

**EXCELSIOR ENERGY LIMITED**

**UNAUDITED  
INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE SIX AND THREE MONTHS ENDED  
JUNE 30, 2007 AND 2006**

**EXCELSIOR ENERGY LIMITED**  
**CONSOLIDATED BALANCE SHEETS**  
**(unaudited)**

	<b>June 30, 2007</b>	December 31, 2006
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	\$ 30,362,298	\$ 3,965,957
Accounts receivable	239,052	224,252
Prepays and deposits	4,024	-
Marketable securities	-	2,010
	<b>30,605,374</b>	4,192,219
Petroleum and natural gas properties (note 4)	17,814,451	571,937
Property and equipment (note 5)	23,207	28,903
	<b>\$ 48,443,032</b>	\$ 4,793,059
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 285,050	\$ 270,607
Asset retirement obligation (note 6)	4,883	4,707
	<b>289,933</b>	275,314
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 7)	52,417,301	9,602,706
Contributed surplus (note 7)	1,727,151	282,682
Deficit	(5,991,353)	(5,367,643)
	<b>48,153,099</b>	4,517,745
	<b>\$ 48,443,032</b>	\$ 4,793,059

See accompanying notes to the interim consolidated financial statements.

**EXCELSIOR ENERGY LIMITED**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(unaudited)

	<b>Six Months Ended June 30</b>		<b>Three Months Ended June 30</b>	
	<b>2007</b>	2006 (Restated - note 3)	<b>2007</b>	2006 (Restated - note 3)
<b>REVENUE</b>				
Gas revenue	\$ 59,820	\$ 60,864	\$ 27,866	\$ 41,589
Royalties	(13,936)	(39,259)	(4,877)	(17,684)
Other revenue	54,338	25,159	28,269	18,427
	<b>100,222</b>	46,764	<b>51,258</b>	42,332
<b>EXPENSES</b>				
Operating expenses	8,265	10,534	6,437	8,895
General and administrative	495,227	404,733	258,786	178,806
Stock-based compensation (note 7)	188,368	78,171	91,006	-
Depreciation, depletion and accretion	32,072	53,537	14,636	26,801
	<b>723,932</b>	546,975	<b>370,865</b>	214,502
<b>LOSS BEFORE THE FOLLOWING ITEMS</b>	<b>(623,710)</b>	(500,211)	<b>(319,607)</b>	(172,170)
Net income from discontinued operations (note 8)	-	81,143	-	76,234
<b>NET AND COMPREHENSIVE LOSS</b>	<b>(623,710)</b>	(419,068)	<b>(319,607)</b>	(95,936)
<b>DEFICIT, beginning of period</b>	<b>(5,367,643)</b>	(1,968,281)	<b>(5,671,746)</b>	(2,291,413)
<b>DEFICIT, end of period</b>	<b>\$(5,991,353)</b>	\$(2,387,349)	<b>\$(5,991,353)</b>	\$(2,387,349)
<b>BASIC AND DILUTED</b>				
<b>LOSS PER SHARE</b> (note 9)	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	-

See accompanying notes to the consolidated interim financial statements.

**EXCELSIOR ENERGY LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	Six Months Ended June 30		Three Months Ended June 30	
	2007	2006 (Restated - note 3)	2007	2006 (Restated - note 3)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Continuing Operations				
Loss from continuing operations	\$ (623,710)	\$ (500,211)	\$ (319,607)	\$ (172,170)
Items not affecting cash:				
Depreciation, depletion and accretion	32,072	61,639	14,636	43,005
Stock-based compensation	188,368	78,171	91,006	-
Unrealized gain in marketable securities	-	-	1,740	-
	<b>(403,270)</b>	<b>(360,401)</b>	<b>(212,225)</b>	<b>(129,165)</b>
Changes in non-cash working capital items:				
Accounts receivable	(29,801)	(118,781)	(44,934)	(66,799)
Prepays and deposits	(4,024)	(20,392)	(4,024)	(21,019)
Accounts payable and accrued liabilities	(130,821)	(39,555)	(88,340)	(4,061)
	<b>(567,916)</b>	<b>(539,129)</b>	<b>(349,523)</b>	<b>(221,044)</b>
Discontinued Operations				
Earnings from discontinued operations (note 8)	-	81,143	-	76,234
Items not affecting cash				
Depletion from discontinued operations	-	14,854	-	6,752
Bad debts	-	31,840	-	-
Changes in non-cash working capital items				
Assets held for sale	-	(68,283)	-	(43,907)
	<b>(567,916)</b>	<b>(479,575)</b>	<b>(349,523)</b>	<b>(181,965)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Petroleum and natural gas properties	(8,954,619)	(151,457)	(6,565,998)	(209,822)
Property and equipment	-	(1,344)	-	(1,344)
Changes in marketable securities	2,010	-	2,010	-
Changes in accounts receivable	-	-	416,535	-
Changes in accounts payable and accrued liabilities	69,690	-	92,162	-
	<b>(8,882,919)</b>	<b>(152,801)</b>	<b>(6,055,291)</b>	<b>(211,166)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>				
Issuance of share capital net of costs	35,756,601	1,148,353	32,889,468	271,308
Deposits received for assets held for sale	-	100,000	-	-
Changes in accounts payable and accrued liabilities	75,575	-	(14,425)	-
Changes in accounts receivable	15,000	-	15,000	-
	<b>35,847,176</b>	<b>1,248,353</b>	<b>32,890,043</b>	<b>271,308</b>
<b>CHANGE IN CASH POSITION</b>	<b>26,396,341</b>	<b>615,977</b>	<b>26,485,229</b>	<b>(121,823)</b>
<b>CASH and cash equivalents, beginning of period</b>	<b>3,965,957</b>	<b>3,200,960</b>	<b>3,877,069</b>	<b>3,938,760</b>
<b>CASH and cash equivalents, end of period</b>	<b>30,362,298</b>	<b>3,816,937</b>	<b>30,362,298</b>	<b>3,816,937</b>
Cash and cash equivalents consist of				
Cash on deposit	4,854,505	816,937	4,854,505	816,937
Term deposits	25,507,793	3,000,000	25,507,793	3,000,000
	<b>30,362,298</b>	<b>3,816,937</b>	<b>30,362,298</b>	<b>3,816,937</b>
<b>NON-CASH TRANSACTIONS</b>				
Share issue costs settled by issuance of shares	-	245,000	-	-
Accounts payable settled by issuance of shares	-	37,499	-	-
Cost of petroleum and natural gas asset purchase settled by issuance of shares	\$ 8,314,095	\$ 55,000	\$ 8,314,095	\$ -

See accompanying notes to the interim financial statements.

# EXCELSIOR ENERGY LIMITED

## NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**SIX AND THREE MONTHS ENDED JUNE 30, 2007 AND 2006**

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### **1. BASIS OF PRESENTATION**

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

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. CHANGE IN ACCOUNTING POLICY**

#### **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 UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SIX AND THREE MONTHS ENDED JUNE 30, 2007 AND 2006

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### 2. CHANGE IN 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 not related to shareholders. 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 June 30, 2007 are summarized as follows:

<b>Classification</b>	<b>Carrying Value</b>	<b>Fair Value</b>
Held for trading	\$ 30,362,298	\$ 30,362,298
Loans and receivables	243,076	243,076
Other liabilities	285,050	285,050

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.

# EXCELSIOR ENERGY LIMITED

## NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SIX AND THREE MONTHS ENDED JUNE 30, 2007 AND 2006

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### 3. RESTATEMENT

#### 2007 Restatement

During an internal review of the Company's interim unaudited consolidated financial statements for the six month period ended June 30, 2007, it was determined the brokers warrants issued to the agents in the private placement which closed on June 25, 2007, were inadvertently omitted in the previously issued financial statements. The Board of Directors, acting on the unanimous recommendation of management and the Audit Committee, approved restatement of the June 30, 2007 interim financial statements.

The total cumulative effect of the foregoing adjustments for the interim consolidated financial statements as at June 30, 2007 is as follows:

	June 30, 2007 As Previously Reported	Impact of Errors	June 30, 2007 Restated
Share capital	\$ 53,674,206	\$ (1,256,905)	\$ 52,417,301
Contributed surplus	\$ 470,246	\$ 1,256,905	\$ 1,727,151

There was no impact on the consolidated statements of operation and deficit or the consolidated statements of cash flow.

#### 2006 Restatement

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 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 period ended June 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.

**EXCELSIOR ENERGY LIMITED**

**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**SIX AND THREE MONTHS ENDED JUNE 30, 2007 AND 2006**

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**3. RESTATEMENT (continued)**

**2006 Restatement (continued)**

Effects of the restatement by line item follow:

**Unaudited Statement of Operations and Deficit**

	Three Months Ended June 30, 2006 As Previously Reported	Impact of Errors	Three Months Ended June 30, 2006 Restated
Gas revenues	\$ 62,482	\$ (20,893)	\$ 41,589
Royalties	(30,014)	12,330	(17,684)
Operating expenses	26,041	(17,146)	8,895
General and administrative expenses	332,605	(153,799)	178,806
Net and comprehensive loss	\$(258,318)	\$162,382	\$ (95,936)
Loss per share	\$ (0.01)		\$ -

	Six Months Ended June 30, 2006 As Previously Reported	Impact of Errors	Six Months Ended June 30, 2006 Restated
Gas revenues	\$ 81,757	\$ (20,893)	\$ 60,864
Royalties	(51,589)	12,330	(39,259)
Operating expenses	43,306	(32,772)	10,534
Stock-based compensation	149,869	(71,698)	78,171
General and administrative expenses	603,310	(198,577)	404,733
Net and comprehensive loss	\$(713,552)	\$ 294,484	\$(419,068)
Loss per share	\$ (0.02)		\$ (0.01)

**EXCELSIOR ENERGY LIMITED**

**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**SIX AND THREE MONTHS ENDED JUNE 30, 2007 AND 2006**

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**3. RESTATEMENT (continued)**

**2006 Restatement (continued)**

**Unaudited Statements of Cash Flows**

	Three Months Ended June 30, 2006 As Previously Reported	Impact of Restatements	Three Months Ended June 30, 2006 Restated
<b>Operating Activities:</b>			
Net loss from continuing operations	\$ (334,552)	\$162,382	\$ (172,170)
Change in non-cash working capital			
- accounts receivable	(73,844)	7,045	(66,799)
Cash flow from operating activity	(351,392)	169,427	(181,965)
<b>Investing Activities:</b>			
Petroleum and natural gas properties	(42,934)	(166,885)	(209,822)
Cash flow from investing activity	(44,281)	(166,885)	(211,166)
<b>Financing Activities:</b>			
Issuance of share capital	273,850	(2,542)	271,308
Cash flow from financing activity	\$ 273,850	\$ (2,542)	\$ 271,308

	Six Months Ended June 30, 2006 As Previously Reported	Impact of Restatements	Six Months Ended June 30, 2006 Restated
<b>Operating Activities:</b>			
Net loss from continuing operations	\$ (794,695)	\$ 294,484	\$ (500,211)
Change in non-cash working capital			
- accounts receivable	(125,826)	7,045	(118,781)
Stock-based compensation	149,869	(71,698)	78,171
Cash flow from operating activity	(709,406)	229,831	(479,575)
<b>Investing Activities:</b>			
Petroleum and natural gas properties	31,054	(182,511)	(151,457)
Cash flow from investing activity	29,710	(182,511)	(152,801)
<b>Financing Activities:</b>			
Issuance of share capital	1,195,673	(47,320)	1,148,353
Cash flow from financing activity	\$ 1,295,673	\$ (47,320)	\$ 1,248,353

**EXCELSIOR ENERGY LIMITED**

**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**SIX AND THREE MONTHS ENDED JUNE 30, 2007 AND 2006**

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**4. PETROLEUM AND NATURAL GAS PROPERTIES**

	Cost	Accumulated Depletion and Depreciation	June 30, 2007 Net	Dec. 31, 2006 Net
Canada	\$ 18,137,035	\$ 516,136	\$ 17,620,899	\$ 385,260
North Sea	1,730,071	1,536,519	193,552	186,677
	\$ 19,867,106	\$ 2,052,655	\$ 17,814,451	\$ 571,937

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

Costs for unproven properties in the amount of \$17,461,400 (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.

**5. PROPERTY AND EQUIPMENT**

	Cost	Accumulated Depreciation	June 30, 2007 Net	Dec. 31, 2006 Net
Furniture and fixtures	\$ 9,362	\$ 1,492	\$ 7,870	\$ 8,744
Computer equipment	17,239	4,471	12,768	15,020
Computer software	6,989	4,420	2,569	5,139
	\$ 33,590	\$ 10,383	\$ 23,207	\$ 28,903

**6. 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.

	Six Months Ended June 30, 2007	15 Months Ended December 31, 2006
Asset retirement obligation, beginning of period	\$ 4,707	\$ -
Liabilities incurred	-	4,273
Accretion expense	176	434
Asset retirement obligation, end of period	\$ 4,883	\$ 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 UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**SIX AND THREE MONTHS ENDED JUNE 30, 2007 AND 2006**

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### 7. SHARE CAPITAL

(a) **Authorized**

Unlimited number of common voting shares

Unlimited number of preferred shares issuable in series

(b) **Changes in share capital**

	<b>Number</b>	<b>Amount (Restated – note 3)</b>
<b>Balance December 31, 2006</b>	27,336,768	9,602,706
Common shares issued for cash (note 7b i)	9,293,332	2,867,133
<b>Balance March 31, 2007</b>	36,630,100	12,469,839
Common shares issued for acquisition of Hangingstone property (note 7b ii)	8,647,359	7,900,195
Issued for finder's fee on Hangingstone property (note 7b iii)	500,000	412,000
Issued on exercise of warrants (note 7b iv)	52,582	44,709
Contributed surplus on exercise of warrants	-	804
Common shares issued for cash (note 7b v)	39,385,000	31,589,754
<b>Balance June 30, 2007</b>	<b>85,215,041</b>	<b>\$ 52,417,301</b>

- (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.
- (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 \$1.4 million cash and issued 2,333,333 common shares priced at \$0.41 per share to satisfy the initial consideration of \$2.1 million. 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) On May 31, 2007 warrants were exercised and the Company issued 52,582 common shares for proceeds of \$44,709. The issuance of the warrants resulted in a reduction of contributed surplus and increase in share capital of \$804.

**EXCELSIOR ENERGY LIMITED**

**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**SIX AND THREE MONTHS ENDED JUNE 30, 2007 AND 2006**

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**7. 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. 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. These warrants were assessed a fair value of nil (see note 7(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 7(d)). Net proceeds after issue costs and fair value of warrants were \$31,589,754.

**(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 assumptions for the options issued during the periods were as follows:

	2007	2006
Risk-free interest rate	3.89%-4.12%	3.75%
Expected life	4.6-4.8 years	3.8-3.9 years
Expected volatility	113%-132%	25%
Dividend yield	0%	0%

	June 30, 2007		December 31, 2006	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	1,399,341	\$ 0.25	1,033,100	\$ 0.10
Granted	1,150,000	0.43	2,250,000	0.22
Exercised	-	-	(350,000)	0.11
Cancelled	-	-	(233,100)	0.10
	2,549,341	\$ 0.33	2,700,000	\$ 0.19
Exchange of Qeva Group Inc. options for options of the Company 3:1	-	-	900,000	0.58
Expired	-	-	(750,000)	0.56
Exercised	-	-	(66,667)	0.30
Options exchanged upon amalgamation	-	-	1,316,008	0.20
Outstanding, end of period	2,549,341	\$ 0.33	1,399,341	\$ 0.25

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## NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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### 7. SHARE CAPITAL (continued)

#### (c) Stock options (continued)

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

Exercise Price	Options Outstanding	Options Exercisable	Remaining Life (years)
\$ 1.05	83,333	83,333	2.5
0.20	1,204,482	802,988	2.3
0.20	111,526	37,175	2.6
0.45	700,000	233,333	4.6
0.40	450,000	150,000	4.8
	2,549,341	1,306,829	

#### (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 would entitle 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 were assessed a fair market value of nil as the contingency governing these warrants has not been resolved. In addition, the Company issued broker warrants to the agents for the June, 2007 private placement. The fair value of these warrants was estimated using the Black-Scholes fair value option pricing model with the following assumptions: expected volatility of 132% and risk-free interest rate of 4.66%.

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**SIX AND THREE MONTHS ENDED JUNE 30, 2007 AND 2006**

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**7. SHARE CAPITAL (continued)**

**(d) Warrants (continued)**

	June 30, 2007		December 31, 2006	
	Warrants Outstanding	Exercise Price	Warrants Outstanding	Exercise Price
Balance, beginning of period	2,017,041	\$ -	-	\$ -
Broker warrants	2,260,620	1.00		
Private Placement	-	-	4,990,996	0.20
Brokered Private Placement	-	-	5,000,000	0.45
Warrants exercised	(29,249)	1.05	(4,919,329)	0.20
Warrants exercised	-	-	(17,750)	0.45
Warrants expired during the period	(1,408,459)	1.31	(71,667)	0.20
Broker unit warrants	-	-	1,000,000	0.35
	2,839,953		5,982,250	
Exchange of Qeva Group Inc. warrants for warrants of the Company 3:1	-	-	1,994,083	1.30
Private placement	(23,333)	0.60	23,333	0.60
Exercise of broker unit warrants	-	-	(750)	1.05
Broker warrants	-	-	375	1.35
Balance, end of period	2,816,620		2,017,041	

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

Exercise Price	Warrants Outstanding	Warrants Exercisable	Remaining Life (years)
\$1.35	463,333	463,333	0.4
1.05	92,667	92,667	0.4
1.00	2,260,620	2,260,620	1.0
	2,816,620	2,816,620	

**(e) Contributed surplus**

	Six Months Ended June 30, 2007	15 Months Ended December 31, 2006
Balance, beginning of period	\$ 282,682	\$ 24,180
Stock-based compensation	188,368	145,176
Fair value of warrants	1,256,905	131,327
Warrants exercised into common shares	(804)	(4,461)
Options exercised into common shares	-	(13,540)
Balance, end of period	\$ 1,727,151	\$ 282,682

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**8. 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 disclosed separately.

The effect of the assets held for sale on the statement of operation is:

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006
Revenue	\$ -	\$ 188,265	\$ -	\$ 92,943
Royalties	-	(18,837)	-	(8,947)
Operating expenses	-	(75,644)	-	(35,062)
Bad debt expense	-	(31,840)	-	-
Depletion	-	(14,854)	-	(6,752)
Gain on disposal of assets	-	34,053	-	34,053
	\$ -	\$ 81,143	\$ -	\$ 76,234

**9. LOSS PER SHARE**

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted loss per share is calculated to reflect the dilutive effect of stock options and warrants outstanding. Loss per share is calculated as follows:

Six Months Ended June 30, 2007			
	Net Loss	Shares	Net Loss Per Share
Basic and diluted	\$(623,710)	34,699,258	\$(0.01)
Three Months Ended June 30, 2007			
	Net Loss	Shares	Net Loss Per Share
Basic and diluted	\$(319,607)	41,110,964	\$(0.01)
Six Months Ended June 30, 2006			
	Net Loss	Shares	Net Loss Per Share
Basic and diluted	\$(419,068)	38,582,936	\$(0.01)
Three Months Ended June 30, 2006			
	Net Loss	Shares	Net Loss Per Share
Basic and diluted	\$(95,936)	39,516,137	-

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### 10. RELATED PARTY TRANSACTIONS

During the six month period ended June 30, 2007, the Company paid consulting fees in the amount of \$nil (2006 - \$90,000) 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 six month period ended June 30, 2007 the Company expended \$54,532 (2006 - \$nil) in legal fees with this firm.

### 11. SUBSEQUENT EVENTS

On July 13, 2007 the Company executed a share purchase agreement to acquire up to an additional 22.5% working interest in its Hangingstone oil sands asset, near Fort McMurray, Alberta, to increase Excelsior's interest to up to 75% after fulfilling all its farm-in earning obligations. Excelsior acquired all the shares of a private company ("PrivateCo") in exchange for the consideration outlined below. In addition to its Hangingstone interest, PrivateCo has approximately \$1,190,000 in working capital. The transaction contemplates the issuance of up to 16 million common shares of Excelsior based on the following events:

- (a) 10 million common shares of Excelsior were issued to acquire the common shares of PrivateCo upon closing of the transaction pursuant to a purchase and sale agreement; and
- (b) 6 million common shares or securities convertible into common shares of Excelsior will be issued upon certain performance thresholds being met and exceeded over a three year period.

In July 2007 Excelsior paid \$4.4 million for land costs pursuant to the Hangingstone farm-in agreement, by exercising the option to earn an additional 22.5% working interest. This increases Excelsior's working interest to 75% in the Hangingstone property and increases the Company's share of the winter drilling program to \$7.9 million.

In July, 2007 the Company signed a farm-in agreement to acquire a 75% working interest in 18 contiguous sections of land in the West Surmont area south of Fort McMurray. Excelsior is acquiring its interest by paying 100% of land acquisition costs and future seismic and drilling costs totalling \$20.7 million, and a cash bonus of \$2.3 million to earn its 75% interest. Excelsior paid \$11.8 million in land costs on July 31, 2007. The cash bonus will be paid upon completion of the seismic program. The Company has also agreed to pay a supplemental payment of up to \$2.9 million 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.

On July 9, 2007 the Board of Directors authorized the grant of 4,800,010 stock options to directors, officers and a consultant at an exercise price of \$1.44 per common share. On August 9, 2007 the Board of Directors authorized the grant of 75,000 stock options to an employee at an exercise price of \$1.20 per common share.

### 12. COMPARATIVE FIGURES

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