

EXCELSIOR ENERGY LIMITED

**CONSOLIDATED FINANCIAL
STATEMENTS**

**FOR THE THREE MONTHS ENDED
MARCH 31, 2008 AND 2007**

EXCELSIOR ENERGY LIMITED

UNAUDITED CONSOLIDATED BALANCE SHEETS

	March 31, 2008	December 31, 2007
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 9,855,753	\$ 15,848,648
Accounts receivable	698,997	436,288
Prepays and deposits	157,441	47,995
	10,712,191	16,332,931
Petroleum and natural gas properties (note 3)	61,928,827	51,113,122
Property and equipment (note 4)	24,180	26,478
	\$ 72,665,198	\$ 67,472,531
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 6,210,143	\$ 1,995,125
Future income tax liability (note 11)	3,730,212	-
Asset retirement obligation (note 5)	5,154	5,059
	9,945,509	2,000,184
SHAREHOLDERS' EQUITY		
Share capital (note 9)	67,187,423	70,181,826
Contributed surplus (note 9)	5,011,672	4,219,879
Warrants (note 9)	1,407,053	1,379,606
Deficit	(10,886,459)	(10,308,964)
	62,719,689	65,472,347
	\$ 72,665,198	\$ 67,472,531

Basis of presentation (note 1)

Commitments (note 14)

Subsequent events (note 15)

See accompanying notes to the interim unaudited consolidated financial statements.

EXCELSIOR ENERGY LIMITED

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

Three months ended March 31	2008	2007
REVENUES		
Gas sales	\$ 37,038	\$ 31,954
Royalties	(6,051)	(9,059)
Interest and other income	140,529	26,069
	171,516	48,964
EXPENSES		
Operating expenses	8,046	1,828
General and administrative	279,028	236,441
Stock-based compensation (note 9)	791,793	97,362
Depreciation, depletion and accretion	26,593	17,436
	1,105,460	353,067
Loss before income taxes	(933,944)	(304,103)
Provision for income taxes		
Future	356,449	-
NET LOSS AND COMPREHENSIVE LOSS	(577,495)	(304,103)
DEFICIT, beginning of period	(10,308,964)	(5,367,643)
DEFICIT, end of period	\$(10,886,459)	\$(5,671,746)
Loss per share		
Basic and diluted (note 10)	\$ (0.01)	\$ (0.01)

See accompanying notes to the interim unaudited consolidated financial statements.

EXCELSIOR ENERGY LIMITED

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended March 31	2008	2007
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net loss and comprehensive loss	\$ (577,495)	\$ (304,103)
Items not affecting cash:		
Depreciation, depletion and accretion	26,593	17,436
Stock-based compensation	791,793	97,362
Unrealized gain in marketable securities	-	(1,740)
Future income tax	(356,449)	-
	(115,558)	(191,045)
Changes in non-cash working capital items (note 12)	(291,600)	(27,348)
	(407,158)	(218,393)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Expenditures on petroleum and natural gas properties	(10,839,905)	(2,388,621)
Changes in non-cash working capital items (note 12)	4,142,443	(439,007)
	(6,697,462)	(2,827,628)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Issuance of share capital net of issue costs	1,119,705	2,867,133
Changes in non-cash working capital items (note 12)	(7,980)	90,000
	1,111,725	2,957,133
DECREASE IN CASH POSITION	(5,992,895)	(88,888)
CASH and cash equivalents, beginning of period	15,848,648	3,965,957
CASH and cash equivalents, end of period	\$ 9,855,753	3,877,069
Cash and cash equivalents consist of		
Cash	\$ 333,693	\$ 2,377,069
Term deposits	9,522,060	1,500,000
	\$ 9,855,753	\$ 3,877,069

See accompanying notes to the interim unaudited consolidated financial statements.

EXCELSIOR ENERGY LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

THREE MONTHS ENDED MARCH 31, 2008 AND 2007

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1. BASIS OF PRESENTATION

The unaudited consolidated financial statements of Excelsior Energy Limited (“Excelsior” or the “Company”) for the three month periods ended March 31, 2008 and 2007 are presented in accordance with Canadian generally accepted accounting principles (“GAAP”).

These financial statements are prepared on the assumption that the Company will continue as a going concern and realize its assets and discharge its liabilities in the normal course of business. The recoverability of the amounts shown for oil and gas assets is dependent upon the ability of the Company to obtain financing necessary to complete the exploration and development and the discovery of economically recoverable oil and gas resources. If the going concern assumption is not appropriate, adjustments might be necessary to the carrying values of assets and liabilities, reported revenues and expenses, and the balance sheet classifications used in the consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited consolidated financial statements have been prepared following the same accounting policies and methods of computation as indicated in the audited consolidated financial statements for the year ended December 31, 2007, except as described below. The disclosures do not conform in all respects to the requirements of GAAP for annual financial statements and should be read in conjunction with Excelsior’s audited consolidated financial statements and the notes thereto for the year ended December 31, 2007.

The preparation of financial statements in conformity with generally accepted accounting principles in Canada requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. Actual results could differ from those estimates and assumptions; however, management believes that such differences would not be material.

Capital Disclosures

On January 1, 2008, the Company prospectively adopted new Canadian accounting standards for Capital Disclosures which establishes standards for disclosing information about an entity’s objectives, policies and processes for managing its capital structure. The disclosures have been included in note 6.

Financial Instruments Disclosures and Presentation

On January 1, 2008, the Company prospectively adopted the following new standards: Financial Instruments – Disclosure and Financial Instruments – Presentation. The disclosures provide additional information on the risks associated with financial instruments and how to manage those risks. The additional disclosures required by these standards are provided in notes 7 and 8.

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3. PETROLEUM AND NATURAL GAS PROPERTIES

	March 31, 2008			Dec. 31, 2007
	Cost	Accumulated Depletion and Depreciation	Net	Net
Canada	\$ 62,393,932	\$ 658,657	\$ 61,735,275	\$ 50,919,570
North Sea	1,730,071	1,536,519	193,552	193,552
	\$ 64,124,003	\$ 2,195,176	\$ 61,928,827	\$ 51,113,122

As at March 31, 2008, costs for unproven properties in the amount of \$61,690,034 (December 31, 2007 - \$50,850,129) were excluded from the costs subject to depletion and depreciation representing costs in the North Sea and the oil sands project in Northern Alberta.

4. PROPERTY AND EQUIPMENT

	March 31, 2008			Dec. 31, 2007
	Cost	Accumulated Depreciation	Net	Net
Furniture and fixtures	\$ 13,021	\$ 3,072	\$ 9,949	\$ 10,473
Computer equipment	19,602	7,830	11,772	12,726
Computer software	10,784	8,325	2,459	3,279
	\$ 43,407	\$ 19,227	\$ 24,180	\$ 26,478

5. ASSET RETIREMENT OBLIGATION

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties.

	Three Months Ended March 31, 2008	12 Months Ended December 31, 2007
Asset retirement obligation, beginning of period	\$ 5,059	\$ 4,707
Accretion expense	95	352
Asset retirement obligation, end of period	\$ 5,154	\$ 5,059

The Company has estimated the total undiscounted amount required to settle the asset retirement obligation to be \$11,760 (December 31, 2007 - \$11,760). These obligations will be settled at the end of the useful life of the underlying asset, which currently extends up to 12 years into the future. This amount has been present valued using a credit-adjusted risk-free interest rate of 7.5% (2007 - 7.5%) and an inflation rate of 2.79% (2007 - 2.79%).

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6. CAPITAL MANAGEMENT

The Company's objective for managing its capital structure is to ensure it has the financial capacity, liquidity and flexibility to fund its investment in its unconventional resources.

The Company considers its capital structure to include shareholders' equity. The Company's oil sands property requires significant capital investment prior to cash flow generation. At this early stage of its oil sands development the Company's access to debt is limited and it relies on equity issuances to fund capital investments.

The Company monitors capital to maintain a sufficient working capital position to fund annualized administrative expenses and capital investments. The Company prepares annual capital expenditure budgets which are updated as necessary depending on varying factors including successful capital deployment, current and forecast prices and general industry conditions. The Company will issue shares and may from time to time adjust its capital spending to maintain or adjust the capital structure.

The Company's share capital is not subject to external restrictions. The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future.

There were no changes in the Company's approach to capital management during the three months ended March 31, 2008.

7. FINANCIAL INSTRUMENTS

Financial instruments of the Company include cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to their short-terms to maturity.

8. FINANCIAL RISK MANAGEMENT

Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint interest partners. As at March 31, 2008 the Company's receivables consisted of \$34,773 (December 31, 2007 - \$4,401) from joint interest partners, \$618,856 (December 31, 2007 - \$363,454) of Goods and Services Tax receivable and \$45,368 (December 31, 2007 - \$ 68,433) of other trade receivables.

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8. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

The Company receives its gas revenue from its non-operated property from a joint interest partner typically within one to three months of the joint interest bill being issued. The Company historically has not experienced any collection issues with its joint venture partner. Joint venture receivables for operations where the Company is the operator are typically collected within one to three months of the joint venture bill being issued to the partner. The Company attempts to mitigate the risk from joint interest receivables by obtaining partner approval of significant capital expenditures prior to expenditure. However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition further risk exists with joint venture partners as disagreements occasionally arise that increase the potential for non-collection. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however the Company will request a cash call advance for major projects before commencing operations.

Cash and cash equivalents consist of cash bank balances and short-term deposits maturing in less than 90 days. The Company manages the credit exposure related to short-term investments by selecting guaranteed investment certificates, avoiding complex investment vehicles with higher risk such as asset backed commercial paper.

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Company does not have an allowance for doubtful accounts as at March 31, 2008 and 2007 and did not provide for any doubtful accounts nor was it required to write-off any receivables during the three month periods ended March 31, 2008 and 2007.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manager capital expenditures. To facilitate its capital expenditure program the Company uses equity financing.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

The Company has minimal exposure to market risk as it has no debt or significant production and has minimal activity in the U.K. North Sea. The Company has not utilized any financial instruments to manage exposure to changes in interest rates, commodity prices or foreign exchange rates.

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9. SHARE CAPITAL

(a) Authorized

Unlimited number of common voting shares
Unlimited number of preferred shares issuable in series

(b) Common shares issued

	Number	Amount
Balance December 31, 2007	106,519,391	\$ 70,181,826
Common shares issued for cash	2,305,500	1,198,860
Issue costs, net of future income taxes of \$19,789	-	(86,813)
Tax effect of flow through shares	-	(4,106,450)
Balance March 31, 2008	108,824,891	\$ 67,187,423

In January 2008, the Company closed the second tranche of a December 2007 private placement issuing 2,305,500 common shares at \$0.52 per share for gross proceeds of \$1,198,860. The brokers were issued warrants to purchase 138,330 common shares at a price of \$0.75 per share. These warrants were assessed a fair value of \$27,447 (see note 9d). Net proceeds after issue costs and fair value of warrants were \$1,092,258.

(c) Stock options

The Company has established a stock option plan under which it may grant options to directors, officers, employees and consultants up to 10% of the issued and outstanding common shares.

The weighted average assumptions used to value the options issued during the periods were as follows:

	2008	2007
Risk-free interest rate	2.91%	3.89%
Expected life	5 years	5 years
Expected volatility	113%	113%
Dividend yield	0%	0%

	Number of Options	Weighted Average Exercise Price
Balance December 31, 2007	7,462,825	\$ 1.06
Granted	75,000	0.50
Balance, March 31, 2008	7,537,825	\$ 1.06

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9. SHARE CAPITAL (continued)

(c) Stock options (continued)

The following table summarizes the option outstanding and exercisable as at March 31, 2008.

Exercise Price	Options Outstanding	Options Exercisable	Remaining Life (years)
\$ 1.05	83,333	83,333	2.9
0.20	1,204,482	1,204,482	4.0
0.45	600,000	400,000	4.0
0.40	450,000	150,000	4.0
1.44	4,800,010	1,600,002	4.3
1.20	75,000	25,000	0.1
0.60	250,000	62,500	0.6
0.50	75,000	25,000	4.8
	7,537,825	3,550,317	

(d) Warrants

The Company used the Black Scholes pricing model to determine the fair value of the warrants issued during the periods using the following assumptions:

	2008	2007
Risk-free interest rate	3.29%	-
Expected volatility	122%	-
Expected life	1 year	-
Dividend yield	nil	-
Weighted average fair value per warrant	\$ 0.20	-

	Warrants Outstanding	Amount
Balance, December 31, 2007	2,916,810	\$ 1,379,606
Warrants issued	138,330	27,447
Warrants exercised	-	-
Balance, March 31, 2008	3,055,140	\$ 1,407,053

The following table summarizes the warrant outstanding and exercisable as at March 31, 2008.

Exercise Price	Warrants Outstanding	Warrants Exercisable	Remaining Life (years)
\$1.00	2,260,620	2,260,620	0.3
0.75	656,190	656,190	0.7
0.75	138,330	138,330	0.9
	3,055,140	3,055,140	

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9. SHARE CAPITAL (continued)

(e) Contributed surplus

Balance, December 31, 2007	\$ 4,219,879
Stock-based compensation	791,793
Balance, March 31, 2008	\$ 5,011,672

10. LOSS PER SHARE

Basic loss per common share is calculated using the weighted average number of shares outstanding during the period. The weighted average number of common shares outstanding is as follows:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Basic and diluted weighted average number of common shares outstanding during the period	108,517,539	28,266,101

As the Company is in a loss position for each period, 7,770,302 common shares that would be issued on the exercise of stock options (2007 – 1,958,290) have been excluded from the calculation as these dilutive instruments are anti-dilutive in nature.

11. FUTURE INCOME TAXES

(a) The components of future income tax balances are as follows:

	Three Months Ended March 31, 2008	Year Ended December 31, 2007
Non-capital loss carry-forwards	\$ 1,581,000	\$ 1,502,000
Share issue costs	748,000	778,000
Cumulative eligible capital	34,000	34,000
Capital losses carried forward	14,000	14,000
Asset retirement obligations	1,000	1,000
Petroleum and natural gas properties and property and equipment	(6,108,000)	(2,008,000)
	(3,730,000)	321,000
Valuation allowance	-	(321,000)
	\$(3,730,000)	\$ -

For income tax purposes, the Company has \$6,321,000 of losses carried forward from prior years which can be applied to reduce future years' taxable income.

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12. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non cash working capital:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Operating activities		
Accounts receivable	\$ (260,891)	\$ 15,133
Prepaid and deposits	18,546	-
Accounts payable and accrued liabilities	(49,255)	(42,481)
	<u>\$ (291,600)</u>	<u>\$ (27,348)</u>
Investing activities		
Accounts receivable	\$ (1,818)	\$ (416,535)
Prepays and deposits	(127,992)	-
Accounts payable and accrued liabilities	4,272,253	(22,472)
	<u>\$ 4,142,443</u>	<u>\$ (439,007)</u>
Financing activities		
Accounts payable and accrued liabilities	\$ (7,980)	\$ 90,000
	<u>\$ (7,980)</u>	<u>\$ 90,000</u>

Interest income in the amount of \$161,951 was received in the three month period ended March 31, 2008 (2007 - \$16,932).

13. RELATED PARTY TRANSACTIONS

The Company utilized the services of a law firm of which a former officer of the Company is a partner. During the three month period ended March 31, 2007 the Company expended \$4,823 recorded in general and administrative expenses, \$14,204 in share capital for share issue costs and \$15,047 in petroleum and natural gas properties in legal fees with this firm.

14. COMMITMENTS

The Company signed a farm-in agreement to acquire up to a 75% working interest in 18 contiguous sections of land in the West Surmont area south of Fort McMurray ("Surmont Asset" or "Surmont"). Pursuant to the farm-in agreement, the Company would earn a 75% working interest by funding a drilling program to a maximum of \$6,750,000, by March 31, 2009. The Company has also agreed to pay a supplemental payment of up to \$2,900,000 which is contingent upon successful drilling results and the parties' agreement to continue operations. This supplemental payment will be satisfied by funding the farmor's 25% share of continuing operations.

Excelsior was awarded two blocks in the UK North Sea Continental. Under the terms of the licence the Company is required to elect by April, 2009, to drill an exploratory well. Prior to the election the Company is obligated to incur expenditures to reprocess seismic, depending on availability of data.

The Company has commitments to incur and renounce \$16,425,800 of eligible expenditures by December 31, 2008. As at March 31, 2008, the Company had incurred approximately \$15,086,000 of eligible expenditures.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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14. COMMITMENTS (continued)

The Company acquired 1250162 Alberta Ltd. (“PrivateCo”) pursuant to a share purchase agreement in 2007. PrivateCo’s net assets consisted primarily of a right to earn a 22.5% working interest in the Hangingstone oil sands asset. The share purchase agreement contemplates up to an additional 6,000,000 common shares of the Company to be issued upon certain reserves performance thresholds being met on the Hangingstone property.

15. SUBSEQUENT EVENTS

The Board of Directors authorized the grant of 350,000 stock options to purchase common shares exercisable at \$0.38 per common share and 250,000 stock options to purchase common shares exercisable at \$0.43 per common share under the terms of the Company’s stock option plan.

16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current periods’ presentation.