Xcite Energy Limited

Annual Report and Financial Statements

for the year ended 31 December 2014

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Board of Directors

Timothy S. Jones is the Chairman and a Non-Executive Director of the Company. He is also Chairman of the Audit Committee and a member of the Remuneration and Nominating Committee. Mr. Jones is a Chartered Accountant with over 20 years of experience in professional practice covering a number of industries including oil and gas. Following major public company roles, he formed his own accountancy and consulting practice to focus on the oil and gas sector, where he specialises in providing advice to AIM listed companies.

Rupert E. Cole is Chief Executive Officer and Director of XER and the Company. From 2002 until joining XER in 2003, Mr. Cole was Programme Management Business Adviser at Granherne, a company within the Halliburton group of companies, providing strategic, commercial and financial advice to upstream oil and gas services providers. From 1990 to 1996, Mr. Cole was Finance Director at Harpur, an international downstream service provider to major oil companies. Mr. Cole is a Chartered Accountant and has over 25 years of experience in corporate finance.

Stephen A. Kew is Chief Operating Officer of XER and the Company. After leaving Conoco in 1999 after 25 years, he provided petroleum engineering consulting in the upstream oil and gas industry for a wide range of clients before joining XER in 2003. Mr. Kew is a Petroleum Engineer and has over 35 years of development engineering and project management experience in the oil and gas industry, including previous experience in respect of the Bentley field while at Conoco. He is an associate of the Institution of Chemical Engineers and a member of the Society of Petroleum Engineers.

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

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

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

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

Chairman's Review

I am pleased to present my first report to shareholders as Chairman, having taken over from my predecessor, Roger Ramshaw, in May last year. Roger ably led the company from its formation and public floatation and I would like to pay tribute to his contribution.

Our industry is currently facing major challenges, but I remain optimistic that we will successfully transition through the next phase of our journey towards development of the Bentley oil field. A year ago, we commented on the changing environment in the UK North Sea, and how our experience had seen a reduction of the resource allocation into the region and the beginning of restrictions on development spending, which combined with a continuing escalation of the cost base, was leading to projects being delayed or cancelled and new investment simply not being made.

Today, we have a much lower oil price environment to contend with, currently around $55 per barrel, and many more oil companies announcing reduced investment in development and exploration spend, delayed or cancelled projects, further sales of assets and ongoing headcount reductions. It is clearly a difficult environment for all participants and definitive Government and industry action needs to be taken to ensure the continuing health of the UK North Sea sector. The measures announced in the Budget are certainly a step in the right direction.

Oil & Gas UK recently released its annual Activity Survey for 2015, in which it reiterated the three major challenges facing the UK's offshore oil and gas basin: high costs, high taxes and an under-resourced regulator. On this basis, it has called for a major effort on cost reduction, production improvement and fresh investment. Importantly, Oil & Gas UK also highlighted the need for the right balance between investment and cost control, recognising that cost control alone would diminish the industry and, that to survive, investment must be sustained with an urgent need for significant regulatory and fiscal reform.

We fully support Oil & Gas UK in its conclusions, and believe that the Wood Review identified another key issue which the industry does not yet embrace; being the need for much greater and genuine collaboration. Perhaps surprisingly for an industry such as ours, collaboration is not a natural operating model and the wider adoption of this would represent a substantial behavioural change in the way that operators, service providers and the Government interact for mutual benefit. Indeed, this has also been highlighted by the Oil & Gas Authority, together with the need for a cultural shift in the industry to adopt behaviour that is likely to tackle the challenges ahead.

We experienced the changing environment in 2013 first-hand and realised that a different approach was needed to attract investment for new development projects. The cost environment was unsustainable, projects were rarely, if ever, delivered on-time or on-budget, and the fiscal environment of the UK North Sea was neither sufficiently stable nor attractive enough to enable this situation to continue.

In this environment, we engaged with a number of key integrated service providers to develop an innovative commercial structure which comprised collaboration and greater accountability and apportionment of risk and reward. The intention was to develop a structure to align all the key stakeholders on the successful delivery of the development project, on-time and on-budget whilst providing sustainable and long term production volumes in an efficient manner. As a result, we are now working with major, international companies to provide the key services and assets required for the Bentley development project. We believe this is an innovative structure for the UK North Sea, which is designed to address some of the major risks and deliver a successful, economic field development.

We have made considerable progress in many areas within our control, but we cannot escape the fact that the current oil price environment has had a further substantial impact on the industry and availability of resources and investment globally to new development projects. Nevertheless, we continue with our innovative approach to managing this changing environment, in particular in relation to pursuing the funding required for Bentley, as an important UK North Sea development project. The development work we have undertaken has been primarily focused on the field development plan, but we have also achieved further validation in the key areas of costs, execution strategy and subsurface definition, in order to support our funding discussions.

We remain fully committed to progressing the Bentley field towards a successful outcome. On behalf of the Board, I would like to thank the entire Xcite team for their continuing hard work and I look forward to being able to deliver the positive news that shareholders are awaiting.

Timothy Jones
Chairman

Chief Executive's Review of 2014

Overview of 2014

At this time last year, we set out our principal objectives for 2014 - to select our key preferred development partners for the Bentley field; to commence a number of engineering programmes to achieve greater definition of the development concept; to agree draft contracts with a view to signing for the project execution phase following approval of the field development plan ("FDP"); and to continue to work to clarify the funding requirements based on the work with our partners and thus be able to evaluate the available funding options. On the back of these objectives, we also set out our intention to work towards the submission of a full FDP including a funding package, however, it became clear during the latter half of 2014 that the impact of the declining oil price had further changed the commercial environment and we updated the market throughout the year on the impact of these changes.

In spite of the increasingly challenging environment, we have achieved much of what we set out to do, with the signing of important Memoranda of Understanding ("MOU") with development contractors, the drafting of commercial contracts, the completion of key pre-FEED / assurance engineering programmes, continuing discussions with potential co-venturers and ongoing work on developing asset financing solutions for our principal field development assets. We also entered into two collaboration agreements, which have the potential to deliver material capital and operational cost savings in the future. We also took the prudent step of re-financing our balance sheet through the issue of a US$135 million two year bond and a US$5 million private placement of ordinary shares.

In February 2014, we confirmed 2P Reserves for the Bentley field of 257 million stock tank barrels ("MMstb") in an updated Reserves Assessment Report ("RAR"), with an NPV10 (after tax) value of approximately US$2.1 billion. This RAR also assigned a further 48 MMstb of P50 Contingent Resources to the Bentley field, representing the additional economic production barrels that could still be achieved after an initial 35 year facilities life cut-off had been applied to the development plan. The RAR was followed at the end of March, with the confirmation from DECC of an extension to the Bentley oil field licence until 31 December 2016, which was a material extension to our licence terms. More recently, in January 2015, we relinquished the licences to blocks 9/3c and 9/3d in accordance with their terms – neither block was material, with only approximately 16 MMstb of PMean prospective resources assigned to them in aggregate in the RAR and with zero economic value. It is intended that the RAR as at 31 December 2014, which will be published in due course, should incorporate much of the work undertaken during the past year for the current development plan, together with the updated acreage and the recent fiscal changes in the 2015 Budget.

The selection of development partners during 2014 was initiated with our signing of an MOU with Amec Group Limited ("AMEC") and with Ove Arup & Partners Limited ("Arup") in April, for the design and development of Arup's self-installing, steel ACE mobile offshore production unit ("MOPU"). This was closely followed later that month with an MOU with Teekay Shipping Norway AS ("Teekay") for the supply of a bridge-linked Sevan FSO facility. The pre-FEED engineering for the FSO was completed at the end of 2014. In July, we signed an MOU for the engineering, procurement and construction of the ACE platform with Aibel AS ("Aibel"), followed in September by a successful offshore geotechnical survey, which completed the overall offshore assurance process for this phase. The Baker Hughes Limited ("Baker Hughes") MOU in October 2014 set out the principles for the provision of oil field services and we have been working extensively with Baker Hughes to develop and enhance our sub-surface and drilling strategy. In November, China Oilfield Services Limited ("COSL") became the final key partner to join the development group, when we signed an MOU for the provision of a new-build N Plus Class jack-up drilling

rig, which is due to be built in the Keppel FELS yard in Singapore. The N Plus Class drilling rig will be one of the largest harsh environment, deep water jack-up rigs in operation in the UK North Sea, which will allow for an additional four wells to be drilled from the MOPU, and we believe it will offer several material advantages to optimise the drilling strategy.

During the year we also entered into collaboration agreements with the Operators of two neighbouring fields; the first in May 2014, with Statoil (UK) Limited ("Statoil") and Shell UK Limited, which allowed all parties to share field-specific technical and operational information to evaluate potential synergies and collaboration between the Bentley and neighbouring Bressay fields. The second, in September, with Statoil and EnQuest Heather Limited, enabled the sharing of field-specific technical and operational information to evaluate the potential of common gas import infrastructure between the Bentley, Kraken and Bressay fields. These initiatives are part of a longer term strategy, which have the potential to enhance the future economics of these fields by offering material capital and operational cost savings; they also align with our underlying collaboration model which we believe was one of the key areas highlighted by the Wood Review as being important for the continued success of the UK North Sea. Xcite Energy's actions clearly demonstrate our support for this approach to maximise economic recovery and we hope that the Government will also support such behaviour for the benefit of the UK North Sea as a whole.

We re-financed our balance sheet in June, raising a total of US$140 million (£83.1 million) through the placing of a US$135 million (£80.1 million) secured, two year bond and a private placement of ordinary shares, which enabled us to repay the outstanding loan notes and provided additional capital to complete the pre-FEED / assurance engineering work programme.

The development group model

We established our commercial development model against the early backdrop of a tightening industry environment, as the Chairman has already mentioned, but it was also driven by the need to drive for a more competitive and efficient cost base with shared accountability into our development project and exercise greater control over the key aspects of a field development; an important goal, especially in the current challenging oil price environment.

The development group which we selected are not only leaders in their respective fields, but also companies that have demonstrated their willingness to operate within a new, innovative and collaborative model for the Bentley development, in which they are accountable for delivering key elements of the project with a balanced risk and reward mechanism. The more work we have undertaken with the development group partners, the greater our conviction has become that this collaborative model will deliver a cost-effective, efficient and sustainable project in the future. As with many innovative solutions, it is not always straightforward, but we have achieved a great deal during 2014.

We successfully completed the planned technical and engineering programmes, which have delivered greater functional and cost definition at this stage, and we have advanced our reservoir modelling to provide more subsurface certainty as part of our overall reserves strategy, which will be incorporated into an updated Reserves Assessment Report in due course. We are making good progress with our commercial discussions with partners and have reached agreement on many of the fundamental principles, which are being integrated into the contract documentation. An integral part of this contractual structure is the early definition of project costs and, given the current environment, we are continuing to do further work in this area in order to capitalise on the cost benefit opportunities that are slowly working through into the sector. We anticipate that

this will allow a further revision to the cost and execution strategy to further maximise economic recovery and this will continue to be a core focus during 2015.

Funding the development

We have consistently stated that the technical and commercial workstreams were our focus for 2014, and that we would only be able to submit a formal FDP when we could demonstrate to DECC both the technical and financial capability required. As mentioned above, the technical and engineering work streams are largely complete and our commercial negotiations with development group companies continue to make progress.

Given the impact on the project economics, we remain focused on optimising the overall project costs and also on accessing alternative sources of capital in order to limit the development capital sought from any potential co-venturer and, so far as possible, mitigate the impact of the current investment environment. During the year we spent valuable time creating an asset financing model to fund the construction of the MOPU. In recent months, it is clear that the declining oil price is affecting the overall project financing environment and, as a result, we have extended these discussions into new geographic regions where there appears to be a longer term strategic view.

We have also actively continued our discussions and diligence process with a number of potential co-venturers during the year. Whilst the development financing landscape has remained difficult, we have committed a great deal of time and energy into addressing the important issues relating to the Bentley development to support these discussions. Our emphasis has been on delivering a cost-effective and sustainable development plan, supported by a clearly defined execution strategy with an externally validated cost base, whilst continuing reservoir modelling which has been focused on delivering greater subsurface clarity and certainty. We continue to actively pursue our process to deliver a co-venturer partner.

Outlook

Whilst recognising the current uncertainty in the industry, we believe that the anticipated development timeline for the Bentley field should mitigate short term oil price volatility and we remain optimistic about the long term economic viability of the project, which should also benefit from the tax changes announced in the recent Budget. We have undertaken a significant amount of work over the past year, which has moved the development plan forwards and created a greater level of certainty with which to engage potential co-venturers. With a project the size of Bentley, and in the current market environment, the Company remains focused on optimising costs and reducing risk and uncertainty, which is even more important than it was 12 months ago. Having completed our engineering programmes in 2014, we are entirely focused on developing our commercial and funding discussions in 2015.

Once again, I strongly encourage shareholders to read the information and updates provided by the Company, rather than uninformed sources. We will inform the market when we have relevant and material news to share, as would be expected and in accordance with our public company reporting obligations.

Rupert Cole
Chief Executive Officer

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 audited consolidated financial statements and related notes for the year ended 31 December 2014. This MD&A is dated 24 March 2015. These documents and additional information about XEL are available on SEDAR at www.sedar.com and on the Company's website at www.xcite-energy.com.

XEL is 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 for the year ended 31 December 2014 which include the results of the operating subsidiary Xcite Energy Resources plc ("XER") for the year ended 31 December 2014. The comparative results for both companies comprise the year ended 31 December 2013 and in this MD&A, XEL and XER are together defined as the "Group". All figures and the comparatives figures contained herein are expressed in 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, including crude oil resource estimations, crude oil prices, exchange rates, interest rates, and prevailing rates of taxation (see "Risk Management" section below), which could cause actual results to differ from those anticipated by the Group. The reader should not place undue importance on forward-looking statements and should not rely upon this information as of any other date. While the Company may elect to, it is under no obligation and does not undertake to update this information at any particular time, unless required by applicable securities law or regulation.

Summary of Financial Results

The following table summarises the Group's performance in the year ended 31 December 2014 and the comparatives for the years ended 31 December 2013 and 31 December 2012. The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements of the Group have also been prepared in accordance with IFRSs adopted by the European Union ("EU").

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
	£	£	£
Revenue	**-**	-	13,288,989
Net (loss)/profit	**(3,198,496)**	6,582,171	(1,720,907)
Basic (loss)/earnings per share in pence	**(1.1p)**	2.3p	(0.7p)
Diluted (loss)/earnings per share in pence	**(1.1p)**	2.0p	(0.7p)
Total assets	**310,414,583**	269,477,620	251,840,821
Long term liabilities	**80,965,575**	3,456,732	505,167

The net loss for the year ended 31 December 2014 of £3.2 million has been influenced by currency fluctuations from a strengthening US dollar against the Group's reporting currency of Pound Sterling, the effect of which was a net unrealised foreign exchange loss of £3.2 million. With the issuance in June 2014 of US$135 million of senior secured USD bonds by XER, the Group is exposed to movements in the USD/GBP exchange rate, with unrealised exchange gains and losses being reported through net (loss)/profit for the year. In comparison, the year ended 31 December 2013 reported a net profit of £6.6 million, which included net unrealised foreign exchange gains of £0.6 million together with Other Income of £11.4 million in respect of non-recurring technical data and surplus equipment sales and administrative expenses of £5.4 million. Stripping out the influence of foreign exchange and non-recurring Other Income, the like-for-like underlying operating costs for 2014 were £1.8 million compared with £2.6 million for the same period in 2013.

The following table summarises the Group's performance for the eight most recent quarters. The financial data contained within the following table has been prepared in accordance with accounting policies that have been applied consistently across all eight reporting periods.

	Q4'14	Q3'14	Q2'14	Q1'14	Q4'13	Q3'13	Q2'13	Q1'13
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Net (loss)/profit	**(1,015)**	(2,651)	509	(41)	(2,623)	905	10,000	(1,700)
Basic EPS *	**(0.4p)**	(0.9p)	0.2p	(0.0p)	(0.8p)	0.3p	3.4p	(0.6p)
Total assets	**310,415**	307,120	301,911	268,764	269,478	263,919	265,444	250,424
Long term liabilities	**80,966**	77,768	72,684	3,457	3,457	852	852	505

* Basic earnings/(loss) per share in pence

Fourth Quarter 2014 Highlights

The fourth quarter of 2014 saw the signing of MOUs with Baker Hughes Limited ("Baker Hughes") in October, setting out the principles for the provision of oil field services for the Bentley field, and, in November, with China Oilfield Services Limited ("COSL"), setting out the principles for the provision of a new-build N Plus Class jack-up drilling rig.

The Company incurred additional spend on Exploration and Evaluation ("E&E") assets of £9.5 million in the fourth quarter of 2014, with a principal focus of advancing the FDP and pre-FEED engineering study work. This value includes capitalised project finance costs of £5.1 million.

The Group's reported liability in respect of the issued senior secured bonds will continue to fluctuate with the foreign exchange rate for USD/GBP, the result of which has a significant influence on the Group's reported

net profit or loss for the quarter. USD has continued to strengthen against Sterling during the fourth quarter, and this, together with the continued amortisation of the associated bond issue costs, has resulted in the carrying value of the bond liability increasing during the fourth quarter of 2014.

The Group recorded a tax credit in the fourth quarter of £1.8 million in respect of the increase in the deferred tax asset, due to UK tax losses, exceeding the increase in the deferred tax liability provisions, comprising temporary differences arising from tax relief claimed on capital expenditure in the UK.

Income

Revenue

The Group has no reported revenues in the year ended 31 December 2014, reflecting no offshore oil production activities during the year (for the year ended 31 December 2013: £nil).

Interest Income

Interest income received on funds invested in the year ended 31 December 2014 amounted to £33,876 (year ended 31 December 2013: £27,658). Interest income remains low during the current period of sustained historical lows on US and UK base rates. The Group policy is to ensure that all cash balances earn a market rate of interest, whilst maintaining an acceptable level of deposit risk, and that interest rate exposures are regularly reviewed and managed.

Other Income

Other income for the year ended 31 December 2013 represents £9.8 million (US$15.0 million) from the sale of technical well data and £1.6 million (US$2.5 million) from the sale of surplus oilfield equipment following the 2012 pre-production well test. There was no such Other Income in year ended 31 December 2014.

Operations and Administrative Expenses

During 2014 a total of £35.4 million was charged to E&E assets (year ended 31 December 2013: £20.1 million), of which £17.7 million was in respect of loan notes and bond finance interest and amortised costs, £5.9 million for the capitalisation of RBL fees, £3.6 million for staff costs, including capitalised charges under the Group's Stock Option Plan, £4.2 million on consultancy costs, £0.7 million on FSO Pre-FEED scope and £0.4 million on site investigation surveys in addition to spend on capitalised direct overheads.

A total of £0.8 million (year ended 31 December 2013: £0.7 million) was paid in respect of XER's obligations under the UK North Sea licensing agreements, which included Blocks 9/3b, 9/3c, 9/3d, 9/4a, 9/8b and 9/9h.

During the year ended 31 December 2014 the Group had total net administrative gains of £1.7 million (year ended 31 December 2013: net expenses incurred of £3.1 million). When removing the effect of foreign exchange ("forex"), the net administrative expenses incurred in the year ended 31 December 2014 were £1.8 million compared with £2.6 million for the comparable period in 2013. The decrease in net administrative expenses for the year ended 31 December 2014 is as a result of lower share-based payment charges to the Income Statement from the issue of share options and share warrants.

The influence of forex fluctuations between the comparable year ended 31 December 2014 and 31 December 2013 were significant. A total of £3.2 million net forex losses were recognised in the year ended 31 December 2014, compared with net forex gains of £0.6 million for the year ended 31 December 2013. These differences were principally attributable to the movement of US Dollar against Sterling during the period, requiring the Group's US Dollar Bond liabilities and US Dollar cash balances to be revalued as at the date of the Consolidated Statement of Financial Position.

The Group charged to the Income Statement other expenses (within total net administrative gains) of £1.6 million compared to £1.8 million in the year ended 31 December 2013. These expenses represent the costs of operating as a public company, including a proportion of the remuneration costs of certain Executive Directors, Non-Executive Director fees, together with fees for the Nominated Adviser, stockbrokers, legal advice, registrars and stock exchanges.

A total of 6,200,000 new share options were awarded to the Directors and management team during 2014 compared with 9,850,000 during 2013.

Charges taken to the Income Statement under the Company's Share Option Plan were £0.3 million during the year ended 31 December 2014 compared with £0.8 million for the year ended 31 December 2013. The variation in charges between the periods reflects the timing and quantity of share options issued under the Company's Share Option Plan.

Taxation

A tax credit of £1.8 million has been recorded for the year ended 31 December 2014 (2013: tax charge of £2.9 million). This credit has arisen due to the increase in the deferred tax asset, due to UK tax losses, exceeding the increase in the deferred tax liability provisions, comprising temporary differences arising from tax relief claimed on capital expenditure in the UK.

Liquidity and Capital Resources

The cash balance as at 31 December 2014 was £32.5 million, compared with £21.9 million as at 31 December 2013. The increase in cash balance during the year ended 31 December 2014 has arisen as a result of the issue of the Bonds by XER and a private placement of new ordinary shares in the Company to new institutional investors, further details of which are given below. This increase in cash was offset by continued investment by the Group into the Bentley field development with additions to E&E assets, and the settlement of the US$80 million unsecured loan notes, together with the associated accrued interest and fees.

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

On 16 June 2014, the Company announced the raising of a total of US$140 million (£83.1 million) through the placing of the Bonds by XER and a private placement of ordinary shares in the Company. On 30 June 2014, XER issued the Bonds with a capital face value of US$135 million (£80.1 million) and a 10% initial issue discount. The Bonds have a term of two years, carry a cash interest coupon of 12% per annum, payable quarterly in arrears, together with an annual payment-in-kind interest coupon of 3%. The Bonds are listed on the Nordic ABM Stock Exchange.

Subscribers for the Bonds also subscribed 11,616,875 ordinary shares in the Company at a share price of 68.5 pence per share, to raise a gross total of £8.0 million. In addition to this, one of the subscribers for the Bonds subscribed a further 4,302,546 ordinary shares in the Company at a share price of 68.5 pence per share, to raise gross proceeds of £3.0 million.

Of the £32.5 million cash balance held at 31 December 2014, £14.4 million (US$23.2 million) is held in escrow accounts and therefore has been classified as restricted cash with a designated purpose. Whilst title remains with the Group, funds are held under the control of the Bond Trustee. As at 31 December 2013, the Group held no cash balances in escrow accounts.

The Reserves Based Lending Facility agreement (the "RBL") was terminated on 25 June 2014 and accumulated fees of £5.9 million since its inception were capitalised to E&E assets in accordance with the Group's accounting policy. It is anticipated that this value will be written off against life-of-field production revenues in due course.

As at the date of this MD&A there remains unused Equity Line Facility ("ELF") capacity of £30.8 million, available until July 2017, to provide the Group with additional sources of capital, if required, to be used at its sole discretion.

The Group's working capital balances are required to be sufficient to meet the actual and anticipated liabilities of the Group as they fall due, which currently include trade supplier and debt interest servicing liabilities in the normal course of business.

Taking into account the ELF, the Group's current cash balances and the Group's financial obligations, the Group has forecast that it has sufficient financial resources for working capital for the foreseeable future.

Lease and Contractual Commitments

At 31 December 2014 the Company had lease commitments relating to business premises of £0.2 million (31 December 2013: £0.3 million). The decrease in commitments when comparing December 2014 with December 2013 is in line with the remaining lease commitment on XER's Aberdeen office premises.

Off-Balance Sheet Arrangements

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

Related Party Transactions

Using a loan facility, XEL has continued to provide its wholly owned subsidiary, XER, with net cash funding. During the year ended 31 December 2014, XER repaid £41.1 million (year ended 31 December 2013: repayment of £14.0 million) of the cumulative funding received to date in financing XER's operational requirements. No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand. The total balance owing by XER to XEL at 31 December 2014 was £59.4 million (as at 31 December 2013: £100.5 million).

During the year ended 31 December 2014, each of Rupert E. Cole, Andrew J. Fairclough (from 3 February 2014) and Stephen A. Kew were executive directors of XEL (the "Executive Directors"). The Executive Directors have received remuneration, details of which are given below:

	Year ended 31 December 2014 £	Year ended 31 December 2013 £
Wages and salaries	**928,458**	706,000
Social security costs	**124,947**	95,319
Share-based payment charges	**376,069**	1,232,507
	1,429,474	2,033,826

In the normal course of business XER incurred charges totalling £5,522 during the year ended 31 December 2013for consultancy services from Esher Management Services Limited, a company for which Timothy Jones is a Director. There were no such charges incurred for the year ended 31 December 2014.

In the normal course of business XER incurred charges totalling £24,228 during year ended 31 December 2014 (year ended 31 December 2013: £22,009) for property rentals from Seaburome Limited, a company in which Rupert E. Cole is a Director. There was no outstanding balance payable by XER at 31 December 2014 (31 December 2013: £nil).

Outstanding Share Capital

The following table sets out the ordinary shares issued during the year ended 31 December 2014.

	Ordinary Shares
As at 1 January 2014	**292,811,000**
Issue of ordinary shares	17,119,421
As at 31 December 2014	**309,930,421**

As at the date of signing this MD&A, the number of shares in issue was 309,930,421.

Share Options, Warrants and Rights

During the year ended 31 December 2014 the company issued a total of 6,850,000 new share options to the Board of Directors, XER staff and management team and key contractors under the Share Option Plan with an average exercise price of CAD$1.17 (£0.64) and a life of five years. During year ended 31 December 2013 the Company issued a total of 9,850,000 new options with an exercise price of CAD$1.61 (£1.01) and a life of five years to the Board of Directors, XER staff and management team and key contractors under the Share Option Plan. The share-based payment charges in respect of share options are the required entries recorded in the Company's books and records. They do not represent the cash value received or receivable by holders of share options issued under the Share Option Plan. In the event that the share options are exercised at prices above the recorded option price, the option price becomes payable to the Company by the option holder, and option holders are personally liable for the tax and national insurance arising on any gains, together with the reimbursement to the Company for any associated employer national insurance liabilities arising on such gains.

During the year ended 31 December 2014, 1,140,000 share options expired unexercised with a weighted average exercise price of CAD$2.14 (£1.34). During the year ended 31 December 2013, a total of 1,140,000 share options expired unexercised with a weighted average exercise price of CAD$2.51 (£1.55).

During the year ended 31 December 2014, 1,200,000 share options were exercised with a weighted average price of CAD$0.30 (£0.14), providing total proceeds of £200,168.

During the year ended 31 December 2013, a total of 931,000 share options were exercised with a weighted average price of CAD$0.69 (£0.44), providing total proceeds of £405,966.

During the year ended 31 December 2014 the company issued no new share warrants (year ended 31 December 2013: the Company issued 1,000,000 new share warrants with an exercise price of £0.98 and a three year term). The total expense to the Group for share-based payment transactions in respect of share warrants was £nil (year ended 31 December 2013: £0.22 million, all of which was charged against the share capital account in accordance with the Group's accounting policy).

No share warrants expired or were exercised during the year ended 31 December 2014 or the year ended 31 December 2013.

As at the date of signing this MD&A there were 30,162,000 share options outstanding with a weighted average exercise price of £1.02, and 17,250,000 share warrants outstanding with a weighted average exercise price of £0.86.

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.

The Board meets at least quarterly during the year and on an ad-hoc basis as required. The attendance record of each Director during the year ended 31 December 2014 is given below. The Full Board held a total of five meetings, and both the Audit Committee and the Remuneration and Nominating ("R&N") Committees held a total of four meetings during the year.

	Board	**Audit Committee**	**R&N Committee**
Scott R. Cochlan	5	n/a	4
Rupert E. Cole	5	n/a	n/a
Andrew J. Fairclough(1)	5	n/a	n/a
Timothy S. Jones	5	4	3
Stephen A. Kew	5	n/a	n/a
Gregory J. Moroney	5	4	4
Roger S. Ramshaw(2)	2	1	1
Henry G. Wilson(1)	3	3	n/a

(1) Attendance disclosed from date of appointment to the Board

(2) Attendance disclosed to date of retirement from the Board

Risk Management

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

Exploration and development

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

Licensing

The Group is dependent upon its licences, all of which currently are administered by the DECC in the United Kingdom, in order to conduct offshore exploration, appraisal and development activity. Each licence has certain conditions and expiries attached. Maintenance of these licences is critical to the ability of the Group to continue to conduct its core business. The Group maintains regular and constructive dialogue with the DECC, not only for licensing, but also for oil and gas regulatory matters.

Fiscal and political regime

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

Offshore exploration and development

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

Commodity pricing

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

Financing

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

Currency

The Group’s reporting and functional currency is Sterling. However, the market for crude oil 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 resource estimation techniques are inherently judgemental and involve a high degree of technical interpretation and modelling techniques. Incorrect resource estimation may result in inappropriate capital investment decisions being made. To mitigate this risk, Group resources are independently assessed on an annual basis to provide additional assurance over the accuracy of internal estimates.

Dependence on key executives and personnel

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

Early stage of development

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

Significant Accounting Judgements and Estimates

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 E&E assets

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

(d) Fair value of Bond call option

The Group has fair valued the call option that XER has over the repurchase of the Bonds that are currently in issue. The Group used judgement to derive such a valuation using assumptions that are based on market conditions at the date of the Bond issue and those existing at the period end.

Changes in Accounting Policies

Certain new standards, amendments and interpretations endorsed by the International Accounting Standard Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") were effective for accounting periods beginning on or after 1 January 2014. The Group has reviewed and considered all available new standards, amendments and interpretations and the adoption of these had no material impact on the previously reported results or financial position of the Group.
Financial Instruments and Other Derivatives

Details regarding the Group's policies in respect of financial instruments are disclosed in Notes 1 and 15 to these audited consolidated financial statements for the year ended 31 December 2014.

Outlook

Whilst recognising the current uncertainty in the industry, the Group believes that the anticipated development timeline for the Bentley field should mitigate short term oil price volatility and it remains optimistic about the long term economic viability of the project, which should also benefit from the tax changes announced in the recent Budget. The Group has undertaken a significant amount of work over the past year, which has moved the development plan forwards and created a greater level of certainty with which to engage potential co-venturers. With a project the size of Bentley, and in the current market environment, the Group remains focused on optimising costs and reducing risk and uncertainty, which is

even more important than it was 12 months ago. Having completed its engineering programmes in 2014, the Group is entirely focused on developing its commercial and funding discussions in 2015.

Report of the Remuneration and Nominating Committee

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

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

Executive and Non-Executive Director Remuneration

The remuneration of the Executive Directors, who are the key personnel, and of the Non-Executive Directors for the year ended 31 December 2014 was as follows:

	Basic salary	Fees	Other compensation(i)	**2014 Total**	2013 Total
	£	£	£	**£**	£
Scott R. Cochlan	-	45,000	-	**45,000**	42,500
Rupert E. Cole(ii)	250,000	-	118,000	**368,000**	370,500
Andrew Fairclough(iii)	175,000	-	68,250	**243,250**	-
Timothy S. Jones(iv)	-	67,886	-	**67,886**	45,000
Stephen A. Kew(ii)	225,000	-	108,250	**333,250**	335,500
Gregory J. Moroney	-	45,000	-	**45,000**	45,000
Roger S. Ramshaw(v)	-	27,835	-	**27,835**	80,000
Henry G. Wilson(vi)	-	29,274	-	**29,274**	-

(i) Other compensation comprises performance-related bonus, together with cash allowances in lieu of pension contributions, company car and fuel, private healthcare and life insurance and permanent health insurance cover.
(ii) The XER service contracts for Mr. Cole and Mr. Kew were effective 1 September 2003 and last amended on 24 October 2007.
(iii) The XER service contract for Mr. Fairclough was effective 1 August 2012. Salary details provided above are for the entire year ended 31 December 2014, including one month in which Mr Fairclough was not a Director.
(iv) The fees for Mr. Jones are for his services as a Non-Executive Director of the Company for the period 1 January 2014 to 7 May 2014, and thereafter for his services as Chairman of the Company.
(v) The fees for Mr. Ramshaw are for his services as Chairman of the Company for the period 1 January 2014 until his retirement on 7 May 2014.
(vi) The fees for Mr. Wilson are for his services as a Non-Executive Director of the Company from the date of his appointment on 7 May 2014.

The service and employment contracts for the Executive Directors are not of fixed duration, but continuation in office as a director is subject to annual re-election by shareholders. The Group's policy is for Executive Directors to have service and employment contracts with a notice requirement for termination of no longer than twelve months.

On 8 May 2014, Timothy Jones was appointed Chairman of the Company following the retirement of Roger Ramshaw. Henry Wilson was appointed to the Board as a Non-Executive Director of the Company, effective as of 7 May 2014.

The fees for the Non-Executive Directors in respect of their duties are determined by the Board and are reviewed on an annual basis. Effective 1 January 2014, the Non-Executive Director fees for Scott Cochlan

were increased from £42,500 to £45,000 per annum to bring in line with other Non-Executive Directors of the Company, with the exception of the Chairman.

The fees for the individual Non-Executive Directors are as follows; Mr. Moroney, Mr. Cochlan and Mr. Wilson all receive £45,000 per annum. Mr. Jones as Chairman of the Company receives fees of £80,000 per annum.

Letters of Appointment for the Non-Executive Directors provide for termination of the appointment with one month notice by either party. In accordance with rules of the TSX-V, all Directors, including Non-Executive Directors will retire at each annual general meeting of the shareholders at which point they may, subject to being eligible, offer themselves for re-election at such meeting.

Beneficial Interests

The beneficial interests, shown in thousands, of the Directors in the ordinary share capital of the Company as at 31 December 2014 are as follows:

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

Tranche 1 – These share options, one third of which vested immediately and the remaining balance vesting in two equal tranches over a further two year period, were granted to Mr. Fairclough on 9 August 2012 with an exercise price of CAD$1.25 (£0.80) and a term of five years.

Tranche 2 – These share options, which vested immediately, were granted to the Directors on 30 November 2009 with an exercise price of CAD$0.74 (£0.42) and a term of five years.

Tranche 3 – These share options, which vested in three equal tranches over a two year period, were granted to the Directors on 26 March 2010 with an exercise price of CAD$0.68 (£0.44) and a term of five years.

Tranche 4 – These share options, which vested immediately, were granted to the Directors on 3 November 2010 with an exercise price of CAD$2.92 (£1.80) and a term of five years.

Tranche 5 – These share options, which vested immediately, were granted to the Directors on 31 December 2010 with an exercise price of CAD$5.95 (£3.85) and a term of five years.

Tranche 6 – These share options, which vested immediately, were granted to the Directors on 6 August 2011 with an exercise price of CAD$2.30 (£1.46) and a term of five years.

Tranche 7 – These share options, which vested immediately, were granted to the Directors on 21 June 2013 with an exercise price of CAD$1.62 (£1.01) and a term of five years.

Tranche 8 – Mr Wilson was appointed to the Board on 7 May 2014 and on 8 July 2014 150,000 share options were awarded and vested immediately with an exercise price of CAD$1.25 (£0.68) and a term of five years.

Tranche 9 - These share options, which vested immediately, were granted to the Directors on 18 August 2014 with an exercise price of CAD$1.17 (£0.64) and a term of five years.

Further details of the share options in issue are given in Note 16 to the financial statements. There has been no trading of shares by the Directors since the year end.

Share Options

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

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

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

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

During the year ended 31 December 2014 Timothy S. Jones exercised 100,000 share options and Roger S. Ramshaw 200,000 share options. During the year ended 31 December 2013 none of the executive or non-executive directors exercised any share options.

Signed on behalf of the Remuneration and Nominating Committee by:

Gregory J. Moroney
Non-Executive Director
24 March 2015

Report of the Independent Auditors

To the Shareholders of Xcite Energy Limited

We have audited the financial statements of Xcite Energy Limited for the years ended 31 December 2014 and 31 December 2013 which comprise the consolidated statement of financial position, the consolidated statements of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and a summary of significant accounting policies and other explanatory information.

This report is made solely to the Company's shareholders in accordance with our terms of engagement letter dated 16 January 2015 and for no other purpose. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Statements ("IFRS") as adopted by the European Union and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market and with those relating to companies trading securities on the Venture Exchange of the Toronto Stock Exchange.

Auditor's responsibility

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

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

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

Opinion on financial statements

In our opinion, the financial statements present fairly, in all material respects the consolidated financial position of Xcite Energy Limited as at 31 December 2014 and 31 December 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS as adopted by the European Union.

Separate opinion in relation to IFRS as issued by the International Accounting Standards Board (IASB)

As explained in Note 1 to the consolidated financial statements, the group in addition to complying with its obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the consolidated financial statements have been properly prepared in accordance with IFRSs as issued by the IASB.

BDO LLP
London United Kingdom
Date: 24 March 2015

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

Xcite Energy Limited

For the year ended 31 December 2014

Consolidated Income Statement (in Sterling)

	Note	**Year ended 31 December 2014**	Year ended 31 December 2013
		£	£
Share-based payment charges		**(272,870)**	(781,907)
Foreign exchange gain/(loss)		**3,543,496**	(496,732)
Other expenses		**(1,558,302)**	(1,789,934)
Net administrative gains/(expenses)		**1,712,324**	(3,068,573)
Operating gain/(loss)	3	**1,712,324**	(3,068,573)
Other income	5	**-**	11,437,056
Finance income – bank interest		**33,876**	27,658
Foreign exchange gains – loan notes		-	1,137,595
Foreign exchange losses – bonds	13	**(6,791,158)**	-
(Loss)/Profit before taxation		**(5,044,958)**	9,533,736
Tax credit/(expense)	6	**1,846,462**	(2,951,565)
(Loss)/Profit for the period attributable to equity holders of the parent company		**(3,198,496)**	6,582,171
(Loss)/Profit per share attributable to equity holders of the Company			
- Basic	7	**(1.1p)**	2.3p
- Diluted	7	**(1.1p)**	2.0p

All results relate to continuing operations. The notes on pages 28 to 50 form part of these financial statements.

Consolidated Statement of Comprehensive Income (in Sterling)

	Year ended 31 December 2014	Year ended 31 December 2013
	£	£
(Loss)/Profit for the year	**(3,198,496)**	6,582,171
Total comprehensive (loss)/income for the year	**(3,198,496)**	6,582,171
Attributable to:		
Equity holders of the parent Company	**(3,198,496)**	6,582,171

The notes on pages 28 to 50 form part of these financial statements.

Xcite Energy Limited
For the year ended 31 December 2014

Consolidated Statement of Changes in Equity (in Sterling)

	Share Capital	Retained Earnings	Merger Reserve	Other Reserves	Total
	£	£	£	£	£
At 1 January 2013	**196,446,608**	**(2,242,857)**	**218**	**11,576,279**	**205,780,248**
Profit for the year ended 31 December 2013	-	6,582,171	-	-	6,582,171
Total comprehensive income for the year ended 31 December 2013	**-**	**6,582,171**	**-**	**-**	**6,582,171**
Transactions with owners:					
Issue of shares	1,400,496	-	-	-	1,400,496
Associated share issue costs	(81,789)				(81,789)
Transfer upon exercise of share warrants	-	147,425	-	(147,425)	-
Share warrant issue	(218,793)	-	-	218,793	-
Share based payment charges	-	-	-	3,313,032	3,313,032
At 1 January 2014	**197,546,522**	**4,486,739**	**218**	**14,960,679**	**216,994,158**
Loss for the year ended 31 December 2014	-	(3,198,496)	-	-	(3,198,496)
Total comprehensive loss for the year ended 31 December 2014	**-**	**(3,198,496)**	**-**	**-**	**(3,198,496)**
Transactions with owners:					
Issue of shares	11,183,307	-	-	-	11,183,307
Associated share issue costs	(251,393)	-	-	-	(251,393)
Transfer upon exercise of share options	-	128,568	-	(128,568)	-
Share based payment charges	-	-	-	1,157,772	1,157,772
At 31 December 2014	**208,478,436**	**1,416,811**	**218**	**15,989,883**	**225,885,348**

The notes on pages 28 to 50 form part of these financial statements.

Xcite Energy Limited
For the year ended 31 December 2014

Consolidated Statement of Financial Position (in Sterling)

	Note	31 December 2014 £	31 December 2013 £
Assets			
Non-current assets			
Intangible assets	8	**272,160,644**	236,796,014
Property, plant and equipment	9	**5,550,616**	5,671,133
Total non-current assets		**277,711,260**	242,467,147
Current assets			
Trade and other receivables	10	**243,449**	5,079,314
Cash and cash equivalents	15b	**18,088,379**	21,931,159
Restricted cash and cash equivalents	15b	**14,371,495**	-
Total current assets		**32,703,323**	27,010,473
Total assets		**310,414,583**	269,477,620
Liabilities			
Current liabilities			
Trade and other payables	11	**2,259,900**	1,974,928
Interest on Bonds	13	**1,303,760**	-
Short term loans	12	**-**	47,051,802
Total current liabilities		**3,563,660**	49,026,730
Non-current liabilities			
Bonds	13	**79,355,305**	-
Deferred tax	14	**1,610,270**	3,456,732
Total non-current liabilities		**80,965,575**	3,456,732
Net assets		**225,885,348**	216,994,158
Equity			
Share capital	16	**208,478,436**	197,546,522
Retained earnings	17	**1,416,811**	4,486,739
Merger reserve	17	**218**	218
Other reserves	17	**15,989,883**	14,960,679
Total equity		**225,885,348**	216,994,158

The notes on pages 28 to 50 form part of these financial statements. These financial statements were approved by the Board of Directors and authorised for issue on 24 March 2015 and were signed on its behalf by:

Rupert Cole
Chief Executive Officer

Andrew Fairclough
Chief Financial Officer

Consolidated Statement of Cash Flows (in Sterling)

	Year ended 31 December 2014	Year ended 31 December 2013
	£	£
(Loss)/Profit for the year before tax	**(5,044,958)**	9,533,736
Adjustment for share-based payment charges	**272,870**	781,907
Adjustment for interest income	**(33,876)**	(27,658)
Adjustment for other income	**-**	(11,437,056)
Adjustment for foreign exchange	**6,791,158**	-
Adjustment for depreciation	**164,560**	216,722
Movement in working capital:		
- Trade and other receivables	**(127,973)**	(1,251,131)
- Trade and other payables	**643,605**	1,624,386
Net cash flow from operations	**2,665,386**	(559,094)
Additions to exploration and evaluation assets	**(25,715,891)**	(17,527,545)
Purchase of fixed assets	**(44,043)**	(204,775)
Other income	**-**	11,437,056
Interest income	**33,876**	27,658
Net cash flow from investing activities	**(25,726,058)**	(6,267,606)
Net proceeds from issue of new shares	**10,931,914**	1,318,708
Settlement of loan notes	**(47,494,657)**	(44,674,531)
Net proceeds from issue of loan notes	**-**	46,521,467
Net proceeds from issue of bonds	**70,152,130**	-
Cash flow from financing	**33,589,387**	3,165,644
Net increase/(decrease) in cash and cash equivalents	**10,528,715**	(3,661,056)
Cash and cash equivalents as at beginning of year	**21,931,159**	25,592,215
Cash and cash equivalents at the end of the year	**32,459,874**	21,931,159
Restricted cash and cash equivalents	**14,371,495**	-
Cash available on demand	**18,088,379**	21,931,159

The notes on pages 28 to 50 form part of these financial statements.

Notes to the Consolidated Financial Statements

1 Accounting Policies

Basis of preparation

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements have also been prepared in accordance with IFRSs adopted by The European. The new standards and interpretations which have been issued by the IASB and the IFRIC but have yet to be endorsed by the European Union have not been adopted in these consolidated financial statements. None of these is expected to have a material effect on the reported results or financial position of the Group.

The consolidated financial statements have been prepared on a going concern basis, taking into account the 2015 Outlook in the Management Discussion and Analysis on pages 16 and 17 of these financial statements. The Group currently has sufficient cash resources to fund its working capital and the committed work programme for at least the next 12 months. The US$135 million of senior secured bonds, issued by XER in June 2014, fall due for repayment by the end of June 2016. In order to fulfil the financial capability requirements of the FDP approval process for the Bentley field development, the Group intends to secure a financing package which meets its long-term funding requirements, including re-financing of the Balance Sheet where appropriate. There is, however, no guarantee of this future long-term funding being available.

Basis of consolidation

The Company was incorporated with the sole purpose of acquiring the controlling interest in its directly held, wholly owned subsidiary, Xcite Energy Resources plc ("XER"). XER was acquired on 26 June 2007 through a transaction under common control, as defined in IFRS 3 *Business Combinations*. As a result of the transaction, the equity shareholders of Xcite Energy Limited ("XEL" or the "Company") and XER became the equity shareholders of the combined entities. The Directors note that transactions under common control and those that involve a new shell company (XEL) with no business of its own acquiring a controlling interest in an existing entity (XER), are outside the scope of IFRS 3 and that there is no guidance elsewhere in IFRS covering such transactions.

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

Having considered the requirements of IAS 8, and the guidance included within FRS 6, it is considered appropriate to apply an accounting treatment similar to "merger accounting" as described by FRS 6 when

dealing with the transaction in which the Company acquired its controlling interest in XER (together the "Group") in order to provide a true and fair view. The effect of the above is:

- New shares issued by XEL as consideration for the merger are recorded at their nominal amount in books of XEL;
- The net assets of XER and XEL are combined using existing book values;
- No amount is recognised as consideration for goodwill or negative goodwill; and
- The consolidated profit and loss includes profits of each company for the entire period, regardless of the date of the merger, and the comparative amounts in the consolidated accounts are restated to the aggregate of the amounts recorded by the two companies.

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

Intangible fixed assets – Exploration & Evaluation Assets

Capitalisation

Certain costs (other than payments to acquire the legal right to explore) incurred prior to acquiring the rights to explore are charged directly to the Income Statement. All costs incurred after the rights to explore an area have been obtained, such as geological and geophysical costs and other direct costs of exploration (drilling, trenching, sampling and technical feasibility and commercial viability activities) and appraisal, which includes project loan interest costs, certain payroll costs and associated employee share-based payment charges, are accumulated and capitalised as E&E assets.

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

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

Borrowing costs

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

Impairment

If and when facts and circumstances indicate that the carrying value of an E&E asset may exceed its recoverable amount an impairment review is performed. This is carried out by identifying groups of assets, within the E&E asset, which together form the Cash Generating Unit ("CGU") and comparing the carrying value of the CGU with its recoverable amount. Any shortfall in carrying value, the impairment loss, is written off directly to the Income Statement. The recoverable amount of the CGU is determined as the higher of its fair value less costs to sell and its value in use.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. All repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

Depreciation on assets in use is calculated using the straight-line method to allocate their cost over their estimated useful life, as follows:

Furniture, fittings and computing equipment	3-5 years
Other oilfield equipment	5 years

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

Financial assets

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

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

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

Cash and cash equivalents – comprise cash on hand and cash on deposit accessible without penalty and are subject to an insignificant risk of changes in value.

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

Prepayments

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

Financial liabilities

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

The group's (now fully repaid) unsecured loan notes were initially recognised at fair value net of any transaction costs directly attributable to their issue. The loan notes were 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.

Bond liabilities

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

The Bonds are callable at the option of XER at any time with a call option premium during the first year after the settlement date, comprising the present value on the relevant record date of 106.5% of par value; plus the present value of the remaining coupon payments (less any accrued interest) for the first year after the settlement date and accrued interest on the redeemed Bonds. During the second year after the settlement date, the call option premium comprises 106.5% of par value and any accrued interest on the redeemed Bonds. Call options have nominal value at inception and there remains no current indicator to suggest that the Bond call option has any material value, and, therefore, no financial asset has been recognised in respect of the call option. In the absence of a current liquid market in the Bonds, the management consider that the carrying value of the Bonds is not materially different from their fair value.

Revenue

Revenue arises from the sale of oil produced and reflects the actual sales value, net of value-added-tax ("VAT") and overriding royalties. Revenue earned on test production prior to establishing the technical feasibility and commercial viability of the project is credited to the Income Statement. Revenues are recognised when the risks and rewards of ownership together with effective control are transferred to the customer and the amount of revenue and associated costs incurred in respect of the relevant transaction can be reliably measured. Revenue is not recognised unless it is probable that the economic benefits associated with the sales transaction will flow to the Group.

Finance income

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

Other income

Other income is recognised on an accruals basis and is disclosed separately on the face of the Income Statement. Other income reflects the actual sales value, net of VAT, overriding royalties and related costs. Other income is recognised when the risks and rewards are transferred to the customer and the amount of other income and associated costs incurred in respect of the relevant transaction can be reliably measured.

Current taxation

The total tax expense represents the sum of current and deferred tax. Current tax is based on the taxable result for the period. The taxable result may differ from the net result as reported in the Income Statement as it may exclude certain items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

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

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the Consolidated Statement of Financial Position differs to its tax base.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the date of the Consolidated Statement of Financial Position and are expected to apply when the deferred tax liabilities/assets are settled/recovered. Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- The same taxable group company; or
- Different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Share-based payments

The Company has a Share Option Plan as described in Note 16. The share-based payment expense arising under this Share Option Plan is recorded in the Income Statement, or as a direct reduction in share capital where the charge relates to the issue of such share capital, or as an increase in assets where the charge relates to employees or contractors employed wholly for the benefit of such E&E assets for all options granted in the period, with a corresponding increase recorded in other reserves. The share-based payment expense is calculated on the estimated fair values at the time of the grant and the expense is recognised over the vesting period of the options. Upon the exercise of the share options, consideration paid is recorded as an increase in share capital and amounts previously recorded in other reserves are transferred to retained earnings. In the event that vested options expire unexercised, previously recognised the share-based payment expense associated with such share options is not reversed.

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

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

Operating leases

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

Foreign currency

The functional currency of the Group is Sterling. Transactions entered into by the Group in a currency other than the functional currency are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the date of the Consolidated Statement of Financial Position.

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

Share Capital

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

Critical accounting estimates and judgements

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

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

(a) Income taxes

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

(b) Fair value of share options and warrants

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

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

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

(d) Fair value of Bond call option

The Group has fair valued the call option that XER has over the repurchase of the Bonds that are currently in issue. The Group used judgement to derive such a valuation using assumptions that are based on market conditions at the date of the Bond issue and those existing at the period end.

New accounting standards adopted during the year

Certain new standards, amendments and interpretations endorsed by the International Accounting Standard Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") were effective for accounting periods beginning on or after 1 January 2014. The Group has reviewed and considered all available new standards, amendments and interpretations and the adoption of these had no material impact on the previously reported results or financial position of the Group.

New standards and interpretations not yet applied

Certain new standards and interpretations issued and endorsed by the IASB and the IFRIC during the year ended 31 December 2014 are effective for future periods and for which the Group has not early adopted. None of these is expected to have a material effect on the reported results or financial position of the Group.

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

2 Segment Information

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

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

3 Operating Gain/(Loss)

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

	Year ended 31 December 2014	Year ended 31 December 2013
	£	£
Foreign exchange (gains)/losses	**(3,543,496)**	496,732
Auditors' remuneration:		
- Group audit fee	**25,000**	25,000
- Audit of subsidiary pursuant to legislation	**15,000**	15,000

The Group incurred total charges in respect of share-based payments in the year ended 31 December 2014 of £1,157,772 (year ended 31 December 2013: £3,313,033). Of this, £1,006,568 was in respect of employees (see Note 4) (year ended 31 December 2013: £2,907,603). In accordance with the Group's accounting policy, £272,870 has been expensed within operating profit and the balance of £884,902 has been capitalised within E&E assets (year ended 31 December 2013: £781,907 was expensed within operating loss and the balance of £2,531,126 was capitalised within E&E assets).

The Group incurred total charges in respect of property leases in the current year of £254,000 (year ended 31 December 2013: £225,785). These have all been capitalised to E&E assets in accordance with the Group's accounting policy.

4 Staff Costs and Directors' Emoluments

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

	Year ended 31 December 2014	Year ended 31 December 2013
Technical and administration	**18**	18

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

	Year ended 31 December 2014	Year ended 31 December 2013
	£	£
Wages and salaries	**3,006,522**	3,165,538
Social security costs	**395,755**	417,515

	Year ended 31 December 2014	Year ended 31 December 2013
	£	£
Share-based payment charges	**1,006,568**	2,810,299
	4,408,845	6,393,352

b) Executive Directors' emoluments and performance based remuneration:

	Year ended 31 December 2014	Year ended 31 December 2013
	£	£
Wages and salaries	**928,458**	706,000
Social security costs	**124,947**	95,319
Share-based payment charges	**376,069**	1,232,507
	1,429,474	2,033,826

During the year ended 31 December 2014, each of Rupert E. Cole, Andrew J. Fairclough and Stephen A. Kew were executive directors of XEL (the "Executive Directors"). The values in the table include emoluments for Andrew J. Fairclough with effect from his appointment to the Board on 3 February 2014. For the year ended 31 December 2013 the Executive Directors were Rupert E. Cole and Stephen A. Kew. The Executive Directors comprise the key management personnel of the Group.

In addition to the above, during the year ended 31 December 2014, the Group paid to Roger Ramshaw, Gregory Moroney, Scott Cochlan, Timothy Jones and Henry Wilson (the "Non-Executive Directors") in their capacity as Non-Executive Directors of the Company fees of £27,835 (2013: £80,000), £45,000 (2013: £45,000), £45,000 (2013: £42,500) , £67,886 (2013: £45,000) and £29,274 (2013: £nil) respectively.

There were charges of £109,724 in respect of share-based payments for the Non-Executive Directors in the year ended 31 December 2014 (year ended 31 December 2013: £275,692).

On 8 May 2014, Timothy Jones was appointed Chairman of the Company, following the retirement of Roger Ramshaw. Henry Wilson was appointed to the Board as a Non-Executive Director of the Company, effective as of 7 May 2014.

5 Other Income

On 20 May 2013 the Company entered into a non-exclusive, binding sale and purchase agreement for certain technical data in respect of the Bentley 9/03b-6, 6Z well, and the 9/03b-7 and 7Z extended pre-production well test. Other Income includes the US$15.0 million (£9.8 million) received under this agreement.

On 27 June 2013 the Company concluded on the sale of certain oilfield equipment acquired during the 9/03b-7 and 7Z well programme for US$2.5 million (£1.6 million). This sale has been recognised within Other Income.

6 Taxation

	Year ended 31 December 2014	Year ended 31 December 2013
	£	£
Deferred tax – current year	**(1,802,631)**	6,619,814
Deferred tax – adjustment in respect of prior year	**(43,831)**	(3,668,249)
Total tax (credit)/charge	**(1,846,462)**	2,951,565

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

	Year ended 31 December 2014	Year ended 31 December 2013
	£	£
(Loss)/Profit before tax	**(5,044,958)**	9,533,736
(Loss)/profit before tax multiplied by the standard rate of corporation tax in the British Virgin Islands of 0% (2013: 0%)	**-**	-
Prior period adjustments relating to UK tax	**(43,831)**	(3,668,249)
UK tax on activities in the UK at combined tax rate of 62%	**(1,802,631)**	6,619,814
Tax (credit)/charge for the year	**(1,846,462)**	2,951,565

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. The UK Autumn Statement 2014 announced a reduction in the rate of Supplementary Charge by 2% to 30% from 1 January 2015. On 18 March 2015, the UK Budget 2015 announced a further 10% reduction in the rate of Supplementary Charge from 1 April 2015, which will result in a combined rate of corporation tax for ring-fenced trading profits for UK North Sea producing oil companies from 1 April 2015 of 50%.

7 Earnings per Share

The basic earnings per share ("EPS") is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. The diluted EPS is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of potentially outstanding ordinary shares, which takes into account issued ordinary shares in addition to all outstanding share options and share warrants that may yet be converted into ordinary shares in the Company in the future. Details of potentially dilutive financial instruments are given in Note 16 to these consolidated

financial statements. When a loss for the year is presented the diluted EPS is not calculated as this would be anti-dilutive.

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

	Year ended 31 December 2014	Year ended 31 December 2013
(Loss)/Profit in year	**(£3,198,496)**	£6,582,171
Weighted average number of shares in issue:		
Basic	**301,680,341**	291,742,321
Fully diluted	**346,283,053**	329,335,000
(Loss)/ earnings per share in pence:		
Basic EPS	**(1.1p)**	2.3p
Diluted EPS	**(1.1p)**	2.0p

8 Intangible Assets

	Licence Fees	
Exploration and Evaluation Assets	**2014 £**	2013 £
Opening cost and carrying value at 1 January	**2,388,957**	1,733,967
Additions during year	**750,030**	654,990
Closing cost and carrying value at 31 December	**3,138,987**	2,388,957

	Appraisal and Exploration Costs	
	2014 £	2013 £
Cost and carrying value at 1 January	**234,407,057**	215,003,376
Net additions during year	**34,614,600**	19,403,681
Closing cost and carrying value at 31 December	**269,021,657**	234,407,057

	Total	
	2014 £	2013 £
Cost and carrying value at 1 January	**236,796,014**	216,737,343

	Total	
	2014	2013
	£	£
Net additions during year	**35,364,630**	20,058,671
Closing cost and carrying value at 31 December	**272,160,644**	236,796,014

The costs associated with the appraisal of the Bentley field have been capitalised in accordance with the Group's accounting policy in Note 1. Appraisal and Exploration Costs net additions in the year ended December 2014 include an amount of £5.9 million in respect of capitalised RBL Facility fees, £8.8 million of interest and amortized fees in respect of the US Dollar Bonds, and £8.9 million of interest costs and amortized fees in respect of the US Dollar loan notes (year ended 31 December 2013: £7.6 million of US Dollar loan note interest). This represents 100% of the eligible interest costs. Additions also include a value of £0.9 million (2013: £2.5 million) in respect of capitalized share-based payment charges (see Note 3), and £3.6 million (2013: £5.3 million) in respect of capitalized payroll costs.

Based on the Group's success in drilling and testing its appraisal wells on the Bentley field, 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 if future events indicate that such adjustments are appropriate.

9 Property, Plant and Equipment

	Oilfield equipment	Furniture, fittings and computing equipment	Total
Year ended 31 December 2013	£	£	£
Opening net book amount at 1 January 2013	-	222,347	222,347
Additions	5,460,733	204,775	5,665,508
Depreciation charge	-	(216,722)	(216,722)
Closing net book amount at 31 December 2013	5,460,733	210,400	5,671,133
At 31 December 2013			
Cost or valuation	5,460,733	635,852	6,096,585
Accumulated depreciation	-	(425,452)	(425,452)
Net book amount	5,460,733	210,400	5,671,133
Year ended 31 December 2014			
Opening net book amount at 1 January 2014	**5,460,733**	**210,400**	**5,671,133**
Additions	**-**	**44,043**	**44,043**

	Oilfield equipment	Furniture, fittings and computing equipment	Total
Year ended 31 December 2013	£	£	£
Depreciation charge	**-**	**(164,560)**	**(164,560)**
Closing net book amount at 31 December 2014	**5,460,733**	**89,883**	**5,550,616**

At 31 December 2014			
Cost or valuation	**5,460,733**	**679,895**	**6,140,628**
Accumulated depreciation	**-**	**(590,012)**	**(590,012)**
Net book amount	**5,460,733**	**89,883**	**5,550,616**

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

10 Trade and Other Receivables

	31 December 2014 £	31 December 2013 £
Indirect taxes receivable	**155,049**	35,250
Prepayments	**-**	4,963,838
Other receivables	**88,400**	80,226
	243,449	5,079,314

The Group's prepayments balance for the year ended 31 December 2013 represents advance payments made in respect of the Company's Reserves Based Lending ("RBL") facility to be amortized over its term from the date of availability. On 25 June 2014 the RBL facility agreement was terminated, and accumulated fees were capitalised to E&E assets.

11 Trade and Other Payables

	31 December 2014 £	31 December 2013 £
Trade payables	**869,073**	708,941
Social security and other taxes payable	**452,644**	104,303
Accruals and other creditors	**938,183**	1,161,684
	2,259,900	1,974,928

12 Unsecured Short Term Loans

	31 December 2014 £	31 December 2013 £
Unsecured loan notes	**-**	47,018,093
Interest accrual	**-**	33,709
Interest-bearing loan notes	**-**	47,051,802

On 30 December 2013, the Group issued US$80 million of unsecured loan notes bearing interest at 12.5%, payable in arrears, and with a maturity of 360 days. On 30 June 2014, the unsecured loan notes, together with accrued fees and interest, were repaid in full, resulting in a combined repayment of £53.3 million.

13 Senior Secured Bonds

	31 December 2014 £	31 December 2013 £
Current liabilities:		
Bond interest accrual	**1,303,760**	-
Non-current liabilities:		
Bond capital less unamortized issue costs	**79,355,305**	-
12.0% Senior Secured USD Bonds 2014/2016	**80,659,065**	-

On 30 June 2014, the Group issued senior secured bonds ("Bonds") with a capital value of US$135 million and a 10% initial issue discount. The Bonds have a term of two years, carry a cash interest coupon of 12% per annum, payable quarterly in arrears, together with an annual payment-in-kind interest coupon of 3% (payable either in cash or in the issue of additional Bonds at the discretion of the Group). The Bonds are listed on the Nordic ABM Stock Exchange. The Bonds have certain financial covenants attached, which include the maintenance of a minimum Group cash balance of not less than US$6.0 million and a minimum Book Equity Ratio (Group Equity to Total Assets) of not less than 30% on a consolidated basis during the term of the Bonds. All financial covenants in place have been met in the financial year. At 31 December 2014, the Book Equity Ratio was 73%. In the absence of a current liquid market in the Bonds, management consider that the carrying value of the Bonds is not materially different from their fair value. The Bond is secured by a charge over the assets of XER.

Following a strengthening of USD relative to GBP in the period of issuance of the Bonds to the year end, the Income Statement is showing an unrealised foreign exchange loss in respect of the revaluation of the bond liability as at 31 December 2014 of £6.8 million; this is a non-cash transaction.

The Bond liability has also increased by the payment in kind interest accrual of £1.3m and the £2.5m amortisation of issue costs, these items have been capitalised within the E&E asset in line with the Group's accounting policy but are non-cash transactions.

14 Deferred tax

	2014	2013
	£	£
At 1 January	**3,456,732**	505,167
Profit and loss (credit)/charge	**(1,846,462)**	2,951,565
At 31 December	**1,610,270**	3,456,732

There is a deferred tax liability of £153.5 million (2013: £142.6 million) comprising temporary differences arising from tax relief claimed for fixed asset expenditure in the UK. The deferred tax liability has been reduced by a deferred tax asset of £151.9 million (2013: £139.1 million) arising on UK tax losses.

15 Financial Instruments

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

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

Non-market risk

a) Credit risk

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

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

b) Liquidity risk

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

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

	Carrying Amount	
	31 December 2014 £	31 December 2013 £
Financial assets – loans and receivables		
- Cash and cash equivalents	**18,088,379**	21,931,159
- Restricted cash and cash equivalents	**14,371,495**	-
- Receivables (current)	**88,400**	80,226
	32,548,274	22,011,385
Financial liabilities – measured at amortised cost		
- Senior Secured Bonds (greater than one year)	**79,355,305**	-
- Senior Secured Bonds (current)	**1,303,760**	-
- USD Loan Notes (current)	**-**	47,051,802
- Payables (current)	**1,807,255**	1,870,625
	82,466,320	48,922,427

As at 31 December 2014, the Group held a balance of £14.4 million in escrow accounts, managed by a Trustee (2013: £nil). These balances have been categorised as "restricted cash and cash equivalents" on the face of the Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows.

With the exception of the Bonds, the Management believes that as all financial instruments are short term, the fair values for all such items equate to their carrying amount. In respect of the Bonds, in the absence of a current liquid market in the Bonds, the Management considers that the carrying value of the Bonds is not materially different from their fair value. The Bonds incur interest with payments of £2.7 million (US$4.0 million) maturing on a quarterly basis until the expiry of the Bonds in June 2016. On the expiry of the Bonds in June 2016 the face value of US$135.0 million is payable.

c) Capital disclosures

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

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

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

Market risk

d) Interest rate and foreign currency risks

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

	Floating rate assets	**Interest free assets**	**Total**
	31 December 2014	**31 December 2014**	**31 December 2014**
	£	**£**	**£**
Sterling	**3,266,897**	**88,600**	**3,355,497**
Euro	**152,262**	**273**	**152,535**
Norwegian Krone	**8,614**	**202**	**8,816**
CAD$	**60,154**	**63**	**60,217**
US$	**28,971,103**	**66**	**28,971,169**
Singapore Dollar	**-**	**40**	**40**
	32,459,030	**89,244**	**32,548,274**

	Floating rate assets	Interest free assets	Total
	31 December 2013	31 December 2013	31 December 2013
	£	£	£
Sterling	483,370	79,611	562,981
Euro	177,163	272	177,435
Norwegian Krone	5,665	23	5,688
CAD$	19,578	826	20,404
US$	21,244,788	89	21,244,877
	21,930,564	80,821	22,011,385

	Fixed Rate Liabilities		**Interest Free Liabilities**	
	31 December 2014	31 December 2013	**31 December 2014**	31 December 2013
	£	£	**£**	£
Sterling	**-**	-	**1,720,863**	1,550,981
CAD$	**-**	-	**17,250**	-
US$	**80,659,065**	47,051,802	**19**	319,644

	Fixed Rate Liabilities		Interest Free Liabilities	
	31 December 2014	31 December 2013	**31 December 2014**	31 December 2013
	£	£	**£**	£
NOK	**-**	-	**68,959**	-
EURO	**-**	-	**164**	-
	80,659,065	47,051,802	**1,807,255**	1,870,625

Sterling floating rate assets earn interest at rates linked to the Bank of England Base Rate, with higher rates of return being achieved on deposits placed on longer maturities. The Group currently earns interest on Sterling deposits in the range of 0.0% to 0.40%. At 31 December 2014 the weighted average rate of interest being earned on Sterling deposits was 0.26% (31 December 2013: 0.35%).

US Dollar floating rate assets earn interest within the range of rates of 0.0% to 0.18%, depending upon the liquidity of the deposit placed. At 31 December 2014 the weighted average rate of interest being earned on US Dollar deposits was 0.09% (31 December 2013: 0.17%).

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

Foreign currency risk arises where purchase transactions are undertaken in a currency other than Sterling (transactional 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 Krone. The Group aligns its expected future foreign expenditure with the necessary foreign currency cash balances, in effect creating a natural hedge. The Group will continue to monitor its exposure to such foreign currency risks and will manage future risks using derivative financial instruments as considered appropriate.

(e) Foreign exchange rate sensitivity analysis

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

Based on the Group’s financial instruments at the date of the Consolidated Statement of Financial Position, had the base currency been stronger than the transactional currencies by an additional 2% then the net unrealised foreign exchange loss reported in the Income Statement by the Group of £3.2 million for the year ended 31 December 2014 would decrease by £1.2 million (year ended 31 December 2013; the Group would have reported an additional unrealised exchange gain of £0.5 million). Had the base currency been weaker than the transactional currencies by an additional 2% then the net unrealised foreign exchange loss reported in the Income Statement by the Group for the year ended 31 December 2014 would increase by £1.2 million (year ended 31 December 2013; the unrealised foreign exchange gain reported by the Group would have decreased by £0.6 million).

(f) Interest rate sensitivity analysis

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

Based on the Group's cash balances during the year, if interest rates had been 50 basis points higher and all other variables were held constant, the Group's loss for the year ended 31 December 2014 would decrease by £99,078 (year ended 31 December 2013; the Group's profit would increase by £82,636). If interest rates had been 50 basis points lower and all other variables were held constant, the Group's loss for the year ended 31 December 2014 would increase by £33,876 (year ended 31 December 2013; the Group's profit would decrease by £27,653).

16 Share Capital

	31 December 2014	31 December 2013
	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	**309,930,421**	292,811,000

	31 December 2014	31 December 2013
	£ Value of share	£ Value of shares
Authorised		
- Ordinary shares of no par value	**Unlimited**	Unlimited
Issued and fully paid up		
- Ordinary shares of no par value	**208,478,436**	197,546,522

Shares issued

During the year ended 31 December 2014 the Company issued a total of 17,119,421 new ordinary shares. This comprised a total of 4,302,546 new ordinary shares for a consideration of US$5.0 million (£3.0 million), and 11,616,875 new ordinary shares for a consideration of US$13.5 million (£8.0 million), as announced by the Company on 16 June 2014 as part of the successful issuance of the Senior Secured Bonds, and a further 1,200,000 pursuant to the exercise of share options with total proceeds received of £0.2 million.

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

Share Option Plan

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

During the year ended 31 December 2014 the Company issued 6,850,000 new share options under the Share Option Plan with an average exercise price of CAD$1.17 (£0.64) and a term of five years to Board of Directors, XER staff and management team and key contractors (year ended 31 December 2013: 9,850,000 share options issued with an average exercise price of CAD$1.62 (£1.01) and a term of five years).

During the year ended 31 December 2014 a total of 1,140,000 share options expired unexercised with a weighted average exercise price of CAD$2.14 (£1.34) (year ended 31 December 2013 a total of 1,140,000 share options expired unexercised with a weighted average exercise price of CAD$2.51 (£1.55)).

During the year ended 31 December 2014, a total of 1,200,000 share options were exercised with a weighted average price of CAD$0.30 (£0.18) providing total proceeds of £200,168.

During the year ended 31 December 2013, a total of 931,000 share options were exercised with a weighted average price of CAD$0.69 (£0.44), providing total proceeds of £405,966.

At 31 December 2014 there were 30,162,000 total share options outstanding (31 December 2013 25,652,000 total share options outstanding), with exercise prices ranging from CAD$0.37 to CAD$5.95 and with a weighted average exercise price of CAD$1.65 per option. Of the total outstanding at 31 December 2014, 30,162,000 were exercisable at that date (31 December 2013: 25,402,000 exercisable share options).

Exercise prices	**Quantity outstanding**	**Remaining term to expiry (days)**
CAD$0.68 (£0.44)	3,162,000	85
CAD$0.74 (£0.42) *	700,000	-
CAD$1.17 (£0.64)	6,700,000	1,691
CAD$1.19 (£0.74)	3,800,000	908
CAD$1.25 (£0.80)	1,050,000	952
CAD$1.25 (£0.68)	150,000	1,649
CAD$1.62 (£1.01)	9,500,000	1,268
CAD$2.30 (£1.46)	1,150,000	581
CAD$2.92 (£1.80)	2,700,000	307
CAD$5.95 (£3.85)	1,250,000	365
Totals	**30,162,000**	**1,047**

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

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

The following assumptions were used in the share option pricing model for the vesting of options and warrants during the year ended 31 December 2014:

Instrument	**Option**	**Option**	**Option**
Grant Date	9 August 2012	8 July 2014	18 August 2014
Vesting Date	9 August 2014	8 July 2014	18 August 2014
Share bid price	£0.80	£0.68	£0.64
Exercise price	£0.80	£0.68	£0.64
Expected volatility	59%	46%	45%
Expected life	2 years	2 years	2 years
Expected dividends	0%	0%	0%
Risk-free interest	1.16%	1.12%	1.09%

The following assumptions were used in the share option pricing model for the vesting of options and warrants during the year ended 31 December 2013:

Instrument	**Option**	**Option**	**Warrant**
Grant Date	9 August 2012	21 June 2013	30 December 2013
Vesting Date	9 August 2013	21 June 2013	30 December 2013
Share bid price	£0.80	£1.01	£0.96
Exercise price	£0.80	£1.01	£0.98
Expected volatility	59%	57%	48%
Expected life	2 years	2 years	1.5 years
Expected dividends	0%	0%	0%
Risk-free interest	1.16%	1.17%	1.10%

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

The Group incurred total charges in respect of equity-settled share-based payments in the current year of £1.16 million (2013: £3.53 million), further details of which are provided in Note 3.

Share warrants

During the year ended 31 December 2014 no share warrants were issued, expired or exercised (during the year ended 31 December 2013 the Company issued 1,000,000 new share warrants, with an exercise price of £0.98 and a term of three years).

The total expense to the Group in respect of share-based payment transactions in respect of share warrants issued was £Nil (2013: £0.22 million, all of which was charged to the share capital account in accordance with the Group's accounting policy).

The Group had 17,250,000 outstanding share warrants over the ordinary share capital of the Company at 31 December 2014 with a weighted average exercise price of £0.86 (as at 31 December 2013: 17,250,000 warrants with a weighted average exercise price of £0.86), and exercise prices ranging from £0.80 to £0.98.

At the date of these financial statements there continued to be 17,250,000 exercisable share warrants outstanding, and exercise prices ranging from £0.80 to £0.98 with a weighted average exercise price of £0.86.

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 recognised to date.

18 Commitments and contingencies

At 31 December 2014 and 31 December 2013 the Company had minimum lease commitments under non-cancellable operating leases as follows:

	31 December 2014 £	31 December 2013 £
Amounts payable on leases which expire:		
Within one year	**167,447**	50,634
In two to five years	**35,898**	225,794

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. In line with IAS24, the Group defines related parties as:

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

Using a loan facility, XEL has continued to provide its wholly owned subsidiary, XER, with net cash funding. During the year ended 31 December 2014, XER repaid £41.1 million (year ended 31 December 2013: net amount repaid of £14.0 million) to finance XER's operational requirements. No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand. The total balance owing by XER to XEL at 31 December 2014 was £59.4 million (as at 31 December 2013: £100.5 million).

In the normal course of business XER incurred charges totalling £nil during the year ended 31 December 2013 (year ended 31 December 2012: £5,550) for consultancy services from Esher Management Services

Limited, a company for which Timothy Jones is a Director. There were no such charges incurred for the year ended 31 December 2014.

In the normal course of business XER incurred charges totalling £24,228 during the year ended 31 December 2014 (year ended 31 December 2013: £22,009) for property rentals from Seaburome Limited, a company in which Rupert E. Cole is a Director. There was no outstanding balance payable by XER at 31 December 2014 (31 December 2013: £nil).

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

20 Subsequent Events

On 18 March 2015, HM Revenue & Customs in the UK announced a reduction in the rate of Supplementary Charge to 20%, effective from 1 April 2015. Based on the estimated deferred tax assets and liabilities of the Group as at 31 December 2014, the financial effect of this tax reduction is estimated to be a £0.3 million reduction in the net deferred tax liability.

Officers and Principal Advisers

Directors
Rupert E. Cole (Company Secretary)
Stephen A. Kew
Andrew J. Fairclough (appointed 3 February 2014)

Non-Executive Directors
Roger S. Ramshaw (Chairman, retired 7 May 2014)
Scott R. Cochlan
Timothy S. Jones (Chairman from 7 May 2014)
Gregory J. Moroney
Henry G. Wilson (appointed 7 May 2014)

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Canada

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

TSX, TSX-Venture Exchange
Code: XEL.V