

EXCELSIOR ENERGY LIMITED

**UNAUDITED
INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE AND THREE MONTHS ENDED
SEPTEMBER 30, 2007 AND 2006**

EXCELSIOR ENERGY LIMITED
CONSOLIDATED BALANCE SHEETS
(unaudited)

	September 30, 2007	December 31, 2006
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 15,154,445	\$ 3,965,957
Accounts receivable	383,588	224,252
Prepays and deposits	42,339	-
Marketable securities	-	2,010
	15,580,372	4,192,219
Petroleum and natural gas properties (note 5)	42,363,060	571,937
Property and equipment (note 6)	25,843	28,903
	\$ 57,969,275	\$ 4,793,059
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 3,552,359	\$ 270,607
Asset retirement obligation (note 7)	4,971	4,707
	3,557,330	275,314
Commitments and contingencies (notes 3 & 12)		
SHAREHOLDERS' EQUITY		
Share capital (note 8)	58,833,579	9,602,706
Contributed surplus (note 8)	4,600,273	282,682
Deficit	(9,021,907)	(5,367,643)
	54,411,945	4,517,745
	\$ 57,969,275	\$ 4,793,059

See accompanying notes to the interim consolidated financial statements.

On Behalf of the Board of Directors:

(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
(unaudited)**

	Nine Months Ended September 30		Three Months Ended September 30	
	2007	2006 (Restated - note 4)	2007	2006 (Restated - note 4)
REVENUE				
Gas revenue	\$ 76,357	\$ 87,928	\$ 16,537	\$ 27,064
Royalties	(16,830)	(48,382)	(2,894)	(9,123)
Interest revenue	243,021	65,097	188,683	39,938
	302,548	104,643	202,326	57,879
EXPENSES				
Operating expenses	10,721	9,529	2,456	(1,005)
General and administrative	811,834	1,113,280	316,607	708,547
Stock-based compensation (note 8)	3,090,653	78,171	2,902,285	-
Depreciation, depletion and accretion	43,604	54,112	11,532	575
	3,956,812	1,255,092	3,232,880	708,117
Loss before the following items	(3,654,264)	(1,150,449)	(3,030,554)	(650,238)
Net income (loss) from discontinued operations (note 9)	-	47,287	-	(33,856)
NET AND COMPREHENSIVE LOSS	(3,654,264)	(1,103,162)	(3,030,554)	(684,094)
DEFICIT, beginning of period	(5,367,643)	(1,968,281)	(5,991,353)	(2,387,349)
DEFICIT, end of period	\$(9,021,907)	\$(3,071,443)	\$(9,021,907)	\$(3,071,443)
Basic and Diluted Loss Per Share (note 10)	\$(0.07)	\$(0.08)	\$(0.03)	\$(0.04)

See accompanying notes to the interim consolidated financial statements.

EXCELSIOR ENERGY LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended Sept 30		Three Months Ended Sept 30	
	2007	2006 (Restated - note 4)	2007	2006 (Restated - note 4)
Cash provided by (used in) the following activities				
OPERATING				
Continuing Operations				
Loss from continuing operations	\$ (3,654,264)	\$ (1,150,449)	\$ (3,030,554)	\$ (650,238)
Items not affecting cash:				
Depreciation, depletion and accretion	43,604	54,112	11,532	575
Stock-based compensation	3,090,653	78,171	2,902,285	-
	(520,007)	(1,018,166)	(116,737)	(649,663)
Changes in non-cash working capital items:				
Accounts receivable	(174,336)	(99,444)	(144,535)	15,596
Prepays and deposits	(42,339)	47,791	(38,315)	68,183
Accounts payable and accrued liabilities	(21,874)	(556)	108,946	38,999
	(758,557)	(1,070,375)	(190,641)	(526,885)
Discontinued Operations				
Earnings (loss) from discontinued operations (note 9)	-	47,287	-	(33,856)
Items not affecting cash:				
Depletion from discontinued operations	-	35,554	-	20,700
Bad debts	-	31,840	-	-
Gain on disposal of assets	-	(34,053)	-	-
Changes in non-cash working capital items:				
Assets held for sale	-	(54,930)	-	(20,700)
	(758,557)	(1,044,677)	(190,641)	(560,741)
INVESTING				
Petroleum and natural gas properties	(28,412,026)	(211,165)	(19,457,407)	(64,069)
Property and equipment	(5,680)	(1,344)	(5,680)	-
Deposits received for assets held for sale	-	100,000	-	-
Changes in marketable securities	2,010	-	-	-
Changes in accounts receivable	19,314	-	19,314	-
Changes in accounts payable and accrued liabilities	3,303,627	-	3,233,937	-
	(25,092,755)	(112,509)	(16,209,836)	(64,069)
FINANCING				
Issuance of share capital net of costs	35,843,716	1,851,935	87,115	703,582
Issuance of shares for cash in PrivateCo (note 3)	1,181,084	-	1,181,084	-
Cash received on amalgamation	-	1,266,913	-	1,266,913
Cash held in trust	-	(603,140)	-	(603,140)
Changes in accounts payable and accrued liabilities	-	-	(75,575)	-
Changes in accounts receivable	15,000	-	-	-
	37,039,800	2,515,708	1,192,624	1,367,355
CHANGE IN CASH POSITION	11,188,488	1,358,522	(15,207,853)	742,545
CASH and cash equivalents, beginning of period	3,965,957	3,200,960	30,362,298	3,816,937
CASH and cash equivalents, end of period	\$ 15,154,445	\$ 4,559,482	\$15,154,445	\$ 4,559,482
Cash and cash equivalents consist of				
Cash on deposit	\$ 507,590	\$ 3,356,325	\$ 507,590	\$ 3,356,325
Term deposits	14,646,855	1,203,157	14,646,855	1,203,157
	\$ 15,154,445	\$ 4,559,482	\$ 15,154,445	\$ 4,559,482
NON-CASH TRANSACTIONS				
Petroleum and natural gas asset purchase settled by issuance of shares	\$ 13,413,697	\$ 125,000	\$ 5,099,602	-
Share issue costs settled by issuance of shares	-	175,000	-	-
Accounts payable settled by issuance of shares	-	\$ 37,499	-	-
Shares issued to acquire PrivateCo (note 3)	5,118,916	-	\$ 5,118,916	-
Shares issued for petroleum & natural gas assets (note 8)	\$ 8,314,095	-	-	-

See accompanying notes to the interim consolidated financial statements.

EXCELSIOR ENERGY LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

Page 1

1. BASIS OF PRESENTATION

The interim consolidated financial statements of Excelsior Energy Limited (“Excelsior” or the “Company”) for the nine and three month periods ended September 30, 2007 and 2006 are presented in accordance with Canadian generally accepted accounting principles (“GAAP”).

Excelsior was formed upon amalgamation of Qeva Group Inc. (“Qeva”) and Excelsior Energy Limited (“Excelsior Ltd.”) on September 6, 2006. The Company’s primary business activity is domestic and international exploration and development of petroleum and natural gas properties. The Company owns property in Alberta and, through its wholly owned subsidiary Excelsior Energy North Sea Limited, property in the North Sea.

After the date of the amalgamation, the directors of the Company resolved to adopt a new year-end of December 31, which was to conform to the most common year end of similar junior oil and gas corporations and more convenient shareholder reporting periods.

2. SIGNIFICANT ACCOUNTING POLICY

The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as indicated in the audited consolidated financial statements for the 15 month period ended December 31, 2006, except as described below. The disclosures do not conform in all respects to the requirements of GAAP for annual financial statements and should be read in conjunction with Excelsior’s financial statements and the notes thereto for the 15 month period ended December 31, 2006.

Financial Instruments, Comprehensive Income, Hedges and Equity

Effective January 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (“CICA”) under CICA Handbook Section 1530, *Comprehensive Income*, Section 3251, *Equity*, Section 3865, *Hedges*, Section 3855, *Financial Instruments - Recognition and Measurement*, Section 3861, *Financial Instruments - Disclosure and Presentation*. These new Handbook Sections provide recommendations governing the recognition and measurement of financial instruments and the reporting of gains or losses in the financial statements.

Under Section 3855, all financial instruments are initially measured on the balance sheet at fair value. Subsequent measurement of the financial instruments is based on their classification and gains and losses are recognized in net income or other comprehensive income. The Company has made the following classifications:

- Cash and cash equivalents and marketable securities are classified as assets held for trading. They are measured at fair value and the gains and losses resulting from the remeasurement at the end of each period are recognized in net income.
- Accounts receivable are classified as loans and receivables. 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 liabilities. They are recorded at cost, which upon their initial measurement is equal to their fair value. Subsequent measures are recorded at amortized cost.

EXCELSIOR ENERGY LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

Page 2

2. SIGNIFICANT ACCOUNTING POLICY (continued)

Financial Instruments, Comprehensive Income, Hedges and Equity (continued)

Section 1530 establishes standards for reporting and presentation of comprehensive income which is defined as the change in the equity of a company arising from transactions, events and circumstances from non-owners sources. Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period.

Section 3865 sets out standards specifying when and how an entity can use hedge accounting. The adoption of this new standard is optional. It offers entities the possibility of applying different reporting options than those set out in Section 3855, to qualifying transactions that they elect to designate as hedges for accounting purposes. The Company has not entered into any hedging contracts.

Carrying value and fair value of financial assets and liabilities at September 30, 2007 are summarized as follows:

Classification	Carrying Value	Fair Value
Held for trading	\$ 15,154,445	\$ 15,154,445
Loans and receivables	425,927	425,927
Other liabilities	3,552,359	3,552,359

No adjustments were made as a result of initial adoption of the policies at January 1, 2007.

Accounting Changes

Effective January 1, 2007, the Company adopted the revised recommendations of Section 1506, *Accounting Changes*. The 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.

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.

EXCELSIOR ENERGY LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

Page 3

2. SIGNIFICANT ACCOUNTING POLICY (continued)

Recent 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.

3. ACQUISITION OF PRIVATECO

On July 13, 2007, Excelsior acquired a private company ("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, near Fort McMurray, Alberta ("Hangingstone Asset" or "Hangingstone"). The PrivateCo acquisition increased Excelsior's maximum working interest to 75%, after fulfilling its farm-in earning obligations (note 8b ii). In addition to its Hangingstone interest, PrivateCo had \$1,200,398 in working capital. The transaction contemplates the issuance of up to 16,000,000 common shares of Excelsior. At closing Excelsior issued 10,000,000 common shares (subject to a voluntary escrow agreement) to acquire all the common shares of PrivateCo. Up to an additional 6,000,000 common shares of Excelsior will be issued upon certain 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) by December 31, 2010.

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	5,099,602
	<hr/>
	\$ 6,300,000

Purchase Price Consideration

Common shares issued, net of acquisition costs	\$ 6,260,146
Costs of acquisition	39,854
	<hr/>
	\$ 6,300,000

The contingent consideration of 6,000,000 common shares were assessed a value of \$nil as the contingency governing this consideration has not been resolved. The consolidated statements of operations and cash flows include PrivateCo operating results from July 13, 2007 to September 30, 2007.

EXCELSIOR ENERGY LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

Page 4

4. RESTATEMENT

During the preparation of the Company's annual financial statements for the 15 month period ended December 31, 2006, it was determined that the measurement and classification of certain transactions/estimates during the period were incorrect and not in accordance with Canadian generally accepted accounting principles. 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 in 2006.

The following transactions required restatement in the periods ended September 30, 2006:

- 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.
- Certain fees for share issuances, and capital costs relating to a North Sea asset, all of which were expensed in the interim periods, should have been capitalized or charged against shareholders' equity.
- Recognition of certain net revenues was inadvertently duplicated, overstating gas revenue, royalties and operating costs.
- Cash and general and administrative expenses were overstated as a result of a duplicate entry.

Effects of the restatement by line item follow:

Consolidated Statements of Operations and Deficit

	Three Months Ended Sept 30, 2006 As Previously Reported	Impact of Errors	Three Months Ended Sept 30, 2006 Restated
General and administrative expenses	\$ 815,679	\$(107,132)	\$ 708,547
Depreciation, depletion and accretion	16,201	(15,626)	575
Net and comprehensive loss	\$ (806,852)	\$ 122,758	\$(684,094)
Loss per share	\$(0.05)	\$0.01	\$(0.04)

	Nine Months Ended Sept 30, 2006 As Previously Reported	Impact of Errors	Nine Months Ended Sept 30, 2006 Restated
Gas revenues	\$ 108,821	\$ (20,893)	\$ 87,928
Royalties	(60,712)	12,330	(48,382)
Operating expenses	42,301	(32,772)	9,529
Stock-based compensation	149,869	(71,698)	78,171
General and administrative expenses	1,418,989	(305,709)	1,113,280
Depreciation, depletion and accretion	69,738	(15,626)	54,112
Net and comprehensive loss	\$(1,520,404)	\$ 417,242	\$(1,103,162)
Loss per share	\$(0.11)	\$0.03	\$(0.08)

EXCELSIOR ENERGY LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

Page 5

4. RESTATEMENT (continued)

Consolidated Statements of Cash Flows

	Three Months Ended Sept 30, 2006 As Previously Reported	Impact of Restatements	Three Months Ended Sept 30, 2006 Restated
Operating Activities:			
Net loss used in continuing operations	\$ (772,996)	\$122,758	\$ (650,238)
Items not affecting cash			
Depreciation, depletion and accretion	16,201	(15,626)	575
Cash flow used in operating activities	(667,873)	107,132	(560,741)
Investing Activities:			
Petroleum and natural gas properties	-	(64,069)	(64,069)
Cash flow used in investing activities	-	(64,069)	(64,069)
Change in cash position	699,482	43,063	742,545
Cash and cash equivalent, end of period	\$ 4,516,419	\$ 43,063	\$ 4,559,482

	Nine Months Ended Sept 30, 2006 As Previously Reported	Impact of Restatements	Nine Months Ended Sept 30, 2006 Restated
Operating Activities:			
Net loss used in continuing operations	\$(1,567,691)	\$417,242	\$(1,150,449)
Items not affecting cash			
Depreciation, depletion and accretion	69,738	(15,626)	54,112
Stock based compensation	149,869	(71,698)	78,171
Change in non-cash working capital			
Accounts receivable	(105,230)	5,786	(99,444)
Cash flow used in operating activities	(1,372,279)	327,602	(1,044,677)
Investing Activities:			
Petroleum and natural gas properties	31,054	(242,219)	(211,165)
Cash flow from (used in) investing activities	129,710	(242,219)	(112,509)
Financing Activities:			
Issuance of share capital	1,899,255	(47,320)	1,851,935
Cash flow from financing activities	2,563,028	(47,320)	2,515,708
Change in cash position	1,320,459	38,063	1,358,522
Cash, beginning of period	3,195,960	5,000	3,200,960
Cash and cash equivalent, end of period	\$ 4,516,419	\$ 43,063	\$ 4,559,482

EXCELSIOR ENERGY LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

Page 6

5. PETROLEUM AND NATURAL GAS PROPERTIES

	Cost	Accumulated Depletion and Depreciation	September 30, 2007 Net	Dec. 31, 2006 Net
Canada	\$ 42,694,044	\$ 524,536	\$ 42,169,508	\$ 385,260
North Sea	1,730,071	1,536,519	193,552	186,677
	\$ 44,424,115	\$ 2,061,055	\$ 42,363,060	\$ 571,937

No overhead charges have been capitalized to petroleum and natural gas properties.

Costs for unproven properties in the amount of \$41,824,857 (2006 - \$186,677) were excluded in the costs subject to depletion and depreciation representing costs in the North Sea and the oil sands project in Northern Alberta.

6. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depreciation	Sept 30, 2007 Net	Dec. 31, 2006 Net
Furniture and fixtures	\$ 13,021	\$ 2,020	\$ 11,001	\$ 8,744
Computer equipment	18,935	5,661	13,274	15,020
Computer software	7,314	5,746	1,568	5,139
	\$ 39,270	\$ 13,427	\$ 25,843	\$ 28,903

7. ASSET RETIREMENT OBLIGATION

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

	Nine Months Ended Sept 30, 2007	15 Months Ended December 31, 2006
Asset retirement obligation, beginning of period	\$ 4,707	\$ -
Liabilities incurred	-	4,273
Accretion expense	264	434
Asset retirement obligation, end of period	\$ 4,971	\$ 4,707

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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

Page 7

8. 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
Balance December 31, 2006	27,336,768	\$ 9,602,706
Common shares issued for cash (note 8b i)	9,293,332	2,867,133
Balance March 31, 2007	36,630,100	\$12,469,839
Common shares issued for farmin Hangingstone property (note 8b ii)	8,647,359	7,900,195
Issued for finder's fee on Hangingstone property (note 8b iii)	500,000	412,000
Issued on exercise of warrants (note 8b iv)	52,582	44,709
Contributed surplus on exercise of warrants (note 8b iv)	-	804
Common shares issued for cash (note 8b v)	39,385,000	31,589,754
Balance June 30, 2007	85,215,041	\$52,417,301
Issued to acquire PrivateCo (note 3)	10,000,000	6,260,146
Issued on exercise of warrants (note 8b vi)	92,667	97,300
Contributed surplus on exercise of warrants (note 8b vi)	-	14,376
Issued on exercise of options (note 8b vii)	107,683	29,669
Contributed surplus on exercise of options (note 8b vii)	-	14,787
Balance September 30, 2007	95,415,391	\$ 58,833,579

- (i) 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.
- (ii) In February, 2007, the Company executed a farm-in agreement to earn up to 52.5% interest in the Hangingstone oil sands property south of Fort McMurray. Excelsior 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 of \$2,100,000. These common shares were issued in May, 2007. Excelsior 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.
- (iii) The Company issued 500,000 common shares for 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.
- (iv) In May, 2007, 29,249 broker warrants and 23,333 warrants were exercised and the Company issued 52,582 common shares for proceeds of \$44,709. The exercise of the warrants resulted in a reduction of contributed surplus and increase in share capital of \$804.

EXCELSIOR ENERGY LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

Page 8

8. SHARE CAPITAL (continued)

(b) Changes in share capital (continued)

- (v) Excelsior 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 common shares issued on a flow-through basis 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 8(d)). These warrants were assessed a fair value of \$nil (see note 8(d)). 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 8(d)). Net proceeds after issue costs and fair value of warrants were \$31,589,754.
- (vi) In August, 2007, broker warrants were exercised and the Company issued 92,667 common shares for proceeds of \$97,300. The exercise of the broker warrants resulted in a reduction of contributed surplus and an increase in share capital of \$14,376.
- (vii) In September, 2007, stock options were exercised and the Company issued 107,683 common shares for proceeds of \$29,669. The exercise of the stock options resulted in a reduction of contributed surplus and an increase in share capital of \$14,787.

(c) Stock options

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

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

	2007	2006
Risk-free interest rate	3.89%-4.72%	3.75%
Expected life	4.4-4.9 years	3.8-3.9 years
Expected volatility	113%-143%	25%
Dividend yield	0%	0%

	Number of Options	Weighted Average Exercise Price
Balance December 31, 2006	1,399,341	\$0.25
Granted	6,025,010	1.38
Expired	(103,843)	0.28
Exercised	(107,683)	0.36
Balance, September 30, 2007	7,212,825	\$1.20

EXCELSIOR ENERGY LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

Page 9

8. SHARE CAPITAL (continued)

(c) Stock options (continued)

The following table summarizes the option vesting and expiration as at September 30, 2007.

Exercise Price	Options Outstanding	Options Exercisable	Remaining Life (years)
\$ 1.05	83,333	83,333	2.3
0.20	1,204,482	802,988	2.1
0.45	600,000	200,000	4.4
0.40	450,000	150,000	4.6
1.44	4,800,010	1,600,003	4.8
1.20	75,000	25,000	4.9
	7,212,825	2,861,324	

(d) Warrants

The fair value of each warrant was estimated using the Black-Scholes fair value option pricing model with the following assumptions: expected volatility of 25% and risk-free interest rate of 3.75% for the period ended December 31, 2006.

The Company issued 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 and ceased trading on the CNQ Exchange. These warrants were assessed a fair market value of \$nil.

The Company issued 2,260,620 broker warrants to an agent for the private placement (as described in note 8b (v)) at an exercise price of \$1.00. The fair value of these warrants was estimated using the Black-Scholes fair value option pricing model with the following assumptions: expected volatility 132% and a risk free interest rate of 4.66%. The broker warrants were valued using its full contractual life.

	Warrants Outstanding	Exercise Price
Balance, December 31, 2006	2,017,041	\$ -
Broker warrants issued	2,260,620	1.00
Broker warrants exercised	(121,916)	1.05
Warrants exercised	(23,333)	0.60
Warrants expired	(1,871,792)	1.32
Balance, September 30, 2007	2,260,620	

EXCELSIOR ENERGY LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

Page 10

8. SHARE CAPITAL (continued)

(d) Warrants (continued)

The following table summarizes the warrant vesting and expiration as at September 30, 2007.

Exercise Price	Warrants Outstanding	Warrants Exercisable	Remaining Life (years)
\$1.00	2,260,620	2,260,620	0.75

(e) Contributed surplus

	Nine Months Ended September 30, 2007
Balance, December 31, 2006	\$ 282,682
Stock-based compensation	3,090,653
Fair value of warrants	1,256,905
Warrants exercised into common shares	(15,180)
Options exercised into common shares	(14,787)
Balance, September 30, 2007	\$ 4,600,273

9. NET INCOME FROM DISCONTINUED OPERATIONS

In November, 2005, the Company signed an agreement to sell its interest in its Forgan West oil field properties. 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 statement of operation is:

	Nine Months Ended Sept 30, 2007	Nine Months Ended Sept 30, 2006	Three Months Ended Sept 30, 2007	Three Months Ended Sept 30, 2006
Revenue	\$ -	\$ 195,981	\$ -	\$ 7,716
Royalties	-	(19,910)	-	(1,073)
Operating expenses	-	(95,443)	-	(19,799)
Bad debt expense	-	(31,840)	-	-
Depletion	-	(35,554)	-	(20,700)
Gain on disposal of assets	-	34,053	-	-
	\$ -	\$ 47,287	\$ -	\$ (33,856)

EXCELSIOR ENERGY LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

Page 11

10. LOSS PER SHARE

Basic loss per share is calculated using the weighted average number of shares outstanding during the period. The Company is in a loss position for each period therefore all dilutive instruments are anti-dilutive in nature and are excluded from the calculation. Loss per share is calculated as follows:

Nine Months Ended Sept 30, 2007			
	Net Loss	Weighted Average Number of Shares	Net Loss Per Share
Basic and diluted	\$ (3,654,264)	54,812,486	\$(0.07)
Three Months Ended Sept 30, 2007			
	Net Loss	Weighted Average Number of Shares	Net Loss Per Share
Basic and diluted	\$ (3,030,554)	93,971,291	\$(0.03)
Nine Months Ended Sept 30, 2006			
	Net Loss (Restated - note 4)	Weighted Average Number of Shares	Net Loss Per Share
Basic and diluted	\$ (1,103,162)	13,934,209	\$(0.08)
Three Months Ended Sept, 2006			
	Net Loss (Restated - note 4)	Weighted Average Number of Shares	Net Loss Per Share
Basic and diluted	\$ (684,094)	17,576,209	\$(0.04)

EXCELSIOR ENERGY LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

Page 12

11. RELATED PARTY TRANSACTIONS

During the nine month period ended September 30, 2007, the Company paid consulting fees in the amount of \$nil (2006 - \$127,300) to companies controlled by directors and officers of the Company. These transactions were in the normal course of business and were recorded at the exchange amount which is the amount agreed to by the related parties and which is similar to those negotiable with third parties.

The Company utilizes the services of a law firm of which a former officer of the Company is a partner. During the nine month period ended September 30, 2007 the Company expended \$54,525, recorded in general and administrative expenses (\$23,141), share capital (\$16,337) and petroleum and natural gas properties (\$15,047), (2006 - \$214,486) in legal fees with this firm for the period the individual was an officer of the Company.

The Company utilizes the services of a law firm of which a director of the Company is a partner. During the nine month period ended September 30, 2007 the Company expended \$35,851, recorded in share capital as share issue costs, (2006 - \$ nil) in legal fees with this firm.

12. COMMITMENTS

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

The Company acquired the Hangingstone Asset pursuant to a farm-in agreement. Excelsior plans to fulfill its obligation to earn a 75% working interest by funding a 24 core well drilling program, to a maximum of \$7,920,000, in the 2007/2008 winter drilling season.

Excelsior was awarded two blocks in the UK North Sea Continental Shelf in the 24th bid licence round. Under the terms of the licence the Company is required to elect by February, 2009, to drill an exploratory well. Prior to the election Excelsior is obligated to incur \$550,000 to reprocess 300 km² of 3D seismic, depending on availability of data, and to acquire additional data to support a feasibility study.

13. SUBSEQUENT EVENTS

The Company entered into an agreement to finance up to \$8,716,084 in a private placement. Excelsior will issue up to 2,819,200 common shares at a price of \$0.52 per share and up to 11,154,000 common shares on a flow through basis at a price of \$0.65 per flow through share. The net proceeds of the offering will be used to fund exploration and development activities at West Surmont, seismic reprocessing for the North Sea licences and general corporate purposes. The private placement financing is expected to close on December 12, 2007, subject to regulatory approval and customary closing conditions.

In October, 2007 the Board of Directors authorized the grant of 250,000 stock options to a consultant at an exercise price of \$0.60 per common share.

EXCELSIOR ENERGY LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

Page 13

14. COMPARATIVE FIGURES

Certain prior period figures have been reclassified to conform with current period's presentation.