Xcite Energy Resources Limited

Annual Report and Financial Statements

for the year ended 31 December 2013

Company number: 04560068

Xcite Energy Resources Limited

Annual Report and Financial Statements

for the year ended 31 December 2013

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Xcite Energy Resources Limited
For the year ended 31 December 2013

Officers and Principal Advisers

Executive Directors
Matt Bower
Barny Brennan
Rupert Cole
Jonathan Dale
Andrew Fairclough
Stephen Kew
Charles Lucas-Clements

Non-Executive Director
Richard West

Company Secretary
Jonathan Dale

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Surrey
GU2 4RG

Corporate office
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Operations office
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Auditors
BDO LLP
55 Baker Street
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Tax Advisers
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AB10 1YL

Principal bankers
Royal Bank of Scotland plc
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Solicitors
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Xcite Energy Resources Limited
For the year ended 31 December 2013

Strategic Report

Organisational overview

The principal activity of the Company is an operating company involved in the appraisal and development of heavy oil resources in the UK North Sea The Company considers this activity to be currently the only operating segment

Business model and strategy

The Company's business model is traditional for a UK North Sea oilfield appraisal and development company However, with a relatively low number of staff, Xcite Energy Resources Limited ("XER") utilises the services of outside specialist contractor companies and service providers to work alongside XER in delivering its oilfield assets into production

With a core body of heavy oil expertise held within a small management team, the Company is able to move quickly and to capitalise on opportunities as they arise The Company's strategy is to unlock heavy oil resources and to bring into production the Bentley heavy oil field asset economically, and safely, and in doing so become a significant oil producer in the UK North Sea

Business financial review

For the year ended 31 December 2013, the result reported is a profit after tax of £8 31 million, comprising income generated from the sale of technical well data and surplus oilfield equipment, unrealised foreign exchange gains, working capital expenditure, share-based payment charges and a tax charge in respect of deferred tax liabilities In comparison, in 2012, the Company reported a net loss of £0 63 million, comprising the revenue from crude oil sales, a charge to cost of sales to off-set the value of revenue recognised, unrealised foreign exchange losses, working capital expenditure, share-based payment charges and charges for deferred tax liabilities

Underlying operating costs of running the Company have increased, with Other Expenses increasing from £0 70 million to £0 89 million, as a result of additional staff cost charged to the Income Statement

Total assets of the Company have increased, primarily as a result of continued investment in the Bentley field and its surrounding prospects, with the associated costs being accounted for within E&E assets During 2013, a total of £20 06 million was charged to E&E assets (year ended 31 December 2012 £128 66 million) The significant decrease noted in additions to E&E assets in 2013 compared with 2012 reflects the 2012 Extended Well Test ("EWT") on the Bentley field, which involved a significant investment in offshore drilling rig hire costs, offtake vessels, crew and all associated support services

A total of £0 65 million (year ended 31 December 2012 £0 52 million) was paid in respect of XER's obligations under its UK North Sea licencing agreements, which now include Blocks 9/3b, 9/3c, 9/3d, 9/4a, 9/8b and 9/9h

Expenditure on fixed assets for the year ended 31 December 2013 was £5 67 million (year ended 31 December 2012 £0 17 million), which principally represents expenditure on long-lead offshore power generation equipment These items are being held as non-depreciating fixed assets until such time as they are put into service, and are held at the lower of cost and net realisable value

The net foreign exchange gain in the current year has resulted primarily from the currency conversion of USD into GBP to fund the general working capital requirements of the Company, against a backdrop of a general weakening US dollar against Sterling across the year Gains of £0 87 million have been recognised in the current year compared with gains of £0 53 million in 2012

Other Income for the year ended 31 December 2013 represents US$15 00 million (£9 80 million) from the sale of technical well data and US$2 52 million (£1 63 million) from the sale of surplus oilfield equipment following the EWT programme There was no such equivalent data sale or equipment sales income in year ended 31 December 2012

Interest income received on funds invested up to 31 December 2013 amounted to £2,323 (2012 £16,672) The decrease in interest generated on funds invested during the year in comparison to 2012 was as a result of significantly lower funds held on deposit during 2013

Ahead of approval of a Field Development Plan ("FDP") by the Department of Energy and Climate Change ("DECC") the accumulated costs to date in appraising the Bentley field remain within Exploration and Evaluation ("E&E") assets It is anticipated that once the FDP has been approved by DECC, and the Company has decided to commit to commercial production, the Company 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

The Company only operates in a single business and geographical segment The Company'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 Company's sole operational focus at present is the development of the Bentley field, although it intends to pursue other suitable commercial opportunities in the future, subject to available management and financial resources

XER remains dependent upon the financial support of its parent company, Xcite Energy Limited ("XEL"), who has confirmed that they will continue to provide a loan facility to XER. XER repaid £14 0 million during the year ended 31 December 2013 (year ended 31 December 2012 £49 7 million) of the cumulative funding received to date to finance XER's operational requirements No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand The total balance owing by XER to XEL under this facility at 31 December 2013 was £100 5 million (as at 31 December 2012 £114 5 million)

Principal risks and uncertainties

The principal risk factors facing the Company, together with their mitigations, are as follows

Risk Factor	Explanation
Exploration and development	The nature of oil exploration is such that there is no assurance that exploration activities will be successful Industry statistics show that few properties that are explored go on to being fully developed Operations can also be adversely affected by weather conditions and drilling rig and other operating equipment availability outwith the control of the Company Exploration and development risk is mitigated by a process of detailed subsurface technical analysis using industry professionals, to help identify those prospects with the highest chance of success Detailed project planning, concept and design engineering and effective

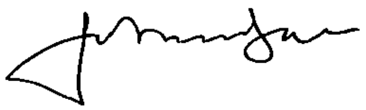
	cost control all help to mitigate the downside risk of not delivering a project safely, on specification, on time and on budget
Licensing	The Company is dependent upon its licences, all of which currently are administered by the DECC in the United Kingdom, in order to conduct offshore exploration, appraisal and development activity Each licence has certain conditions and expiries attached Maintenance of these licences is critical to the ability of the Company to continue to conduct its core business The Company maintains regular and constructive dialogue with the DECC, not only for licensing, but also for oil and gas regulatory matters
Fiscal and political regime	The decision making process in the oil and gas industry is focused on long-term field economics, which rely heavily upon a stable fiscal and political regime to provide the necessary confidence in proceeding, or otherwise, with project sanction Prevailing rates of taxation and the availability of field allowances can change, which may then change previous oil field sanction decisions Whilst it is not possible to forecast such changes or the impact these may have, membership of various industry associations ensures that the Company keeps up to date with industry consensus and has the ability to participate in relevant representations
Offshore exploration	The Company faces additional risks due to its concentration on offshore activities In particular, drilling conditions, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells The Company has a comprehensive Safety, Health, Environment and Quality management system in place which provides suitable mitigation to the manageable risks presented by offshore activity, and this management system is independently verified to be operating effectively on a periodic basis The Company also maintains a comprehensive offshore insurance policy to help mitigate operational and environmental risk
Commodity pricing	The Company has no control over the market price of crude oil Suitable hedging arrangements will be considered to mitigate the volatility of oil prices when the Company enters into the production phase
Financing	The future of the Company will depend on its ability to secure financing, whether this is by joint venture projects, farm down arrangements, parent company support or other means By using appropriate financial management and cash forecasting, the Company monitors its projected cash requirements on a regular basis The Company's parent company, Xcite Energy Limited, has delivered capital and debt market transactions, often during difficult market conditions, in order to provide the necessary financing for the Company
Currency	The Company's reporting and functional currency is Sterling However, the market for heavy crude is in US Dollars The Company does not currently engage in active hedging to minimise exchange rate risk although this will remain under review as the Company approaches the production phase

Resource estimation	Oil resource estimation techniques are inherently judgemental and involve a high degree of technical interpretation and modelling techniques Incorrect resource estimation may result in inappropriate capital investment decisions being made To minimise this risk, Company resources are independently assessed to provide additional assurance over the accuracy of internal estimates
Dependence on key executives and personnel	The Company'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 Company 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 Company 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 Company has no history of earnings and there can be no assurance that the Company's business will be successful or profitable The Company may be subject to growth-related risks, capacity constraints and pressure on its internal systems and controls, particularly given the early stage of the Company's development The ability of the Company 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 Company to deal with this growth could have a material adverse impact on its business, operations and prospects

Key performance indicators

The Company is considered to be in the appraisal phase and, in the absence of sustained oil production, key performance indicators have yet to be established Future key performance indicators are likely to include production volume, revenue per barrel of oil, costs per barrel of oil, and earnings per share

Signed on behalf of the Board,



Jonathan Dale
Company Secretary
26 March 2014

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2013

Directors

The directors of the Company are shown on page 1 Effective 1 January 2013, Barny Brennan and Charles Lucas-Clements joined the Board of Directors and Richard West commenced a Non-Executive Director role There have been no further changes to the composition of the Board

Results and dividends

The results for the period are set out in the Income Statement on page 11, and an overview of the performance of the Company during the 12 months ended 31 December 2013 is provided in the Strategic Report The directors do not recommend the payment of a dividend (2012 £nil)

Post balance sheet events

On 26 February 2014 the Company received a revised Reserves Assessment Report ("RAR"), prepared by AGR TRACS International Limited This RAR, with an effective date of 31 December 2013, confirmed 2P Reserves for the Bentley field of 257 million stock tank barrels ("MMstb"), an increase of 2 6% since the previous RAR dated 8 April 2013 Additionally, the after-tax net present value of the Bentley field cash flows (discounted at 10%) was confirmed to be approximately US$2 1 billion A further 48 MMstb of P50 Contingent Resources were assigned to the Bentley field, representing the additional economic production that could be achieved after an initial 35 year facilities life cut-off had been applied to the development plan In addition to the Reserves and Contingent Resources assigned in the RAR, there is the potential for upside from the application of enhanced oil recovery techniques and further field optimisation

At the end of March 2014 the Company received confirmation from DECC of an extension to the P 1078 Bentley oil field licence to 31 December 2016

Future Developments and Financing

Following the successful extended pre-production well test on the Bentley field in 2012 and the updated Reserves Assessment Report dated 25 February 2014, the Company's attention is now focused on planning for the first phase of field development The Bentley field has been confirmed as a significant oilfield asset and will require a complete solution in place prior to full project sanction XER remains dependent upon the financial support of its parent company, XEL, a public company listed on the London AIM and Toronto Venture Stock Exchanges XEL has confirmed its support for XER for the coming twelve months (see Note 1) in order for XER to fulfil its obligations and ongoing commitments

The addition to the Company portfolio of licences over Blocks 9/4a, 9/8b and 9/9h through the 27th Licencing Round with an effective date of 1 January 2013, provides additional optionality for exploration and appraisal programmes, but this will be dependent on the availability of suitable drilling rigs and appropriate funding The Company believes that the prospects contained in these licences have the potential to add significant value to the wider Bentley area

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Article 4 of the IAS Regulation Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period

In preparing these financial statements, the directors are required to

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and,
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the Company's ability to continue as a going concern

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

We confirm that, to the best of our knowledge

- the financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and
- the directors' report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces

Auditor and disclosure of information to the auditor

So far as the directors are aware, there is no relevant audit information of which the Company's auditor is unaware and they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Xcite Energy Resources Limited
For the year ended 31 December 2013

Auditor

The auditor, BDO LLP, has indicated its willingness to continue in office

By order of the Board,

Rupert Cole
Chief Executive Officer
26 March 2014

Independent Auditor's Report to the Members of Xcite Energy Resources Limited

We have audited the financial statements of Xcite Energy Resources Limited for the year ended 31 December 2013 which comprise the income statement, the statement of financial position, the statement of cash flows, the statement of changes in equity, the statement of comprehensive income and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS's) as adopted by the European Union

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www frc org uk/auditscopeukprivate

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRS's as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Scott Knight

Scott Knight (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London

26 March 2014

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

Xcite Energy Resources Limited
For the year ended 31 December 2013

Income Statement

	Note	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Revenue	3	-	13,288,989
Cost of sales	4	-	(13,288,989)
Gross profit		-	-
Share-based payment charges		**(506,214)**	(133,038)
Foreign exchange gains		**868,522**	533,381
Other expenses		**(889,689)**	(696,109)
Net administrative expenses		**(527,381)**	(295,766)
Loss from operations	5	**(527,381)**	(295,766)
Finance income – interest		**2,323**	16,672
Other income	8	**11,437,056**	-
Profit/(loss) before taxation		**10,911,998**	(279,094)
Tax expense	9	**(2,605,039)**	(346,526)
Profit/(loss) for the year attributable to Equity holders of the Company		**8,306,959**	(625,620)

All results relate to continuing operations

Statement of Comprehensive Income

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Profit/(loss) for the year	**8,306,959**	(625,620)
Total comprehensive income/(loss) for the year	**8,306,959**	(625,620)
Attributable to Equity holders of the Company	**8,306,959**	(625,620)

The notes on pages 15 to 33 form part of these financial statements

Xcite Energy Resources Limited
For the year ended 31 December 2013

Statement of Changes in Equity

	Share Capital	Retained Earnings	Other Reserves	Total
	£	£	£	£
At 1 January 2012	218	(1,491,960)	5,522,089	4,030,347
Loss for the year to 31 December 2012	-	(625,620)	-	(625,620)
Total comprehensive loss for the year ended 31 December 2012	-	(625,620)	-	(625,620)
Transfer upon exercise of share options	-	146,893	(146,893)	-
Share-based payment charges	-	-	1,314,871	1,314,871
At 1 January 2013	**218**	**(1,970,687)**	**6,690,067**	**4,719,598**
Profit for the year to 31 December 2013	-	8,306,959	-	8,306,959
Total comprehensive gain for the year ended 31 December 2013	-	**8,306,959**	-	**8,306,959**
Transfer upon exercise of share options	-	**147,425**	**(147,425)**	-
Share-based payment charges	-	-	**3,037,340**	**3,037,340**
At 31 December 2013	**218**	**6,483,697**	**9,579,982**	**16,063,897**

The notes on pages 15 to 33 form part of these financial statements

Xcite Energy Resources Limited
For the year ended 31 December 2013

Statement of Financial Position

	Note	31 December 2013 £	31 December 2012 £
Assets			
Non-current assets			
Intangible assets	10	**236,796,014**	216,737,343
Property, plant and equipment	11	**5,671,133**	222,347
Total non-current assets		**242,467,147**	216,959,690
Current assets			
Trade and other receivables	12	**5,078,487**	9,288,916
Cash and cash equivalents	15b	**373**	14,806,757
Total current assets		**5,078,860**	24,095,673
Total assets		**247,546,007**	241,055,363
Liabilities			
Current liabilities			
Trade and other payables	13	**228,025,378**	235,484,072
Total current liabilities		**228,025,378**	235,484,072
Non-current liabilities			
Deferred tax	14	**3,456,732**	851,693
Total non-current liabilities		**3,456,732**	851,693
Net assets		**16,063,897**	4,719,598
Equity			
Share capital	16	**218**	218
Retained earnings	17	**6,483,697**	(1,970,687)
Other reserves	17	**9,579,982**	6,690,067
Total equity		**16,063,897**	4,719,598

The notes on pages 15 to 33 form part of these financial statements These financial statements were approved by the Board of Directors and authorised for issue on 26 March 2014 and were signed on its behalf by

Rupert Cole
Director

Jonathan Dale
Director

Xcite Energy Resources Limited
For the year ended 31 December 2013

Statement of Cash Flows

	Year ended 31 December 2013	Year ended 31 December 2012
	£	£
Net cash flow from operating activities		
Profit/(loss) for the period before tax	**10,911,998**	(279,094)
Adjustment for interest received	**(2,323)**	(16,672)
Adjustment for other income	**(11,437,056)**	-
Adjustment for depreciation	**216,722**	132,920
Adjustment for share-based payment charges	**506,214**	133,038
Movement in working capital		
- Trade and other receivables	**(1,250,305)**	(8,908,187)
- Trade and other payables	**(7,458,693)**	104,252,676
Net cash flow from operations	**(8,513,443)**	95,314,681
Cash flow from investing activities		
Additions to intangible assets	**(17,527,545)**	(127,474,900)
Purchase of property, plant and equipment	**(204,775)**	(168,722)
Other income	**11,437,056**	-
Interest received	**2,323**	16,672
Net cash flow from investing activities	**(6,292,941)**	(127,626,950)
Net decrease in cash and cash equivalents	**(14,806,384)**	(32,312,269)
Cash and cash equivalents at beginning of year	**14,806,757**	47,119,026
Cash and cash equivalents at end of year	**373**	14,806,757
Cash and cash equivalents comprise:		
Short term deposits	**-**	14,806,099
Cash available on demand	**373**	658

The notes on pages 15 to 33 form part of these financial statements

Notes to the financial statements

1 Accounting Policies

Basis of preparation

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

The 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 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 financial statements This is not expected to have a material effect on the reported results or financial position of the Company

Xcite Energy Limited ("XEL"), the parent company of the Company, has expressed its commitment to meet the financial obligations of XER as they fall due for a period of one year from the date of these financial statements and accordingly the financial statements have been prepared on a going concern basis This takes into account that the Company has, through its funding agreement with XEL, access to sufficient existing resources to meet its financial obligations for a period of at least one year

Revenue

Revenue arises from the sale of oil produced and reflects the actual sales value, net of value-added-tax ("VAT") and overriding royalties Revenue earned on test production prior to establishing the technical feasibility and commercial viability of the project is credited to the Income Statement 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 Company

Finance income

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

Other income

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

Current taxation

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

The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the date of the Statement of Financial Position

Share-based payments

The Xcite Energy Group operates one equity-settled, share-based option scheme for employees As the employees of XER benefit from this scheme an appropriate charge has been made to the Income Statement or to Exploration & Evaluation assets in accordance with Company's accounting policy

For all share options granted and vesting to XER employees in the period, the share-based payment expense arising under the parent company's Stock Option Plan is recorded in the Income Statement or as an increase in Exploration & Evaluation assets for all share 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 share options Upon the exercise of the share options, amounts previously recorded in other reserves are transferred to retained earnings In the event that vested share options expire unexercised, the previously recognised share-based payment expense associated with such share options is not reversed

The Black-Scholes model is used to value all share-based payments Where equity instruments are granted to persons other than employees, the Income Statement or Exploration & Evaluation Assets is charged with the fair value of the goods and services received

The parent company's expected share price volatility was determined by a review of the share trading performance of comparable companies in the same industry sector

The total cost to the Company in respect of share-based payment transactions under the Group Stock Option Plan in the year to 31 December 2013 was £3,037,340 (2012 £1,314,871) Of this total, £506,214 (2012 £133,038) has been charged to the Income Statement and £2,531,126 (2012 £1,181,833) has been capitalised under intangible assets in accordance with the Company's accounting policy

Operating leases

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

Foreign currency

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

Statement of Financial Position Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the Income Statement

Financial assets

The Company'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 profit or loss when there is objective evidence that the asset value is impaired

Trade receivables – these assets arise through the provision of goods and services to customers or from credit notes due from suppliers, and are 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 The Company currently has no cash on term deposit or held in escrow

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 intangible Exploration and Evaluation ("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 Company decides not to continue exploration and evaluation, the carrying value of the E&E asset is written off to the Income Statement in the period the relevant events occur

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

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 and any resulting impairment loss is written off 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
- Other oilfield equipment 5 years

Assets capitalised pending use are not depreciated, but are held at the lower of cost and net realisable value

Prepayments

Prepayments comprise advance payments made by the Company and are recognised on initial recognition at cost Advance payments include payments made in respect of Reserves Based Lending facility fees

Financial liabilities

The Company's financial liabilities comprise trade and other payables and are recognised on initial recognition at fair value and are subsequently measured at amortised cost ***Deferred taxation***

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

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted at the date of the Statement of Financial Position and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered) Deferred tax assets and liabilities are offset when the Company 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 Capital

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

Critical accounting estimates and judgements

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

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

(a) Income taxes

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business The Company 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 over the parent company's ordinary share capital

The Company has valued the fair value of the outstanding share options over the parent company's shares held by certain XER employees and contractors using the Black-Scholes valuation methodology The Company uses judgement to derive such valuation model assumptions that are mainly based on market conditions existing at the date of grant

(c) Impairment of Exploration and Evaluation assets

A review is performed at the end of each financial period for any indication that the value of the Company's intangible 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 Company has early adopted Amendments to IAS 19 'Employee Benefits' during the year ended 31 December 2013, it has not had a material effect on the reported results or financial position of the Company These accounting standards were adopted during the year and include

- Amendments to IFRS 7and IAS 32 'Financial Instruments Disclosures and Presentation – Offsetting Financial Assets and Financial Liabilities',
- Amendments to IAS12 'Income Taxes – Deferred Tax Recovery of Underlying Assets',

- IFRIC Interpretation 20 'Stripping Costs in the Production Phase of a Surface Mine',
- IFRS10 'Consolidated Financial Statements',
- IFRS11 'Joint Arrangements',
- IFRS12 'Disclosure of Interests in Other Entities',
- IFRS 13 'Fair Value Measurement',
- Amendments to IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets',
- IAS27 'Separate Financial Statements', and
- IAS28 'Investments in Associates and Joint Ventures'

New standards and interpretations not yet applied

Certain new standards and interpretations issued and endorsed by the IASB and the IFRIC during the year ended 31 December 2013 are effective for future periods and for which the Company has not early adopted These are listed below, none of which are expected to have a material effect on the reported results or financial position of the Company

- Amendments to IFRS 1 'First Time Adoption of International Financial Reporting Standards – Government Loans',
- Annual Improvements to IFRSs 2009-2011 Cycle,
- Amendments to IFRS 10, IFRS 12 and IFRS 27 'Investment Entities',
- Amendments to IAS 39 'Novation of Derivatives and Continuation of Hedge Accounting', and
- Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)

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 financial statements None are expected to have a material effect on the reported results or financial position of the Company

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 financial statements were authorised for issue

- IFRS 9 'Financial Instruments',
- IFRS 14 'Regulatory Deferral Accounts',
- IFRIC Interpretation 21 'Levies',
- Amendments to IAS 19 'Defined Benefit Plans Employee Contributions',
- Annual Improvements to IFRSs 2010-2012 Cycle, and
- Annual Improvements to IFRSs 2011-2013 Cycle

2 Segment Information

The Company only operates in a single business and geographical segment The Company'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 Company's financial statements from the reportable segment revenues, profit or loss, assets and liabilities

3 Revenue

The Company had no reported revenues in the year ended 31 December 2013, reflecting no offshore oil production activities during the year (year ended 31 December 2012, £13 29 million) For the year ended 31 December 2012 all of the Group's revenue was from one customer

4 Cost of Sales

The Company had no reported revenues in the year ended 31 December 2013, and consequently there was no cost of sales In the year ended 31 December 2012 the Group reported what it regarded as test volumes of crude oil production as revenue Test production revenue should be recorded at zero-margin in the Income Statement Accordingly, a total value of £13 29 million was charged to cost of sales in 2012, which included the costs of diluent and a balancing charge from E&E assets

5 Loss from Operations

The loss from operations on ordinary activities is stated after crediting/(charging) the following

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Foreign exchange gains	**868,522**	533,381
Share-based payment charges	**(506,214)**	(133,038)

The Company incurred total charges in respect of share-based payments in the current period of £3,037,340 (2012 £1,314,871) Of this, £2,810,299 (2012 £1,180,219) was in respect of employees (see Note 7) In accordance with the Company accounting policy, £2,531,126 (2012 £1,181,833) has been capitalised within E&E assets and the balance of £506,214 (2012 £133,038) expensed within operating loss

The Company incurred total charges in respect of property leases in the current year of £225,785 (year ended 31 December 2012 £188,600) These have all been capitalised to E&E assets in accordance with the Company's accounting policy

The Company incurred no charges in respect of drilling rig hire in the current year (year ended 31 December 2012 £46 54 million) The charges in 2012 were all capitalised to E&E assets in accordance with the Company's accounting policy

6 Auditor's Remuneration

During the year fees paid to the Company's auditor in respect of audit services were £15,000 (2012 £15,000) and further fees of £nil (2012 £10,900) were paid in respect of tax advice

7 Staff Costs and Directors' Emoluments

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

	31 December 2013	31 December 2012
Technical and administration	**18**	18

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

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Wages and salaries	**3,165,538**	3,350,961
Social security costs	**417,515**	439,506
Share-based payments charge	**2,810,299**	1,180,219
	6,393,352	4,970,686

b) Executive Directors' emoluments

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Wages and salaries	**1,996,000**	1,590,783
Social security costs	**267,962**	213,916
Share-based payments charge	**2,358,455**	315,076
	4,622,417	2,119,775

The Executive Directors comprise the key management personnel of the Company Effective 1 January 2013, Barny Brennan and Charles Lucas-Clements were appointed to the Board and Richard West commenced a Non-Executive role as Compliance Director

The comparative numbers for 2012 in the table above include the emoluments of Jonathan Dale and Matt Bower since their election to the Board of Directors on 2 August 2012 and for Andrew Fairclough since his election to the Board of Directors on 1 August 2012 For comparative purposes, the average monthly number of Board members during 2013 was 8 compared with 5 during 2012

The emoluments of the highest paid director, which is for a different individual in 2013 to the comparative shown in 2012, were as follows

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Wages and salaries	**370,500**	337,092
Social security costs	**50,075**	45,241
Share-based payments charge	**616,253**	5,245
	1,036,828	387,578

8 Other Income

On 20 May 2013, the Company entered into a non-exclusive, confidential, binding sale and purchase agreement for certain technical data in respect of the Bentley 9/03b-6, 6Z well, and the 9/03b-7 and 7Z extended pre-production well test Other income includes the US$15 00 million (£9 80 million) received under this agreement

On 27 June 2013, the Company concluded on the sale of certain oilfield equipment acquired during the 9/03b-7 and 7Z well programme for US$2 52 million (£1 63 million) This sale has been recognised within other income

9 Tax Expense

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Deferred tax	**2,605,039**	346,526
Total tax charge	**2,605,039**	346,526

The tax assessed for the period is different to the standard rate of corporation tax in the UK The differences are explained below

	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Profit/(loss) on ordinary activities before tax	**10,911,998**	(279,094)
Profit/(loss) on ordmary actıvıtıes multıplıed by the standard rate of corporatıon tax ın the UK 62% (2012 62%)	**6,765,439**	(173,038)
Effects of		
Adjustments ın respect of prıor years	**(4,014,775)**	(1,769,224)
Income not taxable	**(261,272)**	(3,289,310)
Expenses not deductıble for tax purposes	**115,647**	5,578,098
Total tax charge for the year	**2,605,039**	346,526

The Company ıs consıdered to be a company whıch profits from oıl extractıon and oıl rıghts ın the UK and the UK Contınental Shelf and ıs, therefore, subject to corporatıon tax on taxable profits at a rate of 30% or 19% where the profits fall wıthın the lımıt of the small companıes rate With the supplementary charge remaınıng at 32%, the combıned corporatıon tax rate for rıng-fenced tradıng profits for UK North Sea producıng oıl companıes remaıns at 62%

On 26 March 2012 changes ın the maın (non-rıng fenced) rate of UK corporatıon tax were substantıvely enacted, resultıng ın reductıons from 26% to 24% (effectıve from 1 Aprıl 2012), reducıng further to 23% (from 1 Aprıl 2013) Further changes to the non-rıng fence UK corporatıon tax system were substantıvely enacted as part of the Fınance Bıll 2013 on 2 July 2013 These ınclude reductıons to the maın rate to reduce the rate to 21% from 1 Aprıl 2014 and to 20% from 1 Aprıl 2015 As the Company ıs carryıng on a rıng fence trade and the Company forecasts not to be payıng corporatıon tax or supplement charges ın the ımmedıate future due to the avaılabılıty of brought forward losses and heavy oıl field allowances, the ımpact of these reductıons do not have a current ımpact on the reported results of the Company

Wıth effect from 21 March 2012, there was a reductıon to the effectıve rate of relıef for decommıssıonıng costs from 62% to 50% resultıng from the cappıng of the relıef avaılable for the supplementary charge at 20% Gıven the dıstant tımıngs on potentıal Bentley field decommıssıonıng actıvıtıes, the ımpact of thıs reductıon has a neglıgıble financıal ımpact on the Company at present

10 Intangible Assets

	Licence Fees	
	2013	2012
Exploration and Evaluation Assets	**£**	£
Opening cost and carrying value	**1,733,967**	1,215,387
Additions	**654,990**	518,580
Closing cost and carrying value	**2,388,957**	1,733,967

	Exploration and Appraisal Costs	
	2013	2012
	£	£
Opening cost and carrying value	**215,003,376**	86,865,223
Net additions	**19,403,681**	128,138,153
Closing cost and carrying value	**234,407,057**	215,003,376

	Total	
	2013	2012
	£	£
Opening cost and carrying value	**216,737,343**	88,080,610
Net additions	**20,058,671**	128,656,733
Closing cost and carrying value	**236,796,014**	216,737,343

The costs associated with the appraisal of the Bentley field and its surrounding prospects have been capitalised in accordance with the Company's accounting policy in Note 1 Appraisal and Exploration net additions in the year ended 31 December 2013 include an amount of £5 87 million in respect of capitalised interest costs, representing 100% of the eligible interest costs (year ended 31 December 2012 £3 68 million) These interest costs represent interest charges on loan notes passed down by the parent company in respect of specific project funding Net additions also include a value of £2 53 million (2012 £1 18 million) in respect of capitalized share-based payment charges (see Note 5) For the year ended 31 December 2012, net additions includes a credit of £9 00 million in respect of a transfer to Cost of Sales to zero-margin the extended pre-production well test revenue (see Note 4)

Based on the Company's success in drilling its final appraisal well on Block 9/3b, 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

11 Property, Plant and Equipment

	Oilfield equipment	Furniture, fittings and computing equipment	Total
Year ended 31 December 2012	£	£	£
Opening net book amount at 1 January 2012	-	186,545	186,545
Additions	-	168,722	168,722
Depreciation charge	-	(132,920)	(132,920)
Closing net book amount at 31 December 2012	-	222,347	222,347
At 31 December 2012			
Cost or valuation	-	431,077	431,077
Accumulated depreciation	-	(208,730)	(208,730)
Net book amount	-	222,347	222,347
Year ended 31 December 2013			
Opening net book amount at 1 January 2013	-	**222,347**	**222,347**
Additions	**5,460,733**	**204,775**	**5,665,508**
Depreciation charge	-	**(216,722)**	**(216,722)**
Closing net book amount at 31 December 2013	**5,460,733**	**210,400**	**5,671,133**
At 31 December 2013			
Cost or valuation	**5,460,733**	**635,852**	**6,096,585**
Accumulated depreciation	-	**(425,452)**	**(425,452)**
Net book amount	**5,460,733**	**210,400**	**5,671,133**

In accordance with the Company's accounting policy, oilfield equipment assets capitalised pending use are not depreciated, but are held at the lower of cost and net realisable value

12 Trade and Other Receivables

	2013 £	2012 £
Trade receivables	-	816,750
Indirect taxes receivable	35,250	178,771
Prepayments	4,963,838	8,222,395
Other receivables	79,400	71,000
	5,078,488	9,288,916

The Company's prepayments balance represents advance payments made in respect of the Company's Reserves Based Lending ("RBL") facility and, for 2012 the balance, also includes 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

13 Trade and Other Payables

	2013 £	2012 £
Trade payables	367,764	1,951,954
Social security and other taxes payable	104,303	472,377
Accruals and other payables	1,037,866	2,698,950
Intercompany account payable	226,515,444	230,360,791
	228,025,377	235,484,072

14 Deferred Tax

	2013 £	2012 £
At 1 January	851,693	505,167
Profit and loss charge	2,605,039	346,526
At 31 December	3,456,732	851,693

There is a deferred tax liability at 31 December 2013 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

15 Financial Instruments

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

The Company does not currently trade in derivative financial instruments The principal financial risks faced by the Company 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

Company 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, Company 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" grade or higher are used by the Company to hold such deposits

b) Liquidity risk

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

	Carrying Amount	
	2013	2012
	£	£
Financial assets – loans and receivables		
Cash	**373**	14,806,757
Receivables (current)	**79,400**	887,750
	79,773	15,694,507
Financial liabilities – measured at amortised cost		
- Payables (current)	**227,921,074**	235,011,695

In the year endmg 31 December 2013, all escrow accounts held by the Company have been closed with the surplus balances returned to the Company (2012 £14,806,099) In 2012 the balance held m escrow was treated as cash on short term deposit

The management beheves that as all financial mstruments are short term, the fair values for all such items equate to their carrying amount The accountmg policies for financial assets and financial habihties are disclosed m Note 1

c) Capital disclosures

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

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

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

Market risk

d) Interest rate and foreign currency risks

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

	Interest Free Liabilities	
	2013	2012
	£	£
Sterling	**227,914,875**	233,428,751
US Dollar	**6,199**	1,104,027
Norwegian Kroner	**-**	478,917
	227,921,074	235,011,695

	Floating Rate Assets	**Interest Free Assets**	**Total**
	2013	**2013**	**2013**
	£	**£**	**£**
Sterling	**-**	**79,773**	**79,773**

	Floating Rate Assets	Interest Free Assets	Total
	2012	2012	2012
	£	£	£
Sterling	3,941,483	72,648	4,014,131
USD$	10,864,616	815,760	11,680,376
	14,806,099	888,408	15,694,507

Sterling floating rate assets earn interest at rates linked to the Bank of England Base Rate, with higher rates of return being achieved on deposits placed on longer maturities The Company currently earns interest on Sterling deposits in the range of 0% to 0 1% At 31 December 2013 the weighted average rate of interest being earned on Sterling deposits was approximately 0 17% (2012 0 09%)

At 31 December 2013 the weighted average rate of interest being earned on US deposits was nil (2012 0 11%)

Cash deposits are only kept with banks with "A" rating or better The policy of the Company 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 date of the Statement of Financial Position (translational risk) The Company is exposed to exchange rate movements in the US Dollar During well drilling programmes the Company aligns its expected future foreign expenditure with the necessary foreign currency cash balances, in effect creating a natural hedge The Company will continue to monitor its exposure to such foreign currency risks and will manage future risks using derivative financial instruments as considered appropriate *(e) Foreign exchange rate sensitivity analysis*

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

Based on the Company's financial instruments at the Statement of Financial Position date, had the base currency been stronger than the transactional currencies by 2% then the Company would have reported an additional unrealised exchange loss in the Income Statement of £25,016 (year ended 31 December 2012, the Company would have reported an additional unrealised exchange loss of £219,662) Had the base currency been weaker than the transactional currencies by 2% then the Company would have reported an additional unrealised exchange gain in the Income Statement of £26,037 (year ended 31 December 2012, the Company would have reported an additional unrealised exchange gain of £228,628)

(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 Company's cash balances during the period, if interest rates had been 50 basis points higher and all other variables were held constant, the Company's gain for the year ended 31 December 2013 would increase by £21,678 (year ended 31 December 2012, the Company's loss would decrease by £161,988) If interest rates had been 50 basis points lower and all other variables were held constant, the Company's gain for the year ended 31 December 2013 would decrease by £2,323 (year ended 31 December 2012, the Company's loss would increase by £16,672)

16 Share Capital

	2013	2012
	£	£
Authorised		
- 1,000 Ordinary shares of £1 each	**1,000**	1,000
Issued and fully paid up		
- 218 Ordinary shares of £1 each	**218**	218

17 Reserves

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

- Retained Earnings Cumulative profits recognised in the Statement of Comprehensive Income less cumulative losses and distributions made

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

18 Commitments and Contingencies

At 31 December the Company had minimum lease commitments under non-cancellable operating leases expiring as follows

	2013	2012
	£	£
Within one year	50,634	7,950
Between two to five years	225,794	320,742

In addition to property lease commitments above, at 31 December 2013, the Company had £nil commitments under contract for topside and power generation equipment (2012 £1 1 million)

19 Subsequent Events

On 25 February 2014 the Company received a revised Reserves Assessment Report ("RAR"), prepared by AGR TRACS International Limited This RAR, with an effective date of 31 December 2013, confirmed 2P Reserves for the Bentley field of 257 million stock tank barrels ("MMstb"), an increase of 2 6% since the previous RAR dated 8 April 2013 Additionally, the after-tax net present value of the Bentley field cash flows (discounted at 10%) was confirmed to be approximately US$2 1 billion A further 48 MMstb of P50 Contingent Resources were assigned to the Bentley field, representing the additional economic production that could be achieved after an initial 35 year facilities life cut-off had been applied to the development plan In addition to the Reserves and Contingent Resources assigned in the RAR, there is the potential for upside from the application of enhanced oil recovery techniques and further field optimisation

At the end of March 2014 the Company received confirmation from DECC of an extension to the P 1078 Bentley oil field licence to 31 December 2016

20 Related Parties and Ultimate Parent Undertaking

The immediate and ultimate parent undertaking and controlling party is Xcite Energy Limited ("XEL"), which is the parent undertaking of the smallest and largest group to consolidate these financial statements XEL is a company incorporated in the British Virgin Islands, whose registered office is at Geneva Place, Waterfront Drive, PO Box 3469 Road Town, Tortola, VG1110, British Virgin Islands

Copies of XEL's consolidated financial statements may be obtained by writing to the XEL Company Secretary, c/o Xcite Energy Resources Limited, 1 Farnham Road, Guildford, Surrey, GU2 4RG

The Company defines related parties as

- The Company's parent company XEL and its Executive and Non-Executive Directors,
- The Company's Executive Directors and key management, and
- Companies in which the Executive Directors exercise significant influence

XEL has continued to provide a loan facility to XER. XER repaid £14 0 million during the year ended 31 December 2013 (year ended 31 December 2012 £49 7 million) of the cumulative funding received to date to finance XER's operational requirements No interest is payable on the outstanding loan balance from XEL, which is unsecured and repayable on demand The total balance owing by XER to XEL under this facility at 31 December 2013 was £100 5 million (as at 31 December 2012 £114 5 million)

The Executive Directors have received remuneration, details of which are given in Note 7 to these financial statements The Executive Directors have also been granted certain share options over the ordinary share capital of the parent undertaking, details of which are given in the consolidated financial statements of XEL

In the normal course of business the Company incurred charges totalling £5,522 during the year ended 31 December 2013 (year ended 31 December 2012 £5,550) for consultancy services from Esher Management Services Limited, a company for which Timothy Jones, a Non-Executive Director of XEL, is a Director There was an accrued balance payable at the year-end of £5,522 (as at 31 December 2012 £5,550)

In the normal course of business the Company incurred charges totalling £22,009 during the year ended 31 December 2013 (year ended 31 December 2012 £19,991) for property rentals from Seaburome Limited, a company for which Rupert E Cole is a Director There was no outstanding balance payable at the year end