Welcome to Xcite Energy Limited

Xcite Energy is a heavy oil appraisal and development company, which is currently focused on the development of discovered resources in the UK North Sea.

The Company holds a 100% working interest in the Bentley field on Block 9/3b, one of the largest proven, undeveloped fields in the UK North Sea.

- > 250 MMstb 2P Reserves
- > US$2.2 billion NPV(10) of 2P asset value

With its experienced management team and proven track record, the Company specialises in taking previously uncommercial discoveries and moving them towards full field development.

Group Purpose

To appraise and develop heavy oil resources and maximise shareholder return.

Vision

To be the heavy oil partner of choice.

To develop Bentley into a major strategic asset in the North Sea.

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Key Highlights

Key Business Highlights of 2012

> Safe and successful completion of Phase 1A work programme on the Bentley field, with the test production of over 149,000 barrels of Bentley crude, sold to a major refiner in Europe.

> Pre-production well test exceeded management expectations, successfully demonstrating full field development drilling, completion, production and export techniques enabling planning of an efficient upscale design approach to the First Phase Development. Now substantially de-risked, the First Phase Development can be approached with a high degree of certainty in terms of reservoir performance, technical execution and financial outcome.

> Signing of a US$155 million Reserves Based Lending facility with a leading group of lending institutions, which will form a significant part of the funding requirement for the First Phase Development of the Bentley field.

> Success in the 27th Licence Round provides new licence acreage to the Xcite Energy Resources Limited portfolio. Blocks 9/4a, 9/8b and 9/9h add four identified prospects to the future exploration and appraisal programmes.

> Strengthened balance sheet, with new net equity capital financing of £63.4 million and new debt financing of US$60 million during 2012. Cash balance at year end of £25.6 million.

> Expanded and strengthened management team and staff to support the Group through the First Phase Development.

Key Financial Highlights

<table>
<thead>
<tr>
<th>In pounds sterling</th>
<th>31 December 2012</th>
<th>31 December 2011</th>
<th>31 December 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CONSOLIDATED INCOME STATEMENT</strong></td>
<td>£</td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>Revenue</td>
<td>13,288,989</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>(Loss)/Profit attributable to equity holders</td>
<td>(1,720,907)</td>
<td>129,563</td>
<td>(2,446,998)</td>
</tr>
<tr>
<td>(Loss)/Profit per share attributable to equity holders of the parent entity:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic and Diluted (in pence)</td>
<td>(0.7p)</td>
<td>0.1p</td>
<td>(1.9p)</td>
</tr>
<tr>
<td>Average number of shares</td>
<td>258,646,240</td>
<td>174,233,405</td>
<td>126,542,827</td>
</tr>
<tr>
<td><strong>CONSOLIDATED BALANCE SHEET</strong></td>
<td>£</td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>Total assets</td>
<td>251,840,821</td>
<td>152,771,290</td>
<td>102,801,482</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>205,780,248</td>
<td>142,765,308</td>
<td>78,584,545</td>
</tr>
</tbody>
</table>
The Opportunity

Xcite Energy is an oil appraisal company with a significant reserves base and upside potential.

ABOUT THE HEAVY OIL OPPORTUNITY

With recently assigned 2P reserves of 250 MMstb and a 100% working interest, the Bentley Field is a strategic asset for the UK’s future oil production.

The recent success of the Phase 1A pre-production well test on Bentley confirms our belief in the commerciality of the asset, and the technical data gathered during the test further de-risks the next steps into full field production.

The First Phase Development as modelled will, in effect, be a significantly upscaled infrastructure and technical application of that used in Phase 1A. The success of Phase 1A demonstrated that there is a lot to be gained in replicating its approach for the First Phase Development. Phase 1A proved the drilling techniques, the suitability of the completion equipment and muds, and the topside facilities, while confirming flow assurance and demonstrating effective export handling. Furthermore, it proved a market exists for the Bentley crude. Utilising all this understanding enables us to optimise the First Phase Development plan and reduce uncertainties, so that the next development steps can be approached with a high degree of confidence.

As currently modelled, we believe the projected future oil production from the First Phase Development would position the Bentley Field as one of the largest producing fields in the UK North Sea. With a significant field life, Bentley is expected to become a major contributor to the UK economy and a major provider of long-term employment in the oil industry.

Whilst the current focus remains on the Bentley Field, Xcite Energy holds other UK North Sea licences and looks forward to appraising these areas as we move forward.

Phase 1A was a substantial project, at a cost of approximately US$250 million, which was delivered safely, on time and on budget. The ability to successfully deliver this project demonstrates the skills and expertise within Xcite Energy, and provides us with the confidence to deliver on the First Phase Development plan.

“THE ABILITY TO SUCCESSFULLY DELIVER THIS PROJECT DEMONSTRATES THE SKILLS AND EXPERTISE WITHIN XCITE ENERGY.”

Read more about our strategy Pages 04–05
Subsequent Events

On 8 April 2013 the Group was pleased to announce the results of an updated Reserves Assessment Report. This information was made public subsequent to the effective date of the Management Discussion and Analysis and the Financial Statements for the year ended 31 December 2012, dated 25 March 2013, as shown on pages 13 to 41 within this Annual Report.

The announcement on 8 April 2013 contained the following highlights:

— Mean PIIP volumes of 909 MMstb, increased from 550 MMstb as previously reported in February 2012;
— 1P, 2P and 3P oil reserves for the Bentley Field of 198, 250 and 312 MMstb respectively over a 35-year production period;
— Projected P50 peak production rate of approximately 45,000 stb/d in the first phase development, increasing to approximately 57,000 stb/d in the second phase development;
— NPV10 (after tax) value of oil reserves for the Bentley Field of approximately US$1.5 billion, US$2.2 billion and US$2.8 billion on a 1P, 2P and 3P basis respectively;
— Additional 46MMstb of P50 Contingent Resources assigned to the Bentley Field for recoverable volumes beyond the initial 35-year production period;
— Aggregate, unrisked mean Prospective Resources assigned of approximately 96 MMstb, relating to prospects adjacent to the Bentley Field and prospects as awarded in the recent UK Offshore 27th Licence Round

These updated reserves numbers reflect the value derived from the pre-production well test, which combined with the new 3D seismic data acquired in 2012, has enabled the Xcite Energy team to create a credible and detailed plan in a realistic timetable to move the Bentley Field towards development.

I am very pleased to report this significant increase in both reserves and value attributable to our assets, which supports our long-held belief in the potential of the Bentley Field. This 2P reserves update, at 250 million barrels, plus considerable upside potential, has exceeded our expectations.

We have now moved Bentley from being a significant asset to one of the major strategic assets in the North Sea, which will be an important source of future employment and economic contribution to the UK for many years to come.

We shall now continue to move the project forward with ongoing studies into the potential for enhanced oil recovery, which has yet to be factored into the reserves assessment. There is also further scope for field optimisation in order to accelerate delivery of the Contingent Resources, as well as the potential for exploration barrels from our Prospective Resources.

Our next goal is to fund the future development of our assets. Having put in place the RBL facility last year, we still see this as an important part of our future funding structure. By increasing our reserves significantly and developing a more balanced phasing of production volumes, with approximately half of the 2P reserves now expected to be delivered from the first phase development wells, we anticipate being in a position to increase the borrowing capacity of the field considerably and we shall be discussing this with our existing and potential new lenders.

Based on this reserves update, it is also the right time to evaluate suitable farm-in partners for Bentley. We have demonstrated the value of the field, materially derisked it ahead of development and we would expect potential partners to recognise these achievements.

Finally, an updated Field Development Plan will be submitted to DECC in the coming months, which will reflect the results of the successful well test last year and the greater capacity of the first phase of development.

I would like to take this opportunity, once again, to thank the entire Xcite Energy team for their unwavering belief in, and commitment to, this project, and for the application of their expertise to move the Bentley forward to become a strategic, development-ready asset. They should be rightfully proud of this immense achievement.”

Rupert Cole
Chief Executive Officer
8 April 2013

Please note that the announcement on 8 April 2013, from which this information is extracted, contained certain cautionary language and other relevant information which should be read in conjunction with this extract.
Our Strategy and Plans

OUR STRATEGY

- To unlock heavy oil resources to secure a stable UK oil production profile.
- To commercialise our heavy oil resources and to become a significant producer in the UK North Sea.
- To utilise our heavy oil expertise to expand our asset portfolio.

OUR PLANS FOR THE REMAINDER OF 2013

- Continue planning and scheduling of the First Phase Development of the Bentley Field
- Update the Field Development Plan with DECC
- Commence farm-out process of the Bentley asset
- Review of the current RBL facility
- Field optimisation and enhanced oil recovery development programme
- Review potential options for an appraisal programme on the greater Bentley area

RESERVES AND RESOURCES GROWTH

- MMstd Bentley PIIP
- MMstd of 2P Reserves
- MMstd of Contingent P50 Resources
- Annual increase in average headcount
Our Strategy and Plans (continued)

Development of the Bentley Field

The Bentley Field continues to follow a phased development plan, comprising a first phase development (“FPD”) and a second phase development (“SPD or Phase 2”). The plan no longer requires a third phase development platform.

The FPD is planned, subject to DECC approval, to comprise a permanent, manned production, utilities and quarters platform with approximately 20 well slots for production and water injection wells, together with facilities to de-gas the crude prior to pipeline transfer to a dedicated, in-field floating storage and offloading unit.

The existing 9/3b–7 and 7Z well, drilled in Phase 1A, will occupy one of the slots and will be re-completed once the platform is in place. Two subsea gas production wells and a subsea water injection well are planned as part of the FPD. Peripheral parts of the field to the far west and north will be added as subsea satellites approximately two years after first oil. The projected peak production rate at PS0 is approximately 45,000 stb/d during the FPD.

After approximately five years of production from the FPD, the SPD is planned to commence, comprising a second production, utilities and quarters platform to be installed in the southern part of the field and tied back to the FPD platform. The projected combined peak production rate at PS0 will increase to approximately 57,000 stb/d during the SPD.

Both of the FPD and SPD facilities will remain in place for the full life of the Field.

Assuming a two year lead time to first oil, the economic projections in the Form 51-101F1 filed in April 2013 assume that capital expenditure incurred in 2013 to 2015 will amount to approximately US$700 million, representing an economically efficient entry point to the development of the Field. Initial commitments have been made and funds have been expended on certain FPD equipment, comfortably within the existing funding resources available to the Company.

The economic projections in the Form 51-101F1 assume that capital expenditure in 2016 and beyond is funded from income from the sale of crude oil production at that time. This expenditure relates to the drilling of additional wells, followed by the Phase 2 infrastructure and production facilities.

In addition to the reserves already assigned to Bentley, the subject of the future development costs set out in Form 51-101F1, the Company plans to undertake EOR tests and, if successful, implement an EOR programme for the Field as soon as practicable during the FPD. It is anticipated that the EOR programme will incur additional expenditure, but will give rise to additional recoverable crude oil that, when sold, will generate revenue significantly in excess of the associated expenditure incurred.

Reserve estimates only include volumes that are currently planned to be produced within an estimated initial facilities service life of 35 years. It is intended that the assigned Contingent Resources assumed to be produced in the 20 years after this period will be the subject of optimisation and either brought forward within the initial facilities service life, accelerated and captured by implementation of the EOR facilities, or produced through life extension methods employed during the later stages of Field life. Funding for such work programmes is assumed to be available from cash flow generated from previous production from the Field. It is expected that these work programmes, if successful, will give rise to additional reserves being assigned to Bentley.

Next Steps

The updated development plan has resulted in a more balanced phasing of production volumes, with oil production from the FPD wells projected to be approximately half the reported 2P reserves, which is expected to deliver a significant increase in the borrowing capacity of the project. Having put in place a Reserves Based Lending (“RBL”) facility in 2012, which is still regarded as an important component of the Company’s future funding structure, the Company intends to hold discussions with a consortium of its existing and additional commercial lending banks to fully utilise this additional borrowing capacity.

With the updated reserves assessment completed, Xcite Energy intends to commence a farm-out process to evaluate suitable business partners for Bentley. The farm-out, together with the extended RBL facility, is intended to provide the funding required to commence the development of the Field.

An updated Field Development Plan will be submitted to the DECC in the coming months, which will reflect the results of the successful pre-production well test and the improvement in the balance between the two development phases.
Our Assets

Xcite Energy Resources Limited (“XER”) are 100% owner and operator of Block 9/3b, licence P.1078, containing the Bentley Field.

THE BENTLEY FIELD

Block 9/3b, which was awarded to XER in 2003 as part of the 21st UK Offshore Licensing Round, is located 160 km east of the Shetland Isles in 113 m of water.

Xcite Energy has now drilled a total of five wells on Bentley, gathering extensive and commercially valuable reservoir data in the process.

NEW ASSETS

As well as Block 9/3b containing the Bentley field, Xcite Energy holds and operates, at 100% equity, Blocks 9/3c (Licence P1760) and 9/3d (Licence P1761), awarded in the 26th UK Licensing Round in early 2011 and Blocks 9/4a, 9/8b and 9/9h (Licence P1979) awarded in the 27th UK Licensing Round at the beginning of 2013. Xcite Energy will continue to participate in future UK Licensing Rounds.

Within the 26th Round Blocks, Xcite Energy have identified a series of prospects within the same Lower Eocene/Upper Palaeocene, Dornoch sandstone, that is present at Bentley whilst the 27th Round Blocks contain prospects of Lower Palaeocene age. If proven through subsequent drilling, these prospects could add significantly to the value of the greater Bentley area.
**LICENCE AWARDS**

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<th>Licence (Awarded)</th>
<th>Block</th>
<th>Ownership</th>
<th>Field/Prospect Details</th>
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<td>P1078 (2003)</td>
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<td>100%</td>
<td>Promote award; Bentley Field, Bragg, Brunel &amp; Boyle prospects</td>
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<td>P1760 (2011)</td>
<td>9/3c</td>
<td>100%</td>
<td>26th Round award; Bunsen &amp; Bunsen West prospects</td>
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<tr>
<td>P1761 (2011)</td>
<td>9/3d</td>
<td>100%</td>
<td>26th Round award; Babbage &amp; Brindley prospects</td>
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<td>P1979 (2013)</td>
<td>9/4a</td>
<td>100%</td>
<td>27th Round award; Chadwick, Clement &amp; Cartwright prospects</td>
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<td>P1979 (2013)</td>
<td>9/8b</td>
<td>100%</td>
<td>27th Round award; Camm prospect</td>
</tr>
<tr>
<td>P1979 (2013)</td>
<td>9/9h</td>
<td>100%</td>
<td>27th Round award; Camm prospect</td>
</tr>
</tbody>
</table>

**KEY MILESTONES 2012**

**FEBRUARY 2012**  
Upgraded reserves report to 116 MMstb of 2P for Bentley Field Core Area

**MARCH 2012**  
Bentley Well approval notification  
Spud of 9/3b-7 well

**JUNE 2012**  
Updated Marketing and Offtake Agreement with BP Oil International Limited  
Signing of US$155 million reserves based lending facility

**SEPTEMBER 2012**  
Successful Bentley Field pre-production well test  
Sale of first Bentley crude oil cargo

**OCTOBER 2012**  
Safe and successful conclusion of the Phase 1A offshore work programme  
Offer of three new Blocks in 27th UK Licensing Round

**KEY MILESTONES TO APRIL 2013**

**MARCH 2013**  
Award of 27th UK Licensing Round Blocks

**APRIL 2013**  
Upgraded reserves report to 250 MMstb of 2P for the Bentley Field (see Subsequent Events)
Board of Directors

MEET THE TEAM

Roger S. Ramshaw
*Chairman, Non-Executive Director*

Chairman and a Non-Executive Director of the Company and is a member of the Remuneration and Nominating Committee. From 2002 until his retirement in 2003, Mr. Ramshaw was Chairman and Managing Director of ConocoPhillips (UK) Ltd, where he led the company’s exploration, development and production business on the UK Continental Shelf. From 1999 to 2002, he was President of Conoco Venezuela Ltd. Mr. Ramshaw has over 40 years of domestic and international experience in operations, project and commercial activity in the petroleum industry. He is a governor of the Robert Gordon University, Aberdeen and holds an MA degree in Chemical Engineering from the University of Cambridge and an MS in Management from the Massachusetts Institute of Technology.

Rupert E. Cole
*Chief Executive Officer*

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
*Chief Operating Officer*

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.
Gregory J. Moroney
Non-Executive Director

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.

Timothy S. Jones
Non-Executive Director

Non-Executive Director of the Company and also Chairman of the Audit 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 and he is currently on the board of a number of AIM listed natural resources companies.

Scott R. Cochlan
Non-Executive Director

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 in the Corporate and Capital Markets group. Mr. Cochlan has represented senior and junior public issuers in numerous aspects of general corporate law and securities regulatory matters including corporate governance, continuous disclosure, regulatory compliance and transaction negotiation and completion. Mr. Cochlan also has extensive experience in representing both issuers and underwriters in a wide variety of complex private and public financing matters (equity and debt), including cross-border financings, mergers, acquisitions and other business reorganizations and restructurings. Mr. Cochlan holds a law degree from the University of Calgary and a B.A. from the University of Western Ontario. Mr. Cochlan has received a number of recognitions as a leading lawyer in his field.
Management team

### Meet the Team

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Richard West</td>
<td>Compliance Director of XER</td>
<td>Richard West is Compliance Director for Xcite Energy and joined in September 2007. Richard has over 25 years’ experience in the upstream oil and gas business, including Britoil and BP Forties field as well as international operations. Responsible for the delivery of the Conoco MacCulloch development in the North Sea using a fully tariffed, joint venture FPSO solution, as well as successful delivery of an FPSO solution offshore North Africa. Richard has extensive Programme Management and operational experience, together with a technical background in metallurgy (BSc) and production technology (MSc).</td>
</tr>
<tr>
<td>Jon Dale</td>
<td>Finance Director &amp; Company Secretary of XER</td>
<td>Jon Dale joined Xcite Energy in March 2008. He has over 14 years’ experience in the oil industry. Prior to joining Xcite in March 2008, Jon spent over seven years with PricewaterhouseCoopers LLP, providing Audit and Transaction Support services to a portfolio of clients in the oil and gas industry. He also spent over two years in industry working for BJ Services Inc. as the Country Controller for the West Africa well services division. Jon graduated with an MA Honours degree from the University of Aberdeen and has been a member of the Institute of Chartered Accountants of Scotland since 2001.</td>
</tr>
<tr>
<td>Barny Brennan</td>
<td>Subsurface Director of XER</td>
<td>Barny Brennan joined in April 2008 and has over 25 years of oil industry experience gained within both major oil company and consulting environments. He brings a wealth of subsurface technical expertise, previously being with Senergy-PGL for five years in senior management and technical roles, and latterly being director responsible for their Guildford office where he has worked with Xcite Energy since its inception in 2002. Prior to this he spent 15 years with Phillips Petroleum as a geoscientist in both exploration and development settings, including their largest UK drilling campaign on the Judy/Joanne field development. Barny graduated with an honours degree in Mining Geology from Leicester University in the UK and is a Fellow of the Geological Society and a member of EAGE and AAPG.</td>
</tr>
</tbody>
</table>
Charles Lucas-Clements

Business Development Director of XER

Charles Lucas-Clements joined Xcite Energy in May 2008. He has over 30 years' experience through the oil and gas value chain, in both upstream exploration & production and downstream refining. He was previously with IHS Energy for 12 years in senior roles including VP of Business Application, Managing Director of IHS Consulting, Head of Strategic Consulting and Director of Business Development. Charles has worked with Xcite Energy since 2004 and has also acted as advisor to the World Bank, many oil and gas E&P company boards and Governments together with their National Oil Companies over the last 20 years, including ExxonMobil, BP, Shell, Apache, BHP Billiton, Occidental, ATP, Medco, Sintez, Lasmo, Kerr McGee; Government clients and National Oil Companies have included Japan, China, Malaysia, Nigeria, Angola, Brazil, Colombia, Ecuador, Venezuela, Newfoundland and Labrador. Charles graduated with an honours degree in Chemical Engineering from Imperial College of Science and Technology in London.

Matt Bower

Operations Director of XER

With more than 29 years in the Marine and Offshore oil and gas industry, Matt joined Xcite in February 2012 and holds an unlimited Master Mariner License. Matt has previously held the position of Director and Head of Global Operations for Bluewater. More recently he has been Head of New Business for Maersk FPSO; responsible for the development of innovative technical and commercial floating production concepts and Chief Operating Officer of UPB Ltd developing a new offshore marginal oil field production concept. He brings a wealth of production and project expertise gained in both the marine and offshore environments having gained numerous qualifications in Nautical Science, Asset Management and Strategic Decision Making.

Andrew Fairclough

Corporate Affairs Director of XER

Andrew joined Xcite Energy in August 2012 and has over 17 years of investment banking experience, both in corporate broking and corporate finance. Having left the Army in 1995, Andrew joined Flemings’ corporate finance department, working both in London and New York, and subsequently moved to Rothschild on his return to the UK, where he advised on a wide range of private equity transactions. In 2004, Andrew joined the corporate broking team at Merrill Lynch, where he advised mid and large cap clients. On leaving Merrill Lynch in 2009, Andrew focused on the mid cap advisory arena, latterly with Espirito Santo Investment Bank.
Chairman's Review

Xcite Energy's activities during 2012 were predominantly associated with the preparation for and successful execution of the pre-production well test in the core area of the Bentley field. This was undertaken to provide the key drilling, processing and flow assurance information to de-risk Bentley ready for development, to enable us to optimise the development solution and also to underpin its true value to potential farm-in partners.

In no small measure due to the hard work, commitment and experience of our team, the funding, contracting and execution of this extensive test exceeded our expectations. We can now have confidence in the mechanical and operational aspects of the drilling, the topsides processing, and the completion and flow assurance techniques to be applied in the full field development. Extensive data was gathered during the test, giving us an improved understanding of the behaviour of water, gas and oil movement in the reservoir which is being used to optimise the development plans and model the long term future oil recovery from the field. In total approximately 149,000 bbls of heavy crude oil were produced to a shuttle tanker and successfully sold to a major refiner in Europe. The Bentley field development project has been materially de-risked, and we anticipate being able to update our shareholders and the market in the near future through a new reserves report from TRACS International Consultancy Limited, our independent reserves auditors.

The pre-production well test was a very significant investment for Xcite Energy, but one which has clearly proved its worth. Aggregate spend on the test, as indicated by the additions to the E&E asset in the balance sheet during late 2011 and in 2012, came in on budget at approximately US$250 million, which was successfully funded from a number of sources during a period in the financial markets that can only be described as intensely difficult.

In addition to the funding of the pre-production well test and also in the face of these difficult market conditions, we secured a US$155 million reserves based loan facility for the first phase development of the Bentley field with a leading group of lending institutions, including our offtake partner, BP. This facility is currently being reviewed and, given the robust economics of the Bentley development plan and the excellent outcome from the pre-production well test, we intend to seek additional borrowing capacity.

The formal findings of the pre-production well test and our subsequent analysis form a major part of the information that will be provided for evaluation purposes to interested parties, in particular to potential farm-in partners and to existing and other commercial lending banks.

During the year some of the prospective exploration blocks surrounding the Bentley field became available through the UK 27th Offshore Licensing Round, and we were very pleased that our wholly owned operating subsidiary Xcite Energy Resources Limited (“XER”) was successful with respect to all its licence applications over Blocks 9/4a, 9/8b and 9/9h. The addition of these blocks to the XER portfolio has the potential to materially enhance the development value of the greater Bentley area.

The nature of the management team’s activities has evolved from when the Company was floated in 2007 and our organisation has been developed in response. In July Richard Smith stepped down as Chief Executive Officer and was replaced by Rupert Cole, with Stephen Kew assuming the role of Chief Operating Officer. Andrew Fairclough was appointed to the Board of the operating subsidiary with a group remit as Corporate Affairs Director, Jon Dale was appointed as Finance Director and Matt Bower as Operations Director, with Matt taking over full responsibility for operational matters from Richard West after his significant contribution to the successful completion of the pre-production well test. We have an excellent team.

We would like to take this opportunity to thank Richard Smith and Richard West for their contribution to the company’s progress on what has proven to be a longer journey than many anticipated. We wish them well in the future. Finally and returning to the current members of the Xcite Energy team; their skills, experience and dedication in the execution of a demanding pre-production well test over an extended period were exemplary. The team delivered an excellent result, which has re-emphasised the fundamental quality and value of the Bentley field. We look forward to the future and being able to demonstrate this value to the market and to potential partners for the benefit of all stakeholders.

Roger Ramshaw
Chairman
25 March 2013
Management Discussion and Analysis

The Management 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 2012. This MD&A is dated 25 March 2013. These documents and additional information about XEL, including its annual information form dated 26 October 2010 are available on SEDAR at www.sedar.com.

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

This MD&A includes an analysis of the XEL results for the year ended 31 December 2012, which include the results of the operating subsidiary Xcite Energy Resources Limited (“XER”) for the year ended 31 December 2012. The comparative results for both companies comprise the year ended 31 December 2011 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 pounds sterling unless otherwise noted.

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

Information concerning reserves may also be deemed to be forward-looking statements as such estimates involve the implied assessment that the resources described can be profitably produced in the future. These statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, including crude oil resource estimations, crude oil prices, exchange rates, interest rates, 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.

Summary of Results

The following table summarises the Group’s performance in the year ended 31 December 2012 and the comparatives for the year ended 31 December 2011 and the year ended 31 December 2010. 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”).

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2012</th>
<th>Year ended 31 December 2011</th>
<th>Year ended 31 December 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£13,288,989</td>
<td>£129,563</td>
<td>£2,446,998</td>
</tr>
<tr>
<td>(Loss)/profit</td>
<td>(1,720,907)</td>
<td>129,563</td>
<td>2,446,998</td>
</tr>
<tr>
<td>(Loss)/Earnings per share (basic) in pence</td>
<td>(0.7p)</td>
<td>0.1p</td>
<td>(1.9p)</td>
</tr>
<tr>
<td>(Loss)/Earnings per share (diluted) in pence</td>
<td>(0.7p)</td>
<td>0.1p</td>
<td>(1.9p)</td>
</tr>
<tr>
<td>Total assets</td>
<td>251,840,821</td>
<td>152,771,290</td>
<td>102,801,482</td>
</tr>
<tr>
<td>Long term liabilities (deferred tax)</td>
<td>505,167</td>
<td>505,167</td>
<td>505,167</td>
</tr>
</tbody>
</table>

Upon conclusion of the successful pre-production well test on the Bentley field, the Group is pleased to report its first revenue from the crude oil produced. In spite of the revenue generated, the result reported for the year ended 31 December 2012 is a net loss, comprising the revenue from crude oil sales, a charge to cost of sales to off-set the value of revenue recognised (as explained in Note 4), unrealised foreign exchange losses, working capital expenditure and share-based payment charges. In comparison to the year ended 31 December 2011 and excluding revenue, the underlying difference between the net (loss)/profit for the year results from the effect of unrealised foreign exchange gains and losses.

As the Group awaits approval from the Department of Energy and Climate Change (“DECC”) of its Bentley Field Development Plan (“FDP”), the accumulated costs to date in appraising the Bentley field remain within Exploration and Evaluation (“E&E”) assets. It is anticipated that upon approval by DECC of the FDP and the Group’s decision to proceed with 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 under the successful efforts standard accounting treatment for oil and gas development assets.
Management Discussion and Analysis (continued)

Underlying operating costs of running the Group have increased, primarily driven by increased average headcount from 12 to 18, together with additional legal and advisory costs as the Group prepares itself for the next stage of its development. Overall total assets of the Group have continued to increase, primarily as a result of the successful execution of the pre-production well test on the Bentley field, with the associated costs being accounted for within the E&E assets. In addition, new fundraising activity in the first half of 2012 increased the overall net asset value in the Group.

The deferred tax balance exists as a result of a Research and Development ("R&D") tax rebate during 2009. There was no such equivalent tax rebate during 2010, 2011 or 2012. The Group has no other long term liabilities and has elected not to recognise its deferred tax assets.

The following table summarises the Group’s performance for the eight most recent quarters. All of these results are unaudited.

<table>
<thead>
<tr>
<th></th>
<th>Q4 12 £’000s</th>
<th>Q3 12 £’000s</th>
<th>Q2 12 £’000s</th>
<th>Q1 12 £’000s</th>
<th>Q4 11 £’000s</th>
<th>Q3 11 £’000s</th>
<th>Q2 11 £’000s</th>
<th>Q1 11 £’000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>—</td>
<td>13,289</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Net (loss)/profit</td>
<td>(884)</td>
<td>(568)</td>
<td>(223)</td>
<td>(46)</td>
<td>1,099</td>
<td>662</td>
<td>(294)</td>
<td>(13)</td>
</tr>
<tr>
<td>EPS *</td>
<td>(0.4p)</td>
<td>(0.2p)</td>
<td>(0.1p)</td>
<td>(0.0p)</td>
<td>0.6p</td>
<td>(0.4p)</td>
<td>(0.2p)</td>
<td>(0.0p)</td>
</tr>
<tr>
<td>Total assets</td>
<td>251,841</td>
<td>260,704</td>
<td>237,556</td>
<td>192,634</td>
<td>152,771</td>
<td>130,219</td>
<td>118,064</td>
<td>99,158</td>
</tr>
<tr>
<td>Long term liabilities</td>
<td>505</td>
<td>505</td>
<td>505</td>
<td>505</td>
<td>505</td>
<td>505</td>
<td>505</td>
<td>505</td>
</tr>
</tbody>
</table>

* Earnings/(loss) per share (basic) in pence

**Fourth Quarter Highlights**

A number of key operational events for the Group took place in the fourth quarter of 2012:

- The Bentley pre-production well test in the Phase 1A work programme successfully achieved its primary objectives, resulting in the collection of extensive data relating to the reservoir and fluid characteristics. The timing of first water ingress to the wellbore and the subsequent rate of water build-up was better than expected. As a result, the ratio of oil to water produced was also better than expected, providing important information for modelling long term future oil recovery from the field.

- In October XER was offered additional licences as part of the UK 27th Offshore Licencing Round. The addition of the three new licences will bring an additional four prospects into the XER portfolio and enhances the development potential of the greater Bentley area.

**Liquidity and Capital Resources**

The cash balance as at 31 December 2012 was £25.59 million, compared with £64.12 million as at 31 December 2011. The decrease in cash balance during the 12 months ended 31 December 2012 has arisen due to project and working capital commitments in respect of the 9/3b-7 and 9/3b-7Z wells under the Bentley Phase 1A field development programme. This was offset by the raising of equity funds through the Equity Line Facility (“ELF”), private placements with Socius CG II, Ltd (“Socius”) and Global Resource Funding Partners LLC (“Global”), new loan note funds of US$60 million (£37.14 million) and pre-production well test revenue of US$20.87 million (£13.29 million).

In January 2012, the Company raised additional equity of £3.54 million by issuing 3,765,060 new ordinary shares to Esousa Holdings, LLC, (“Esousa”). In March 2012 the Company raised a further £21.19 million by issuing 16,223,431 new ordinary shares to Esousa. In April 2012 the Company raised a further £2.29 million by issuing 1,866,813 new ordinary shares to Esousa. In June 2012 the Company raised a further £2.19 million by issuing 2,584,693 new ordinary shares to Esousa. All of these equity raises to Esousa were using the ELF. As at the date of this MD&A there remains unused ELF capacity of £30.84 million.

In February 2012, the Company completed the placing of the second tranche of new equity funding from Socius, receiving gross funds of £12.70 million in respect of the issue of 13,353,038 new ordinary shares.

On 5 April 2012, the Company issued a total of US$50 million (£30.95 million) of unsecured 14% loan notes to a Canada-based investment management firm, West Face Capital, Inc. (“West Face”). The loan notes had an initial term of 360 days. On 7 August 2012 the Company issued a further US$10 million (£6.19 million) of unsecured 14% loan notes to West Face, with an initial term of 236 days.

During 2012, the Company announced the private placing of a total of 32.5 million new ordinary shares with Global, to occur in three tranches, the first of which closed on 13 June 2012 with the issuance of 8 million new ordinary shares for gross proceeds of £6.43 million. The second tranche closed on 19 July 2012 with the issuance of 12.5 million new ordinary shares for gross proceeds of £8.33 million. The third tranche closed on 21 August 2012 with the issuance of 12 million new ordinary shares for gross proceeds of £8.35 million.

During October and November 2012, the Group received total sales proceeds of US$20.87 million (£13.29 million) for the pre-production well test blended crude oil.
Of the cash balance held at 31 December 2012, the Group held £10.79 million in an escrow account in respect of contractual commitments under the Rowan Norway rig agreement. Following the conclusion to the pre-production well test the Rowan Norway rig came off hire in October 2012 and at the date of this MD&A a balance of US$17.55 million (£10.86 million) remains in the escrow account in line with normal practice and pending identification and finalisation of any further costs.

Also as at 31 December 2012, the Group held a further £3.94 million in a separate escrow account in respect of commitments placed under the well management contract for the pre-production well test. With the pre-production well test having been successfully completed, the majority of surplus funds in the escrow account have been returned to the Group and the balance at the date of this MD&A is now £0.70 million, awaiting finalisation of well management costs.

Taking into account the ELF, the Group’s 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 2012 the Group had lease commitments relating to business premises of £328,692 (31 December 2011: £423,750). The decrease in commitments when comparing 2012 with 2011 is in line with the remaining lease commitment on XER’s existing Aberdeen business premises.

As mentioned above, at 31 December 2012 the Group held a total of £14.8 million in two escrow accounts to meet remaining contractor commitments under the drilling and management contracts for Phase 1A of the Bentley field development programme (as at 31 December 2011 the Group held a total of £47.1 million in these two escrow accounts). At the date of this MD&A the escrow accounts hold a total of £0.70 million and US$17.55 million, with the majority expected to be returned to the Group shortly.

In preparation for the second phase development on the Bentley field, XER has placed commitments for long-lead items of oilfield equipment, including power generators. The commitments at the balance sheet date for such items were £1.1 million.

On 12 June 2012 the Company announced that it had amended its agreement with BP Oil International Limited (“BPOI”) under which BPOI will provide the offtake services to market and sell the Bentley crude oil in return for an incentive-based fee per barrel. BPOI has undertaken to finance Xcite Energy’s working capital requirements for the diluent products to be used in the blending-in-field operations. At current oil prices, this working capital support is estimated to be in the range of US$20 million to US$40 million depending on Bentley crude oil production and blending requirements, in respect of which Xcite Energy would pay BPOI an appropriate commercial financing charge.

On 22 June 2012 the Group announced that it had signed a US$155 million secured reserves based lending facility (the “Facility”) for the Bentley field with a leading group of lending institutions. The Facility, with a term of five years, will be used to provide a substantial part of the funding required for the Phase 1B development of the Bentley heavy oil field. The drawdown under the facility is subject to conditions precedent, including the achievement of certain principal objectives in the Bentley Phase 1A work programme.

The Facility has been arranged with Royal Bank of Scotland plc, Société Générale Corporate & Investment Bank, GE unit GE Energy Financial Services, Nedbank Limited and Britannic Strategies Limited (a subsidiary of BP plc). Royal Bank of Scotland is acting as the Facility agent and security trustee, with Société Générale acting as technical and modelling bank.

The process to sign the Facility has involved a further rigorous, independent technical assessment of the Bentley field, the Group’s field development plan for Bentley and the route to market for and value of the Bentley crude. The interest rate on the Facility ranges from US Dollar LIBOR and 5.5% to US Dollar LIBOR and 4.5%, with the lower rate applicable following the achievement of certain project milestones in Phase 1B, which include a minimum volume of produced crude oil from the initial wells brought into production. The interest rate and all other principal terms are in line with industry norms.

Having signed the Facility in the current, difficult banking and financial market conditions, the Group has demonstrated a further substantial de-risking of the Bentley field and its proposed development plan.

**Operations and Administrative Expenses**

The Group only operates in a single business and geographical segment. The Group’s single line of business is the appraisal and evaluation of oil and gas reserves and the geographical segment in which it currently operates is the North Sea. The Group’s sole operational focus is the development of the Bentley field, although it intends to pursue other commercial opportunities as and when they arise, subject to available management and financial resources.
2012 was characterised by the drilling of the 9/3b-7 and 7Z wells on the Bentley field and the significant investment that it necessitated. By contrast, 2011 was a year of reserves studies and preparatory work for Phase 1A of the Bentley field and involved no drilling activity, although the Rowan Norway drilling rig was on charter hire as part of Phase 1A work programme during November and December 2011. As a result, E&E assets spend during 2012 was significantly higher than in 2011.

During 2012 a total of £128.70 million was charged to E&E assets (year ended 31 December 2011: £22.39 million), the majority of which was in respect of the planning, drilling and execution of Phase 1A on the Bentley field.

A total of £0.53 million (year ended 31 December 2011: £0.42 million) was paid in respect of XER’s obligations under the UK North Sea licensing agreements, which now includes Blocks 9/3c and 9/3d in addition to the existing Block 9/3b following the award of two new licences in the UK 26th Licensing Round in 2011. During 2012 XER was offered additional licences in the UK 27th Licensing Round over Blocks 9/4a, 9/8b and 9/9h, which, if accepted by XER, will result in additional future licence payments.

The Group charged to the Income Statement other expenses (within total net administrative expenses) of £1.60 million compared to £1.20 million in the year ended 31 December 2011. 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, Nominated Adviser, stockbrokers, registrars and stock exchange fees. The increase in other expenses in 2012 compared to 2011 has arisen principally due to increased salary costs as a result of increased average staff numbers from 12 to 18 during the year. The net foreign exchange losses in the current year have been driven primarily by the revaluation of the US dollar bank balances and loans held by the Group at the Balance Sheet date. No US dollar loan balances were held at 31 December 2011. The reduction in charge for the Group’s share-based payments in the current year compared with 2011 reflects there having been no issues of share option awards to Executive or Non-Executive Directors in the year ended 31 December 2012.

The Group currently holds the majority of its cash in US dollars. The unrealised foreign exchange losses have resulted primarily by the weakening US dollar against the reporting currency of pounds sterling during 2012. This US dollar weakening has had the effect of decreasing the underlying value of the Group’s US dollar current and USD escrow accounts held at the balance sheet date. In the absence now of drilling rig and current Well Management Contract commitments, the Group’s contractual requirement to hold large balances of cash in US dollar is reduced and therefore there will be a decreased level of direct exposure to foreign currency movements against pounds sterling.

### Related Party Transactions

XEL has continued to provide a loan facility to its wholly owned subsidiary, XER, to finance XER’s operational requirements, with net cash funding of £49.7 million during the year ended 31 December 2012 (year ended 31 December 2011: £39.0 million). No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand. The total balance owing by XER to XEL under this facility at 31 December 2012 was £114.5 million (as at 31 December 2011: £64.8 million).

The Executive Directors have received remuneration, details of which are given in the table below. The Executive and Non-Executive Directors have also been granted share options over the ordinary share capital of the Company during the year, details of which are also given below.

<table>
<thead>
<tr>
<th>Year ended 31 December 2012</th>
<th>Year ended 31 December 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and salaries</td>
<td>£972,772</td>
</tr>
<tr>
<td>Social security costs</td>
<td>£130,926</td>
</tr>
<tr>
<td>Share-based payments charge</td>
<td>£15,736</td>
</tr>
<tr>
<td></td>
<td>£1,119,434</td>
</tr>
<tr>
<td></td>
<td>£1,174,715</td>
</tr>
</tbody>
</table>

In the normal course of business XER incurred charges totalling £5,550 during the year ended 31 December 2012 (year ended 31 December 2011: £4,605) for consultancy services from Esher Management Services Limited, a company of which Timothy Jones is a Director. There was a balance payable by XER at the year end of £5,550 (as at 31 December 2011: £5,526).

In the normal course of business XER incurred charges totalling £19,991 during the year ended 31 December 2012 (year ended 31 December 2011: £16,097, representing approximately nine months of charges) for property rentals from Seaburome Limited, a company of which Rupert E. Cole is a Director. There was no outstanding balance payable by XER at the year end.

### Share Options and Warrants

In the year ended 31 December 2012, the Company issued aggregate share options to Non-Executive Directors, contractors and management of 5,750,000 under the Stock Option Plan (2011: 1,850,000 aggregate share options issued). The total expense to the Group in respect of share-based payment transactions under the Stock Option Plan was £1.32 million (2011: £1.30 million). Of this total, £0.14 million (2011: £0.41 million) has been charged to the Income Statement and £1.18 million (2011: £0.89 million) has been capitalised under intangible assets in accordance with the Group’s accounting policy.
A total of 600,000 share options were exercised during the year ended 31 December 2012, providing total proceeds of CAD$714,000 (£444,000). A total of 3,800,000 share options, issued as part of the original Initial Public Offering in November 2007, expired unexercised on 15 November 2012 and, whilst they were in-the-money immediately prior to expiry, the Company was considered to be in a closed period in accordance with The Listing Rules and option holders were therefore unable to exercise. A further 700,000 share options expired in accordance with the Share Option Scheme Rules. In the year ended 31 December 2011 no share options were exercised and no share options expired.

In the year ended 31 December 2012, the Company issued aggregate share warrants of 22,926,519 (2011: 7,597,647 share warrants issued). The total expense to the Group for share-based payment transactions in respect of share warrants was £4.03 million (2011: £2.18 million), all of which has been charged against share capital in accordance with the Group’s accounting policy.

As at the date of signing this MD&A there were 16,252,000 options outstanding and 16,250,000 warrants outstanding, following the exercise of 931,000 share options and the expiry of 690,000 share options in January 2013.

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 2012 is given below. The Full Board held a total of four meetings, and both the Audit Committee and the Remuneration and Nominating Committee (“R&N”) a total of four meetings during the year.

The following table sets out the ordinary shares issued during the year.

<table>
<thead>
<tr>
<th>Ordinary Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at 1 January 2012</td>
</tr>
<tr>
<td>Issue of ordinary shares through ELF</td>
</tr>
<tr>
<td>Issue of ordinary shares through private placement</td>
</tr>
<tr>
<td>Issue of ordinary shares through share option exercises</td>
</tr>
<tr>
<td>Issue of ordinary shares through share warrant exercises</td>
</tr>
<tr>
<td>As at 31 December 2012</td>
</tr>
</tbody>
</table>

As at the date of signing this MD&A, the number of shares in issue was 291,811,000, following the issue of 931,000 shares as a result of the exercise of share options in January 2013.

Income
Revenue
The Group is pleased to report oil revenues for the first time. The successful pre-production well test on Bentley produced a cargo of approximately 149,000 barrels of Bentley crude oil, combined with approximately 58,000 barrels of diluent. The cargo was sold by BP to a major refiner in Europe, with aggregate net revenue for the cargo, after deduction of all direct sales costs, of £13.29 million.

Interest Income
Interest income received on funds invested up to 31 December 2012 amounted to £0.18 million (2011: £0.10 million). The increase in interest generated on funds invested during the year in comparison to 2011 was as a result of a change in the currency composition of the average balance of funds held on deposit. During 2011 there was a relative increase to funds deposited in US dollars, for which the Group receives a much lower interest rate than its pounds sterling deposits.

The Group policy is to ensure that all cash balances earn a market rate of interest and that interest rate exposures are regularly reviewed and managed. The Group’s treasury policy will be kept under review in light of market conditions.

The Group received other financial income of £21,119 during 2011 in respect of a VAT repayment supplement. There was no such equivalent during 2012.

Interest income received on funds invested up to 31 December 2012 amounted to £0.18 million (2011: £0.10 million). The increase in interest generated on funds invested during the year in comparison to 2011 was as a result of a change in the currency composition of the average balance of funds held on deposit. During 2011 there was a relative increase to funds deposited in US dollars, for which the Group receives a much lower interest rate than its pounds sterling deposits.

The Group policy is to ensure that all cash balances earn a market rate of interest and that interest rate exposures are regularly reviewed and managed. The Group’s treasury policy will be kept under review in light of market conditions.

The Group received other financial income of £21,119 during 2011 in respect of a VAT repayment supplement. There was no such equivalent during 2012.
Management Discussion and Analysis (continued)

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

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

Offshore exploration
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.

Commodity pricing
The Group has no control over the market price of crude oil. Accordingly, suitable hedging arrangements are used to mitigate the volatility of oil prices as and when the Group approaches production phases.

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

Currency
The Group's reporting and functional currency is Pounds Sterling. However, the market for 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 full field development.

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 minimise this risk, Group resources are independently assessed 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 resources and its early stage of development. The Group has no previous history of earnings and there can be no assurance that the Group's business will be successful or profitable. 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 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 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 option issue date.
(c) Impairment of Exploration and Evaluation (“E&E”) assets
A review is performed at the end of each financial period for any indication that the value of the Group’s E&E assets may be subject to impairment. In the event of any such indication, an impairment test is carried out and, if necessary, an impairment charge is made representing the surplus of capitalised cost over estimated recoverable value of the related commercial oil reserves. Estimated recoverable value is based upon anticipated discounted net cash flows attributable to such oil reserves.

Changes in Accounting Policies
Whilst the Group has early adopted Amendments to IAS 19 ‘Employee Benefits’ during the year ended 31 December 2012, it has not had a material effect on the reported results or financial position of the Group.

The requirements of Amendments to IAS 1 ‘Presentation of Items of Other Comprehensive Income,’ Amendments to IFRS 1 ‘Severe Hyperinflation and Removal of Fixed Dates for First Time Adopters,’ Amendments to IAS 12 ‘Deferred Tax: Recovery of Underlying Assets’ and Amendments to IFRS 7 ‘Financial Instruments: Disclosures – Transfers of financial assets’ did not have a material effect on the reported results or financial position of the Group.

Financial Instruments and Other Derivatives
Details regarding the Group’s policies in respect of financial instruments are disclosed in Notes 1 and 15 to the financial statements.

2013 Outlook
The information contained in this section constitutes forward-looking information.

Following the successful pre-production well test on the Bentley field, the Group continues to work diligently towards the new competent person’s report, the updated field development plan, the revised basis for the reserves based lending (“RBL”) facility and the preparations for the potential farm-out discussions.

All of this work is being conducted in parallel and its importance to the future of the Group cannot be stressed highly enough. Management remains highly optimistic of the outcome.

The addition to the Group portfolio of licences over Blocks 9/4a, 9/8b and 9/9h through the 27th Licencing Round provides additional optionality over exploration and appraisal programmes during the remainder of 2013, but this will be dependent upon the availability of suitable drilling rigs and appropriate funding. The prospects contained in these licences have the potential to add significant value to the wider Bentley area.

With the work programme undertaken in 2012 representing such a significant step forward in respect of the Group’s understanding of and confidence in the Bentley field, management look forward to the balance of 2013 with no small measure of excitement.
Report of the Remuneration and Nominating Committee

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

The Remuneration and Nominating Committee consists of three
Non-Executive Directors, 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 2012 was as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Basic salary</th>
<th>Fees</th>
<th>Other compensation</th>
<th>Share-based payments</th>
<th>2012 Total</th>
<th>2011 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rupert E. Cole</td>
<td>175,000</td>
<td>—</td>
<td>142,840</td>
<td>5,245</td>
<td>323,085</td>
<td>361,284</td>
</tr>
<tr>
<td>Stephen A. Kew</td>
<td>175,000</td>
<td>—</td>
<td>142,840</td>
<td>5,245</td>
<td>323,085</td>
<td>361,284</td>
</tr>
<tr>
<td>Richard E. Smith</td>
<td>102,083</td>
<td>—</td>
<td>235,009</td>
<td>5,245</td>
<td>342,337</td>
<td>361,284</td>
</tr>
<tr>
<td>Roger S. Ramshaw</td>
<td>—</td>
<td>60,000</td>
<td>—</td>
<td>631</td>
<td>60,631</td>
<td>117,672</td>
</tr>
<tr>
<td>Gregory J. Moroney</td>
<td>—</td>
<td>35,000</td>
<td>—</td>
<td>631</td>
<td>35,631</td>
<td>88,090</td>
</tr>
<tr>
<td>Scott R. Cochlan</td>
<td>—</td>
<td>32,500</td>
<td>—</td>
<td>631</td>
<td>33,131</td>
<td>89,630</td>
</tr>
<tr>
<td>Timothy S. Jones</td>
<td>—</td>
<td>35,000</td>
<td>—</td>
<td>631</td>
<td>35,631</td>
<td>94,839</td>
</tr>
</tbody>
</table>

(i) Other compensation comprises performance-related bonus, together with cash allowances in lieu of pension contributions, payments in lieu of notice, company car and fuel, private healthcare and life insurance and permanent health insurance cover.

(ii) All values from 1 January 2012 to date of retirement 31 July 2012, including payments in lieu of notice.

The XER service contracts for Mr Cole and Mr Kew were effective 1 September 2003 and last amended on 24 October 2007. Mr Smith’s service contract terminated with effect from 31 July 2012.

The Group’s policy is to review salary and benefits annually against market data and analysis and to adjust accordingly where the Remuneration and Nominating Committee believes it is appropriate; no changes to Executive remuneration have been made during the year. The service and employment contracts for the Executive Directors are not of fixed duration but continuation in office as a Director is subject to annual re-election by shareholders. The Group’s policy is for Executive Directors to have service and employment contracts with provision for termination of no longer than twelve months’ notice.

The fees for the Non-Executive Directors in respect of their duties are determined by the Board and are reviewed on an annual basis, with no revisions having been made during 2012.

<table>
<thead>
<tr>
<th>Name</th>
<th>Shares ('000s)</th>
<th>Share Option Tranche ('000s)</th>
<th>Total Options ('000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rupert E. Cole</td>
<td>7,000</td>
<td>100 831 400 90 100 1,521</td>
<td></td>
</tr>
<tr>
<td>Stephen A. Kew</td>
<td>6,213</td>
<td>100 831 400 90 100 1,521</td>
<td></td>
</tr>
<tr>
<td>Roger S. Ramshaw</td>
<td>—</td>
<td>100 100 100 90 100 490</td>
<td></td>
</tr>
<tr>
<td>Gregory J. Moroney</td>
<td>100</td>
<td>— 100 100 90 100 390</td>
<td></td>
</tr>
<tr>
<td>Scott R. Cochlan</td>
<td>25 100</td>
<td>100 100 100 90 100 590</td>
<td></td>
</tr>
<tr>
<td>Timothy S. Jones</td>
<td>50</td>
<td>— 100 100 100 90 100 590</td>
<td></td>
</tr>
</tbody>
</table>
Tranche 1 — Scott R Cochlan was appointed to the Board on 18 January 2008 at which time 100,000 share options were awarded and vested immediately with an exercise price of CAD$2.09 and a term of five years. These options expired unexercised on 18 January 2013 whilst the Directors were considered to be in a closed period and therefore they were unable to exercise or trade.

Tranche 2 — Timothy S. Jones was appointed to the Board on 19 March 2009 and on 23 April 2009 100,000 share options were awarded and vested immediately with an exercise price of CAD$0.29 and a term of five years.

Tranche 3 — These share options, which vested immediately, were granted to the Directors on 30 November 2009 with an exercise price of CAD$0.74 and a term of five years.

Tranche 4 — 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 and a term of five years.

Tranche 5 — These share options, which vested immediately, were granted to the Directors on 3 November 2010 with an exercise price of CAD$2.92 and a term of five years.

Tranche 6 — These share options, which vested immediately, were granted to the Directors on 31 December 2010 with an exercise price of CAD$2.30 and a term of five years.

Tranche 7 — These share options, which vested immediately, were granted to the Directors on 6 August 2011 with an exercise price of CAD$5.95 and a term of five years.

Further details of the stock 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 Stock Option Plan, the purpose of which is to provide an incentive to the Directors, officers, employees, consultants and other personnel of the Group (“Optionees”) to achieve the objectives of the Group; to give suitable recognition to the ability and industry of such persons who contribute materially to the success of the Group; and to attract and retain persons of experience and ability, by providing them with the opportunity to acquire an increased proprietary interest in the Company.

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

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

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

Signed on behalf of the Remuneration and Nominating Committee by:

Gregory J. Moroney
Non-Executive Director
25 March 2013
To the Directors of Xcite Energy Limited

We have audited the consolidated financial statements of Xcite Energy Limited (the "financial statements"), which comprise the consolidation of the parent company Xcite Energy Limited and its subsidiary Xcite Energy Resources Limited (collectively referred to as the "Group"), for the year ended 31 December 2012, which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, and related notes. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards (IFRS) as adopted by the European Union.

Our report has been prepared pursuant to the requirements of our engagement letter dated 7 December 2011 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of our engagement letter or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Respective responsibilities of Directors and auditors

The Group’s Directors are responsible for the preparation of the financial statements in accordance with IFRS as adopted by the European Union. The Directors are responsible for preparing financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

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. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the European Union and comply with IFRS as issued by the IASB, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company’s website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company’s website is the responsibility of the Directors. The Directors’ responsibility also extends to the ongoing integrity of the financial statements contained therein.

Our responsibility is to audit and express an opinion on the financial statements in accordance with International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s (APB’s) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of: whether the accounting policies are appropriate to the group’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group’s affairs as at 31 December 2012 and of the Group’s loss for the year then ended and;
- have been properly prepared 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
25 March 2013
## Consolidated Income Statement (in Pounds Sterling)

For the year ended 31 December 2012

<table>
<thead>
<tr>
<th></th>
<th>31 December 2012 £</th>
<th>31 December 2011 £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>13,288,989</td>
<td>—</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(13,288,989)</td>
<td>—</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share-based payment charge</td>
<td>(135,563)</td>
<td>(410,777)</td>
</tr>
<tr>
<td>Foreign exchange (losses)/gains</td>
<td>(163,763)</td>
<td>1,619,756</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(1,597,545)</td>
<td>(1,202,093)</td>
</tr>
<tr>
<td>Net administrative (expenses)/gains</td>
<td>(1,896,871)</td>
<td>6,886</td>
</tr>
<tr>
<td><strong>(Loss)/profit from operations</strong></td>
<td>(1,896,871)</td>
<td>6,886</td>
</tr>
<tr>
<td>Finance income – bank interest</td>
<td>175,964</td>
<td>101,557</td>
</tr>
<tr>
<td>Finance income – other</td>
<td>—</td>
<td>21,119</td>
</tr>
<tr>
<td><strong>(Loss)/profit before taxation</strong></td>
<td>(1,720,907)</td>
<td>129,563</td>
</tr>
<tr>
<td>Tax expense</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>(Loss)/profit for the year attributable to Equity holders of the Company</strong></td>
<td>(1,720,907)</td>
<td>129,563</td>
</tr>
<tr>
<td>— basic</td>
<td>(0.7p)</td>
<td>0.1p</td>
</tr>
<tr>
<td>— diluted</td>
<td>(0.7p)</td>
<td>0.1p</td>
</tr>
</tbody>
</table>

All results relate to continuing operations.

## Consolidated Statement of Comprehensive Income (in Pounds Sterling)

For the year ended 31 December 2012

<table>
<thead>
<tr>
<th></th>
<th>31 December 2012 £</th>
<th>31 December 2011 £</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(Loss)/profit for the year</strong></td>
<td>(1,720,907)</td>
<td>129,563</td>
</tr>
<tr>
<td><strong>Total comprehensive income for the year</strong></td>
<td>(1,720,907)</td>
<td>129,563</td>
</tr>
<tr>
<td>Attributable to equity holders of the Company</td>
<td>(1,720,907)</td>
<td>129,563</td>
</tr>
</tbody>
</table>

The notes on pages 27 to 41 form part of these financial statements.
Consolidated Statement of Changes in Equity  
(in Pounds Sterling)  
For the year ended 31 December 2012

<table>
<thead>
<tr>
<th></th>
<th>Share Capital £</th>
<th>Retained Earnings £</th>
<th>Merger Reserve £</th>
<th>Other Reserves £</th>
<th>Total £</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January 2011</td>
<td>76,487,362</td>
<td>(4,220,248)</td>
<td>218</td>
<td>6,317,213</td>
<td>78,584,545</td>
</tr>
<tr>
<td>Profit for the year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ended 31 December 2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total comprehensive</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>gain for the year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ended 31 December 2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>129,563</td>
</tr>
</tbody>
</table>

Transactions with owners:

| Issue of shares         | 65,401,434       |                    |                 |                 | 65,401,434 |
| Associated share issue  | (2,651,340)      |                    |                 |                 | (2,651,340) |
| costs                  |                 |                    |                 |                 |         |
| Share warrant issue     | (2,177,459)      |                    |                 | 2,177,459       | —        |
| Transfer upon exercise  | —                |                    |                 |                 | (45,270) |
| of share options &      |                 |                    |                 |                 |         |
| warrants               |                 |                    |                 |                 |         |
| Fair value of share     | —                |                    |                 |                 | 1,301,106 |
| warrants and options    |                 |                    |                 |                 |         |
| **At 1 January 2012**   | **137,059,997**  | **(4,045,415)**    | 218             | 9,750,508       | **142,765,308** |
| Loss for the year       |                 |                    |                 |                 |         |
| ended 31 December 2012  |                 |                    |                 |                 | (1,720,907) |
| **Total comprehensive**|                 |                    |                 |                 |         |
| loss for the year       |                 |                    |                 |                 | (1,720,907) |
| ended 31 December 2012  |                 |                    |                 |                 |         |

Transactions with owners:

| Issue of shares         | 65,030,366       |                    |                 |                 | 65,030,366 |
| Associated share issue  | (1,611,915)      |                    |                 |                 | (1,611,915) |
| costs                  |                 |                    |                 |                 |         |
| Share warrant issue     | (4,031,840)      |                    |                 | 4,031,840       | —        |
| Transfer upon exercise  | —                |                    |                 |                 | (3,523,466) |
| of share options &      |                 |                    |                 |                 |         |
| warrants               |                 |                    |                 |                 |         |
| Fair value of share     | —                |                    |                 |                 | 1,317,396 |
| warrants and options    |                 |                    |                 |                 |         |
| **At 31 December 2012** | **196,446,608**  | **(2,242,857)**    | 218             | 11,576,279      | **205,780,248** |

The notes on pages 27 to 41 form part of these financial statements.
# Consolidated Statement of Financial Position

(in Pounds Sterling)

For the year ended 31 December 2012

<table>
<thead>
<tr>
<th>Note</th>
<th>31 December 2012</th>
<th>31 December 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£</td>
<td>£</td>
</tr>
</tbody>
</table>

## Assets

### Non-current assets
- Intangible assets
  - 9 216,737,343 88,080,610
- Property, plant and equipment
  - 10 222,347 186,545

**Total non-current assets**

- 216,959,690 88,267,155

### Current assets
- Trade and other receivables
  - 11 9,288,916 380,729
- Cash and cash equivalents
  - 15b 25,592,215 64,123,406

**Total current assets**

- 34,881,131 64,504,135

**Total assets**

- 251,840,821 152,771,290

## Liabilities

### Current liabilities
- Trade and other payables
  - 12 5,284,605 9,500,815
- Short term loans
  - 13 40,270,801 —

**Total current liabilities**

- 45,555,406 9,500,815

### Non-current liabilities
- Deferred tax
  - 14 505,167 505,167

**Total non-current liabilities**

- 505,167 505,167

**Net assets**

- 205,780,248 142,765,308

## Equity

- Share capital
  - 16 196,446,608 137,059,997
- Retained earnings
  - 17 (2,242,857) (4,045,415)
- Merger reserve
  - 17 218 218
- Other reserves
  - 17 11,576,279 9,750,508

**Total equity**

- 205,780,248 142,765,308

The notes on pages 27 to 41 form part of these financial statements. These financial statements were approved by the Board of Directors and authorised for issue on 25 March 2013 and were signed on its behalf by:

Rupert Cole  
Chief Executive Officer

Stephen Kew  
Chief Operating Officer
## Consolidated Statement of Cash Flows (in Pounds Sterling)

For the year ended 31 December 2012

<table>
<thead>
<tr>
<th>Description</th>
<th>Year ended 31 December 2012</th>
<th>Year ended 31 December 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net cash flow from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Loss)/profit for the period before tax</td>
<td>(1,720,907)</td>
<td>129,563</td>
</tr>
<tr>
<td>Adjustment for interest income</td>
<td>(175,964)</td>
<td>(101,557)</td>
</tr>
<tr>
<td>Adjustment for share-based payments</td>
<td>135,563</td>
<td>410,777</td>
</tr>
<tr>
<td>Adjustment for depreciation</td>
<td>132,920</td>
<td>41,020</td>
</tr>
<tr>
<td><strong>Movement in working capital</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Trade and other receivables</td>
<td>(8,908,188)</td>
<td>1,174,704</td>
</tr>
<tr>
<td>— Trade and other payables</td>
<td>1,040,190</td>
<td>(14,210,954)</td>
</tr>
<tr>
<td><strong>Net cash flow from operations</strong></td>
<td>(9,496,383)</td>
<td>(12,556,447)</td>
</tr>
<tr>
<td><strong>Cash flow from investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions to exploration and evaluation assets</td>
<td>(127,474,900)</td>
<td>(21,926,904)</td>
</tr>
<tr>
<td>Purchase of property, plant and equipment</td>
<td>(168,722)</td>
<td>(197,340)</td>
</tr>
<tr>
<td>Interest income</td>
<td>175,964</td>
<td>101,557</td>
</tr>
<tr>
<td><strong>Net cash flow from investing activities</strong></td>
<td>(127,467,658)</td>
<td>(22,022,687)</td>
</tr>
<tr>
<td><strong>Cash flow from financing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net proceeds from issue of new shares</td>
<td>63,418,451</td>
<td>62,750,094</td>
</tr>
<tr>
<td>Net proceeds from issue of loan notes</td>
<td>35,014,399</td>
<td>—</td>
</tr>
<tr>
<td><strong>Cash flow from financing activities</strong></td>
<td>98,432,850</td>
<td>62,750,094</td>
</tr>
<tr>
<td><strong>Net (decrease)/increase in cash and cash equivalents</strong></td>
<td>(38,531,191)</td>
<td>28,170,959</td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the year</td>
<td>64,123,406</td>
<td>35,952,447</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at the end of the year</strong></td>
<td>25,592,215</td>
<td>64,123,406</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents comprise:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short term deposits</td>
<td>14,806,099</td>
<td>47,119,005</td>
</tr>
<tr>
<td>Cash available on demand</td>
<td>10,786,116</td>
<td>17,094,401</td>
</tr>
</tbody>
</table>

The notes on pages 27 to 41 form part of these financial statements.
Notes to the Consolidated Financial Statements
For the year ended 31 December 2012

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 Union and they comply, therefore, with Article 4 of the EU International Accounting Standards ("IAS") Regulation. 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. This is not 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 2013 Outlook in the Management Discussion and Analysis on pages 13 to 19 of these financial statements. The Group currently has sufficient cash resources to fund working capital and the committed work programme. The US$60m Loan Note facility with West Face Capital Inc. falls for repayment by 31 December 2013, extendable by mutual agreement to 31 March 2014, and in order to finance this repayment the Directors are considering a number of options that would secure longer term funding into the first phase development of the Bentley field.

Basis of consolidation

The Company was incorporated with the sole purpose of acquiring its controlling interest in its directly held, wholly owned, subsidiary Xcite Energy Resources Limited ("XER"). XER was acquired on 26 June 2007 through a transaction under common control, as defined in IFRS3 ‘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 IFRS3 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 IAS8 ‘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 ("FRS6"). FRS6 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 IAS8, and the guidance included within FRS6, it is considered appropriate to apply an accounting treatment similar to “merger accounting” as described by FRS6 when dealing with the transaction in which the Company acquired its controlling interest in XER (together the “Group”) in order to provide a true and fair view. The effect of the above is:

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

Revenue

Revenue arises from the sale of oil produced and reflects the actual sales value, net of value-added-tax ("VAT") and overriding royalties. Revenue earned on test production to establishing the technical feasibility and commercial viability of the project is credited to the Income Statement. Test production revenue is recognised at a zero margin and a corresponding deduction made against intangible exploration cost. 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.

Foreign currency

The functional currency of the Group is pounds 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 Balance Sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the Income Statement.

Financial assets

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

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

Prepayments — comprise advance payments made by the Group and are recognised on initial recognition at cost. Advance payments include payments made in respect of Reserves Based Lending facility fees and long-lead equipment items for future Bentley field development projects.

Trade receivables — these assets arise through the provision of goods and services to customers or from credit notes due from suppliers, and are carried at fair value less provision for impairment.

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.

Financial liabilities

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

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

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 Balance Sheet date.

Deferred taxation

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

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

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

Share-based payments

The Company has a Stock Option Plan as described in Note 16. The share-based payment expense arising under this Stock Option Plan is recorded in the Income Statement, or as a direct reduction in share capital where the charge relates to the issue of such share capital, or as an increase in exploration and evaluation assets (“E&E” 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 expense is calculated on the estimated fair values at the time of the grant and the expense is recognised over the vesting period of the options. Upon the exercise of the stock options, consideration paid 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 share-based payment expense associated with such stock options is not reversed.

The Black–Scholes model is used to fair value share options 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, Exploration & Evaluation Assets or Share Capital account is charged with the fair value of the goods and services received as appropriate.
1 Accounting Policies (continued)

Intangible fixed assets – Exploration and Evaluation Assets

Capitalisation

Certain costs (other than payments to acquire the legal right to explore) incurred prior to acquiring the rights to explore are charged directly to the Income Statement. All costs incurred after the rights to explore an area have been obtained, such as geological and geophysical costs and other direct costs of exploration (drilling, trenching, sampling and technical feasibility and commercial viability activities) and appraisal, 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.

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 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

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

New accounting standards adopted during the year

Whilst the Group has early adopted Amendments to IAS 19 ‘Employee Benefits’ during the year ended 31 December 2012, it has not had a material effect on the reported results or financial position of the Group.

The requirements of Amendments to IAS1 ‘Presentation of Items of Other Comprehensive Income’, Amendments to IFRS1 ‘Severe Hyperinflation and Removal of Fixed Dates for First Time Adopters’, Amendments to IAS12 ‘Deferred Tax: Recovery of Underlying Assets’ and Amendments to IFRS7 ‘Financial Instruments: Disclosures – Transfers of financial assets’ did not have a material effect on the reported results or financial position of the Group.
Notes to the Consolidated Financial Statements
(continued)

1 Accounting Policies (continued)

New standards and interpretations not yet applied

Certain new standards and interpretations issued and endorsed by the International Accounting Standard Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”) during the year ended 31 December 2012 are effective for the period beginning 1 January 2013 and for which the Company has not early adopted. These are listed and explained in brief below, none of which are expected to have a material effect on the reported results or financial position of the Group.

- Amendments to IFRS7 and IAS32 'Financial Instruments: Disclosures and Presentation – Offsetting Financial Assets and Financial Liabilities'.
  - Addressing a difference between IFRS and US GAAP, the IASB and Financial Accounting Standards Board (“FASB”) in the US issued common disclosure requirements that were intended to help investors and other users better interpret offsetting arrangements on a company’s financial position. At present the Group does not engage in offsetting of such financial assets and liabilities.

- IFRS13 ‘Fair Value Measurement’
  - The guidance on how to measure fair value was inconsistent across different IFRSs and the guidance less detailed. This led to diversity in practice and impaired comparability of information being reported in financial statements. IFRS13 sets out a source of comprehensive guidance on how to fair value both financial and non-financial assets and liabilities.

- IFRIC Interpretation 20 ‘Stripping Costs in the Production Phase of a Surface Mine’
  - The scope of this interpretation is out-with the trading activities of the Group and is not considered relevant.

The new standards and interpretations listed under the “Status of EU Endorsement” section below, which have been issued by the IASB and the IFRIC, have yet to be endorsed by the European Union and thus have not been adopted in these consolidated financial statements. None are expected to have a material effect on the reported results or financial position of the Group.

Status of EU endorsement

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

- IFRS9 ‘Financial Instruments’;
- Amendments to IFRS1 ‘Government Loans’;
- Amendments to IFRS10, IFRS11 and IFRS12 ‘Transition Guidance’;
- Improvements to IFRSs (2009-2011, issued May 2012); and
- Amendments to IFRS10, IFRS12 and IFRS27 ‘Investment Entities’.

2 Segment Information

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

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

3 Revenue

Revenue represents the sale of blended crude oil, principally from the Bentley field, and reflects the actual sales value, net of discounts, VAT and other sales-related taxes to the Group’s. For the year ended 31 December 2012 all of the Group’s revenue was from one customer (year ended 31 December 2011; £nil revenue).

4 Cost of Sales

The Group is reporting what it regards as test volumes of crude oil production as revenue in the current year. Test production revenue should be recorded at zero margin in the Income Statement. Accordingly, a total value of £13.29 million has been charged to cost of sales in the current year, which includes the costs of diluent and a balancing charge from E&E assets.
5 Operating (Loss)/Profit

The operating (loss)/profit is stated after crediting/(charging) the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Year ended 31 December 2012</th>
<th>Year ended 31 December 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign exchange (losses)/gains</td>
<td>(163,763)</td>
<td>1,619,756</td>
</tr>
<tr>
<td>Auditors’ remuneration:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>--- Group audit fee</td>
<td>(25,000)</td>
<td>(25,000)</td>
</tr>
<tr>
<td>--- Audit of subsidiary pursuant to legislation</td>
<td>(15,000)</td>
<td>(15,000)</td>
</tr>
<tr>
<td>--- Tax advisory fees</td>
<td>(10,900)</td>
<td>(13,638)</td>
</tr>
</tbody>
</table>

The Group incurred total charges in respect of equity-settled share-based payments in the current year of £5,349,236 (2011: £3,478,565). Of this, £1,180,219 (2011: £897,803) was in respect of employees (see Note 6). In accordance with the Group’s accounting policy, £1,181,833 (2011: £890,329) has been capitalised within E&E assets and £135,563 (2011: £410,777) has been expensed within operating loss. The balance of £4,931,840 (2011: £2,177,459) has been charged to the share capital account in accordance with the Group’s accounting policy.

The Group incurred total charges in respect of property leases in the current year of £188,600 (year ended 31 December 2011: £133,879). These have all been capitalised to E&E assets in accordance with the Group’s accounting policy.

The Group incurred total charges in respect of drilling rig leases in the current year of £46,536,157 (year ended 31 December 2011: £4,173,947). These have all been capitalised to E&E assets in accordance with the Group’s accounting policy.

6 Staff Costs and Directors’ Emoluments

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Year ended 31 December 2012</th>
<th>Year ended 31 December 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical and administration</td>
<td>18</td>
<td>12</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Year ended 31 December 2012</th>
<th>Year ended 31 December 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and salaries</td>
<td>3,350,961</td>
<td>1,790,551</td>
</tr>
<tr>
<td>Social security costs</td>
<td>439,506</td>
<td>232,725</td>
</tr>
<tr>
<td>Share-based payments charge</td>
<td>1,180,219</td>
<td>897,803</td>
</tr>
<tr>
<td></td>
<td>4,970,686</td>
<td>2,921,079</td>
</tr>
</tbody>
</table>

(b) Executive Directors’ emoluments

<table>
<thead>
<tr>
<th>Description</th>
<th>Year ended 31 December 2012</th>
<th>Year ended 31 December 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and salaries</td>
<td>972,772</td>
<td>691,200</td>
</tr>
<tr>
<td>Social security costs</td>
<td>130,926</td>
<td>90,862</td>
</tr>
<tr>
<td>Share-based payments charge</td>
<td>15,736</td>
<td>392,653</td>
</tr>
<tr>
<td></td>
<td>1,119,434</td>
<td>1,174,715</td>
</tr>
</tbody>
</table>
6 Staff Costs and Directors' Emoluments (continued)

In addition to the above, during the year the Group paid to Roger Ramshaw, Gregory Moroney, Scott Cochlan and Timothy Jones in their capacity as Non-Executive Directors of the Group fees of £60,000 (2011: £56,000), £35,000 (2011: £26,418), £32,500 (2011: £27,958) and £35,000 (2011: £33,167) respectively. Charges in respect of share-based payments for the Non-Executive Directors in the year ended 31 December 2012 were £2,525 (2011: £246,690).

The Executive Directors and Non-Executive Directors comprise the key personnel of the Group. The total compensation for key personnel for the year ended 31 December 2012 was as follows:

<table>
<thead>
<tr>
<th>Year ended 31 December</th>
<th>Year ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012 £</td>
</tr>
<tr>
<td>Director wages and salaries</td>
<td>972,772</td>
</tr>
<tr>
<td>Non-Executive Director fees</td>
<td>162,500</td>
</tr>
<tr>
<td>Share-based payments</td>
<td>18,261</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>1,153,533</strong></td>
</tr>
</tbody>
</table>

7 Tax Expense

<table>
<thead>
<tr>
<th>Year ended 31 December</th>
<th>Year ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012 £</td>
</tr>
<tr>
<td>Current tax</td>
<td>—</td>
</tr>
<tr>
<td>Deferred tax</td>
<td>—</td>
</tr>
<tr>
<td>Total tax charge</td>
<td>—</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Year ended 31 December</th>
<th>Year ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012 £</td>
</tr>
<tr>
<td>(Loss)/profit before tax</td>
<td>(1,720,907)</td>
</tr>
<tr>
<td>(Loss)/profit before tax multiplied by the standard rate of corporation tax in the British Virgin Islands of 0% (2011: 0%)</td>
<td>—</td>
</tr>
<tr>
<td>Tax charge for the year</td>
<td>—</td>
</tr>
</tbody>
</table>

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

XER is considered to be a company which profits from oil extraction and oil rights in the UK and the UK Continental Shelf and is, therefore, subject to corporation tax on taxable profits at a rate of 30% or 19% where the profits fall within the limit of the small companies rate. With the supplementary charge remaining at 32%, the combined corporation tax rate for ring-fenced trading profits for UK North Sea producing oil companies remains at 62%.

On 26 March 2012 changes in the main (non-ring fenced) rate of UK Corporation Tax were substantively enacted, resulting in reductions from 26% to 24% (effective from 1 April 2012), reducing further to 23% (from 1 April 2013). As the Group forecasts not to be paying corporation tax or supplement charges in the immediate future due to the availability of brought forward losses and heavy oil field allowances, the impact of this reduction to 23% does not have a current impact on the reported results of the Group.

In addition to the changes in rates of corporation tax disclosed above, further changes to the non-ring fence UK Corporation Tax system were announced in the Autumn Statement 2012. This includes a further reduction to the main rate to reduce the rate to 21% from 1 April 2014. This change had not been substantively enacted at the Balance Sheet date and, therefore, is not included in these financial statements.

With effect from 21 March 2012, there is a reduction to the rate of relief for decommissioning costs from 62% to 50%. Given the distant timings on potential Bentley field decommissioning activities, the impact of this reduction has a negligible financial impact on the Group at present.
8 Earnings Per Share

The basic earnings per share is calculated by dividing the (loss)/profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. The calculation of basic earnings per ordinary share for the year ended 31 December 2012 is based on a loss of £1,720,907 (year ended 31 December 2011: profit of £129,563) and on shares of 258,646,240 (year ended 31 December 2011: 174,233,405), being the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per ordinary share is based on a loss of £1,720,907 (year ended 31 December 2011: profit of £129,563) and on shares of 292,022,575 (year ended 31 December 2011: 191,612,789), being the weighted average number of ordinary shares, warrants and options issued during the year.

Details of all potentially dilutive financial instruments are given in Note 16 to these financial statements.

9 Intangible Assets

<table>
<thead>
<tr>
<th>Exploration and Evaluation Assets</th>
<th>Licence Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012</td>
</tr>
<tr>
<td>Opening cost and carrying value at 1 January</td>
<td>£1,215,387</td>
</tr>
<tr>
<td>Additions</td>
<td>£821,089</td>
</tr>
<tr>
<td>Closing cost and carrying value at 31 December</td>
<td>£2,036,476</td>
</tr>
</tbody>
</table>

| Appraisal and Exploration Costs |
|---------------------------------|-------|-------|
| 2012 | 2011 |
| Opening cost and carrying value at 1 January | £86,865,223 | £64,471,530 |
| Net additions | £127,835,644 | £22,393,693 |
| Closing cost and carrying value at 31 December | £214,700,867 | £86,865,223 |

The costs associated with the continuing appraisal of the Bentley field and its surrounding prospects have been capitalised in accordance with the Group’s accounting policy in Note 1. Appraisal and Exploration Costs net additions in the year ended 31 December 2012 include an amount of £3.68 million in respect of capitalised interest costs, representing 100% of eligible interest costs (year ended 31 December 2011: £nil). Additionally, net additions includes a credit of £9.00 million in respect of a transfer to Cost of Sales to zero-margin the pre-production well test revenue (see Note 4).

Based on the Group’s success in the pre-production well test during 2012 and in view of the forecast revenue streams and cash flows of this project, the Directors are satisfied that the carrying amount of the related intangible assets as disclosed above will be recovered in full and that there is no need for any impairment provision. The situation will be monitored by management and adjustments made in future periods if future events indicate that such adjustments are appropriate.
Notes to the Consolidated Financial Statements
(continued)

10 Property, Plant and Equipment

<table>
<thead>
<tr>
<th>Year ended 31 December 2011</th>
<th>Furniture, fittings and computing equipment £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening net book amount at 1 January 2011</td>
<td>30,225</td>
</tr>
<tr>
<td>Additions</td>
<td>197,340</td>
</tr>
<tr>
<td>Depreciation charge</td>
<td>(41,020)</td>
</tr>
<tr>
<td>Closing net book amount at 31 December 2011</td>
<td>186,545</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>At 31 December 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost or valuation</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
</tr>
<tr>
<td>Net book amount</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year ended 31 December 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening net book amount at 1 January 2012</td>
</tr>
<tr>
<td>Additions</td>
</tr>
<tr>
<td>Depreciation charge</td>
</tr>
<tr>
<td><strong>Closing net book amount at 31 December 2012</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>At 31 December 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost or valuation</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
</tr>
<tr>
<td>Net book amount</td>
</tr>
</tbody>
</table>

11 Trade and Other Receivables

<table>
<thead>
<tr>
<th>31 December 2012 £</th>
<th>31 December 2011 £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade receivables</td>
<td>816,750</td>
</tr>
<tr>
<td>Indirect taxes receivable</td>
<td>178,771</td>
</tr>
<tr>
<td>Prepayments</td>
<td>8,222,395</td>
</tr>
<tr>
<td>Other receivables</td>
<td>71,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>9,288,916</td>
</tr>
</tbody>
</table>

The Group’s prepayments balance represents advance payments made in respect of the Group’s RBL facility and advance payments on certain long-lead oilfield equipment items. RBL facility fees will be amortized over the life of the facility from the date of availability. For equipment items, on passing of legal title to the Group, fair value will be capitalised to E&E assets or inventory as appropriate with any gain or loss taken to the Income Statement at that time.
12 Trade and Other Payables

<table>
<thead>
<tr>
<th></th>
<th>31 December 2012</th>
<th>31 December 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade payables</td>
<td>2,000,374</td>
<td>3,962,950</td>
</tr>
<tr>
<td>Social security and other taxes payable</td>
<td>472,377</td>
<td>79,385</td>
</tr>
<tr>
<td>Accruals and other payables</td>
<td>2,811,854</td>
<td>5,458,480</td>
</tr>
<tr>
<td></td>
<td>5,284,605</td>
<td>9,500,815</td>
</tr>
</tbody>
</table>

13 Short Term Loans

<table>
<thead>
<tr>
<th></th>
<th>31 December 2012</th>
<th>31 December 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan notes</td>
<td>36,589,341</td>
<td>—</td>
</tr>
<tr>
<td>Interest accrual</td>
<td>3,681,460</td>
<td>—</td>
</tr>
<tr>
<td>Interest-bearing loan notes</td>
<td>40,270,801</td>
<td>—</td>
</tr>
</tbody>
</table>

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

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

14 Deferred Tax

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January</td>
<td>505,167</td>
<td>505,167</td>
</tr>
<tr>
<td>Profit and loss charge</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>At 31 December</td>
<td>505,167</td>
<td>505,167</td>
</tr>
</tbody>
</table>

There is a deferred tax liability at 31 December 2012 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 arising on UK tax losses and, accordingly, no further deferred tax balance has been recorded in the current year.

15 Financial Instruments

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

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

Non-market risk

(a) Credit risk

Group management has a responsibility to minimise the risk of default on credit advanced to customers and on deposits and advance payments held by suppliers. Deposits held by suppliers comprise an office rent deposit recorded as receivables and, as such, it is regarded as low risk. Advance payments are made on the basis of agreed contracts, and with blue chip institutions or banks and financial institutions rated ‘A’ grade or higher. 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.
15 Financial Instruments (continued)

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

<table>
<thead>
<tr>
<th>Carrying Amount</th>
<th>31 December 2012</th>
<th>31 December 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>Financial assets – loans and receivables measured at amortised cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>25,592,215</td>
<td>64,123,406</td>
</tr>
<tr>
<td>Receivables (current)</td>
<td>887,750</td>
<td>71,000</td>
</tr>
<tr>
<td>Prepayments</td>
<td>8,222,395</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>34,702,360</td>
<td>64,194,406</td>
</tr>
<tr>
<td>Financial liabilities – measured at amortised cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables (current)</td>
<td>4,812,228</td>
<td>9,421,431</td>
</tr>
<tr>
<td>Loans</td>
<td>40,270,801</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>45,083,029</td>
<td>9,421,431</td>
</tr>
</tbody>
</table>

Included in cash balances are amounts held in escrow of £14,806,099 (2011: £47,119,005).

The Management believes that as all financial instruments are short term, the fair values for all such items equate to their carrying amount. The accounting policies for financial assets and financial liabilities are disclosed in Note 1.

(c) Capital disclosures
The Company considers its capital to comprise its ordinary share capital and accumulated retained earnings.

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

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

Market risk

(d) Interest rate and foreign currency risks
The currency and interest profile of the Group’s financial assets and liabilities are as follows.

<table>
<thead>
<tr>
<th></th>
<th>Fixed Rate Liabilities</th>
<th>Interest Free Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 December 2012</td>
<td>31 December 2011</td>
</tr>
<tr>
<td></td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>Sterling</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>US$</td>
<td>40,270,801</td>
<td>—</td>
</tr>
<tr>
<td>CAD$</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Norwegian Kroner</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>40,270,801</td>
<td>—</td>
</tr>
</tbody>
</table>
15 Financial Instruments (continued)

<table>
<thead>
<tr>
<th></th>
<th>Floating rate assets</th>
<th>Interest free assets</th>
<th>Total £</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 December 2012 £</td>
<td>31 December 2012 £</td>
<td>31 December 2012 £</td>
</tr>
<tr>
<td>Sterling</td>
<td>5,614,860</td>
<td>8,294,751</td>
<td>13,909,611</td>
</tr>
<tr>
<td>Euro</td>
<td>3,488</td>
<td>262</td>
<td>3,750</td>
</tr>
<tr>
<td>Norwegian Kroner</td>
<td>1,011</td>
<td>39</td>
<td>1,050</td>
</tr>
<tr>
<td>CAD$</td>
<td>24,761</td>
<td>—</td>
<td>24,761</td>
</tr>
<tr>
<td>US$</td>
<td>19,947,394</td>
<td>815,794</td>
<td>20,763,188</td>
</tr>
<tr>
<td></td>
<td>25,591,514</td>
<td>9,110,846</td>
<td>34,702,360</td>
</tr>
</tbody>
</table>

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% to 0.65%. At 31 December 2012 the weighted average rate of interest being earned on Sterling deposits was approximately 0.56% (at 31 December 2011: 0.63%).

US Dollar floating rate assets earn interest within the range of rates of 0.0% to 0.18%, depending upon the liquidity of the deposit placed. At 31 December 2012 the weighted average rate of interest being earned on US deposits was 0.11% (31 December 2011: 0.06%).

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

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

(e) Foreign exchange rate sensitivity analysis

Foreign exchange rate sensitivity analysis has been determined based on the exposure to financial instruments denominated in currencies ("transactional currencies") other than the reporting currency of Pounds Sterling (the "base currency") as at the Balance Sheet date.

Based on the Group’s financial instruments at the Balance Sheet date, had the base currency been stronger than the transactional currencies by 2% then the Group would have reported an additional unrealised exchange gain in the Income Statement of £497,191 (year ended 31 December 2011; the Group would have reported an additional unrealised exchange loss of £702,069). Had the base currency been weaker than the transactional currencies by 2% then the Group would have reported an additional unrealised exchange loss in the Income Statement of £517,485 (year ended 31 December 2011; the Group would have reported an additional unrealised exchange gain of £704,006).

(f) Interest rate sensitivity analysis

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

Based on the Group’s cash balances during the period, if interest rates had been 50 basis points higher and all other variables were held constant, the Group’s loss for the year ended 31 December 2012 would decrease by £319,971 (year to 31 December 2011; the Group’s gain would increase by £279,057). 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 2012 would increase by £175,749 (year ended 31 December 2011; the Group’s gain would decrease by £77,127).
Notes to the Consolidated Financial Statements
(continued)

16 Share Capital

<table>
<thead>
<tr>
<th>Authorised</th>
<th>Number of shares 31 December 2012</th>
<th>Number of shares 31 December 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>— Ordinary shares of no par value each</td>
<td>Unlimited</td>
<td>Unlimited</td>
</tr>
<tr>
<td>Issued and fully paid up</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Ordinary shares of no par value each</td>
<td>290,880,000</td>
<td>206,005,364</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Authorised</th>
<th>£ Value of shares 31 December 2012</th>
<th>£ Value of shares 31 December 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>— Ordinary shares of no par value each</td>
<td>Unlimited</td>
<td>Unlimited</td>
</tr>
<tr>
<td>Issued and fully paid up</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Ordinary shares of no par value each</td>
<td>196,446,608</td>
<td>137,059,997</td>
</tr>
</tbody>
</table>

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

Shares issued

During the year ended 31 December 2012 the Company issued a total of 24,439,997 new ordinary shares under the Equity Line Facility for a total consideration of £29.07 million after the deduction of transaction costs.

In February 2012, the Company completed the placing of the second and final tranche of new equity funding from Socius, the first tranche having been concluded with Socius in December 2011. This second tranche provided gross funds of £12.6 million in respect of the issue of 13,353,038 new ordinary shares. In May 2012 a total of 6,676,519 warrants were exchanged for a total of 6,449,599 new ordinary shares in the Company for nil consideration. Additionally in July 2012 a further 7,597,647 warrants were exchanged for 7,501,677 new ordinary shares in the Company for nil consideration.

During 2012, the Company announced the private placing of a total of 32.5 million new ordinary shares with Global, to occur in three tranches, the first of which closed on 13 June 2012 with the issuance of 8 million new ordinary shares for gross proceeds of £6.4 million. The second tranche closed on 19 July 2012 with the issuance of 12.5 million new ordinary shares for gross proceeds of £8.33 million. The third and final tranche closed on 21 August 2012 with the issuance of 12.0 million new ordinary shares for gross proceeds of £8.35 million.

The Company also received consideration of CAD$18,802 (£11,780) in respect of the exercise of 30,325 broker warrants in February 2012 and further consideration of CAD$714,000 (£444,000) in respect of the exercise of 600,000 share options in December 2012.

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

Stock Option Plan

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

At 31 December 2012 there were 17,873,000 options outstanding with a weighted average exercise price of CAD$1.80, exercise prices ranging from CAD$0.10 to CAD$5.95 and with a weighted average remaining life of 1,115 days. At 31 December 2011 there were 17,223,000 options outstanding with a weighted average exercise price of CAD$2.02, exercise prices ranging from CAD$0.10 to CAD$5.95 and with a weighted average remaining life of 1,073 days. At 1 January 2011 there were 15,473,000 options outstanding, with the weighted average exercise price per option being CAD$1.99, with exercise prices ranging from CAD$0.10 to CAD$5.95 and a weighted average remaining life of 1,370 days.

During the year ended 31 December 2012 a total of 5,750,000 share options were issued under the Stock Option Plan at a weighted average exercise price of CAD$1.20 and with a weighted average life of five years. During the year ended 31 December 2011 a total of 1,850,000 share options were issued under the Stock Option Plan at a weighted average exercise price of CAD$2.30 and a weighted average life of five years.
16 Share Capital (continued)

During the year ended 31 December 2012 a total of 600,000 share options were exercised at an exercise price of CAD$1.19 for proceeds of CAD$714,000 in consideration for a total of 600,000 new ordinary shares in the Company. No share options were exercised during the year ended 31 December 2011.

In accordance with the Stock Option Plan rules a total of 4,400,000 share options expired during the year ended 31 December 2012, with a weighted average exercise price of CAD$1.93 and a further 100,000 were forfeited with a weighted average exercise price of CAD$2.30. During the year ended 31 December 2011 a total of 100,000 share options were forfeited with a weighted average exercise price of CAD$2.30.

At 31 December there were a total of 17,873,000 share options outstanding. Following the exercise of a total of 931,000 share options at an average exercise price of CAD$1.46 and the further expiry of 690,000 share options at an average exercise price of CAD$3.11 during the year ended 31 December 2012, with a weighted average exercise price of CAD$5.95. Of the 16,252,000, a total of 800,000 had yet to vest and therefore not eligible for exercise.

Details of the Directors’ interests in ordinary shares held under the Stock Option Plan are given in the Report of the Remuneration and Nominating Committee.

The following assumptions were used in the share option pricing model for the grant of options and warrants during the year:

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Warrant</th>
<th>Option</th>
<th>Warrant</th>
<th>Option</th>
<th>Warrant</th>
<th>Option</th>
<th>Warrant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share bid price</td>
<td>£0.95</td>
<td>CAD$0.68</td>
<td>£0.80</td>
<td>£0.74</td>
<td>£0.78</td>
<td>£0.80</td>
<td>£0.84</td>
</tr>
<tr>
<td>Exercise price</td>
<td>£1.14</td>
<td>CAD$0.68</td>
<td>£0.97</td>
<td>£0.74</td>
<td>£0.80</td>
<td>£0.80</td>
<td>£0.83</td>
</tr>
<tr>
<td>Expected volatility</td>
<td>64%</td>
<td>58%</td>
<td>58%</td>
<td>59%</td>
<td>59%</td>
<td>59%</td>
<td>59%</td>
</tr>
<tr>
<td>Expected life</td>
<td>1 year</td>
<td>2 years</td>
<td>1 year</td>
<td>2 years</td>
<td>1 year</td>
<td>2 years</td>
<td>1 year</td>
</tr>
<tr>
<td>Expected dividends</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Risk-free interest rate</td>
<td>1.37%</td>
<td>2.98%</td>
<td>1.08%</td>
<td>1.09%</td>
<td>1.01%</td>
<td>1.16%</td>
<td>1.01%</td>
</tr>
</tbody>
</table>

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 £5.44 million (2011: £3.45 million), further details of which are provided in Note 5.

Share warrants

In the year ended 31 December 2012, the Company issued a total of 22,926,519 new warrants (year ended 31 December 2011: 7,597,647 warrants were issued) with an average exercise price of CAD$1.48 and an average life of three years.

The total expense to the Group in respect of share-based payment transactions in respect of warrants issued was £4.03 million (2011: £2.18 million), all of which has been charged to the share capital account in accordance with the Company’s accounting policy. The total Group expense has been measured at fair value of the warrants granted due to the lack of open market value data to attribute to the underlying services provided by the warrant holders. This treatment is consistent with prior years.

On 7 February 2012 the Company received consideration of CAD$36,802 (£11,328) in respect of the exercise of 30,325 broker warrants.

On 10 February 2012 the Company issued a total of 6,676,519 new warrants with an exercise price of CAD$1.80 and a life of three years as part of the second tranche of equity financing from Socius. These warrants were exercised on 29 May 2012 under a cashless exercise provision, resulting in the issue of 6,449,599 new ordinary shares for nil consideration.

On 13 June 2012 the Company announced the issue of a total of 4,000,000 new warrants with an exercise price of CAD$1.54 and a life of three years in respect of the first tranche of equity financing with Global.

On 5 July 2012 the Company announced that a total of 7,597,647 warrants were exercised by Socius under a cashless exercise provision resulting in the issue of 7,501,677 new ordinary shares in the Company.

On 19 July 2012 the Company announced the issue of a total of 6,250,000 new warrants with an exercise price of CAD$1.27 and a life of three years in respect of the second tranche of equity financing with Global.

On 21 August 2012 the Company announced the issue of a total of 6,000,000 new warrants with an exercise price of CAD$1.30 and a life of three years in respect of the third and final tranche of equity financing with Global.

A total of 350,000 warrants expired during the year ended 31 December 2012 having not been exercised, with a weighted average exercise price of CAD$4.17.

No warrants expired during the year ended 31 December 2011.
Notes to the Consolidated Financial Statements
(continued)

16 Share Capital (continued)
The Group had 16,250,000 outstanding warrants over the ordinary share capital of the Company at 31 December 2012 with a weighted average exercise price of CAD$1.34 (as at 31 December 2011: 7,977,972 warrants with a weighted average exercise price of CAD$1.74), with exercise prices ranging from CAD$1.27 to CAD$1.54.

At the date of these financial statements there were 16,250,000 exercisable warrants outstanding, with exercise prices ranging from CAD$1.27 to CAD$1.54 with a weighted average exercise price of CAD$1.34.

17 Owners’ Equity
The following explains the nature and purpose of each reserve within owners’ equity:

● Share Capital: The carrying value of the issued and fully paid up ordinary share capital of the Company less any directly associated costs involved in the raising of that capital, which includes (but is not limited to) legal fees, broker and agent fees, listing fees, sustaining fees and fair values for broker share-based warrants and options.

● Retained Earnings: Cumulative gains recognised in the Group Consolidated Statement of Comprehensive Income less cumulative losses and distributions made.

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

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

18 Commitments and Contingencies
At 31 December 2012 the Company had minimum lease commitments under non-cancellable operating property leases as follows:

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts payable on leases which expire:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Within one year</td>
<td>£7,950</td>
<td>£7,800</td>
</tr>
<tr>
<td>In two to five years</td>
<td>£320,742</td>
<td>£415,950</td>
</tr>
</tbody>
</table>

In addition to property lease commitments above, at the Balance Sheet date the Company had commitments under contract of £1.1 million for topside and power generation equipment (2011: £4.7 million).

Following the conclusion to the pre-production well test in late 2012, as at 31 December 2012 the Group had no drilling rig commitments (as at 31 December 2011 the Group had US$60 million (£38.8 million) of drilling rig commitments). An option to contract for a drilling rig from the British American Offshore Limited (“Rowan”) fleet at a preferential day rate remains available to the Group until June 2013.

19 Subsequent Events
On 30 January 2013 the Company announced that it had extended the maturity date on the existing US$60 million of unsecured loan notes by a further 275 days to 31 December 2013. The financial impact of this event has been considered from a fair value perspective and is not expected to be substantial.
20 Related Parties

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

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

XEL has continued to provide a loan facility to its wholly owned subsidiary, XER, to finance XER’s operational requirements, with net cash funding of £49.7 million during the year ended 31 December 2012 (year ended 31 December 2011: £39.0 million). No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand. The total balance owing by XER to XEL under this facility at 31 December 2012 was £114.5 million (as at 31 December 2011: £64.8 million).

The Executive Directors have received remuneration, details of which are given in Note 6 to the financial statements. The Executive and Non-Executive Directors have not been granted share options over the ordinary share capital of the Company during the current year.

In the normal course of business XER incurred charges totalling £5,550 during the year ended 31 December 2012 (year ended 31 December 2011: £4,605) for consultancy services from Esher Management Services Limited, a company for which Timothy Jones is a Director. There was a balance payable by XER at the year-end of £5,550 (as at 31 December 2011: £5,526).

In the normal course of business XER incurred charges totalling £19,991 during the year ended 31 December 2012 (year ended 31 December 2011: £16,097, representing approximately nine months charges) for property rentals from Seaburome Limited, a company for which Rupert E. Cole is a Director. There was no outstanding balance payable by XER at the year end.
Glossary

1P
proven reserves; those reserves claimed to have a reasonable certainty of being recoverable under existing economic and political conditions using existing technologies. Also referred to as P90 (i.e. having a 90% certainty of being produced)

2P
proven and probable reserves; also referred to as P50, with a 50% certainty of being produced

3P
proven, probable and possible reserves; also referred to as P10, with a 10% certainty of being produced

bbl(s)
barrel(s)

bcf(s)
Billions of cubic feet (of gas)

boepd/bopd
barrels of oil equivalent per day

COGEH
Canadian Oil and Gas Evaluation Handbook

Contingent Resources
those quantities of petroleum estimated to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies

CPR
Competent Person Report

DECC
the Department of Energy and Climate Change

EOR
enhanced oil recovery

EWT
extended well test

FPD
First Phase Development

IRR
Internal Rate of Return

MD&A
Management Discussion and Analysis

MMstb
millions of stock tank barrels

NPV(0)
net present value in money of the day using a zero discount factor

NPV(10)
net present value in money of the day using a forward discount factor of 10%

PIIP
Petroleum initially in place; the estimate of total volumes of oil in any given reservoir including both producible and non-producible oil

Prospective Resources
those quantities of petroleum estimated to be potentially recoverable from undiscovered accumulations by applicable of future development projects

RAR
Reserves Assessment Report

RF
recovery factor

SPD
Second Phase Development

SPEE
Society of Petroleum Evaluation Engineers

UKCS
United Kingdom Continental Shelf
Shareholder Notes
Shareholder Notes
Officers and Principal Advisers

**Directors**
Rupert E. Cole (Company Secretary)
Stephen A. Kew

**Non-Executive Directors**
Roger S. Ramshaw (Chairman)
Gregory J. Moroney
Scott R. Cochlan
Timothy S. Jones

**Registered office**
Geneva Place
Waterfront Drive
PO Box 3469 Road Town
Tortola, VG1110
British Virgin Islands

**XER operations office**
2 Queen’s Gardens
Aberdeen
AB15 4YD

**XER corporate office**
1 Farnham Road
Guildford
Surrey, GU2 4RG

**Auditors**
BDO LLP
55 Baker Street
London
W1U 7EU

**Financial Adviser**
N M Rothschild & Sons Limited
New Court
St Swithin’s Lane
London
EC4N 8AL

**Principal bankers**
Royal Bank of Scotland plc
40 Albyn Place
Aberdeen
AB10 1YL

**Joint broker and nominated adviser**
Liberum Capital Limited
Ropemaker Place, Level 12
25 Ropemaker Street
London
EC2Y 9LY

**Joint broker**
Morgan Stanley Limited
20 Bank Street
Canary Wharf
London
E14 4AD

**Solicitors**

**United Kingdom**
Stikeman Elliott
Dauntsey House
48 Frederics Place
London EC2R 8AB

Marriott Harrison
Staple Court
11 Staple Inn Buildings
London WC1V 7QH

Canada
Stikeman Elliott S.E.N.C.R.L., s.r.l./LLP
1155, boul. René-Lévesque Ouest
40e étage
Montréal, Quebec H3B 3V2

British Virgin Islands
Conyers Dill & Pearman Limited
Commerce House
Wickhams Cay 1
PO Box 3140 Road Town
Tortola, VG1110

**Registrars**
Computershare Investor Services Inc.
100 University Avenue
9th Floor, North Tower
Toronto, Ontario M5J 2Y1
Canada

**Stock exchanges**

AIM, London Stock Exchange
Code: XELL

TSX, TSX-Venture Exchange
Code: XEL