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TSX-V, LSE-AIM: XEL



[22] June 2012

**Xcite Energy Limited
("Xcite Energy" or the "Company")**

Signing of US\$155 million reserves based loan facility

Xcite Energy is pleased to announce that it has signed a US\$155 million secured reserves based loan facility agreement (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 in the UK North Sea.

The Facility has been arranged with Royal Bank of Scotland plc, Societe Generale 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 Societe Generale acting as technical and modelling bank.

The draw down under the Facility is subject to conditions precedent, including the achievement of certain principal objectives in the Bentley Phase 1A work programme announced on 19 April 2012 as set out below, together with their current status:

- ❖ Drilling of a horizontal motherbore well in the geological formation immediately overlying the reservoir.

Current status: the drilling of this motherbore in excess of 1300ft has now been successfully completed.

- ❖ Drilling of the toe extension well (9/03b-7 well), a horizontal wellbore from the toe of the motherbore, with a reservoir section of up to 2,400ft in length. This well is to be positioned approximately at mid-height in the reservoir at an elevation above the oil-water contact such that, when produced at an oil rate of at least 1,500 barrels of oil per day ("bopd"), it should initiate water breakthrough at the well and subsequently develop sufficient water cut (to

approximately 50%) within the flow test period. This well will be plugged and abandoned at the end of the production test.

Current status: as announced on 29 May 2012, the drilling of this toe extension well has now been successfully completed, with a reservoir section in excess of 2,200ft having been penetrated with 100% net pay. Sand control screens have been successfully installed.

- ❖ The 9/03b-7 wellbore is planned to recover a minimum cumulative volume of 45,000 barrels of oil during the flow test period to help ensure that the data gathering will be as effective as possible. This flow test is planned to be up to 90 days in length and to be conducted at a range of different flow rates (specifically not 500 barrels per day for 90 days), again to assist in the data gathering programme, to achieve sufficient water cut to enable satisfactory calibration of the reservoir model and a revised, independent reserves assessment report.

Current status: this flow test is expected to commence in the coming weeks.

- ❖ Drilling of a lateral well (9/03b-7z well) from the side of the motherbore, a horizontal wellbore with a reservoir section of approximately 2,450ft in length. This well is positioned as high in the reservoir as possible, being similar in design and completion to the successful 9/03b-6z well. This wellbore was drilled after the toe extension well, but will not be flowed until after the toe extension well has been flowed to achieve sufficient water cut. This lateral wellbore will be cleaned up and then flowed at a rate of at least 1,500 bopd for a minimum period of one day, prior to being suspended as the first full production well on the field in Phase 1B.

Current status: as announced on 13 June 2012, the drilling of this lateral well has now been successfully completed in the roof of the reservoir, a section in excess of 2,000ft has been penetrated, 100% net pay was encountered and the oil column was found to be thicker than expected. Sand control screens have been successfully installed. The flow test on this well is expected to be completed in the fourth quarter of 2012.

With the Facility now signed, the Company is able to continue preparations for the development of the Bentley field in Phase 1B. The Company intends to bring together all the other major aspects of the work programme that are also inter-dependent with the Facility, including:

- completion of the funding programme;
- DECC approval for the field development plan;
- appropriate contract negotiations for infrastructure and equipment build and installation;
- hire of storage and offtake vessel; and
- permanent pipeline installation.

The operational experience gained and still to be gained in Phase 1A is viewed as valuable for the Phase 1B work programme, with a principal objective being to

minimise costs to First Oil by coordinating the timing of all these inter-dependent aspects to avoid programme delays.

In line with the previously outlined funding strategy and with the Facility now signed, the Company now intends to pursue its other options to provide the balance of the funding required to commence the Phase 1B development. Such funding could be provided by the potential farm-out of an appropriate interest in the Bentley field following the outcome of Phase 1A programme in the fourth quarter of 2012, other industry participation, convertible debt instruments, mezzanine debt and potentially equity financing.

Commenting on today's announcement Rupert Cole, Chief Financial Officer, said:

"We are very pleased to have secured the Facility from such a high quality banking consortium with considerable experience in reserves based lending. The process to secure the Facility has involved a further rigorous, independent technical assessment of the Bentley field, the Company's field development plan for the Bentley development and the route to market for the Bentley crude.

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

As previously announced on 12 June 2012, the re-negotiation of the marketing and offtake agreement with BP Oil International Limited, a wholly owned subsidiary of BP plc ("BP"), provides a further endorsement from BP through its direct participation in the Facility and its significant, flexible working capital support. We believe that this demonstrates BP's confidence in Xcite Energy and the quality of the Bentley field."

Rothschild acted as independent financial adviser, and Pinsent Masons LLP as legal adviser, to Xcite Energy in relation to the Facility.

Herbert Smith LLP acted as legal adviser to the lending group.

ENQUIRIES:

+44 (0) 1483 549 063

Xcite Energy Limited

Richard Smith (CEO) / Rupert Cole (CFO)

Oriel Securities (Joint Broker and Nomad)

Emma Griffin / Michael Shaw

+44 (0) 207 710 7600

Morgan Stanley (Joint Broker)

Andrew Foster

+44 (0) 207 425 8000

Rothschild Neeve Billis / Stewart MacDonald	+44 (0) 207 280 5000
Pelham Bell Pottinger Mark Antelme / Henry Lerwill	+44 (0) 207 861 3232
Paradox Public Relations Jean-Francois Meilleur	+1 514 341 0408

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