarifies that IFRS 2 can apply even if the entity that receives the goods or services from its suppliers has no obligation to make the required shared-based cash payments.

The IASB published amendments to IAS 39 'Financial Instruments: Recognition and Measurement: Eligible Hedged items' in July 2008 to clarify when inflation can be designated as a hedged item in a financial instrument under the hedge accounting provisions of IAS 39 and how hedge accounting can be applied to hedges when a hedging instrument is an option contract.

A restructured version of IFRS 1 'First Time Adoption of IFRS' was proposed in November 2008. It aims to make it easier to use and to amend in the future. Additional amendments for first time adopters were issued in July 2009.

Amendment to IAS 39 'Reclassification of Financial Assets: Effective Date and Transition' was issued in November 2008. This amendment clarifies the effective date and transitional requirements of the October 2008 amendment to IAS 39 that permitted reclassifications out of the fair value through profit or loss category of financial assets in certain circumstances.

In November 2008 the IFRIC published IFRIC 17 'Distributions of Non-cash Assets to Owners' to provide guidance on how an entity should measure distributions of assets other than cash when it pays dividends to its owners acting in their capacity as owners. In summary, IFRIC 17 requires such distributions to be measured at fair value. IFRIC 17 shall be applied prospectively for annual periods beginning on or after July 1, 2009.

In January 2009 the IFRIC published IFRIC 18 'Transfers of Assets from Customers' to help address uncertainties over the accounting of contributions by customers in the form of infrastructure assets (such as an item of property, plant and equipment) or cash to fund the acquisition and/or construction of such an asset in order to obtain an ongoing service or to secure the ongoing supply of goods from the entity. IFRIC 18 shall be applied prospectively to transfers of assets from customers received on or after July 1, 2009.

In March 2009 the IASB issued Amendment to IFRS 7 'Improving Disclosures About Financial Instruments', in part as a response to the world-wide credit crisis, to introduce a fair value hierarchy and to enhance liquidity risk disclosures.

Amendments to IFRIC 9 and IAS 39 'Embedded Derivatives' were issued in March 2009. The proposed amendments clarify that entities are required to assess whether hybrid contracts reclassified out of the fair value through profit or loss category contain embedded derivatives that require separation and that assessment has to be made based on the conditions that existed at the time of the initial recognition of the contracts.

The IASB issued in April 2009 as part of its Annual Improvements Project an Exposure Draft discussing proposed improvements to existing IFRSs. The Annual Improvements Project has the intention of dealing with a relatively high number of small amendments to existing standards. Most amendments will be effective July 1, 2009 at the earliest.

In October 2009 an amendment to IAS 32 'Classification of Rights Issues' was proposed to clarify the classification of instruments that give the holder the right to acquire an entity's own equity instruments at a fixed price when that price is stated in a currency other than the entity's functional currency. Any amendment is likely to have an effective date in February 2010.

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 interim condensed consolidated financial statements were authorised for issue:

- Amendment to IFRS 7 'Improving Disclosures about Financial Instruments';
- Amendments to IFRIC 9 and IAS 39 'Embedded Derivatives';
- Amendments to IFRS 2 'Group Cash-settled Share-based Payment Transactions';
- IFRIC 17 'Distributions of Non-cash Assets to Owners';
- IFRIC 18 'Transfers of Assets from Customers';
- Revised IFRS 1 'First Time Adoption of IFRS';
- Amendments to IFRS 1 'Additional Exemptions for First-Time Adopters'; and
- Amendment to IAS 32 'Classification of Rights Issues'.

2 Segment Information

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

3 Operating Loss

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

	9 months ended September 30, 2009 (unaudited)	**3 months ended September 30, 2009 (unaudited)**	9 months ended September 30, 2008 (unaudited)	3 months ended September 30, 2008 (unaudited)
	£	**£**	£	£
Share based payment charges	**6,781**	**-**	12,072	-

The Company incurred total charges in respect of share based payments in the three month period to September 30, 2009 of £nil (three months to September 30, 2008: £nil).

In the nine month period to September 30, 2009 the Company incurred total charges in respect of share based payments of £11,385 (nine months to September 30, 2008: £82,070). Of this, £3,628 was in respect of employees (nine months to September 30, 2008: £74,115). In accordance with the Group accounting policy, £4,604 has been capitalized within E&E assets and the balance of £6,781 expensed within operating loss (nine months to September 30, 2008: £69,998 capitalized within E&E assets and the balance of £12,072 expensed within operating loss).

4 Staff Costs and Directors' Emoluments

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

	9 months ended September 30, 2009 (unaudited)	**3 months ended September 30, 2009 (unaudited)**	9 months ended September 30, 2008 (unaudited)	3 months ended September 30, 2008 (unaudited)
Technical and administration	**8**	**7**	6	6

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

	9 months ended September 30, 2009 (unaudited)	**3 months ended September 30, 2009 (unaudited)**	9 months ended September 30, 2008 (unaudited)	3 months ended September 30, 2008 (unaudited)
	£	**£**	£	£
Wages and salaries	**855,105**	**282,175**	757,614	287,635
Social security costs	**105,381**	**34,838**	93,406	35,424
Share based payments	**3,628**	**-**	74,115	-
	964,114	**317,013**	925,135	323,059

b) Executive Directors' emoluments

	9 months ended September 30, 2009 (unaudited)	**3 months ended September 30, 2009 (unaudited)**	9 months ended September 30, 2008 (unaudited)	3 months ended September 30, 2008 (unaudited)
	£	**£**	£	£
Wages and salaries	**479,025**	**159,675**	479,025	159,675
Social security costs	**59,698**	**19,889**	59,762	19,916
	538,723	**179,564**	538,787	179,591

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

In addition to the above, during the three month period ended September 30, 2009, the Group paid to Roger Ramshaw, Gregory Moroney, Scott Cochlan and Timothy Jones in their capacity as Non-Executive Directors of the Company fees of £6,000, £3,000, £1,500 and £3,000 respectively. The comparatives for the three month period ended September 30, 2008 were £6,000, £nil, £1,500 and £nil respectively.

There were share based payment charges in respect of Non-Executive Directors in the three months and nine months to September 30, 2009 of £nil and £6,641 respectively (three months and nine months to September 30, 2008 of £nil and £7,954 respectively).

5 Taxation

	9 months ended September 30, 2009 (unaudited)	**3 months ended September 30, 2009 (unaudited)**	9 months ended September 30, 2008 (unaudited)	3 months ended September 30, 2008 (unaudited)
	£	**£**	£	£
Current tax				
UK tax on income for the period	**-**	**-**	(9,443)	-
R&D tax credit	**400,210**	**400,210**	-	-
Total current tax	**400,210**	**400,210**	(9,443)	-
Deferred tax				
Origination of temporary differences	**(505,167)**	**(505,167)**	-	-
Total deferred tax	**(505,167)**	**(505,167)**	-	-
Total tax charge	**(104,957)**	**(104,957)**	(9,443)	-

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

	9 months ended September 30 2009	**3 months ended September 30 2009**	9 months ended September 30 2008	3 months ended September 30 2008
	£	**£**	£	£
Loss on ordinary activities before tax	**(416,589)**	**(144,111)**	(340,279)	(90,477)
Tax at 0% (2008: 0%)	**-**	**-**	-	-
Effects of:				
UK Tax suffered on income	**-**	**-**	(9,443)	-
R&D tax credit	**400,210**	**400,210**	-	-
Temporary differences	**(505,167)**	**(505,167)**	-	-
Total tax charge for the period	**(104,957)**	**(104,957)**	(9,443)	-

Current tax is calculated at the rates prevailing in the respective jurisdictions. XEL is incorporated in the British Virgin Islands, a jurisdiction subject to a tax exemption. XER is incorporated in the UK and therefore subject to current tax on taxable profits at a rate of 30% or 19% where the profits fall within the limits of the small companies rate (September 30, 2008: 30% or 20%).

From April 1, 2008 the standard rate of corporation tax in the UK decreased to 28% and the small companies' rate increased to 21%. XER is, however, considered to be a company which profits from oil extraction and oil rights in the UK and the UK Continental Shelf and therefore from April 1, 2008 continued to be 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.

6 Loss per Share

The basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The calculation of basic earnings per ordinary share for the three month period ended September 30, 2009 is based on a three month period loss of £249,068 (three months to September 30, 2008: loss of £90,477) and on 61,413,800 (three months to September 30, 2008: 61,413,800), being the weighted average number of ordinary shares in issue during the period.

The calculation of basic loss per ordinary share for the nine month period ended September 30, 2009 is based on a nine month period loss of £521,546 (nine months to September 30, 2008: loss of £349,722) and on 61,413,800 (nine months to September 30, 2008: 61,313,091), being the weighted average number of ordinary shares in issue during the period.

Details of potentially dilutive financial instruments are given in Note 12 to these financial statements. None of these potentially dilutive financial instruments have been included in the calculation of loss per share as they are anti-dilutive.

7 Intangible Assets

	Licence Fees	
	September 30 2009 (unaudited)	December 31 2008 (audited)
Exploration and Evaluation Assets	**£**	£
Cost and carrying value:		
At January 1, 2009 / January 1, 2008	**253,287**	126,567
Additions during period	**-**	126,720
At September 30, 2009 / December 31, 2008	**253,287**	253,287

	Appraisal and Exploration Costs	
	September 30 2009 (unaudited)	December 31 2008 (audited)
	£	£
Cost and carrying value:		
At January 1, 2009 / January 1, 2008	**21,743,584**	6,455,609
Additions during period	**1,184,704**	15,287,975
At September 30, 2009 / December 31, 2008	**22,928,288**	21,743,584

	Total	
	September 30 2009 (unaudited)	December 31 2008 (audited)
	£	£
Cost and carrying value:		
At January 1, 2009 / January 1, 2008	**21,996,871**	6,582,176
Additions during period	**1,184,704**	15,414,695
At September 30, 2009 / December 31, 2008	**23,181,575**	21,996,871

The costs associated with the appraisal of the Bentley field have been capitalised in accordance with the Group's accounting policy in Note 1 of the December 31, 2008 audited financial statements.

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

8 Property, Plant and Equipment

	Furniture, fittings and computing equipment
	£
Opening net book amount at January 1, 2008	-
Additions	27,490
Depreciation charge	(6,173)
Closing net book amount at December 31, 2008	**21,317**
At December 31, 2008 (audited)	
Cost or valuation	27,490
Accumulated depreciation	(6,173)
Net book amount at December 31, 2008	**21,317**
Period ending September 30, 2009 (unaudited)	
Opening net book amount at January 1, 2009	21,317
Additions	745
Depreciation charge	(6,903)
Closing net book amount at September 30, 2009	**15,159**
At September 30, 2009 (unaudited)	
Cost or valuation	28,235
Accumulated depreciation	(13,076)
Net book amount at September 30, 2009	**15,159**

9 Trade and Other Receivables

	September 30 2009 (unaudited)	December 31 2008 (audited)
	£	£
Indirect taxes receivable	**3,983**	10,173
Other receivables	**3,925**	3,925
	7,908	14,098

10 Deferred tax

	September 30 2009 (unaudited)	December 31 2008 (audited)
	£	£
At January 1, 2009 / January 1, 2008	**-**	-
Profit and loss charge (note 5)	**505,167**	-
At September 30, 2009 / December 31, 2008	**505,167**	-

The total deferred tax liability at September 30, 2009 comprised temporary differences arising on a R&D tax claim in the UK. As at December 31, 2008 the Group had pre-trading losses of £519,454. No deferred tax asset has been recognised on these losses until such time as the Group is expected to have sufficient taxable profits in future periods against which the asset can be relieved.

11 Trade and Other Payables

	September 30 2009 (unaudited)	December 31 2008 (audited)
	£	£
Trade payables	**80,824**	150,092
Social security and other taxes payable	**46,529**	47,318
Accruals and other payables	**872,415**	913,201
	999,768	1,110,611

12 Financial Instruments

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

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

Non-market risk

a) Credit risk

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

Credit risk also arises from cash and cash equivalents and deposits held by banks and financial institutions. To minimise the credit risk on banks and financial institution deposits, only independently rated parties with a minimum rating of "AA" 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	
	September 30 2009 (unaudited)	December 31 2008 (audited)
	£	£
Financial assets – loans and receivables measured at amortised cost		
- Cash	**539,990**	1,828,183
- Receivables (current)	**3,925**	3,925
	543,915	1,832,108
Financial liabilities – measured at amortised cost		
- Payables (current)	**953,239**	1,063,293

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

The accounting policies for financial assets and financial liabilities are disclosed in Note 1 to the December 31, 2008 audited financial statements.

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	
	September 30 2009 (unaudited)	December 31 2008 (audited)
	£	£
Sterling	**951,612**	1,063,293
USD$	**1,500**	-
CAD$	**127**	-
	953,239	1,063,293

	Floating rate assets	Interest free assets	Total
	September 30 2009 (unaudited)	**September 30 2009 (unaudited)**	**September 30 2009 (unaudited)**
	£	**£**	**£**
Sterling	531,228	3,675	**534,903**
CAD$	7,431	250	**7,681**
USD$	1,331	-	**1,331**
	539,990	3,925	**543,915**

	Floating rate assets	Interest free assets	Total
	December 31 2008 (audited)	December 31 2008 (audited)	December 31 2008 (audited)
	£	£	£
Sterling	1,788,298	3,675	1,791,973
CAD$	34,833	250	35,083
USD$	5,052	-	5,052
	1,828,183	3,925	1,832,108

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. CAD$ floating rate assets earn interest at circa 25 basis points below the Canadian Overnight Rate per annum. Cash deposits are only kept with banks with "AA" rating or better. The policy of the Group is to ensure that all cash balances earn a market rate of interest and that interest rate exposures are regularly reviewed and managed.

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

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

(d) Interest rate sensitivity analysis

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

Based on the Group's cash balances during the period, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the nine month period ended September 30, 2009 would decrease/increase by £3,324 (September 30, 2008; the Group's loss would decrease/increase by £41,450). Using the same parameters, the Group's loss for the three month period ended September 30, 2009 would decrease/increase by £271 (September 30, 2008; the Group's loss would decrease/increase by £11,875).

13 Share Capital

	September 30 2009 (unaudited) Number of shares	December 31 2008 (audited) 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	**61,413,800**	61,413,800

	September 30 2009 (unaudited) £	December 31 2008 (audited) £
Authorised		
- Ordinary shares of no par value	**Unlimited**	Unlimited
Issued and fully paid up		
- Ordinary shares of no par value	**22,252,625**	22,252,625

Xcite Energy Limited is registered in the British Virgin Islands under the BVI Business Companies Act 2004. Under BVI laws and regulations there is no concept of "share premium", and all proceeds from the sale of no par value equity shares is deemed to be share capital of the Company.

Shares issued

The Company issued no new ordinary shares during the nine months ended September 30, 2009. During the three months ended March 31, 2008 the Company issued a total of 863,800 ordinary shares for a total consideration of £478,475 following the exercise of certain warrants. There were no further share issues in the nine month period ended September 30, 2008.

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.

On January 8, 2009 the Company issued 650,000 share options over the Company's ordinary share capital to four members of the XER management team. All such options vested immediately with an exercise price of CAD$0.10 (£0.06) and a term of five years. The Company issued on the same date a further 200,000 share options over the Company's ordinary share capital to a contractor in recognition of his contribution to the development of the Bentley field.

In accordance with the Stock Option Plan, a total of 55,000 share options held by a Non-Executive Director have expired in the nine months ended September 30, 2009 following his resignation on November 4, 2008.

On April 23, 2009 the Company issued 100,000 share options over the Company's ordinary share capital to a Non-Executive Director upon his appointment to the Board of Directors. All such share options vested immediately with an exercise price of CAD$0.29 (£0.16) and a term of five years.

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

Grant Date	January 8, 2009	April 23, 2009
Share bid price	CAD$0.04	CAD$0.25
Exercise price	CAD$0.10	CAD$0.29
Expected volatility	55%	59%
Expected life	5 years	5 years
Expected dividends	0.0%	0.0%
Risk-free interest rate	1.83%	2.01%

At September 30, 2009 there were 5,245,000 options outstanding over the ordinary share capital of the Company (December 31, 2008: 4,350,000).

Share warrants

The Company had the following outstanding warrants over the ordinary share capital of the Company at September 30, 2009:

Security	**Holder**	**Number of ordinary shares**	**Exercise price**	**Market price at grant date**	**Expiry date**
IPO Broker warrants (1)	Various	1,012,500	CAD$1.60	CAD$1.60	Nov 15, 2009
Warrants (2)	Ammonite	163,500	US$1.00	US$1.00	Nov 15, 2009

(1) 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. On February 7, 2008, Wellington West Capital Markets Inc. exercised a total of 112,500 of these warrants for a consideration of CAD$180,000.

(2) 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.

14 Owners' equity

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

- Retained Earnings: Cumulative profits recognised in the Group Statement of Comprehensive Income less cumulative losses and distributions made.
- Merger Reserve: The difference between the nominal value of the shares issued to acquire a subsidiary and the nominal value of the shares acquired.
- Other Reserves: The fair value of share based payments and warrants granted over ordinary shares in the Company at the date of grant.

15 Commitments and contingencies

The Group had no commitments or contingencies as at September 30, 2009 other than as accounted for in these interim unaudited consolidated financial statements.

16 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 Xcite Energy Resources Limited ("XER");
- The Company's key management; and
- Companies in which the Executive Directors exercise significant influence.

XEL has continued to provide a loan facility its wholly owned subsidiary, XER, to finance XER's operational requirements, with net cash funding of £0.06 million during the three month period to September 30, 2009 (three month period to September 30, 2008: £1.33 million). No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand. The total funding provided to XER by XEL in the nine month period to September 30, 2009 was £1.12 million (nine months to

September 30, 2008: £11.55 million). The balance owing by XER to XEL at September 30, 2009 was £21.96 million (as at September 30, 2008: £20.02 million).

The Executive Directors have received remuneration, details of which are given in Note 4 to these financial statements. The Executive Directors have also been granted certain share options over the ordinary share capital of the parent undertaking, details of which are given in these financial statements.

17 Post balance sheet events

On October 7, 2009 the Company announced the closing of the placing of an additional 10,141,998 new ordinary shares, raising gross proceeds of £2.1 million (CAD$ 3.8 million). The additional share capital represents 14.2% of the Company's enlarged share capital.

On October 12, 2009 the Company announced the granting to Paradox Public Relations of share options over 200,000 ordinary shares in XEL with a term of five years, vesting 25% on a quarterly basis over twelve months from the date of grant and with an exercise price of CAD$0.37 per share.

On October 22, 2009 the Company announced that XER had entered into Heads of Agreement with Fugro for the provision of a turn-key tested well as the next stage in the development of the Bentley field. Fugro will undertake this well on a risked basis, such that it will bear a material percentage of the cost of the well in return for a commitment to be engaged to carry out future work on behalf of XER if the well is successful. In so doing, Fugro has become the first partner to join the Bentley Alliance, the management and operational structure created by XER as the vehicle to direct the Bentley field to full field development.

On November 15, 2009 a total of 1,176,000 share warrants expired, decreasing the fully diluted share capital position of the Company by 1,176,000 shares.