Xcite Energy Limited

Interim consolidated financial statements

For the 3 month period ended 31 March 2012

(Unaudited)

Xcite Energy Limited

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for the 3 month period ended 31 March 2012

Contents

Xcite Energy Limited
For the 3 month period ended 31 March 2012

Consolidated Income Statement (in Pounds Sterling)

	Note	**3 months ended 31 March 2012 (unaudited) £**	3 months ended 31 March 2011 (unaudited) £
Share-based payment charge		**(8,243)**	(65,949)
Foreign exchange gains		**296,562**	310,291
Other expenses		**(373,273)**	(289,572)
Net administrative expenses		**(84,954)**	(45,230)
Operating loss	3	**(84,954)**	(45,230)
Finance income – bank interest		**38,680**	31,991
Loss before taxation		**(46,274)**	(13,239)
Tax expense	5	-	-
Loss for the year attributable to Equity holders of the Company		**(46,274)**	(13,239)
Loss per share attributable to Equity holders of the Parent Company	6		
- basic		(0.0p)	(0.0p)
- diluted		(0.0p)	(0.0p)

All results relate to continuing operations.

Consolidated Statement of Comprehensive Income (in Pounds Sterling)

	3 months ended 31 March 2012 (unaudited) £	3months ended 31 March 2011 (unaudited) £
Loss for the period	**(46,274)**	(13,239)
Total comprehensive income for the period	**(46,274)**	(13,239)
Attributable to:		
Equity shareholders	**(46,274)**	(13,239)

The notes on pages 5 to 18 form part of these financial statements.

Xcite Energy Limited
For the 3 month period ended 31 March 2012

Consolidated 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 3 months to 31 March 2011	-	(13,239)	-	-	(13,239)
Total comprehensive loss for the period ended 31 March 2011	-	(13,239)	-	-	(13,239)
Transactions with owners:					
Issue of shares	15,007,100	-	-	-	23,138,508
Associated share issue costs	(110,206)	-	-	-	(110,206)
Transfer upon exercise of share options and warrants	-	1,711	-	(1,711)	-
Fair value of share warrants and options	-	-	-	206,682	206,682
At 31 March 2011	**91,384,256**	**(4,231,776)**	**218**	**6,522,184**	**93,674,882**
Profit for the 9 months to 31 December 2011	-	142,802	-	-	142,802
Total comprehensive gain for the 9 months to 31 December 2011	-	142,802	-	-	142,802
Transactions with owners:					
Issue of shares	50,394,334	-	-	-	50,394,334
Associated share issue costs	(2,541,134)	-	-	-	(2,541,134)
Share warrant issue	(2,177,459)	-	-	2,177,459	-
Transfer upon exercise of share options and warrants	-	43,559	-	(43,559)	-
Fair value of share warrants and options	-	-	-	1,094,424	1,094,424
At 31 December 2011	**137,059,997**	**(4,045,415)**	**218**	**9,750,508**	**142,765,308**
Loss for the 3 months to 31 March 2012	-	(46,274)	-	-	(46,274)
Total comprehensive loss for the period ended 31 March 2012	-	**(46,274)**	-	-	**(46,274)**
Transactions with owners:					
Issue of shares	**37,437,320**	-	-	-	**37,437,320**
Associated share issue costs	**(1,022,610)**	-	-	-	**(1,022,610)**
Share warrant issue	**(1,196,267)**	-	-	**1,196,267**	-
Transfer upon exercise of share options and warrants	-	**2,847**	-	**(2,847)**	-
Fair value of share warrants and options	-	-	-	**25,835**	**25,835**
At 31 March 2012	**172,278,440**	**(4,088,842)**	**218**	**10,969,763**	**179,159,579**

The notes on pages 5 to 18 form part of these financial statements.

Xcite Energy Limited
For the 3 month period ended 31 March 2012

Consolidated Statement of Financial Position (in Pounds Sterling)

	Note	**31 March 2012 (unaudited) £**	31 December 2011 (audited) £
Assets			
Non-current assets			
Intangible assets	7	**113,151,247**	88,080,610
Property, plant and equipment	8	**232,983**	186,545
Total non-current assets		**113,384,230**	88,267,155
Current assets			
Trade and other receivables	9	**304,597**	380,729
Cash and cash equivalents	12b	**78,945,583**	64,123,406
Total current assets		**79,250,180**	64,504,135
Total assets		**192,634,410**	152,771,290
Liabilities			
Current liabilities			
Trade and other payables	10	**12,969,664**	9,500,815
Total current liabilities		**12,969,664**	9,500,815
Non-current liabilities			
Deferred tax	11	**505,167**	505,167
Total non-current liabilities		**505,167**	505,167
Net assets		**179,159,579**	142,765,308
Equity			
Share capital	13	**172,278,440**	137,059,997
Retained earnings	14	**(4,088,842)**	(4,045,415)
Merger reserve	14	**218**	218
Other reserves	14	**10,969,763**	9,750,508
Total equity		**179,159,579**	142,765,308

The notes on pages 5 to 18 form part of these financial statements. These interim unaudited consolidated financial statements were approved by the Board of Directors and authorised for issue on 24 May 2012 and were signed on its behalf by:

Richard Smith
Chief Executive Officer

Rupert Cole
Chief Financial Officer

Xcite Energy Limited
For the 3 month period ended 31 March 2012

Consolidated Statement of Cash Flows (in Pounds Sterling)

	3 months ended 31 March 2012 (unaudited)	3 months ended 31 March 2011 (unaudited)
	£	£
Loss for the period before tax	**(46,274)**	(13,239)
Adjustment for share-based payments	**8,243**	65,949
Adjustment for interest income	**(38,680)**	(31,991)
Adjustment for depreciation	**25,160**	5,828
Movement in working capital		
- Trade and other receivables	**76,132**	788,799
- Trade and other payables	**3,468,848**	(18,733,843)
Net cash flow from operations	**3,493,429**	(17,918,497)
Additions to exploration and evaluation assets	**(25,053,045)**	(2,675,629)
Purchase of fixed assets	**(71,598)**	(37,427)
Interest income	**38,680**	31,991
Net cash flow from investing	**(25,085,963)**	(2,681,065)
Net proceeds from issue of new shares	**36,414,711**	14,896,894
Cash flow from financing	**36,414,711**	14,896,894
Net increase/(decrease) in cash and cash equivalents	**14,822,177**	(5,702,668)
Cash and cash equivalents as at 1 January	**64,123,406**	35,952,447
Cash and cash equivalents as at 31 March	**78,945,583**	30,249,779
Cash and cash equivalents comprise:		
Short term deposits	**73,883,099**	21,086,064
Cash available on demand	**5,062,484**	9,163,715

The notes on pages 5 to 18 form part of these financial statements.

Notes to the Interim Consolidated Financial Statements

1 Accounting Policies

Basis of preparation

The interim unaudited consolidated financial statements for the three months ended 31 March 2012 have been prepared in accordance with International Accounting Standards 34 Interim Financial Reporting. However, the interim unaudited consolidated financial statements for the three months ended 31 March 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 financial year ended 31 December 2011. 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.

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 Group has adopted no new accounting standards or interpretations during the period.

New standards and interpretations not yet applied

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

Status of EU endorsement

Entities in EU Member States which report in accordance with EU-endorsed IFRS can only apply 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 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';
- Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income';
- Amendments to IAS 12 'Deferred tax: Recovery of underlying assets';
- Amendments to IAS 19 'Employee Benefits';
- 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'; and
- Amendments to IFRS 1 'Government Loans'.

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.

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

3 Operating Loss

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

	3 months ended 31 March 2012 (unaudited)	3 months ended 31 March 2011 (unaudited)
	£	£
Share-based payment charges	**8,243**	65,949

The Company incurred total charges in respect of share-based payments in the three month period to 31 March 2012 of £1,222,102 (three months to 31 March 2011: £206,682). Of this, £25,835 (three months to 31 March 2011: £206,682) was in respect of employees and non-executive directors (see Note 4). In accordance with the Company accounting policy, £17,592 (three months to 31 March 2011: £140,733) has been capitalized within E&E assets, £8,243 (three months to 31 March 2011: £65,949) expensed within operating loss, and the balance of £1,196,267, being the fair value assessed for broker warrants vesting in the period, (three months to 31 March 2011: £nil) charged against share capital.

4 Staff Costs and Directors' Emoluments

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

	3 months ended 31 March 2012 (unaudited)	3 months ended 31 March 2011 (unaudited)
Technical and administration	**15**	8

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

	3 months ended 31 March 2012 (unaudited)	3 months ended 31 March 2011 (unaudited)
	£	£
Wages and salaries	**491,214**	354,996
Social security costs	**64,088**	43,733
Share-based payments	**23,310**	186,483
	578,612	585,212

b) Executive Directors' emoluments

	3 months ended 31 March 2012 (unaudited)	3 months ended 31 March 2011 (unaudited)
	£	£
Wages and salaries	**159,675**	159,675
Social security costs	**21,302**	19,706
Share-based payments	**15,736**	125,888
	196,713	305,269

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

In addition to the above, during the three month period ended 31 March 2012, 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 £15,000, £8,750, £8,125 and £8,750 respectively. The comparatives for the three month period ended 31 March 2011 were £4,500, £3,000, £3,750 and £3,000 respectively. Charges in respect of share-based payments for the Non-Executive Directors in the three month period to 31 March 2012 were £2,525 (three month period to 31 March 2011: £20,199).

5 Taxation

	3 months ended 31 March 2012 (unaudited)	3 months ended 31 March 2011 (unaudited)
	£	£
Overseas tax charges	**-**	-

Current tax is calculated at the rates prevailing in the respective jurisdictions. XEL is incorporated in the British Virgin Islands, a jurisdiction subject to a tax exemption. XER is incorporated in the UK.

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 5 July 2011 the UK Government announced an increase in the Ring Fence Expenditure Supplement from 6% to 10%, which became effective from 1 January 2012.

6 Loss per Share

The basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The calculation of basic loss per ordinary share for the three month period ended 31 March 2012 is based on a three month period loss of £46,274 (three months to 31 March 2011: loss of £13,239) and on 218,507,279 (three months to 31 March 2011: 160,278,660), 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 interim unaudited consolidated financial statements.

7 Intangible Assets

Exploration and Evaluation Assets	Licence Fees **31 March 2012 (unaudited) £**	 31 December 2011 (audited) £
Cost and carrying value:		
At 1 January 2012 / 1 January 2011	**1,215,387**	791,847
Additions during period / year	**11,700**	423,540
At 31 March 2012 / 31 December 2011	**1,227,087**	1,215,387

	Appraisal and Exploration Costs **31 March 2012 (unaudited) £**	 31 December 2011 (audited) £
Cost and carrying value:		
At 1 January 2012 / 1 January 2011	**86,865,223**	64,471,530
Additions during period / year	**25,058,937**	22,393,693
At 31 March 2012 / 31 December 2011	**111,924,160**	86,865,223

	Total **31 March 2012 (unaudited) £**	 31 December 2011 (audited) £
Cost and carrying value:		
At 1 January 2012 / 1 January 2011	**88,080,610**	65,263,377
Additions during period / year	**25,070,637**	22,817,233
At 31 March 2012 / 31 December 2011	**113,151,247**	88,080,610

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

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

8 Property, Plant and Equipment

	Furniture, fittings and computing equipment
Year ended 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 31 March 2012	
Opening net book amount at 1 January 2012	186,545
Additions	71,598
Depreciation charge	(25,160)
Closing net book amount at 31 March 2012	**232,983**
At 31 March 2012	
Cost or valuation	333,953
Accumulated depreciation	(100,970)
Net book amount	**232,983**

9 Trade and Other Receivables

	31 March 2012 (unaudited)	31 December 2011 (audited)
	£	£
Indirect taxes receivable	**233,597**	309,729
Other receivables	**71,000**	71,000
	304,597	380,729

10 Trade and Other Payables

	31 March 2012 (unaudited)	31 December 2011 (audited)
	£	£
Trade payables	**8,303,316**	3,962,950
Social security and other taxes payable	**80,548**	79,385
Accruals and other creditors	**4,585,800**	5,458,480
	12,969,664	9,500,815

11 Deferred tax

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

The total deferred tax liability at 31 March 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.

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 on-going 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 "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	
	31 March 2012 (unaudited)	31 December 2011 (audited)
	£	£
Financial assets – loans and receivables		
- Cash	**78,945,583**	64,123,406
- Receivables (current)	**71,000**	71,000
	79,016,583	64,194,406
Financial liabilities – measured at amortised cost		
- Payables (current)	**12,889,116**	9,421,431

Included in cash balances are amounts held in escrow of £73,883,099 (31 December 2011: £47,119,005). The balance held in escrow is not currently available for use by the Group but 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.

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.

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:

	Interest Free Liabilities	
	31 March 2012 (unaudited)	31 December 2011 (audited)
	£	£
Sterling	**3,127,172**	3,941,333
USD$	**8,609,726**	5,474,040
NOK	**385,113**	-
CAD$	**1,336**	6,058
Euro	**764,769**	-
	12,889,116	9,421,431

	Floating rate assets	**Interest free assets**	**Total**
	31 March 2012 (unaudited)	**31 March 2012 (unaudited)**	**31 March 2012 (unaudited)**
	£	**£**	**£**
Sterling	**27,371,731**	**71,067**	**27,442,798**
CAD$	**83,823**	**151**	**83,974**
Euro	**70,063**	**191**	**70,254**
Norwegian Kroner	**354,866**	**38**	**354,904**
USD$	**51,064,617**	**36**	**51,064,653**
	78,945,100	**71,483**	**79,016,583**

	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 31 March 2012 the weighted average rate of interest being earned on Sterling deposits was approximately 0.64% (31 March 2011: 0.9%).

US Dollar floating rate assets earn interest within the range of rates of 0.0% to 0.18%, depending upon the liquidity of the deposit placed. At 31 March 2012 the weighted average rate of interest being earned on US deposits was 0.05 % (31 March 2011: 0.1%).

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 £846,937 (three months to 31 March 2011; the Group would have reported an additional unrealised exchange loss of £376,519). 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 £813,754 (three months to 31 March 2011; the Group would have reported an additional unrealised exchange gain of £391,887).

(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 31 March 2012 would decrease by £82,857 (31 March 2011; the Group's loss would decrease by £6,400). 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 31 March 2012 would increase by £36,239 (31 March 2011; the Group's loss would increase by £6,400).

13 Share Capital

	31 March 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	**239,377,218**	206,005,364

	31 March 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	**172,278,440**	137,059,997

Shares issued

During the three months ended 31 March 2012 the Company issued a total of 33,371,854 ordinary shares for a total consideration of £35.2 million after the deduction of transaction costs. The Company issued 4,498,215 new ordinary shares for a total consideration of £14.9 million during the three months ended 31 March 2011.

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.

During the three months ended 31 March 2012 the Company issued no new options under the Stock Option Plan.

The Stock Option Plan is administered by the Remuneration and Nominating Committee. At 31 March 2012 there were 17,223,000 options outstanding, with a weighted average exercise price of CAD$2.02 per option, exercise prices were in the range of CAD$0.10 to CAD$5.95. Of the total outstanding as at 31 March 2012, all share options were exercisable at that date (as at 31 March 2011: 15,473,000 options outstanding with a weighted average exercise price of CAD$1.99 with exercise prices in the range of CAD$0.10 to CAD$5.95, and of which 14,108,668 were exercisable).

Share warrants

On 7 February 2012 the Company received consideration of CAD$18,802 (£11,780) in respect of the exercise of 30,325 broker warrants.

During the three months ended 31 March 2012 the Company issued a total of 6,676,519 new broker warrants with an exercise price of £1.14 as part of the second tranche of equity financing from Socius, as announced in 10 February 2012.

14 Owners' equity

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

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

15 Commitments and contingencies

The Company had total commitments under non-cancellable operating leases expiring as follows:

	As at 31 March 2012	As at 31 December 2011
	£	£
Amounts payable on leases which expire:		
Within one year	**78,470**	7,800
In two to five years	**392,278**	415,950

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

XEL provided, using a loan facility, its wholly owned subsidiary, XER, with net cash funding of £20.5 million during the three month period to 31 March 2012 (three months to 31 March 2011: £19.8 million) to finance XER's operational requirements. No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand. The total balance owing by XER to XEL at 31 March 2012 was £85.3 million (as at 31 March 2011: £45.6 million).

In the normal course of business XER incurred charges totalling £4,994 during the three months to 31 March 2012 (three months to 31 March 2011: £1,257) for property rentals from Seaburome Limited, a company for which Rupert E. Cole is a Director. There was no outstanding balance payable by XER at the balance sheet date (as at 31 March 2011: £1,257).

The Executive Directors have received remuneration, details of which are given in Note 4 to these financial statements.