

**CONSOLIDATED FINANCIAL STATEMENTS OF**

**EXCELSIOR ENERGY LIMITED**

**FOR THE PERIODS ENDED  
DECEMBER 31, 2007 AND DECEMBER 31, 2006**

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of Excelsior Energy Limited as at December 31, 2007 and the consolidated statement of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Excelsior Energy Limited as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2006 and for the period then ended were audited by other auditors, who expressed an opinion without reservation on those statements in their report dated April 13, 2007.

(Signed) "KPMG LLP"

Chartered Accountants

Calgary, Canada

April 24, 2008

**EXCELSIOR ENERGY LIMITED**  
**CONSOLIDATED BALANCE SHEETS**

	<b>December 31, 2007</b>	December 31, 2006
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 15,848,648	\$ 3,965,957
Accounts receivable	436,288	224,252
Marketable securities (note 6)	-	2,010
Prepays and deposits	47,995	-
	<b>16,332,931</b>	4,192,219
Petroleum and natural gas properties (note 7)	51,113,122	571,937
Property and equipment (note 8)	26,478	28,903
	<b>\$ 67,472,531</b>	\$ 4,793,059
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 1,995,125	\$ 270,607
Asset retirement obligations (note 9)	5,059	4,707
	<b>2,000,184</b>	275,314
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 10)	70,181,826	9,602,706
Contributed surplus (note 10)	4,219,879	155,876
Warrants (note 10)	1,379,606	126,806
Deficit	(10,308,964)	(5,367,643)
	<b>65,472,347</b>	4,517,745
	<b>\$ 67,472,531</b>	\$ 4,793,059

Commitments and contingencies (notes 4, 10 & 17)  
Subsequent events (note 18)  
See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board

(Signed) "J. Andrew Patterson"  
J. Andrew Patterson, Director

(Signed) "David A. Winter"  
David A. Winter, Director

**EXCELSIOR ENERGY LIMITED**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**

	<b>Year Ended December 31, 2007</b>	15 Months Ended December 31, 2006
<b>REVENUE</b>		
Gas revenue	\$ 76,335	\$ 193,238
Royalties	(16,585)	(29,255)
Interest and other income	374,764	82,606
	<b>434,514</b>	246,589
<b>EXPENSES</b>		
Operating expenses	19,115	25,853
General and administrative	1,232,441	1,844,323
Stock-based compensation (note 10)	3,967,164	145,176
Depreciation, depletion and accretion	55,594	146,098
Impairment of petroleum and natural gas properties (note 7)	101,521	1,884,786
	<b>5,375,835</b>	4,046,236
<b>LOSS BEFORE DISCONTINUED OPERATIONS</b>	<b>(4,941,321)</b>	(3,799,647)
Net income from discontinued operations (note 11)	-	75,813
Gain on sale of assets held for sale (note 11)	-	34,053
	-	109,866
<b>NET AND COMPREHENSIVE LOSS FOR THE PERIOD</b>	<b>(4,941,321)</b>	(3,689,781)
<b>DEFICIT, beginning of period</b>	<b>(5,367,643)</b>	(1,677,862)
<b>DEFICIT, end of period</b>	<b>\$(10,308,964)</b>	\$ (5,367,643)
<b>Loss per share</b>		
Basic and diluted (note 12)	\$ (0.07)	\$ (0.25)

See accompanying notes to the consolidated financial statements.

# EXCELSIOR ENERGY LIMITED

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2007	15 Months Ended December 31, 2006
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>		
Continuing Operations		
Net loss for the period from continuing operations	\$(4,941,321)	\$(3,799,647)
Add (deduct) items not affecting cash:		
Depreciation, depletion and accretion	55,594	146,098
Impairment of petroleum and natural gas properties	101,521	1,884,786
Stock-based compensation	3,967,164	145,176
Gain on sale of marketable securities	(4,660)	-
	<b>(821,702)</b>	<b>(1,623,587)</b>
Changes in non-cash working capital items (note 14)	<b>(201,838)</b>	<b>(141,484)</b>
	<b>(1,023,540)</b>	<b>(1,765,071)</b>
Discontinued Operations		
Net income from discontinued operations (note 11)	-	75,813
Add (deduct) items not affecting cash		
Depletion from discontinued operations	-	22,956
	<b>(1,023,540)</b>	<b>(1,666,302)</b>
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>		
Expenditures on petroleum and natural gas properties (note 7 & 10)	<b>(32,472,009)</b>	(2,170,495)
Expenditures on property and equipment	<b>(9,817)</b>	(819)
Proceeds from sale of marketable securities	<b>6,670</b>	-
Proceeds from sale of assets held for sale	-	24,095
Restricted cash held in trust (note 5)	-	535,343
Net cash received from acquisition of PrivateCo (note 4)	<b>1,141,230</b>	-
Cash received on amalgamation (note 5)	-	1,266,913
Changes in non-cash working capital items (note 14)	<b>1,641,660</b>	104,595
	<b>(29,692,266)</b>	<b>(240,368)</b>
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>		
Issuance of share capital and warrants, net of issue costs	<b>42,554,517</b>	5,654,592
Changes in non-cash working capital items (note 14)	<b>43,980</b>	(36,000)
	<b>42,598,497</b>	5,618,592
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>11,882,691</b>	3,711,922
<b>CASH and cash equivalents, beginning of period</b>	<b>3,965,957</b>	254,035
<b>CASH and cash equivalents, end of period</b>	<b>\$ 15,848,648</b>	<b>\$ 3,965,957</b>
Cash and cash equivalents consist of		
Cash	\$ 222,017	\$ 965,957
Term deposits	15,626,631	3,000,000
	<b>\$ 15,848,648</b>	<b>\$ 3,965,957</b>

See note 10 for description of non-cash transactions.

See accompanying notes to the consolidated financial statements.

# EXCELSIOR ENERGY LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**YEAR ENDED DECEMBER 31, 2007 & 15 MONTHS ENDED DECEMBER 31, 2006**

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### **1. NATURE OF OPERATIONS**

Excelsior Energy Limited (the “Company”) was formed upon amalgamation of Qeva Group Inc. (“Qeva”) and Excelsior Energy Limited (“Excelsior Ltd.”) on September 6, 2006 (see note 5). The Company’s primary business activity is domestic and international exploration for and development of petroleum and natural gas properties.

After the date of the amalgamation, the directors of the Company resolved to adopt a new year-end of December 31.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These consolidated financial statements have, in management’s opinion, been prepared within the framework of the accounting policies summarized as follows:

#### **Use of estimates**

Timely preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires that management make estimates and assumptions and use judgment regarding assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur.

Amounts recorded for depletion, depreciation, asset retirement obligations, future income taxes, and amounts used for asset impairment calculations are based on estimates of oil and natural gas reserves and future costs required to develop these reserves. By their nature, these estimates of reserves and the related future cash flows are subject to change and the impact on the financial statements of future periods could be material.

#### **Principles of consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Excelsior Energy North Sea Limited, incorporated under the laws of Scotland. All intercompany accounts and transactions have been eliminated.

#### **Cash and cash equivalents**

Cash and cash equivalents include actual cash held and short term deposits with original maturities of less than three months or cashable on demand.

# EXCELSIOR ENERGY LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**YEAR ENDED DECEMBER 31, 2007 & 15 MONTHS ENDED DECEMBER 31, 2006**

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### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Petroleum and natural gas properties**

The Company accounts for petroleum and natural gas activities using the full cost method of accounting whereby all costs in each country cost centre associated with the acquisition, exploration and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenditures, lease rentals on non-productive properties, cost of drilling both productive and non-productive wells including production equipment and processing facilities and direct administrative expenses. Proceeds received from disposal of oil and gas properties will be credited against the accumulated costs and no gain or loss is recognized, except when the disposition results in a change in the depletion rate by more than 20%.

Costs of acquiring and evaluating unproved properties are initially excluded from the costs subject to the depletion calculation. These properties are assessed periodically for impairment. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of impairment is added to the costs subject to depletion.

An impairment loss is recognized when the carrying amount of oil and gas assets in a cost centre is not recoverable and exceeds its fair value. The carrying amount is assessed as recoverable when the sum of the undiscounted cash flows expected from proved reserves plus the cost of unproved properties, net of impairments, exceeds the carrying amount of the assets. When the carrying amount is assessed not to be recoverable, an impairment loss is recognized to the extent that the carrying amount of the assets exceeds the sum of the discounted cash flows from proved and probable reserves plus the cost of unproved interest, net of impairments, of the Company. The cash flows are estimated using expected future product prices and costs and are discounted using a risk-free interest rate.

Depletion of petroleum and natural gas properties is provided using the unit-of-production method based upon estimated net proven petroleum and natural gas reserves before the deduction of royalties as determined by independent engineers. For depletion purposes, relative volumes of petroleum and natural gas production and reserves are converted to a common unit of measurement on the basis of their relative energy content where six thousand cubic feet of gas equates to one barrel of oil. Costs of acquiring and evaluating unproved properties are excluded from costs subject to depletion until it is determined whether proven reserves are attributable to the properties or impairment occurs.

#### **Property and equipment**

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided for over the estimated useful lives of the asset using the declining balance method at the following rates:

Furniture and fixtures	20%
Computer equipment	30%
Computer software	100%

# EXCELSIOR ENERGY LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**YEAR ENDED DECEMBER 31, 2007 & 15 MONTHS ENDED DECEMBER 31, 2006**

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### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Future income taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities, and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change occurs.

#### **Asset retirement obligations**

The Company records the fair value of an asset retirement obligation as a liability in the period which it incurs a legal obligation associated with the retirement of long-lived tangible assets that result from the acquisition, construction, and development of the assets. The associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived assets. They are depleted and depreciated using a unit-of-production method over the life of the estimated gross proved reserves. Subsequent to the initial measurement of the asset retirement obligation, the obligations are adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

#### **Stock-based compensation**

The Company accounts for its stock-based compensation plan using the fair value method. Under the fair value method, compensation expense is recorded based on the fair value of the stock options and warrants at the date of grant as estimated using the Black-Scholes option pricing model. The amount of compensation cost so determined is credited to contributed surplus or warrants. Upon exercise of the options, the consideration received together with the amount previously recognized in contributed surplus is credited to share capital.

#### **Joint operations**

A portion of the Company's exploration, development and production activities are conducted jointly with others and, accordingly, these consolidated financial statements reflect only the Company's proportionate interest in such activities.

#### **Flow-through common shares**

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to shareholders. To recognize the forgone tax benefits to the Company, the carrying value of the shares issued is reduced by the tax effect when the tax benefits are renounced to shareholders.

# EXCELSIOR ENERGY LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**YEAR ENDED DECEMBER 31, 2007 & 15 MONTHS ENDED DECEMBER 31, 2006**

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### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Foreign currency translation**

The Company uses the temporal method when translating foreign currency transactions and the financial statements of its integrated subsidiary. Under this method, monetary items denominated in a foreign currency are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in the determination of earnings or losses.

#### **Revenue recognition**

Revenue from the sale of petroleum and natural gas is recognized on volumes delivered to customers. Delivery occurs when the customer has taken title and has assumed the risks and rewards of ownership, prices are fixed or determinable and collectibility is reasonably assured.

#### **Per share information**

The Company uses the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. The treasury method assumes that proceeds received from the exercise of in-the-money stock options and warrants are used to repurchase common shares at the average price during the period. Basic earnings per share are computed by dividing the net income by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if the securities or other contracts to issue common shares were exercised or converted to common shares.

#### **Financial Instruments, Comprehensive Income, Hedges and Equity**

Effective January 1, 2007, the Company adopted the new Canadian accounting standards for financial instruments - recognition and measurement, financial instruments - disclosures and presentation, comprehensive income, hedges and equity.

The new standard requires all financial instruments within its scope, including all derivatives, to be recognized on the balance sheet initially at fair value. Subsequent measurement of all financial assets and liabilities except those held-for-trading and available for sale are measured at amortized cost determined using the effective interest rate method. Held-for-trading financial assets are measured at fair value with changes in fair value recognized in earnings. Available-for sale financial assets are measured at fair value with changes in fair value recognized in comprehensive income and reclassified to earnings when impaired.

Cash and cash equivalents and marketable securities are held-for-trading and the fair values approximate their carrying value due to their short-term nature. Accounts receivable are classified as loans and receivables and the fair values approximate their carrying value due to their short-term nature of these instruments. They are recorded at cost, which upon their initial measurement is equal to their fair value. Subsequent measures are recorded at amortized cost, which is generally the amount on initial recognition less an allowance for doubtful accounts. Accounts payable and accrued liabilities are classified as other financial liabilities the fair values approximate their carrying value

# EXCELSIOR ENERGY LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**YEAR ENDED DECEMBER 31, 2007 & 15 MONTHS ENDED DECEMBER 31, 2006**

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### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

due to their short-term nature of these instruments.

The Company has not designated any financial instruments as available-for-sale or held-to maturity. The Company has elected to expense transaction costs as incurred.

#### **Accounting Changes**

Effective January 1, 2007, the Company adopted the revised Canadian standards for *Accounting Changes*. These revised standards permit voluntary changes in accounting policy only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. The guidance will be applied for all changes in accounting policies, changes in accounting estimates and corrections of prior period errors in periods beginning on or after January 1, 2007.

### **3. RECENT ACCOUNTING PRONOUNCEMENTS**

As of January 1, 2008 the Company will be required to adopt two new Canadian standards, *Financial Instruments – Disclosures*, regarding the Company's financial instruments and *Capital Disclosures*, regarding capital management. The Company is assessing the impact of these new standards on its consolidated financial statements and anticipates the main impact will be in terms of additional disclosure requirements.

New standards for, *Goodwill and Intangible Assets*, and, *Financial Statement Concepts*, clarifying the criteria for the recognition of assets, intangible assets and internally developed intangible assets are effective for fiscal years beginning on or after October 1, 2008. The Company is currently evaluating the impact these sections will have on its results of operation and financial position.

In February 2008, Canadian accounting standard setters announced that International Financial Reporting Standards will replace Canada's current Generally Accepted Accounting Principles ("GAAP") for all publicly accountable profit-oriented enterprises for fiscal years beginning on or after January 1, 2011. The Company is currently evaluating the impact of this changeover on its consolidated financial statements.

### **4. ACQUISITION OF PRIVATECO**

On July 13, 2007, the Company acquired 1250162 Alberta Ltd. ("PrivateCo") pursuant to a share purchase agreement. PrivateCo's net assets consisted primarily of a right to earn a 22.5% working interest in the Hangingstone oil sands asset, ("Hangingstone Asset" or "Hangingstone"). The PrivateCo acquisition increased the Company's maximum working interest to 75%, after fulfilling its farm-in earning obligations (note 17). In addition to its Hangingstone interest, PrivateCo had \$1,200,398 in working capital at the closing date. The transaction contemplates the issuance of up to 16,000,000 common shares of the Company. At closing the Company issued 10,000,000 common

# EXCELSIOR ENERGY LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**YEAR ENDED DECEMBER 31, 2007 & 15 MONTHS ENDED DECEMBER 31, 2006**

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### 4. ACQUISITION OF PRIVATECO (continued)

shares to acquire all the common shares of PrivateCo. Up to an additional 6,000,000 common shares of the Company will be issued upon certain reserves performance thresholds being met. As at December 31, 2007, no amount has been recorded for the contingent consideration of 6,000,000 common shares as the occurrence of the future event is not determinable and a reasonable estimate can not be made.

The transaction has been accounted for as a net asset purchase. The purchase price of PrivateCo was based on the fair value of the consideration provided and was allocated as follows:

#### Net Assets Acquired

Cash and cash equivalents	\$ 1,181,084
Accounts receivable	19,314
Petroleum and natural gas properties	9,899,602
	<hr/>
	\$11,100,000

#### Purchase Price Consideration

10,000,000 common shares issued	\$11,060,146
Costs of acquisition	39,854
	<hr/>
	\$11,100,000

A purchase price adjustment of approximately \$4,800,000 was made at December 31, 2007 resulting from an adjustment to the fair value of the common shares issued.

### 5. BUSINESS ACQUISITION

On September 7, 2006, Qeva acquired Excelsior Ltd. and agreed to amalgamate to form the combined entity Excelsior Energy Limited. After the amalgamation was completed each shareholder of Qeva received one common share of the Company for every three Qeva common shares and each shareholder of Excelsior Ltd. received 1.115261 common shares of the Company for every one common share held in Excelsior Ltd.

The transaction has been accounted for as a net asset purchase. The purchase price was allocated as follows:

#### Net Assets Acquired

Cash and cash equivalents	\$ 1,266,913
Accounts receivable	140,597
Prepays and deposits	8,975
Accounts payable and accrued liabilities	(326,933)
Petroleum and natural gas properties	82,123
Property and equipment	30,602
Restricted cash held in trust	534,343
	<hr/>
	\$ 1,736,620

# EXCELSIOR ENERGY LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**YEAR ENDED DECEMBER 31, 2007 & 15 MONTHS ENDED DECEMBER 31, 2006**

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### 5. BUSINESS ACQUISITION (continued)

#### Purchase Price Consideration

Common shares issued	\$ 1,660,979
Cost of acquisition	75,641
	\$ 1,736,620

### 6. MARKETABLE SECURITIES

Marketable securities consisted of an investment in a publicly-listed company. These securities were sold in 2007 for proceeds of \$6,670. A gain on sale of \$4,660 has been included in interest and other income.

### 7. PETROLEUM AND NATURAL GAS PROPERTIES

		December 31, 2007	December 31, 2006
	Cost	Accumulated Depletion and Depreciation	Net
Canada	\$ 51,554,027	\$ 634,457	\$ 50,919,570
North Sea	1,730,071	1,536,519	186,677
	\$ 53,284,098	\$ 2,170,976	\$ 51,113,122

In 2007, the Company incurred \$50,656,577 (2006 – nil) on Hangingstone and the Surmont oil sands asset (“Surmont Asset” or “Surmont”) for cash and share capital consideration (note 10b xii and 10bxiii). No overhead charges have been capitalized to petroleum and natural gas properties.

Costs for unproven properties in the amount of \$50,850,129 (2006 - \$186,677) were excluded in the costs subject to depletion and depreciation, representing costs incurred in the North Sea and the oil sands project in Northern Alberta.

Included in accumulated depletion and depreciation is an impairment of \$101,521 (2006 - \$348,267) for the Canadian properties. The future prices used in the ceiling test were based on December 31, 2007 commodity price forecasts of the Company’s independent reserve evaluators, adjusted for the Company’s quality differentials. The following table summarizes the future benchmark prices used in the December 31, 2007 reserve report:

	Alberta AECO-C Spot Price \$/Mcf
2008	6.51
2009	7.22
2010	7.69
2011	7.70
2012	7.61

Prices will escalate at approximately 2.2% (2006 - 1.8%) per annum thereafter.

# EXCELSIOR ENERGY LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**YEAR ENDED DECEMBER 31, 2007 & 15 MONTHS ENDED DECEMBER 31, 2006**

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### 7. PETROLEUM AND NATURAL GAS PROPERTIES (continued)

During the period ended December 31, 2006, costs of \$1,536,519 were incurred pursuant to a farm-in agreement for a North Sea licence. The farm-in agreement was cancelled as a result of the Company not securing adequate financing to fulfill the financial commitments to proceed and this project was abandoned. Costs of \$1,536,519 associated with the licence in the North Sea were written-down and included in accumulated depletion and depreciation.

### 8. PROPERTY AND EQUIPMENT

	<b>December 31,</b>		<b>December 31,</b>
	<b>2007</b>		<b>2006</b>
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net</b>
Furniture and fixtures	\$ 13,021	\$ 2,548	\$ 10,473
Computer equipment	19,602	6,876	12,726
Computer software	10,784	7,505	3,279
	<b>\$ 43,407</b>	<b>\$ 16,929</b>	<b>\$ 26,478</b>
			<b>\$ 28,903</b>

### 9. ASSET RETIREMENT OBLIGATIONS

The following table presents the changes in the asset retirement obligations associated with the retirement of oil and gas properties.

	<b>Year December 31, 2007</b>	<b>15 Months Ended December 31, 2006</b>
Asset retirement obligations, beginning of period	\$ 4,707	\$ -
Liabilities incurred	-	4,273
Accretion expense	352	434
Asset retirement obligations, end of period	<b>\$ 5,059</b>	<b>\$ 4,707</b>

The Company has estimated the total undiscounted amount required to settle the asset retirement obligations to be \$11,760 (2006 - \$11,760). These obligations will be settled at the end of the useful life of the underlying asset, which currently extends up to 13 years into the future. This amount has been discounted using a credit-adjusted risk-free interest rate of 7.5% (2006 - 7.5%) and an inflation rate of 2.79% (2006 - 2.79%).

# EXCELSIOR ENERGY LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**YEAR ENDED DECEMBER 31, 2007 & 15 MONTHS ENDED DECEMBER 31, 2006**

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### 10. SHARE CAPITAL

**a) Authorized**

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

**b) Changes in share capital**

	Number	Amount
<b>Balance September 30, 2005</b>	12,445,270	\$ 1,949,820
Issuance to pay accounts payable for a director (note 10b i)	325,000	32,500
Common shares issued for cash, net of issue costs (note 10b ii)	9,981,992	1,330,244
Issuance of shares for private placement finder's fee (note 10b ii)	750,000	150,000
Common shares issued for cash (note 10b iii)	33,333	5,000
Common shares issued for cash, net of issue costs (note 10b iv)	7,220,000	2,094,158
Costs of issuance of private placement (note 10b iv)	275,000	96,250
Issuance to purchase petroleum and natural gas property (note 10b v)	714,286	250,000
Issuance of shares for finder's fee for petroleum assets (note 10b v)	157,142	55,000
Common shares issued for cash, net of issue costs (note 10b vi)	2,780,000	782,124
Issuance of shares for brokers' due diligence (note 10b vi)	71,428	25,000
Shares purchased by officers and directors (note 10b vii)	516,667	77,499
Common shares issued for exercise of warrants	4,937,079	991,844
Transfer of fair value on exercise of warrants	-	4,399
Common shares issued from exercise of options	350,000	42,500
Transfer from contributed surplus on exercise of options	-	10,120
Common shares issued pursuant to farm-in agreement (note 10b viii)	1,000,000	350,000
<b>Balance upon amalgamation September 7, 2006</b>	<b>41,557,197</b>	<b>8,246,458</b>
Exchange of Qeva Group Inc. shares for shares of the Company at 3:1 (note 10b ix)	13,852,399	8,246,458
Shares issued upon amalgamation (note 10b ix)	13,703,619	1,660,979
Common shares issued from exercise of options	66,667	20,000
Transfer from contributed surplus on exercise of options	-	3,420
Common shares issued from exercise of warrants	750	787
Transfer of fair value on exercise of warrants	-	62
Common shares issued for cash (note 10b x)	46,666	21,000
Cancelled on expiry of farm-in agreement (note 10b viii)	(333,333)	(350,000)
Balance December 31, 2006	27,336,768	\$ 9,602,706
Common shares issued for cash, net of issue costs (note 10b xi)	9,293,332	2,867,133
Common shares issued for Hangingstone property, net of issue costs (note 10b xii)	8,647,359	7,900,195
Issued for finder's fee on Hangingstone property (note 10b xiii)	500,000	412,000
Issued on exercise of warrants	145,249	142,009
Transfer of fair value on exercise of warrants	-	15,180
Common shares issued for cash, net of issue costs (note 10b xiv)	39,385,000	31,589,754
Issued to acquire PrivateCo, net of issue costs (note 4)	10,000,000	11,060,146
Issued on exercise of options	107,683	29,669
Transfer from contributed surplus on exercise of options	-	14,787
Common shares issued for cash, net of issue costs (note 10b xv)	11,104,000	6,548,247
<b>Balance December 31, 2007</b>	<b>106,519,391</b>	<b>\$ 70,181,826</b>

# EXCELSIOR ENERGY LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**YEAR ENDED DECEMBER 31, 2007 & 15 MONTHS ENDED DECEMBER 31, 2006**

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### **10. SHARE CAPITAL (continued)**

#### **b) Changes in share capital (continued)**

- (i) In September 2005, a director was issued 325,000 common shares at a deemed value of \$0.10 in exchange for the forgiveness of an accounts payable balance valued at \$32,500.
- (ii) In November 2005, common shares were issued through a private placement. The Company issued 9,981,992 units at a price of \$0.15 per unit resulting in proceeds net of issue costs and fair values attributed to warrants of \$1,330,244. Each unit consisted of one common share and one-half of one common share purchase warrant. Each warrant entitled the holder to acquire one common share at an exercise price of \$0.20 per share until August 15, 2006. The fair value of the warrants was estimated to be \$4,128 using the Black-Scholes fair value option pricing model, assuming an expected volatility of 25% and a risk free interest rate of 3.75%. Costs in the amount of \$150,000 relating to this share issuance have been settled through issuance of 750,000 common shares.
- (iii) In November 2005, common shares were issued through a private placement. The Company issued 33,333 common shares at a price of \$0.15 per share for proceeds of \$5,000.
- (iv) In December 2005, common shares were issued through a brokered private placement. The Company issued 7,220,000 units at a price of \$0.35 per unit for proceeds net of issue costs and fair values attributed to warrants and broker unit warrants of \$2,094,158. Each unit consisted of one common share and one-half of one common share purchase warrant. Each warrant entitled the holder to acquire one common share at an exercise price of \$0.45 per share until May 30, 2007. The fair value of the warrants was estimated to be \$86,891 (including broker warrant units valued at \$19,865) using the Black-Scholes fair value option pricing model, assuming an expected volatility of 25% and a risk free interest rate of 3.75%. The Company had the right to accelerate the exercise of the warrants should the stock trading price of the Company's common shares exceed \$0.70 per share over a period of 30 consecutive trading days. Additional share issue costs in the amount of \$96,250 were settled through the issuance of 275,000 common shares. The brokers were also issued warrants to purchase 722,000 units at a price of \$0.35 per unit until May 30, 2007. Each unit consisted of one common share and one half of one common share purchase warrant. Each warrant entitled the holder to acquire one common share at an exercise price of \$0.45 per share.
- (v) In November 2005, the Company entered into a purchase agreement with an unrelated third party to acquire producing oil and gas assets. Share consideration, representing a portion of the total consideration, consisted of the issuance of 714,286 common shares at \$0.35 per share. A finder's fee in the amount of \$55,000 related to this transaction was settled by issuance of 157,142 common shares.

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### **10. SHARE CAPITAL (continued)**

#### **b) Changes in share capital (continued)**

- (vi) In February 2006, common shares were issued through a brokered private placement. The Company issued 2,780,000 units at a price of \$0.35 per unit for proceeds net of issue costs and fair values attributed to warrants and broker unit warrants of \$782,124. Each unit consisted of one common share and one-half of one common share purchase warrant. Each warrant entitled the holder to acquire one common share at an exercise price of \$0.45 per share until August 3, 2007. The fair value of the warrants was estimated to be \$40,307 (including broker warrant units valued at \$14,376) using the Black-Scholes fair value option pricing model, assuming an expected volatility of 25% and a risk free interest rate of 3.75%. The Company had the right to accelerate the exercise of the warrants should the stock trading price of the Company's common shares exceed \$0.70 per share or greater over a period of 30 consecutive trading days. The brokers were also issued warrants to purchase 278,000 units at a price of \$0.35 per unit until August 3, 2007. Additional share issue costs in the amount of \$25,000 have been settled by issuing 71,428 common shares.
- (vii) In February 2006, 516,667 shares were issued to officers and directors for cash proceeds of \$40,000 and settlement for services rendered valued at \$37,499.
- (viii) In November 2005, the Company entered into a farm-in agreement for a licence in the North Sea whereby a portion of the consideration consisted of the issuance of 1,000,000 common shares at \$0.35 per share. In December 2006, the shares which had been exchanged for Excelsior shares on a 1 for 3 basis, were cancelled as the farm-in agreement was terminated (note 7).
- (ix) The amalgamation of Qeva and Excelsior Ltd. (note 5) on September 7, 2006, resulted in Qeva shareholders being issued one share of the Company for every three shares they held in Qeva. This resulted in the issuance of 13,852,399 shares of the Company.  
  
The amalgamation of Qeva and Excelsior Ltd. resulted in Excelsior Ltd. shareholders being issued 1.1153 shares of the Company for every one share they held in Excelsior Ltd. This resulted in the issuance of 13,703,619 shares of the Company for a value of \$1,660,979 net of costs of the amalgamation.
- (x) During the period ended December 31, 2006, the Company issued 46,666 units at a price of \$0.45 per unit for proceeds of \$21,000 in 2006. Each unit consisted of one common share and one-half of one common share purchase warrant. Each warrant entitled the holder to acquire one common share at an exercise price of \$0.60 per share until May 30, 2007.
- (xi) In March 2007, the Company closed a non-brokered private placement issuing 6,275,332 common shares at \$0.30 per share and 3,018,000 flow-through common shares at \$0.40 per share for proceeds after issue costs of \$2,867,133. The Company has commitments to incur and renounce \$1,207,200 of eligible expenditures by December 31, 2008.

## EXCELSIOR ENERGY LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**YEAR ENDED DECEMBER 31, 2007 & 15 MONTHS ENDED DECEMBER 31, 2006**

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#### **10. SHARE CAPITAL (continued)**

##### **b) Changes in share capital (continued)**

- (xii) In February 2007, the Company executed a farm-in agreement to earn up to 52.5% interest in the Hangingstone oil sands property. The Company made an initial payment of \$1,400,000 cash and issued 2,333,333 common shares priced at \$0.41 per share to satisfy the initial consideration. These common shares were issued in May 2007. The Company issued an additional 6,314,026 common shares at \$1.10 per share in June, 2007, pursuant to the farm-in agreement, for an additional working interest in the Hangingstone asset.
- (xiii) The Company issued 500,000 common shares as a finder's fee for the Hangingstone oil sands property. 200,000 common shares at \$0.41 per share were issued upon signing the farm-in agreement for the Hangingstone property and an additional 300,000 common shares at \$1.10 per share were issued when the Company elected to earn an additional working interest in the Hangingstone property for gross proceeds of \$412,000.
- (xiv) The Company completed a private placement for gross proceeds of \$35,001,250 on June 25, 2007. The private placement comprised of 31,765,000 units issued at a subscription price of \$0.85 per unit and 7,620,000 flow through common shares at a price of \$1.05 per flow-through share. The Company has commitments to incur and renounce \$8,001,000 of eligible expenditures by December 31, 2008. Each unit is comprised of one common share in the capital of the Company and one common share purchase warrant (a "Warrant") of the Company, with each Warrant entitling the holder thereof to acquire an additional 0.05 common share at no additional cost should the common shares of the Company not be listed and posted for trading on the TSX Venture Exchange on or before the expiration of 120 days from the closing of the private placement, being October 23, 2007 (see note 10d). The brokers were also issued warrants to purchase 2,260,620 common shares at a price of \$1.00 per share. These warrants were assessed a fair value of \$1,256,905 (see note 10d). Net proceeds after issue costs and fair value of warrants were \$31,589,754.
- (xv) The Company completed a private placement for gross proceeds of \$7,217,600 on December 12, 2007. The private placement comprised of 11,104,000 common shares issued on a flow-through basis at a price of \$0.65 per flow-through share. The Company has commitments to incur and renounce \$7,217,600 of eligible expenditures by December 31, 2008. The brokers were also issued warrants to purchase 656,190 common shares at a price of \$0.75 per share. These warrants were assessed a fair value of \$122,701 (see note 10d). Net proceeds after issue costs and fair value of warrants were \$6,548,247. Subsequent to year end the Company closed the second tranche of this private placement (note 18).

# EXCELSIOR ENERGY LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**YEAR ENDED DECEMBER 31, 2007 & 15 MONTHS ENDED DECEMBER 31, 2006**

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### 10. SHARE CAPITAL (continued)

#### c) Stock options

The Company has established a stock option plan under which it may grant options to directors, officers, employees and service providers up to 10% of the issued and outstanding common shares. Stock options vest one-third at the time of grant, and one-third on the first and second anniversaries of the grant date.

The Company used the Black Scholes pricing model to determine the fair value of the stock options using the following assumptions:

	2007	2006
Risk-free interest rate	3.89% – 4.72%	3.75%
Expected life (years)	0.3 – 4.6	3.9 – 4.1
Expected volatility	113% – 143%	25%
Dividend yield	0%	0%
Weighted average fair value per option	\$1.08	\$0.28

	12 Months Ended December 31, 2007		15 Months Ended December 31, 2006	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	-	\$ -	1,033,100	\$ 0.10
Granted	-	-	2,250,000	0.22
Exercised	-	-	(350,000)	0.11
Cancelled	-	-	(233,100)	0.10
	-	-	2,700,000	0.19
Exchange of Qeva Group Inc. options for options of the Company 3:1	<b>1,399,341</b>	<b>0.25</b>	900,000	0.58
Granted	<b>6,275,010</b>	<b>1.22</b>	-	-
Expired	<b>(103,843)</b>	<b>0.36</b>	(750,000)	0.56
Exercised	<b>(107,683)</b>	<b>0.28</b>	(66,667)	0.30
Options exchanged upon amalgamation	-	-	1,316,008	0.19
Outstanding, end of period	<b>7,462,825</b>	<b>\$ 1.06</b>	1,399,341	\$ 0.25

# EXCELSIOR ENERGY LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**YEAR ENDED DECEMBER 31, 2007 & 15 MONTHS ENDED DECEMBER 31, 2006**

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### 10. SHARE CAPITAL (continued)

#### c) Stock options (continued)

The following table summarizes the information about stock options outstanding and exercisable at December 31, 2007.

Exercise Price	Options Outstanding	Options Exercisable	Remaining Life (years)
\$1.05	83,333	83,333	3.1
0.20	1,204,482	802,988	4.2
0.45	600,000	200,000	4.2
0.40	450,000	150,000	4.2
1.44	4,800,010	1,600,003	4.5
1.20	75,000	25,000	0.3
0.60	250,000	-	0.8
	7,462,825	2,861,324	

#### d) Warrants

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

	2007	2006
Risk-free interest rate	3.82% – 4.72%	3.75%
Expected volatility	117% – 143%	25%
Expected life	1 year	1 year
Dividend yield	nil	nil
Weighted average fair value per warrant	\$0.47	\$0.04

**EXCELSIOR ENERGY LIMITED**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**YEAR ENDED DECEMBER 31, 2007 & 15 MONTHS ENDED DECEMBER 31, 2006**

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**10. SHARE CAPITAL (continued)**

**d) Warrants (continued)**

	Warrants Outstanding	Amount
Balance, September 30, 2005	-	\$ -
Warrants issued	4,990,996	4,128
Warrants issued	5,000,000	92,957
Transfer to share capital on exercise of warrants	(4,937,079)	(4,399)
Warrants expired	(71,667)	(59)
Broker warrants issued	1,000,000	34,241
	5,982,250	127,868
Exchange of Qeva Group Inc. warrants for warrants of the Company 3:1	1,994,083	127,868
Warrants issued	23,333	-
Transfer to share capital on exercise of warrants	(750)	(62)
Warrants issued	375	-
Balance, December 31, 2006	2,017,041	126,806
Warrants issued	34,681,810	1,379,606
Transfer to share capital on exercise of warrants	(145,249)	(15,180)
Warrants expired	(33,636,792)	(111,626)
<b>Balance, December 31, 2007</b>	<b>2,916,810</b>	<b>\$ 1,379,606</b>

The following table summarizes the warrants outstanding and exercisable at December 31, 2007.

Exercise Price	Warrants Outstanding	Warrants Exercisable	Remaining Life (years)
1.00	2,260,620	2,260,620	0.5
0.75	656,190	656,190	0.9
	2,916,810	2,916,810	

The Company issued 31,765,000 warrants in the June, 2007 private placement. Each warrant entitled the holder thereof to acquire an additional 0.05 common share (1,588,250 aggregate common shares) at no additional cost should the common shares of the Company not be listed and posted for trading on the TSX Venture Exchange on or before the expiration of 120 days from the closing of the private placement, being October 23, 2007. These warrants expired on October 9, 2007, as the Company commenced trading on the TSX Venture Exchange on that date.

# EXCELSIOR ENERGY LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**YEAR ENDED DECEMBER 31, 2007 & 15 MONTHS ENDED DECEMBER 31, 2006**

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### 10. SHARE CAPITAL (continued)

#### e) Contributed surplus

	<b>12 Months Ended December 31, 2007</b>	15 Months Ended December 31, 2006
Balance, beginning of period	\$ 155,876	\$ 24,180
Stock-based compensation	3,967,164	145,176
Fair value of expired warrants	111,626	59
Transfer to share capital on exercise of stock options	(14,787)	(13,539)
Balance, end of period	<b>\$ 4,219,879</b>	\$ 155,876

### 11. NET INCOME FROM DISCONTINUED OPERATIONS

The Company sold their producing property at Forgan West, Saskatchewan for gross proceeds of \$130,000 during 2006. The effective date of this agreement was October 1, 2005. The sale closed on June 15, 2006. Accordingly, the property was treated as an asset held for sale and net income from this property is disclosed separately.

The effect of the assets held for sale on the consolidated statements of operations is:

	<b>12 Months Ended December 31, 2007</b>	15 Months Ended December 31, 2006
Revenue	\$ -	\$ 273,988
Royalties	-	(24,866)
Operating expenses	-	(118,513)
Bad debt expense	-	(31,840)
Depletion	-	(22,956)
Earnings from discontinued operations	<b>\$ -</b>	\$ 75,813
Gain on sale of assets held for sale	<b>\$ -</b>	\$ 34,053

## EXCELSIOR ENERGY LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**YEAR ENDED DECEMBER 31, 2007 & 15 MONTHS ENDED DECEMBER 31, 2006**

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#### 12. 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:

	<b>12 Months Ended December 31, 2007</b>	15 Months Ended December 31, 2006
Basic and diluted weighted average number of common shares outstanding during the period	<b>65,768,355</b>	15,036,063

As the Company is in a loss position for each period, 8,647,660 common shares that would be issued on the exercise of stock options (2006 – nil) have been excluded from the calculation as these dilutive instruments are anti-dilutive in nature.

#### 13. FUTURE INCOME TAXES

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

	<b>12 Months Ended December 31, 2007</b>	15 Months Ended December 31, 2006
Non-capital loss carry-forwards	<b>\$ 1,502,000</b>	\$ 770,000
Share issue costs	<b>778,000</b>	268,000
Cumulative eligible capital	<b>34,000</b>	-
Capital losses carried forward	<b>14,000</b>	16,000
Asset retirement obligations	<b>1,000</b>	1,500
Petroleum and natural gas properties and property and equipment	<b>(2,008,000)</b>	554,500
Valuation allowance	<b>321,000 (321,000)</b>	1,610,000 (1,610,000)
	<b>\$ -</b>	\$ -

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**YEAR ENDED DECEMBER 31, 2007 & 15 MONTHS ENDED DECEMBER 31, 2006**

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**13. FUTURE INCOME TAXES (continued)**

- b) The provision for income taxes recorded in the consolidated financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 32.49% (2005 - 33.6%) to the loss for the years as follows:

	<b>12 Months Ended December 31, 2007</b>	<b>15months Ended December 31, 2006</b>
Loss for the period before income taxes	<b>\$ (4,941,321)</b>	\$ (3,689,781)
Expected income tax reduction	<b>\$ (1,605,435)</b>	\$ (1,258,954)
Stock based compensation	<b>1,288,932</b>	49,534
Resource allowance	-	37,087
Effect of decrease in statutory tax rate	<b>912</b>	201,849
Change in valuation allowance	<b>362,361</b>	926,189
Other	<b>(46,770)</b>	44,295
Future income tax expense (reduction)	<b>\$ -</b>	\$ -

For income tax purposes, the Company has losses carried forward from prior years which can be applied to reduce future years' taxable income. These losses expire as follows:

<u>Year</u>	<u>Amount</u>
2008	\$ 206,000
2009	22,000
2010	125,000
2013	22,000
2025	3,873,000
2026	1,760,000
	<b>\$ 6,008,000</b>

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 14. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non cash working capital:

	<b>12 Months Ended December 31, 2007</b>	15 Months Ended December 31, 2006
Operating activities		
Accounts receivable	\$ (248,036)	\$ (57,139)
Prepays and deposits	(47,995)	24,887
Accounts payable and accrued liabilities	94,193	(109,232)
	<b>\$ (201,838)</b>	<b>\$ (141,484)</b>
Investing activities		
Accounts receivable	\$ 19,314	\$ 82,123
Accounts payable and accrued liabilities	1,622,346	22,472
	<b>\$ 1,641,660</b>	<b>\$ 104,595</b>
Financing activities		
Accounts receivable	\$ 36,000	\$ (36,000)
Accounts payable and accrued liabilities	7,980	-
	<b>\$ 43,980</b>	<b>\$ (36,000)</b>

Interest income in the amount of \$327,372 was received in the year ended December 31, 2007 (2006 - \$67,812).

### 15. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of cash and cash equivalents, accounts receivable, marketable securities and accounts payable and accrued liabilities.

The Company is exposed to the following risks in respect of certain financial instruments held:

#### a) Credit risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Company is exposed to credit risk from its joint interest partners.

#### b) Fair value

The Company's carrying value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximates its fair value due to the immediate or short-term maturity of these instruments.

#### b) Foreign exchange risk

The Company is exposed to foreign currency fluctuations as transactions within the Company's subsidiary are referenced to UK pound sterling denominated costs.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### **16. RELATED PARTY TRANSACTIONS**

The Company utilizes the services of a law firm of which a director of the Company is a partner. During the year ended December 31, 2007, the Company recorded \$35,851 as share issue costs (2006 - \$nil) and recorded \$2,815 in general and administrative expenses (2006 - \$nil) for legal fees with this firm.

The Company utilizes the services of a law firm of which a former officer of the Company is a partner. During the year ended December 31, 2007, the Company recorded \$23,411 in general and administrative expenses (2006 - \$133,886) and recorded \$14,207 in share issue costs (2006 - \$nil) for legal fees with this firm.

During the year ended December 31, 2006, the Company paid consulting fees in the amount of \$192,300 to companies controlled by directors and officers of the Company prior to the amalgamation.

During the year ended December 31, 2006, severance payments in the amount of \$450,000, included in general and administrative expenses, were made to former directors and officers of Qeva.

Officers and directors were issued 516,667 common shares for proceeds of \$40,000 and settlement for services valued at \$37,499 (note 10b vii) during the period ended December 31, 2006.

These transactions were in the normal course of business and were recorded at the exchange amount, which is the amount paid and agreed to by the related parties.

Included in accounts payable and accrued liabilities are amounts payable to companies controlled by a director of the Company in the amount of \$nil (2006 - \$32,500). The amount was non-interest bearing with no specific terms of repayment. The director was issued 325,000 common shares for the forgiveness of this outstanding balance of \$32,500 (note 10b i).

### **17. COMMITMENTS**

The Company acquired the Hangingstone Asset pursuant to a farmin agreement. The Company fulfilled the final obligation under the farmin agreement to earn its 75% working interest by completing a 24 core well drilling program in March 2008.

The Company signed a farmin agreement to acquire up to a 75% working interest in Surmont. Pursuant to the farmin 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 \$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 ENERGY LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**YEAR ENDED DECEMBER 31, 2007 & 15 MONTHS ENDED DECEMBER 31, 2006**

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### **17. COMMITMENTS (continued)**

The Company was awarded two blocks in the UK North Sea Continental Shelf. 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.

During the year ended December 31, 2007, the Company issued 21,742,000 flow through common shares for gross proceeds of \$16,425,800. The Company has commitments to incur and renounce \$16,425,800 of eligible expenditures by December 31, 2008. As at December 31, 2007, the Company had incurred approximately \$4,245,000 of eligible expenditures.

### **18. SUBSEQUENT EVENTS**

In January 2008, the Company closed the second tranche of the December 2007 private placement issuing 2,305,500 common shares at \$0.52 per share for gross proceeds of \$1,198,860.

The Board of Directors approved the grant in January 2008, of 75,000 stock options to purchase common shares exercisable at \$0.50 per share and in April 2008, 350,000 stock options to purchase common shares exercisable at \$0.38 per share, under the terms of the Company's stock option plan.

### **19. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the current years' presentation.