

**EXCELSIOR ENERGY LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
SIX MONTHS ENDED JUNE 30, 2007 AND 2006**

The following discussion and analysis is management's opinion of Excelsior Energy Limited's ("Excelsior" or the "Company") historical financial and operational results and should be read in conjunction with the interim consolidated financial statements for the six and three month periods ended June 30, 2007 and 2006, together with the notes related thereto. The Company's financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The information has been prepared effective August 24, 2007.

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

On September 6, 2006, Qeva Group Inc. ("Qeva") and Excelsior Energy Limited ("Excelsior Ltd.") amalgamated 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" ("Excelsior" or "the Company"). Following the amalgamation of the two companies, the directors of the Company resolved to adopt a new year-end of December 31 to conform to the most common year end of similar junior oil and

gas companies and for more convenient shareholder reporting periods. For additional information the reader should refer to the Joint Management Information Circular of Qeva and Excelsior Ltd. dated August 02, 2006, and available on SEDAR.

The Company is active in oil sands exploration and appraisal in Alberta and oil exploration and appraisal in the UK North Sea. In addition the Company has minor interests in gas production in Alberta.

The Company entered into a farm-in agreement for up to 52.5% working interest in oil sands exploration and appraisal in the Hangingstone area (“Hangingstone” or “Hangingstone Asset”) near Fort McMurray, Alberta in February, 2007. In April, Excelsior executed a letter of intent to acquire up to an additional 22.5% working interest in its Hangingstone Asset, with a party common to the farm-in agreement. This transaction closed on July 13, 2007 for the additional 22.5% working interest, providing Excelsior an option to earn 75% working interest in 39 contiguous sections of land upon completion of its farm-in obligations, including a 24 core well drilling program. On June 5, 2007, Excelsior elected to earn 75% in the Hangingstone Asset and reimbursed the farmor for \$8,649,000 in land costs, \$1,800,000 of cash and issued 6,314,026 common shares of the Company for a bonus payment. The first stage of the project was acquisition of 134 kilometres of 2D seismic to tie the existing wells and to delineate the size and number of potential SAGD oil sand pods in the spring of 2007. The seismic has been interpreted and 50 core drilling locations have been permitted and licenced. An evaluation well program of up to 24 wells is planned, which will satisfy the final farm-in obligations, for the winter 2007/08 to further delineate the SAGD Pods.

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 (“Surmont” or “Surmont Asset”). Excelsior is acquiring its interest by paying 100% of land acquisition costs and future seismic and drilling costs totalling \$20,683,803, and a cash bonus of \$2,300,000 to earn its 75% interest. Excelsior paid \$11,833,803 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 \$2,900,000 which is contingent upon successful drilling results and the parties agreement to continue operations. This obligation will be satisfied by funding the farmor’s 25% share of continuing operations. The first stage of the project is to shoot 72.5 kilometres of 2D seismic to delineate the size and number of potential SAGD oil sand pods. This program is scheduled to commence in August, 2007. An 18 well exploration program, to further delineate potential SAGD Pods to identify a potential core area for a pilot project, is planned for winter 2007/8.

Excelsior was successful in the 24th Offshore UK Licensing Round in February, 2007 and 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.

Excelsior completed an equity financing in the second quarter of 2007 for gross proceeds of \$35,001,250 to fund the capital budget for the Hangingstone property, initial costs at Surmont and the UK North Sea over the next year. If the seismic is successful at Surmont the Company would have a further future commitment of \$6,750,000 representing the cost for an 18 well core drilling program to earn its 75% working interest. Additional equity financing would be required to meet these financial obligations.

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 Canadian Trading and Quotation System Inc. under the trading symbol EXEL.

SIX AND THREE MONTHS ENDED JUNE 30, 2007 AND 2006

Selected Information

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006 (restated)	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006 (restated)
Gas revenue	\$ 59,820	\$ 60,864	\$ 27,866	\$ 41,589
General and administrative expense	495,227	404,733	258,786	178,806
Net and comprehensive loss	(623,710)	(419,068)	(319,607)	(95,936)
Loss/share	(\$0.01)	(\$0.01)	(\$0.01)	-
Cash flows used in continuing operations	\$ (567,916)	\$ (539,129)	\$ (349,523)	\$ (221,044)
Weighted average number of shares outstanding	34,699,258	38,582,936	41,110,964	39,516,137

Net Revenue

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006 (restated)	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006 (restated)
Gas revenue	\$ 59,820	\$ 60,864	\$ 27,866	\$ 41,589
Royalties	(13,936)	(39,259)	(4,877)	(17,684)
Operating costs	(8,265)	(10,534)	(6,437)	(8,895)
Net revenue	37,619	11,071	16,552	15,010

Excelsior, through its predecessor Qeva, acquired a 26.64% working interest in a petroleum and natural gas lease located in the Hastings area of Alberta in 2005. The property contains one natural gas well producing approximately 46 mcf/d (net to Excelsior) for the 6 month period ended June 30, 2007 (2006 – 82 mcf/d) at an average price of \$7.11 per mcf (2006 - \$4.09 per mcf). Crown royalties of \$13,936 averaged 23% of revenue (2006 – 64%). Operating costs of \$8,265 averaged \$0.98 per mcf (2006 - \$0.71 per mcf). Depletion for the Hastings property was calculated at a rate of \$3.11 per mcf in 2007 totalling \$26,200 (2006 - \$3.58 per mcf, totalling \$53,321).

For the three months ended June 30, 2007 the Hastings gas well produced approximately 41 mcf/d (2006 – 91 mcf/d) at an average price of \$7.43 per mcf (2006 - \$5.02 per mcf). Crown royalties of \$4,877 averaged 18% of revenue (2006 – 42%). Operating costs of \$6,437 averaged \$1.78 per mcf (2006 - \$1.07 per mcf). Depletion for the Hastings property was calculated at a rate of \$3.11 per mcf in the three months ended June 30, 2007 totalling \$11,700 (2006 - \$3.24 per mcf, totalling \$26,846).

Other Revenue

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006 (restated)	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006 (restated)
Other revenue	\$ 54,338	\$ 25,159	\$ 28,269	\$ 18,427

Other revenue of \$54,338 for the six months ended June 30, 2007 (2006 - \$25,159) and \$28,269 for the three months ended June 30, 2007 (2006 - \$18,427) was interest income generated by funds held in short term deposits. In addition to interest income for the three months ended June 30, 2007, a gain of \$4,600 was realized on the sale of marketable securities.

General and Administrative Expenses

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006 (restated)	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006 (restated)
General and Administrative Expenses	\$ 495,227	\$ 404,733	\$ 258,786	\$ 178,806

General and administrative expenses were \$495,227 for the six month period ended June 30, 2007 compared to \$404,733 in 2006. The higher expenses in 2007 are due to costs associated with engaging third party engineers to prepare a reserve report for the Hangingstone property and an increase in legal and audit fees associated with administration of a public company. In 2007 the Company incurred costs to engage its external auditors to review the interim period financial statements.

General and administrative expenses were \$258,786 for the three month period ended June 30, 2007 compared to \$178,806 in 2006 with the increase being

associated with costs for the Hangingstone reserve report and increased legal and audit fees associated with the administration of a public company.

Stock based compensation

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006 (restated)	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006 (restated)
Stock based compensation	\$ 188,368	\$ 78,171	\$ 91,006	\$ -

Stock based compensation was \$188,368 in the six months ended June 30, 2007 and \$78,171 in 2006 for 1,150,000 (\$0.40 - \$0.45 exercise price) and 750,000 (\$0.35 exercise price) stock options granted in the respective six month periods. The stock options in 2006 vested immediately with the entire fair value of the stock options recorded in the quarter. The stock options in 2007 vest 2/3 in the first year and 1/3 in the second year, with a higher fair value assigned due to higher volatility in market price (113% - 132%) than 2006, when the stock was not trading on a public market, and a lower volatility (25%) was estimated.

Stock based compensation was \$91,006 in the three months ended June 30, 2007 and \$nil in 2006. There were no options granted in 2006 during that period.

Capital expenditures

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006 (restated)	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006 (restated)
Petroleum and natural gas properties – cash additions	\$ 8,954,619	\$ 151,457	\$ 6,565,998	\$ 209,822
Petroleum and natural gas properties – non-cash additions	8,314,095	55,000	8,314,095	-
Total capital expenditures	\$17,268,714	\$ 206,457	\$ 14,880,093	\$ 209,822

Petroleum and natural gas property additions were \$17,268,714 in the six months ended June 30, 2007 from \$206,457 for 2006. Significant expenditures were incurred in 2007 to acquire the Hangingstone Asset. Excelsior paid initial costs for land and bonus of \$1,400,000 and issued 2,333,333 common shares valued at fair market value of \$956,667 upon signing the farm-in agreement in February, 2007. A seismic program for \$1,432,375 was completed in the spring of 2007. In June, 2007 the Company elected to increase their working interest to 75% paying a further \$6,054,300 cash for land and a bonus of \$6,945,429 paid by issuing 6,314,026 common shares of Excelsior at a fair value of \$1.10 per share. An additional 500,000 common shares were issued representing a finders fee for the Hangingstone Asset at a value of \$412,000. Costs in 2006 were primarily incurred at Hastings, including the issuance of 157,142 common shares for a finders fee on the Hastings property valued at \$55,000, and costs incurred in the North Sea.

Expenditures of \$14,880,093 in the three month period ended June 30, 2007 were for \$6,054,300 cash for land and \$956,667 bonus paid by issuing 2,333,333 common shares, a bonus of \$6,945,429 paid by issuing 6,314,026 common shares of Excelsior at a fair value of \$1.10 per share and 500,000 common shares valued at \$412,000 as a finders fee all for the Hangingstone Asset. Capital expenditures for the three month period ended June 30, 2006 are for the Hastings property and costs incurred in the North Sea.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2007 the Company had working capital of \$30,320,324 (December 31, 2006 - \$3,921,612) which included \$30,362,298 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 six month period ended June 30, 2007 was equity financing. On March 23, 2007 the Company completed an equity financing to fund initial capital requirements for the Hangingstone Asset. The Company issued 6,275,332 common shares at \$0.30 per share and 3,018,000 flow-through common shares at \$0.40 per share for net proceeds of \$2,867,133. In June, 2007, Excelsior completed an equity financing for net proceeds of \$32,846,659 to fund the capital budget for the Hangingstone property, initial costs at Surmont and the UK North Sea over the next year.

At August 24, 2007 Excelsior had 95,215,041 common shares outstanding.

There are 7,424,351 stock options and 3,848,870 warrants to purchase common shares of the Company (including 1,588,250 warrants to be issued if the Company is not listed for trading on the TSX – Venture Exchange by October 23, 2007) as of August 24, 2007.

At June 30, 2007 the Company has no debt or credit facilities. The Company has entered into an agreement for the provision of office space until November 2007.

The Company entered into a farm-in agreement for up to 52.5% working interest in oil sands exploration and appraisal in the Hangingstone area near Fort McMurray, Alberta in February, 2007. In April, Excelsior executed a letter of intent to acquire up to an additional 22.5% working interest in its Hangingstone Asset, with a party common to the farm-in agreement. This transaction closed on July 13, 2007 for the additional 22.5% working interest, providing Excelsior an option to earn 75% working interest in 39 contiguous sections of land upon completion of its farm-in obligations. On June 5, 2007, Excelsior elected to earn 75% in the Hangingstone Asset and reimbursed the farmor for \$8,649,000 in land costs, \$1,800,000 of cash and issued 6,314,026 common shares of the Company for a bonus payment. Excelsior's final earning obligation is to complete a 24 well winter drilling program at Hangingstone budgeted at \$7,920,000.

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 the accrued land

costs and future seismic and drilling costs totalling \$20,683,803, and a cash bonus of \$2,300,000 to earn its 75% interest. Excelsior paid \$11,833,803 in land costs on July 31, 2007. The cash bonus will be made upon completion of the seismic program. 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, and is payable by funding the farmor's 25% share of continuing operations.

Excelsior has sufficient working capital at June 30, 2007 to fund additional land costs and bonus consideration at Hangingstone relating to the acquisition of PrivateCo, and the 24 core well program, and at Surmont the costs of the land purchase, 2D seismic, and cash bonus, and the 3D seismic reprocessing on the North Sea licence. Pending successful results of the seismic program at Surmont the Company would have a further future commitment of \$6,750,000 representing the cost for an 18 well core drilling program to earn its 75% working interest. Additional equity financing is required to meet these financial obligations. The Company's ability to raise equity financing will be subject to market conditions at that time.

INCOME TAXES

The Company has loss carry-forwards totalling approximately \$2,654,000. 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.

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.

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 drilling and related equipments, commodity prices, 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 obtained corporate insurance programs, common within industry practice, in 2007.

The Company has farm-in commitments of \$11,150,000 at Surmont to earn its 75% working interest. Additional equity financing is required to meet a portion of these financial obligations. The Company's ability to raise equity financing will be subject to market conditions at that time.

OUTLOOK

The Company will focus its near-term efforts primarily on the Hangingstone Oil Sands project and the seismic program at Surmont.

At Hangingstone the Company completed the interpretation of high quality 2D seismic data. The data identified several areas of thick McMurray Formation which contains the bitumen saturated sands. Based on the interpretation the Company has permitted and licensed 50 well locations. This gives the Company a great deal of flexibility to change the program or add to the 24 well program depending on the results of the initial wells. Excelsior has contracted a drilling management contractor and a core drilling rig which will commence the drilling program in November 2007.

At Surmont, the Company has commenced the acquisition of 72.5 kilometres of 2D seismic data using a helicopter supported acquisition team. Although the cost of helicopter supported seismic is more expensive than conventional land based seismic acquisition, it will allow the Company to accelerate an exploration core drilling program at Surmont. Pending successful results of the seismic program the Company could drill up to 18 wells in the 2007/2008 drilling season rather than deferring the core drilling into the 2008/2009 drilling season, and hence gain 12 months in any subsequent pilot-project planning.

Excelsior anticipates initiating a program to re-process 3D seismic on its UK North Sea licence in the third quarter of 2007. The cost of this program is budgeted to be \$500,000.

SUMMARY OF QUARTERLY RESULTS

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. The transactions for which restatement were required occurred, and were initially accounted for, prior to the amalgamation on September 6, 2006 and 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. Amounts related to these transactions, as restated, were in the audited financial statements as at December 31, 2006.

Amounts related to the following transactions were restated in the period in which the transaction occurred:

- Stock based compensation expense was overstated as a result of errors 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. In aggregate for 2006, as applicable by quarter, stock based compensation expense was reduced by \$565,682, share capital was reduced by \$397,999 and contributed surplus was reduced by \$167,683.
- 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 interim periods, should have been capitalized or charged against shareholders' equity. Restatement of the following amounts are in aggregate for 2006 and were restated in the interim period in which the transaction occurred:
 - general and administrative expenses were reduced by \$262,646;
 - operating costs were reduced by \$46,880;
 - depletion and depreciation were reduced by \$15,626;
 - share capital at December 31, 2006 was reduced by \$47,320; and
 - petroleum and natural gas properties at December 31, 2006 was unchanged although the carrying value of the properties during the interim periods varied from those previously reported by \$277,832;
- Cash was increased and general and administrative expenses were reduced by \$43,063 in the quarter ended September 30, 2006 resulting from a duplicate entry.
- Recognition of certain net revenues for the quarter ended June 30, 2006 was inadvertently duplicated. Consequently, for that quarter, revenue was reduced by \$20,893, royalty expense was reduced by \$12,330, operating costs was reduced by \$1,518 and accounts receivable was reduced by \$7,045.

The total cumulative effect of the foregoing adjustments for the 2006 interim periods was a \$926,852 reduction in the previously reported net loss of \$2,320,433 for the 12 month period ended September 30, 2006.

Selected Quarterly Information

	Three months ended				
		June 30, 2007	Mar. 31, 2007	Dec. 31 2006	Sept. 30, 2006 As Originally Filed
Revenue		\$27,866	\$31,954	\$8,900	\$27,064
Stock based compensation expense		91,006	97,362	-	-
General and administrative expense		258,786	236,441	444,953	815,679
Cash used in operating activities		(349,523)	(218,393)	(442,483)	(667,873)
Net and comprehensive loss		(319,607)	(304,103)	(2,296,200)	(806,852)
Loss/share		(\$0.01)	(\$0.01)	(\$0.08)	(\$0.02)

Three months ended	Three months ended				
		June 30, 2007	Mar. 31, 2007	Dec. 31 2006	Sept. 30, 2006 Restated
Revenue		\$27,866	\$31,954	\$8,900	\$27,064
Stock based compensation expense		91,006	97,362	-	-
General and administrative expense		258,786	236,441	444,953	708,547
Cash used in operating activities		(349,523)	(218,393)	(442,483)	(560,741)
Net and comprehensive loss		(319,607)	(304,103)	(2,296,200)	(684,094)
Loss/share		(\$0.01)	(\$0.01)	(\$0.08)	(\$0.02)

Three months ended	Three months ended				
		June 30, 2006 As Originally Filed	March 31, 2006 As Originally Filed	Dec. 31, 2005 As Originally Filed	Sept. 30, 2005
Revenue		\$62,482	\$19,275	\$87,890	\$105,538
Stock based compensation expense		-	149,869	560,989	13,680
General and administrative expense		332,605	270,705	286,090	114,802
Cash used in operating activities		(373,518)	(358,014)	(199,129)	3,719
Net and comprehensive loss		(275,444)	(455,234)	(800,029)	(50,904)
Loss/share		(\$0.01)	(\$0.01)	(\$0.05)	(\$0.01)

Three months ended	Three months ended				
		June 30, 2006 Restated	March 31, 2006 Restated	Dec. 31, 2005 Restated	Sept. 30, 2005
Revenue		\$41,589	\$19,275	\$87,890	\$105,538
Stock based compensation expense		-	78,171	67,005	13,680
General and administrative expense		178,806	225,927	286,090	114,802
Cash used in operating activities		(181,965)	(297,610)	(183,503)	3,719
Net and comprehensive loss		(95,936)	(323,132)	(290,419)	(50,904)
Loss/share		-	(\$0.01)	(\$0.01)	(\$0.01)

The interim financial statements have been reclassified to conform with current period's presentation.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ADDITIONAL INFORMATION

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