

**EXCELSIOR ENERGY LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007**

The following discussion and analysis is management's opinion of Excelsior Energy Limited ("Excelsior" or the "Company") historical financial and operational results and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2007 and the 15 month period ended December 31, 2006, together with the notes related thereto. The Company's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The information has been prepared effective April 24, 2008.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this management discussion and analysis ("MD&A") include statements which contain words such as "anticipate", "could", "should", "expect", "seek", "may", "intend", "likely", "will", "believe" and similar expressions, statements relating to matters that are not historical facts, and such statements of our beliefs, intentions and expectations about development, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and are based on certain assumptions and analysis made by us derived from our experience and perceptions. Forward-looking information in this MD&A includes, but is not limited to: future oil and gas prices and well production performance, exploitation and exploration successes, continued availability of capital and financing, and general economic, market or business conditions.

Actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do, what benefits will be derived there from. Except as required by law, Excelsior disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

The forward-looking information contained herein is expressly qualified by this cautionary statement.

OVERVIEW

Excelsior was formed on September 6, 2006, resulting from the amalgamation of Qeva Group Inc. ("Qeva") and Excelsior Energy Limited under the provisions of the Alberta Business Corporations Act and pursuant to the Amalgamation Agreement. Under the terms of the Amalgamation Agreement, Qeva and Excelsior Ltd. continued as a new corporation carrying on business under the name "Excelsior Energy Limited". The amalgamation combined the efforts of both companies in pursuit of securing a farmin agreement for licences in the United Kingdom Continental Shelf. These efforts were

curtailed late in 2006 as financing for the project was unsuccessful due to difficult market conditions and the Company withdrew from the farmin agreements.

Early in 2007, the Company shifted its focus to oil sands exploration and appraisal in Alberta. In February 2007, the Company entered into a farmin agreement for oil sands exploration and appraisal in the Hangingstone area (“Hangingstone Asset” or “Hangingstone”) near Fort McMurray, Alberta for up to 52.5% working interest in 39 contiguous sections of land. Excelsior acquired a private company to increase its working interest to up to 75%. Excelsior has now fulfilled all its farmin obligations at Hangingstone upon completion of the 24 core well winter drilling program in March 2008. Part of the farmin obligations included Excelsior completing the acquisition of 135 kilometres of 2D seismic data in the spring of 2007. The seismic data was of excellent quality and was the basis of a 24 well core drilling program in the 2007/2008 winter drilling season. The Company completed a 26 well core well program in March 2008.

In July 2007, the Company executed a farm-in agreement to acquire a 75% working interest in 18 contiguous sections of land in the West Surmont area (“Surmont” or “Surmont Asset”) south of Fort McMurray. Subsequently, in September 2007, the Company added to its contiguous land position at Surmont by acquiring one additional section (net 75% working interest). Pursuant to the farmin agreement Excelsior will acquire its 75% interest by paying 100% of land acquisition costs and future seismic and core drilling costs. The Company also agreed to fund \$2,900,000 of the farmor’s 25% share of continuing operations, contingent upon successful drilling results and the parties’ agreement to continue operations. The first stage of the project was the acquisition of 72.5 kilometres of 2D seismic and the purchase of 73.1 kilometres of existing 2D seismic from a third party vendor to delineate the size and number of potential SAGD oil sand pods. This program was completed in September, 2007. An 18 well exploration program prior to March 31, 2009, would complete the final earning. The Company completed a nine core well drilling program in March 2008.

Currently the core analysis from both core drilling programs is ongoing with completion expected by May 30, 2008. The core data will be integrated with the wireline log data to determine reservoir parameters and net pay thicknesses. Ultimately this data will allow selection of core wells for the 2008/2009 winter drilling season for further delineation of areas with potential for SAGD commercial production.

In addition to the Company’s oil sands properties in Alberta, Excelsior was successful in the 24th Offshore UK Licensing Round in February 2007 and, through its wholly owned subsidiary Excelsior Energy North Sea Limited, was awarded one license covering two part blocks, 16/1a and 16/6c in the UK North Sea. A number of leads have been identified and mapped in Eocene and Palaeocene aged sand reservoirs which are productive in the neighbouring West Brae Field.

The Company funded its oil sands activity in 2007 with equity financing. Excelsior completed three financings in 2007 totalling \$45,308,650. Of the funds raised \$16,425,800 was for flow-through common shares. 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 Company plans to continue to fund its oil sands activity with equity financing. To move forward with a seismic program at Hangingstone in 2008 and winter drilling in the 2008/2009 season for both properties, Excelsior will require additional financing. Excelsior's ability to raise equity financing will be subject to market conditions at that time.

The Company's strategy is to capture oil and gas appraisal and development opportunities where it can leverage management's diverse international experience and field development expertise. This includes heavy oil reservoir engineering and development of complex fields. The scale of the oil sands resource opportunity in Alberta complements Excelsior's international portfolio.

Shares of the Company trade on the TSX Venture Exchange under the trading symbol ELE.

SELECTED ANNUAL INFORMATION

	Year Ended December 31, 2007	15 Months Period Ended December 31, 2006	Year Ended December 31, 2005
Gas revenue	\$ 76,335	\$ 193,238	\$ -
General and administrative expenses	1,232,441	1,844,323	151,404
Net and comprehensive loss for the period	\$ (4,941,321)	\$ (3,689,781)	\$ (67,611)
Loss per share – basic and diluted	\$ (0.07)	(\$0.25)	(\$0.01)
Cash flows used in continuing operations	\$ (1,023,540)	\$ (1,765,071)	\$(142,927)
Weighted average number of shares outstanding	65,768,355	15,036,063	9,973,826

RESULTS OF OPERATIONS

Gas revenue, royalties and operating costs

	Year Ended Dec. 31, 2007	Fifteen Months Ended Dec. 31, 2006
Gas revenue	\$ 76,335	\$ 193,238
Royalties	(16,585)	(29,255)
Operating costs	(19,115)	(25,853)

Gas revenue is generated from a non-operated gas well at Hastings Alberta, which was acquired in November 2005. The well averaged 31 mcf/d (net to Excelsior) for the year ended December 31, 2007 (period ended December 31, 2006 – 57 mcf/d) at an average price of \$6.83 per mcf (period ended December 31, 2006 - \$7.38/mcf). The property is

non-core, non-operated and is experiencing greater than anticipated production declines. Crown royalties of \$16,585 averaged 22% of revenue compared to \$29,255 in crown royalties averaging 15% of revenue in 2006. In 2006 royalties were net of Alberta Royalty Tax Credit, which is a 25% credit of crown royalty. This program was phased out over a number of years by the Alberta government and terminated effective January 1, 2007. Operating costs of \$19,115 averaged \$1.71 per mcf compared to \$25,853 averaging \$0.99 per mcf in 2006. Depletion for the Hastings property was calculated at a rate of \$3.85 per mcf, totalling \$43,000 (2006 - \$5.41 per mcf).

Interest and other income

	Year Ended Dec. 31, 2007	Fifteen Months Ended Dec. 31, 2006
Interest income	\$ 370,104	\$ 82,606
Gain on sale of marketable securities	4,660	-
Interest and other income	\$ 374,764	\$ 82,606

Interest income of \$370,104 (2006 - \$82,606) was interest income generated by funds held in short term deposits. Short term deposit balances were higher throughout 2007 as a result of an increase in funds received from equity financings in 2007 over 2006, to fund the oil sands projects. The Company sold its investment in a publicly-listed company for proceeds of \$6,670 and recorded a gain of \$4,660.

General and administrative expenses

	Year Ended Dec. 31, 2007	Fifteen Months Ended Dec. 31, 2006
General and administrative expenses	\$ 1,232,441	\$ 1,844,323

General and administrative expenses were \$1,232,441 for the year ended December 31, 2007 compared to \$1,844,323 for the fifteen month period ended December 31, 2006. Excelsior experienced a longer reporting period in 2006 and had incurred one time expenditures in that period relating to the amalgamation with Qeva Group Inc. In 2006, severance costs of \$450,000 were paid to former directors and officers of Qeva.

Stock based compensation

	Year Ended Dec. 31, 2007	Fifteen Months Ended Dec. 31, 2006
Stock based compensation	\$ 3,967,164	\$ 145,176

Stock based compensation increased to \$3,967,164 from \$145,176 reflecting additional option grants in 2007. During 2007, 6,275,010 stock options were granted compared to a post amalgamation equivalent 750,000 stock options in 2006. The options were assessed a higher fair value in 2007 due to higher volatility in market price (113% - 143%) as compared to 2006. In 2006 the stock was not trading on a public market, and a lower volatility (25%) was estimated.

Impairment of petroleum and natural gas properties

	Year Ended Dec. 31, 2007	Fifteen Months Ended Dec. 31, 2006
Impairment of petroleum and natural gas properties	\$ 101,521	\$ 1,884,786

At December 31, 2007 the ceiling test assessment for impairment of the Hastings property resulted in a write-down of \$101,521 (2006 - \$348,267). Reserve volumes evaluated at December 31, 2007 declined 55% from December 31, 2006. The ceiling test impairment on this non core asset occurred as a result of poor well production performance. The Hastings property is non-core, generates nominal income and is not significant to the Company's oil sands focus. The write-down of this property does not alter the Company's plans to explore and develop its oil sands properties.

During the period ended December 31, 2006 Excelsior was required to withdraw from a farmin agreement to earn its working interest in three UK North Sea licences. Adverse market conditions contributed to the Company's inability to complete an equity financing to fund the farmin obligations. The costs associated with this property totalling \$1,536,519 were written off.

Sale of oil and gas properties

	Year Ended Dec. 31, 2007	Fifteen Months Ended Dec. 31, 2006
Net income from discontinued operations	\$ -	\$ 75,813
Gain on sale of assets held for sale	\$ -	\$ 34,053

In the quarter ended December 31, 2005 management of Qeva decided to divest of its producing property in the Forgan West area of Saskatchewan and entered into a purchase and sale agreement that was closed in June 2006. This property represented all producing property in 2005. Net income from these assets sold was separately disclosed representing discontinued operations in the amount of \$75,813 in 2006. A gain from the sale of the property of \$34,053 was recognized.

Capital expenditures

	Year Ended December 31, 2007	Fifteen Months Ended Dec. 31, 2006
Petroleum and natural gas properties – cash additions	\$ 32,472,009	\$ 2,170,495
Petroleum and natural gas properties – non-cash additions	18,213,697	294,515
Total additions	\$ 50,685,706	\$ 2,465,010

Petroleum and natural gas properties additions increased to \$50,685,706 in 2007 from \$2,465,010 in 2006. Costs in 2007 relate to the Hangingstone and Surmont oil sands properties.

Costs incurred at Hangingstone totalled \$33.2 million for land, seismic and part of the winter core drilling program. The Hangingstone property was acquired pursuant to a farmin agreement. The farmin agreement required Excelsior to reimburse land and bonus costs of \$11.8 million, issue 8,647,359 common shares valued at \$7.9 million, undertake a seismic program for a cost of \$1.4 million and complete a 24 well drilling program budgeted at \$7.9 million in the winter of 2007/2008. At December 31, 2007, \$1.7 million was incurred for the winter drilling program. The drilling program was completed in March 2008 thereby fulfilling all the farmin obligations for Excelsior to earn its 75% working interest in the property.

Excelsior's initial share in the Hangingstone Asset pursuant to the farmin agreement was for up to a 52.5% working interest. The Company undertook the acquisition of a private company ("PrivateCo"), also a participant in the farmin agreement, to acquire up to an additional 22.5% working interest at Hangingstone. In addition to its Hangingstone interest, PrivateCo had \$1.2 million in working capital. The transaction contemplated the issuance of up to 16,000,000 common shares of Excelsior. At closing Excelsior issued 10,000,000 common shares to acquire all the common shares of PrivateCo. The acquisition was valued at \$11.1 million, including an adjustment made at December 31, 2007 of \$4.8 million. Up to an additional 6,000,000 common shares of Excelsior may be issued upon certain reserves performance thresholds being met. Excelsior will issue 3,000,000 common shares to the shareholders of PrivateCo upon receiving an independent engineering evaluation which allocates and assigns to the Hangingstone Asset a value greater than 75,000,000 barrels of gross recoverable bitumen (100% project) in the NI 51-101 compliant probable and possible category by December 31, 2009. An additional 3,000,000 common shares will be issued to the shareholders of PrivateCo if Excelsior receives a NI 51-101 compliant evaluation assigning to the Hangingstone Asset a value greater than 150,000,000 barrels of gross recoverable bitumen (100% project) in the NI 51-101 compliant probable and possible category by December 31, 2010. As at December 31, 2007, the Company did not meet the performance thresholds.

Excelsior will acquire its 75% working interest at Surmont pursuant to a farmin agreement. In 2007, Excelsior incurred \$17.5 million for land, seismic and start up costs for the 2007/2008 winter drilling program. Pursuant to the farmin agreement the Company reimbursed land and bonus costs of \$14.1 million, seismic costs of \$2.1 million and initial core drilling costs of \$0.1 million. Excelsior completed a nine well core drilling program in March 2008. To complete the earning obligations, the Company is required to drill an additional nine core wells prior to March 31, 2009 and has also agreed to fund \$2,900,000 of the farmor's 25% share of continuing operations, contingent upon successful drilling results and the parties' agreement to continue operations. In September 2007, the Company added to its contiguous land position at Surmont by acquiring one additional section (net 75% working interest).

Costs in 2006 relate to the acquisition of the Hastings oil and gas producing property and costs incurred for the UK North Sea licence obtained in the 24th bid round.

Asset retirement obligations

Asset retirement obligations increased to \$5,059 in 2007 from \$4,707 in 2006. The asset retirement obligation represents the estimate for, and accumulated accretion of the 26% working interest in one well at Hastings, Alberta.

Income taxes

The Company has loss carry-forwards totalling \$6,008,000. No tax asset for the value of these losses has been recorded for accounting purposes as the Company does not believe that it currently meets the criteria of the losses being utilized being more likely than not.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2007 the Company had working capital of \$14,337,806 (2006 - \$3,921,612) which included \$15,848,648 of cash and cash equivalents (2006 - \$3,965,957). The Company's cash is held in accounts on deposit and short term guaranteed investment certificates issued by a major Canadian bank.

The Company's primary source of cash for the year ended December 31, 2007 was funds received from the sale of common shares through private placement offerings. Excelsior completed three financings in 2007 totalling gross proceeds of \$45,308,650. 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.

At April 24, 2008, Excelsior had 108,824,891 common shares outstanding.

There are 7,887,825 stock options and 3,055,140 warrants to purchase common shares of the Company as of April 24, 2008. The Company also has a commitment to issue 6,000,000 common shares contingent on certain performance thresholds being met on the Hangingstone property under the terms of the PrivateCo acquisition.

At December 31, 2007 the Company had no debt or credit facilities.

Excelsior's winter drilling programs at Hangingstone and Surmont are budgeted at \$12.7 million for the 2007/2008 core drilling program. The Company has adequate working capital at December 31, 2007 to fund the program. The Company will finalize the 2008 capital budget after the core analysis is completed at Hangingstone and Surmont. It is expected a seismic program at Hangingstone will be undertaken in 2008 and additional core drilling in the 2008/2009 winter drilling season for both Surmont and Hangingstone. The Company's primary source of funds for the 2008 capital budget will be equity financing. Excelsior's ability to raise equity financing will be subject to market conditions at that time.

The Company raised gross proceeds of \$45.3 million in 2007 from equity financing. A portion of the funds was raised by issuing flow-through common shares. 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. The majority of the flow through commitments were fulfilled upon completion of the 2007/2008 core drilling program in March 2008.

COMMITMENTS, CONTINGENCIES, CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET ARRANGEMENTS

The Company has obligations under two farmin agreements for the Hangingstone and Surmont properties.

The Company's obligation at December 31, 2007 at Hangingstone is to complete the 24 well core drilling program by March 31, 2008. In February 2008 the Company added two core wells to the program to better delineate an area of high quality, homogeneous bitumen sands. The budget for this project is \$8.4 million. Working capital of \$14.3 million at December 31, 2007 is sufficient to fulfill this obligation. The drilling program was completed on budget in March 2008 and Excelsior has fulfilled all the obligations pursuant to this agreement and earned its 75% working interest.

The Company's obligation at December 31, 2007 at Surmont was to complete an 18 well core drilling program by March 31, 2009. The Company also agreed to fund \$2.9 million of the farmor's 25% share of continuing operations, contingent upon successful drilling results and the parties' agreement to continue operations. The Company drilled nine core wells during the 2007/2008 winter season. The budget for the program is \$4.0 million and the Company's working capital at December 31, 2007 is sufficient to fulfill this obligation. The Company plans to drill the remaining nine wells, and upon successful drilling results will pay \$2.9 million, to fulfill the remaining earning obligation pursuant to the farmin agreement. Funding for the drilling program in 2008/2009 and \$2.9 million will require Excelsior to obtain equity financing. Excelsior's ability to raise equity financing will be subject to market conditions at that time.

Pursuant to the share purchase agreement with PrivateCo up to an additional 6,000,000 common shares of Excelsior may be issued to the shareholders of PrivateCo upon certain resources performance thresholds being met. Excelsior will issue 3,000,000 common shares to the shareholders of PrivateCo upon receiving an independent engineering evaluation which allocates and assigns to the Hangingstone Asset a value greater than 75,000,000 barrels of gross recoverable bitumen (100% project) in the NI 51-101 compliant probable and possible category by December 31, 2009. An additional 3,000,000 common shares will be issued to the shareholders of PrivateCo if Excelsior receives a NI 51-101 compliant evaluation assigning to the Hangingstone Asset a value greater than 150,000,000 barrels of gross recoverable bitumen (100% project) in the NI 51-101 compliant probable and possible category by December 31, 2010.

The Company raised gross proceeds of \$45.3 million in 2007 from equity financing. A portion of the funds was raised by issuing flow-through common shares. 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. The majority of the flow through commitments were fulfilled upon completion of the 2007/2008 core drilling program in March 2008.

Excelsior was successful in the 24th Offshore UK Licensing Round in February, 2007, through its wholly owned subsidiary Excelsior Energy North Sea Limited, and was awarded one license covering two part blocks, 16/1a and 16/6c in the UK North Sea. The Company is obligated to complete seismic re-interpretation and a feasibility study in 2008 budgeted to be \$500,000. The Company has sufficient working capital at December 31, 2007 to fulfill this obligation.

The Company has not entered into any off balance sheet transactions.

PROPOSED TRANSACTIONS

In April 2008, the Company restructured its holdings in its subsidiary, Excelsior Energy North Sea Limited (“ENS”). Excelsior exchanged all of the shares of ENS for shares in a newly incorporated Alberta private company (“NorthseaCo”). Excelsior will manage and currently owns 100% of NorthseaCo. In connection with the restructuring NorthseaCo intends to issue 25% of its common shares in a private placement for gross proceeds of \$1.0 million. It is anticipated that certain insiders of the Company, including management and directors, will participate in the private placement to a maximum level of 50% of the private placement being sold. The transaction provides the structure to execute an international strategy and adds value to assets which management believes are currently undervalued within Excelsior. By segregating the oil sands and North Sea assets, capital markets can be accessed for these opportunities independently.

FINANCIAL INSTRUMENTS

The Company has not utilized any financial instruments to manage exposure to changes in interest rates, commodity prices or foreign exchange rates.

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) in 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 as share issue costs (2006 - \$nil) in 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 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.

CHANGES IN ACCOUNTING POLICIES

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 measure 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 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.

The carrying value and fair value of financial assets and liabilities at December 31, 2007 are summarized as follows:

Classification	Carrying Value	Fair Value
Held for trading	\$15,848,648	\$15,848,648
Loans and receivables	436,288	505,283
Other liabilities	\$ 1,995,125	\$ 1,995,126

Effective January 1, 2007, the Company adopted the revised recommendations of CICA Handbook Section 1506, *Accounting Changes*. These new recommendations 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.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

As of January 1, 2008 the Company will be required to adopt two new CICA Handbook requirements, Section 3862, *Financial Instruments – Disclosures*, regarding the Company’s financial instruments and Section 1535, *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.

In February 2008, the Accounting Standards Board (“AcSB”) issued Section 3064, *Goodwill and Intangible Assets*, and amended Section 1000, *Financial Statement Concepts*, clarifying the criteria for the recognition of assets, intangible assets and internally developed intangible assets. The standard is 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 January 2006, the AcSB adopted a strategic plan for the direction of accounting standards in Canada. On February 13, 2008 the AcSB has confirmed that effective for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, International Financial Reporting Standards will replace Canada’s current Generally Accepted Accounting Principles (“GAAP”) for all publicly accountable profit-oriented enterprises. The Company is currently evaluating the impact of this changeover on its consolidated financial statements.

RISK FACTORS

The Company is exposed to a variety of business risks and uncertainties in the international petroleum industry including the uncertainty of finding reserves, developing

and marketing those reserves, availability of equipment and services, commodity prices, volatility of financial markets and changes in government regulations.

Excelsior addresses these risks by employing and contracting highly skilled and motivated personnel and focusing management's efforts in areas where they have existing knowledge and using current technology to assess projects and control costs. The Company maintains a corporate insurance program consistent with industry practice to protect against losses due to property damage, well blowouts and other operating accidents.

On October 25, 2007, the Government of Alberta proposed a new royalty regime for conventional oil, natural gas and bitumen effective January 1, 2009. The changes to the royalty regime require new legislation and changes to the existing legislation. The new royalty regime will apply to new and existing oil sands projects. The impact of the proposed new royalty regime on project economics for development of potential projects is expected to be negative although such economics are dependent on multiple factors. Excelsior's initial evaluation indicates that the impact of the proposed new royalty regime will not be significant for early stage oil sands appraisal projects, particularly in the context of reduced federal corporate income tax changes enacted in 2008.

The oil and gas industry is subject to varying environmental regulations imposed by governments to protect the environment. The Company is committed to operating safely and in an environmentally sensitive manner. The Company complies with all regulatory requirements.

In March 2008, the Federal Government released a detailed plan for reducing greenhouse gas emissions introducing a carbon capture and storage requirement for all oil sands projects coming on-stream after 2011. The proposal will result in increased costs of operating and producing from Alberta's oil sands. The Company is monitoring the discussion and implementation of this proposal and effects it will have on its future SAGD development plans.

The Company's focus is to continue to explore and develop its oil sands properties. Funding for the ongoing capital requirements associated with oil sands exploration and development will primarily be from equity financing. The Company's ability to raise equity financing will be subject to market conditions at that time.

OUTLOOK

The Company will focus its efforts primarily on the Hangingstone and Surmont oil sands properties in 2008.

Currently the core analysis from both core drilling programs is ongoing with completion expected by May 30, 2008. The core data will be integrated with the wireline log data to determine reservoir parameters and net pay thicknesses. Seismic, log and core data will be integrated into a geological model that will support resource evaluation on the properties. An independent engineering report on the Hangingstone asset is expected to

be available in Q2, 2008. Independent engineering reports for Surmont are planned to be updated in Q3, 2008.

Integrated geological models will identify high resource potential areas for seismic and core programs scheduled for the 2008/2009 winter drilling season. An environmental base line assessment for a portion of the Hangingstone asset is scheduled to commence in summer 2008 to facilitate planning for a pilot project application in 2009.

SUMMARY OF QUARTERLY RESULTS

Selected Quarterly Information

	Q4	Q3	Q2	Q1
2007				
Revenue	\$(22)	\$16,537	\$27,866	\$31,954
Stock based compensation expense	876,511	2,902,285	91,006	97,362
General and administrative expense	420,607	316,607	258,786	236,441
Cash used in operating activities	(264,983)	(190,641)	(349,523)	(218,393)
Net loss	\$(1,287,057)	\$(3,030,554)	\$(319,607)	\$(304,103)
Loss per share – basic and diluted	(\$0.01)	(\$0.03)	(\$0.01)	(\$0.01)

	15 month period ended December 31, 2006 – As Originally Filed				
	Q5	Q4	Q3	Q2	Q1
Revenue	\$ 8,900	\$ 27,064	\$ 62,482	\$ 19,275	\$ 87,890
Stock based compensation expense	-	-	-	149,869	560,989
General and administrative expense	444,953	815,679	332,605	270,705	286,090
Cash used in operating activities	(442,483)	(667,873)	(373,181)	(358,014)	(204,129)
Net loss	\$(2,296,200)	\$(806,852)	\$(275,444)	\$(455,234)	\$(800,029)
Loss per share – basic and diluted	(\$0.08)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.05)

	15 month period ended December 31, 2006 – As Restated				
	Q5	Q4	Q3	Q2	Q1
Revenue (1)	\$ 8,900	\$ 27,064	\$ 41,589	\$ 19,275	\$ 87,890
Stock based compensation expense (2)	-	-	-	78,171	67,005
General and administrative expense (3,4)	444,953	708,547	178,806	225,927	286,090
Cash used in operating activities	(442,483)	(560,741)	(181,965)	(297,610)	(188,503)
Net loss	\$(2,296,200)	\$(684,094)	\$(95,936)	\$(323,132)	\$(290,419)
Loss per share – basic and diluted	(\$0.08)	(\$0.02)	(\$0.00)	(\$0.01)	(\$0.01)

During the preparation of the Company's annual financial statements for the 15 month period ended December 31, 2006, it was determined the measurement and classification of certain transactions/estimates during the period was incorrect and not in accordance with Canadian generally accepted accounting principles. The transactions for which restatement was required occurred prior to the amalgamation on September 6, 2006 and

prior to the resulting change in the management of the Company. After reviewing the nature of the transactions and considering the most appropriate treatment under Canadian GAAP, the Board of Directors, acting on the unanimous recommendation of management and the Audit Committee, approved restatement of the interim periods affected. These transactions have been accurately reflected in the audited financial statements as at December 31, 2006.

The following transactions required restatement in the period in which the transaction occurred:

1. Recognition of certain net revenues for the quarter ended September 30, 2006 was inadvertently duplicated.
2. Stock based compensation expense during the period was overstated as a result of an error in the calculation of the fair value of stock options granted and warrants issued. In addition, the fair value of warrants issued in connection with various financings was incorrectly expensed instead of being applied to reduce share capital.
3. Certain fees for share issuances, and capital costs relating to a North Sea asset subsequently written off in the quarter ended December 31, 2006, all of which were expensed in the interim periods, should have been capitalized or charged against shareholders' equity.
4. General and administrative expenses will be reduced by \$43,063 in the quarter ended September 30, 2006 resulting from a duplicate entry.

Fourth quarter 2007 results

	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006
Gas revenue	\$ (22)	\$ 8,900
General and administrative expense	420,607	444,953
Stock based compensation expense	876,511	-
Net and comprehensive loss	\$ (1,287,057)	\$ (2,296,200)

Gas production at Hastings was shut in for the majority of the fourth quarter in 2007. A major workover was completed on the well in December, 2007 and commenced production late in the quarter.

General and administrative expenses in both 2007 and 2006 were higher than expected due to one time charges. In 2006 costs were incurred for a financing for the North Sea ventures which was unsuccessful. In 2007 costs for listing on the TSX Venture Exchange were incurred.

There was no stock based compensation expense recorded in the three months ended December 31, 2006 as the options vested immediately at the date of grant and there were no grants made during that period. In 2007, options granted vest over two years. The Company granted 6,275,010 throughout 2007 and recorded an expense for the fair value

of options for the three month period ended December 31, 2007 in relation to the vesting period.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures are controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation and include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings or other reports filed or submitted under securities legislation is accumulated and communicated to the issuer's management to allow timely decisions regarding required disclosure.

The Company has a small staff with varying degrees of knowledge concerning the various regulatory disclosure requirements. In many circumstances, the various regulatory requirements are relatively new, subject to interpretation, and are complex. The Company is not of sufficient size to justify a separate department or one or more staff member specialists in this area. Therefore the Company relies upon its advisors/consultants to assist it and as such they form part of the disclosure controls and procedures.

Internal controls over financial reporting are defined in Multilateral Instrument 52-109 as a process designed by, or under the supervision of, the chief executive officer and chief financial officer, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's generally accepted accounting principles ("GAAP"). A system of internal controls include those policies and procedures that provide for the authorization of transactions, the safeguarding of assets and the preparation of relevant, reliable and timely financial information.

Excelsior's management has reviewed internal controls over financial reporting as at December 31, 2007 and have identified certain material weaknesses which are as follows:

- due to the limited number of staff at Excelsior it is not possible to achieve segregation of incompatible functions
- Excelsior's information systems are subject to general control deficiencies including the lack of effective controls over system access, change management, back-up procedures, spreadsheets and documentation, and
- Excelsior does not have the in-house expertise to deal with complex taxation, accounting and reporting issues

These weaknesses in internal controls over financial reporting result in a more than remote likelihood that a material misstatement would not be prevented or detected. Excelsior has limited human resources to design and establish internal controls over financial reporting and relies on management and the Board of Directors to mitigate the

risks of material misstatement through close scrutiny of all related activities to compensate for the weaknesses in internal controls. Management intends to remediate these weaknesses when the Company's growth in human resources allows.

In November 2007, the Alberta Securities Commission issued a blanket order to provide relief to venture issuers from certain certification requirements with regard to disclosure controls and internal controls over financial reporting. The blanket order allows venture issuers to file a simplified form of certificate called a "Base Certificate", which does not include representations relating to the design and evaluation of certain controls in their organizations. In particular, the certifying officers filing this certificate are not making any representations to the establishment and maintenance of :

- controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in the certificate.

Readers should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis disclosure controls and procedures and internal controls over financial reporting in Multilateral Instrument 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

ADDITIONAL INFORMATION

Additional information about Excelsior and its business activities is available on SEDAR at www.sedar.com.