

**EXCELSIOR ENERGY LIMITED**  
**(Formerly Qeva Group Inc.)**

**FINANCIAL STATEMENTS**

**FOR THE PERIODS ENDED**  
**DECEMBER 31, 2006 AND SEPTEMBER 30, 2005**



**EXCELSIOR ENERGY LIMITED**  
(Formerly Qeva Group Inc.)

**BALANCE SHEETS**

|   | <b>December 31,<br/>2006</b> | <b>September 30,<br/>2005</b> |
|---|------------------------------|-------------------------------|
| <b>ASSETS</b>                                 |                              |                               |
| <b>CURRENT</b>                                |                              |                               |
| Cash and cash equivalents                     | \$ 3,965,957                 | \$ 254,035                    |
| Accounts receivable                           | 224,252                      | 8,371                         |
| Marketable securities (note 4)                | 2,010                        | 2,010                         |
| Prepays and deposits                          | -                            | 15,912                        |
| Assets held for sale (note 5)                 | -                            | 180,601                       |
|   | <b>4,192,219</b>             | 460,929                       |
| Petroleum and natural gas properties (note 6) | 571,937                      | -                             |
| Property and equipment (note 7)               | 28,903                       | 1,477                         |
|   | <b>\$ 4,793,059</b>          | \$ 462,406                    |
| <b>LIABILITIES</b>                            |                              |                               |
| <b>CURRENT</b>                                |                              |                               |
| Accounts payable and accrued liabilities      | \$ 270,607                   | \$ 62,898                     |
| Liabilities of assets held for sale (note 5)  | -                            | 103,370                       |
|   | <b>270,607</b>               | 166,268                       |
| Asset retirement obligation (note 8)          | 4,707                        | -                             |
|   | <b>275,314</b>               | 166,268                       |
| <b>SHAREHOLDERS' EQUITY</b>                   |                              |                               |
| Share capital (note 9)                        | 9,602,706                    | 1,949,820                     |
| Contributed surplus (note 9)                  | 282,682                      | 24,180                        |
| Deficit                                       | (5,367,643)                  | (1,677,862)                   |
|   | <b>4,517,745</b>             | 296,138                       |
|   | <b>\$ 4,793,059</b>          | \$ 462,406                    |

See accompanying notes to the financial statements.

Approved on behalf of the Board

\_\_\_\_\_  
"signed"  
J. Andrew Patterson, Director

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"signed"  
David A. Winter, Director

**EXCELSIOR ENERGY LIMITED**  
(Formerly Qeva Group Inc.)

**STATEMENTS OF OPERATIONS AND DEFICIT**

|   | 15 Months Ended<br>December 31,<br>2006 | 12 Months Ended<br>September 30,<br>2005 |
|---|---|--|
| <b>REVENUE</b>  |   |  |
| Gas revenue   | \$ 193,238                              | \$ -                                     |
| Royalties   | (29,255)                                | -  |
| Other revenue   | 82,606                                  | 4,758                                    |
|   | <b>246,589</b>                          | 4,758                                    |
| <b>EXPENSES</b>   |   |  |
| Operating expenses  | 25,853                                  | -  |
| General and administrative (note 13)                        | 1,844,323                               | 151,404                                  |
| Stock-based compensation (note 9)                           | 145,176                                 | 13,680                                   |
| Depreciation, depletion and accretion                       | 146,098                                 | 3,189                                    |
| Write-down of petroleum and natural gas properties (note 6) | 1,884,786                               | -  |
|   | <b>4,046,236</b>                        | 168,273                                  |
| <b>LOSS BEFORE THE FOLLOWING ITEMS</b>                      |   |  |
|   | <b>(3,799,647)</b>                      | (163,515)                                |
| Net income from discontinued operations (note 5)            | 75,813                                  | 52,545                                   |
| Gain on sale of assets held for sale (note 5)               | 34,053                                  | -  |
| Gain on write-off of accounts payable                       | -                                       | 43,359                                   |
|   | <b>109,866</b>                          | 95,904                                   |
| <b>NET LOSS</b>   | <b>(3,689,781)</b>                      | (67,611)                                 |
| <b>DEFICIT, beginning of period</b>                         | <b>(1,677,862)</b>                      | (1,610,251)                              |
| <b>DEFICIT, end of period</b>                               | <b>\$ (5,367,643)</b>                   | \$ (1,677,862)                           |
| <b>LOSS PER SHARE</b> (note 10)                             | <b>\$ (0.25)</b>                        | \$ (0.01)                                |

See accompanying notes to the financial statements.

**EXCELSIOR ENERGY LIMITED**  
(Formerly Qeva Group Inc.)

**STATEMENTS OF CASH FLOWS**

|   | 15 Months Ended<br>December 31,<br>2006 | 12 Months Ended<br>September 30,<br>2005 |
|---|---|--|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>           |   |  |
| Continuing Operations                                 |   |  |
| Loss from continuing operations                       | \$ (3,799,647)                          | \$ (163,515)                             |
| Items not affecting cash:                             |   |  |
| Depreciation, depletion and accretion                 | 146,098                                 | 3,189                                    |
| Write-down of petroleum and natural gas properties    | 1,884,786                               | -  |
| Stock-based compensation                              | 145,176                                 | 13,680                                   |
|   | (1,623,587)                             | (146,646)                                |
| Changes in non-cash working capital items:            |   |  |
| Accounts receivable                                   | (57,139)                                | 2,074                                    |
| Prepays and deposits                                  | 24,887                                  | (15,912)                                 |
| Accounts payable and accrued liabilities              | (109,232)                               | 17,557                                   |
|   | (1,765,071)                             | (142,927)                                |
| Discontinued Operations                               |   |  |
| Earnings from discontinued operations (note 5)        | 75,813                                  | 52,545                                   |
| Items not affecting cash                              |   |  |
| Depletion from discontinued operations                | 22,956                                  | 17,014                                   |
|   | (1,666,302)                             | (73,368)                                 |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>           |   |  |
| Marketable securities                                 | -                                       | 15,490                                   |
| Petroleum and natural gas properties                  | (2,170,495)                             | (100,000)                                |
| Restricted cash held in trust (note 3)                | 535,343                                 | -  |
| Purchase of property and equipment                    | (819)                                   | -  |
| Proceeds from sale of assets held for sale            | 24,095                                  | -  |
| Cash received on amalgamation (note 3)                | 1,266,913                               | -  |
| Changes in accounts receivable                        | 82,123                                  | -  |
| Changes in accounts payable and accrued liabilities   | 22,472                                  | 67,205                                   |
|   | (240,368)                               | (17,305)                                 |
| <b>CASH FLOWS FROM FINANCING ACTIVITY</b>             |   |  |
| Issuance of share capital                             | 5,654,592                               | 294,513                                  |
| Changes in accounts receivable                        | (36,000)                                | -  |
|   | 5,618,592                               | 294,513                                  |
| <b>CHANGE IN CASH POSITION</b>                        | <b>3,711,922</b>                        | <b>203,840</b>                           |
| <b>CASH and cash equivalents, beginning of period</b> | <b>254,035</b>                          | <b>50,195</b>                            |
| <b>CASH and cash equivalents, end of period</b>       | <b>\$ 3,965,957</b>                     | <b>\$ 254,035</b>                        |
| Cash and cash equivalents consist of                  |   |  |
| Cash on deposit                                       | \$ 965,957                              | \$ 254,035                               |
| Term deposits   | 3,000,000                               | -  |
|   | <b>\$ 3,965,957</b>                     | <b>\$ 254,035</b>                        |

See note 9 for description of non-cash transactions.  
See accompanying notes to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

**15 MONTHS ENDED DECEMBER 31, 2006 & 12 MONTHS ENDED SEPTEMBER 30, 2005** **Page 1**

**1. NATURE OF OPERATIONS**

Excelsior Energy Limited (formerly Qeva Group Inc.) (the “Company”) was formed upon amalgamation of Qeva Group Inc. (“Qeva”) and Excelsior Energy Limited (“Excelsior Ltd.”) on September 6, 2006 (see note 3). The Company’s primary business activity is domestic and international exploration and development of petroleum and natural gas properties.

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

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

**Measurement uncertainty**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the financial statements in future periods could be significant. Accounts specifically affected by estimates in these financial statements are accounts receivable, petroleum and natural gas properties, property and equipment, accounts payable and accrued liabilities, and asset retirement obligations.

**Cash and cash equivalents**

Cash includes actual cash held and short term deposits with initial maturity of less than three months or cashable on demand.

**Marketable securities**

Marketable securities are valued at the lower of cost and quoted market value.

**Property and equipment**

Property and equipment are recorded at cost. The Company provides for amortization using the declining balance method at rates designed to amortize the cost of the property and equipment over their estimated useful lives. The annual amortization rates are as follows:

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

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NOTES TO THE FINANCIAL STATEMENTS

**15 MONTHS ENDED DECEMBER 31, 2006 & 12 MONTHS ENDED SEPTEMBER 30, 2005**

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

**Petroleum and natural gas properties**

The Company follows the full cost method of accounting whereby all costs related to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized in cost centers and charged against income as discussed below. Such costs include lease acquisition costs, geological and geophysical expenditures, lease rentals on non-productive properties, cost of drilling both productive and non-productive wells, equipment costs and general and administrative expenses applicable to these activities.

Costs of acquiring and evaluating unproved properties are initially excluded from the costs subject to depletion and amortization. These properties are assessed regularly to ascertain whether impairment has occurred. When production commences or the property is considered to be impaired, the cost of the property or the amount of impairment is added to the costs subject to depletion and amortization.

Proceeds from disposal of properties will normally be applied as a reduction of the cost of the remaining assets unless the disposal results in a change in the depletion rate by more than twenty percent in which case a gain or loss on disposal will be recorded.

The Company follows the guidance contained in the Canadian Institute of Chartered Accountant's Accounting Guideline 16, "Oil and Gas Accounting - Full Cost" ("AcG-16"). The recoverability of a cost centre is tested by comparing the carrying value of the cost centre to the sum of the undiscounted cash flows expected from the cost centre's use and eventual disposition. If the carrying value is unrecoverable the cost centre is written down to its fair value using the expected present value approach. This approach incorporates risks and uncertainties in the expected future cash flows which are discounted using a risk free rate.

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

**Joint ventures**

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

**Asset retirement obligations**

The Company has adopted the Canadian accounting standard for accounting for asset retirement obligations as outlined in the CICA Handbook section 3110. The standard requires that the fair value of an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The present value of the estimated asset retirement cost is capitalized as part of the carrying amount of the long lived asset. The depreciation of the

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

capitalized asset retirement cost will be determined on a basis consistent with depreciation and depletion. With the passage of time, accretion will increase the carrying amount of the asset retirement obligation.

**Future income taxes**

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

**Revenue recognition**

Revenue from the sale of petroleum and natural gas is recognized on volumes delivered to customers. Delivery occurs when the customer has taken title and has assumed the risks and rewards of ownership, prices are fixed or determinable and collectibility is reasonably assured. The costs associated with the delivery, including operating and maintenance costs, and production-based royalty expenses are recognized in the same period in which the related revenue is earned.

**Per share information**

Basic earnings per share are computed by dividing earnings by the weighted average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution that could occur if options to purchase common shares were exercised.

The Company uses the treasury stock method to determine the dilutive effect of options. Under this method, only options having an exercise price less than the market price are included in the weighted average number of common shares. It is assumed that the proceeds from the exercise of those options are used to repurchase the Company's common shares at the average market price experienced during the reporting period. The weighted average number of common shares is reduced by the number of common shares which could have been repurchased.

**Stock-based compensation**

The Company accounts for its stock-based compensation plan using the fair value method. Under the fair value method, compensation expense is recorded based on the fair value of the options as estimated using the Black-Scholes option pricing model. The amount of compensation cost so determined is credited to contributed surplus. Upon exercise of the options, the cash payments together with the related contributed surplus are credited to share capital.

**3. BUSINESS ACQUISITION**

On September 7, 2006, Qeva Group Inc. ("Qeva") acquired Excelsior Energy Ltd. ("Excelsior Ltd."). Qeva and Excelsior Ltd. agreed to amalgamate to form the combined entity Excelsior Energy Limited ("Excelsior"). After the amalgamation was completed each shareholder of Qeva received one Excelsior common share for every three Qeva common shares and each shareholder

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**3. BUSINESS ACQUISITION (continued)**

of Excelsior Ltd. received 1.115261 Excelsior common shares for every one common share held in Excelsior Ltd.

The transaction has been accounted for as a net asset purchase. The fair value of Excelsior Ltd.'s net assets less transaction costs have been added to the Company's share capital. The purchase price was allocated as follows:

**Net Assets Acquired**

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

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\$ 1,736,620

**Purchase Price Consideration**

|  |              |
|--|--------------|
| Common shares issued, net of acquisition costs | \$ 1,660,979 |
| Cost of acquisition                            | 75,641       |

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\$ 1,736,620

**4. MARKETABLE SECURITIES**

Marketable securities consist of an investment in a publicly-listed company and have a market value of approximately \$7,200 at December 31, 2006 (2005 - \$3,375).

**5. ASSETS HELD FOR SALE**

The Company sold their producing property at Forgan West, Saskatchewan for gross proceeds of \$130,000 during 2006. A gain on disposition of \$34,053 was recorded and petroleum and natural gas properties were reduced by the property's net book value of \$93,412. This property has been treated as an asset held for sale and the September 30, 2005 comparative balances have been reclassified to conform to this presentation. Petroleum and natural gas properties of \$116,368 and accounts receivable of \$64,233 have been reclassified to assets held for sale in current assets of \$180,601 at September 30, 2005 and asset retirement obligation in the amount of \$103,370 has been reclassified as non-current liabilities of assets held for sale. Net income from the property sold was \$75,813 during the 15 months ended December 31, 2006 (2005 - \$52,545).

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NOTES TO THE FINANCIAL STATEMENTS

**15 MONTHS ENDED DECEMBER 31, 2006 & 12 MONTHS ENDED SEPTEMBER 30, 2005**

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**6. PETROLEUM AND NATURAL GAS PROPERTIES**

|           |                     |  | Dec. 31,<br>2006  | Sept. 30,<br>2005 |
|-----------|---------------------|--|-------------------|-------------------|
|           | Cost                | Accumulated<br>Depletion and<br>Depreciation | Net               | Net               |
| Canada    | \$ 875,196          | \$ 489,936                                   | \$ 385,260        | \$ -              |
| North Sea | 1,723,196           | 1,536,519                                    | 186,677           | -                 |
|           | <b>\$ 2,598,392</b> | <b>\$ 2,026,455</b>                          | <b>\$ 571,937</b> | <b>\$ -</b>       |

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

Costs for unproven properties in the amount of \$186,677 (2005 - \$nil) were excluded in the costs subject to depletion and depreciation representing costs incurred in the North Sea.

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

Included in accumulated depletion and depreciation for Canadian properties is a write-down of \$348,267 representing an impairment in the cost of the Canadian assets. The future prices used in the ceiling test evaluation of the Company's Canadian reserves at December 31, 2006 were as follows:

|      | Price \$/Mcf |
|------|--------------|
| 2007 | 7.44         |
| 2008 | 8.31         |
| 2009 | 7.46         |
| 2010 | 7.27         |
| 2011 | 7.44         |

Prices will escalate at approximately 1.8% per annum thereafter.

**7. PROPERTY AND EQUIPMENT**

|                        |                  |                             | Dec. 31,<br>2006 | Sept. 30,<br>2005 |
|------------------------|------------------|-----------------------------|------------------|-------------------|
|                        | Cost             | Accumulated<br>Amortization | Net              | Net               |
| Furniture and fixtures | \$ 9,362         | \$ 618                      | \$ 8,744         | \$ 267            |
| Computer equipment     | 17,239           | 2,219                       | 15,020           | 1,210             |
| Computer software      | 6,989            | 1,850                       | 5,139            | -                 |
|                        | <b>\$ 33,590</b> | <b>\$ 4,687</b>             | <b>\$ 28,903</b> | <b>\$ 1,477</b>   |

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**8. 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.

|   | 15 months ended<br>December 31,<br>2006 | 12 months ended<br>December 31,<br>2005 |
|---|---|---|
| Asset retirement obligation, beginning of period    | \$ -                                    | \$ -                                    |
| Liabilities incurred                                | 4,273                                   | 100,580                                 |
| Accretion expense                                   | 434                                     | 2,790                                   |
| Reclassified to liabilities of assets held for sale |   | (103,370)                               |
| Asset retirement obligation, end of period          | \$ 4,707                                | \$ -                                    |

The Company has estimated the total undiscounted amount required to settle the asset retirement obligations to be \$11,760 (2005 - \$163,395). These obligations will be settled at the end of the useful life of the underlying asset, which currently extends up to 14 years into the future. This amount has been discounted using a credit-adjusted risk-free interest rate of 7.5% (2005 - 6.3%) and an inflation rate of 2.79% (2005 - 1.5%).

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**9. SHARE CAPITAL**

(a) **Authorized**

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

(b) **Changes in share capital**

|  | Number      | Amount       |
|--|-------------|--------------|
| <b>Balance September 30, 2004</b>  | 10,535,849  | \$ 1,655,307 |
| Common shares issued for cash (note 9b i)  | 3,453,333   | 294,513      |
| Escrowed shares returned to treasury (note 9b ii)                                    | (1,543,912) | -            |
| <b>Balance September 30, 2005</b>  | 12,445,270  | 1,949,820    |
| Issuance to pay accounts payable for a director (note 9b iii)                        | 325,000     | 32,500       |
| Common shares issued for cash (note 9b iv)   | 9,981,992   | 1,330,244    |
| Issuance of shares for private placement finder's fee (note 9b iv)                   | 750,000     | 150,000      |
| Common shares issued for private placement (note 9b v)                               | 33,333      | 5,000        |
| Common shares issued for cash (note 9b vi)   | 7,220,000   | 2,094,158    |
| Costs of issuance of private placement (note 9b vi)                                  | 275,000     | 96,250       |
| Issuance to purchase the Hastings property (note 9b vii)                             | 714,286     | 250,000      |
| Issuance of shares for finder's fee of P&NG assets (note 9b vii)                     | 157,142     | 55,000       |
| Common shares issued for cash (note 9b viii)   | 2,780,000   | 782,124      |
| Issuance of shares for brokers' due diligence (note 9b viii)                         | 71,428      | 25,000       |
| Shares purchased by officers and directors (note 9b ix)                              | 516,667     | 77,499       |
| Common shares issued for exercise of warrants (note 9b x)                            | 4,919,329   | 983,856      |
| Contributed surplus on exercise of warrants (note 9b x)                              | -           | 4,069        |
| Common shares issued from exercise of options (note 9b xi)                           | 350,000     | 42,500       |
| Contributed surplus on exercise of options (note 9b xi)                              | -           | 10,120       |
| Common shares issued pursuant to farm-in agreement (note 9b xii)                     | 1,000,000   | 350,000      |
| Common shares issued for exercise of warrants (note 9b xiii)                         | 17,750      | 7,988        |
| Contributed surplus on exercise of warrants (note 9b xiii)                           | -           | 330          |
| <b>Balance upon amalgamation September 7, 2006</b>                                   | 41,557,197  | 8,246,458    |
| Exchange of Qeva Group Inc. shares for shares of the Company<br>at 3:1 (note 9b xiv) | 13,852,399  | 8,246,458    |
| Shares issued upon amalgamation (note 9b xiv)  | 13,703,619  | 1,660,979    |
| Common shares issued from exercise of options (note 9b xv)                           | 66,667      | 20,000       |
| Contributed surplus on exercise of options (note 9b xv)                              |             | 3,420        |
| Common shares issued from exercise of warrants (note 9b xvi)                         | 750         | 787          |
| Contributed surplus on exercise of warrants (note 9b xvi)                            |             | 62           |
| Common shares issued for cash (note 9b xvii)   | 46,666      | 21,000       |
| Cancelled on expiry of farm-in agreement (note 9b xii)                               | (333,333)   | (350,000)    |
| <b>Balance December 31, 2006</b>   | 27,336,768  | \$ 9,602,706 |

- (i) In the twelve month period ended September 30, 2005, common shares were issued through a private placement to a party related by virtue of common directors. The Company issued 3,453,333 shares for gross proceeds of \$300,000. Share issue costs of \$5,487 were incurred for this private placement.

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**9. SHARE CAPITAL (continued)**

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

- (ii) Pursuant to an escrow agreement, certain common shares issued were subject to certain performance escrow provisions, which restrict their trading. During the 12 month period ended September 30, 2005, the escrow agreement expired and the shares were returned to treasury.
- (iii) During the period ended December 31, 2006 a director was issued 325,000 common shares at a deemed value of \$0.10 in exchange for the forgiveness of an accounts payable balance valued at \$32,500.
- (iv) In November 2005, common shares were issued through a private placement. The Company issued 9,981,992 units at a price of \$0.15 per unit resulting in proceeds net of issue costs and fair values attributed to warrants of \$1,330,244. Each unit consists of one common share and one-half of one common share purchase warrant. Each warrant entitled the holder to acquire one common share at an exercise price of \$0.20 per share until August 15, 2006. The fair value of the warrants was estimated to be \$4,128 using the Black-Scholes fair value option pricing model, assuming an expected volatility of 25% and a risk free interest rate of 3.75%. Net proceeds of \$649,715 were immediately released to the Company and the balance was held in escrow. The terms of the escrow agreement stated that the funds were to be released to the Company upon resumption of trading of shares. During the second quarter of 2006, all of the shareholders released the Company from the escrow provision and the escrowed funds were therefore released to the Company. Trading of the Company's shares resumed on April 11, 2006. Costs in the amount of \$150,000 relating to this share issuance have been settled through issuance of 750,000 common shares.
- (v) In November 2005, common shares were issued through a private placement. The Company issued 33,333 common shares at a price of \$0.15 per share for proceeds of \$5,000.
- (vi) In December 2005, common shares were issued through a brokered private placement. The Company issued 7,220,000 units at a price of \$0.35 per unit for proceeds net of issue costs and fair values attributed to warrants and broker unit warrants of \$2,094,158. Each unit consists of one common share and one-half of one common share purchase warrant. Each warrant entitles the holder to acquire one common share at an exercise price of \$0.45 per share until May 30, 2007. The fair value of the warrants was estimated to be \$86,891 (including broker warrant units valued at \$19,865) using the Black-Scholes fair value option pricing model, assuming an expected volatility of 25% and a risk free interest rate of 3.75%. The Company has the right to accelerate the exercise of the warrants should the stock trading price of the Company's common shares exceed \$0.70 per share over a period of 30 consecutive trading days. Additional share issue costs in the amount of \$96,250 were settled through the issuance of 275,000 common shares. The brokers were also issued warrants to purchase 722,000 units at a price of \$0.35 per unit until May 30, 2007. Each unit consists of one common share and one half of one common share purchase warrant. Each warrant entitles the holder to acquire one common share at an exercise price of \$0.45 per share.
- (vii) In November 2005, the Company entered into a Purchase Agreement with an unrelated third party to acquire producing oil and gas assets. Share consideration, representing a portion of the total consideration, consisted of the issuance of 714,286 common shares at \$0.35 per share. A finder's fee in the amount of \$55,000 related to this transaction was settled by issuance of 157,142 common shares.

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**9. SHARE CAPITAL (continued)**

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

- (viii) In February 2006, common shares were issued through a brokered private placement. The Company issued 2,780,000 units at a price of \$0.35 per unit for proceeds net of issue costs and fair values attributed to warrants and broker unit warrants of \$782,124. Each unit consists of one common share and one-half of one common share purchase warrant. Each warrant entitles the holder to acquire one common share at an exercise price of \$0.45 per share until August 3, 2007. The fair value of the warrants was estimated to be \$40,307 (including broker warrant units valued at \$14,376) using the Black-Scholes fair value option pricing model, assuming an expected volatility of 25% and a risk free interest rate of 3.75%. The Company has the right to accelerate the exercise of the warrants should the stock trading price of the Company's common shares exceed \$0.70 per share or greater over a period of 30 consecutive trading days. The brokers were also issued warrants to purchase 278,000 units at a price of \$0.35 per unit until August 3, 2007. Additional share issue costs in the amount of \$25,000 have been settled by issuing 71,428 common shares.
- (ix) In February 2006, 516,667 shares were issued to officers and directors for cash proceeds of \$40,000 and settlement for services rendered valued at \$37,499.
- (x) During the period ended December 31, 2006, warrants were exercised and the Company issued 4,919,329 common shares at \$0.20 per share for proceeds of \$983,586. The issuance of the warrants resulted in a reduction of contributed surplus and increase in share capital of \$4,069.
- (xi) During the period ended December 31, 2006, options were exercised and the Company issued 350,000 common shares for proceeds of \$42,500. The issuance of the options resulted in a reduction of contributed surplus and increase in share capital of \$10,120.
- (xii) In November 2005 the Company entered into a farm-in agreement for a licence in the North Sea whereby a portion of the consideration consisted of the issuance of 1,000,000 common shares at \$0.35 per share. In December 2006, the shares which had been exchanged for Excelsior shares on a 1 for 3 basis, were cancelled as the farm-in agreement was terminated (note 6).
- (xiii) In July 2006 warrants were exercised and the Company issued 17,750 common shares at a price of \$0.45 per share for proceeds of \$7,988. The issuance of the warrants resulted in a reduction in contributed surplus and increase in share capital of \$330.
- (xiv) The amalgamation of Qeva and Excelsior Ltd. (note 3) on September 7, 2006, resulted in Qeva shareholders being issued one share of the Company for every three shares they held in Qeva. This resulted in the issuance of 13,852,399 shares of the Company.

The amalgamation of Qeva and Excelsior Ltd, during the fourth quarter, resulted in Excelsior Ltd. shareholders being issued 1.1153 shares of the Company for every one share they held in Excelsior Ltd. This resulted in the issuance of 13,703,619 shares of the Company for a value of \$1,660,979 net of costs of the amalgamation.

- (xv) During the period ended December 31, 2006, options were exercised and the Company issued 66,667 common shares for proceeds of \$20,000. The issuance of the options resulted in a reduction of contributed surplus and increase in share capital of \$3,420.

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**9. SHARE CAPITAL (continued)**

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

- (xvi) During the period ended December 31, 2006, warrants were exercised and the Company issued 750 common shares at \$0.20 per share for proceeds of \$787. The issuance of the warrants resulted in a reduction of contributed surplus and increase in share capital of \$62.
- (xvii) During the period ended December 31, 2006, the Company issued 46,666 units at a price of \$0.45 per unit for proceeds of \$21,000 in 2006. Each unit consists of one common share and one-half of one common share purchase warrant. Each warrant entitles the holder to acquire one common share at an exercise price of \$0.60 per share until May 30, 2007.

**(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:

|                         |                                  |
|-------------------------|----------------------------------|
| Risk free interest rate | 3.75%                            |
| Expected life           | May 30, 2007 to February 6, 2011 |
| Expected volatility     | 25%                              |
| Dividend yield          | 0%                               |

|  | December 31, 2006 |                              | September 30, 2005 |                              |
|--|-------------------|------------------------------|--------------------|------------------------------|
|  | Number of Options | Weighted Average Share Price | Number of Options  | Weighted Average Share Price |
| Outstanding, beginning of period                                   | 1,033,100         | \$ 0.10                      | 233,100            | \$ 0.10                      |
| Granted  | 2,250,000         | 0.22                         | 800,000            | 0.10                         |
| Exercised  | (350,000)         | 0.11                         | -                  | -                            |
| Cancelled  | (233,100)         | 0.10                         |                    |                              |
|  | 2,700,000         | 0.19                         | 1,033,100          | \$ 0.10                      |
| 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   | 1,399,341         | \$ 0.25                      | 1,033,100          | \$ 0.10                      |

At December 31, 2006 there were 1,399,341 options outstanding under the directors, officers and shareholders stock option plan.

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**9. SHARE CAPITAL (continued)**

**(c) Stock options (continued)**

The following table summarizes the option vesting and expiration as at December 31, 2006.

| Exercise<br>Price | Options<br>Outstanding | Options<br>Exercisable | Remaining Life (years) |
|-------------------|------------------------|------------------------|------------------------|
| \$1.05            | 83,333                 | 83,333                 | 3.1                    |
| 0.20              | 1,204,482              | 802,988                | 2.9                    |
| 0.20              | 111,526                | 37,175                 | 3.2                    |
|                   | 1,399,341              | 923,496                |                        |

**(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%.

|   | December 31, 2006       |                   | September 30, 2005      |                   |
|---|-------------------------|-------------------|-------------------------|-------------------|
|   | Warrants<br>Outstanding | Exercise<br>Price | Warrants<br>Outstanding | Exercise<br>Price |
| Balance, beginning of period  | -                       | \$ -              | -                       | \$ -              |
| Private Placement   | 4,990,996               | 0.20              | -                       | -                 |
| Brokered Private Placement  | 5,000,000               | 0.45              | -                       | -                 |
| Warrants exercised  | (4,919,329)             | 0.20              | -                       | -                 |
| Warrants exercised  | (17,750)                | 0.45              | -                       | -                 |
| Warrants expired during the period                                      | (71,667)                | 0.20              | -                       | -                 |
| Broker unit warrants  | 1,000,000               | 0.35              | -                       | -                 |
|   | 5,982,250               |                   | -                       |                   |
| Exchange of Qeva Group Inc. warrants<br>for warrants of the Company 3:1 | 1,994,083               | 1.30              | -                       | -                 |
| Private placement   | 23,333                  | 0.60              | -                       | -                 |
| Exercise of broker unit warrants  | (750)                   | 1.05              | -                       | -                 |
| Broker warrants   | 375                     | 1.35              | -                       | -                 |
| Balance, end of period  | 2,017,041               |                   | -                       | \$ -              |

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9. **SHARE CAPITAL (continued)**

(d) **Warrants (continued)**

The following table summarizes the warrant vesting and expiration as at December 31, 2006.

| Exercise<br>Price | Warrants<br>Outstanding | Warrants<br>Exercisable | Remaining Life (years) |
|-------------------|-------------------------|-------------------------|------------------------|
| \$1.35            | 1,197,417               | 1,197,417               | 0.4                    |
| 1.35              | 463,333                 | 463,333                 | 0.6                    |
| 1.05              | 239,917                 | 239,917                 | 0.4                    |
| 1.05              | 92,666                  | 92,666                  | 0.6                    |
| 0.60              | 23,333                  | 23,333                  | 0.4                    |
| 1.35              | 375                     | 375                     | 1.2                    |
|                   | 2,017,041               | 2,017,041               |                        |

(e) **Contributed surplus**

|                                       | 15 months ended<br>December 31, 2006 | 12 months ended<br>September 30, 2005 |
|---------------------------------------|--------------------------------------|---------------------------------------|
| Balance, beginning of period          | \$ 24,180                            | \$ 10,500                             |
| Stock-based compensation              | 145,176                              | 13,680                                |
| Fair value of warrants                | 131,327                              | -                                     |
| Warrants exercised into common shares | (4,461)                              | -                                     |
| Options exercised into common shares  | (13,540)                             | -                                     |
| Balance, end of period                | \$ 282,682                           | \$ 24,180                             |

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**10. 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:

| 15 months ended December 31, 2006 |                |            |                       |
|-----------------------------------|----------------|------------|-----------------------|
|                                   | Net Loss       | Shares     | Net Loss<br>Per Share |
| Basic and diluted                 | \$ (3,689,781) | 15,036,063 | \$ (0.25)             |

  

| 12 months ended September 30, 2005 |             |           |                       |
|------------------------------------|-------------|-----------|-----------------------|
|                                    | Net Loss    | Shares    | Net Loss<br>Per Share |
| Basic and diluted                  | \$ (67,611) | 9,973,826 | \$ (0.01)             |

**11. FUTURE INCOME TAXES**

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

|  | 15 months<br>ended<br>December 31,<br>2006 | 12 months<br>ended<br>September 30,<br>2005 |
|--|--|---|
| Non-capital loss carry-forwards  | \$ 770,000                                 | \$ 233,000                                  |
| Share issue costs  | 268,000                                    | 2,000                                       |
| Capital losses carried forward   | 16,000                                     | 10,000                                      |
| Asset retirement obligation  | 1,500                                      | 35,000                                      |
| Tax basis of petroleum and natural gas assets &<br>equipment in excess of carrying amounts | 554,500                                    | (25,500)                                    |
| Valuation allowance  | 1,610,000<br>(1,610,000)                   | 254,500<br>(254,500)                        |
|  | \$ -                                       | \$ -  |

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

(b) The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 34.12% (2005 - 33.6%) to the loss for the years as follows:

|  | 15 months<br>ended<br>December 31,<br>2006 | 12 months<br>ended<br>September 30,<br>2005 |
|--|--|---|
| Loss for the period before income taxes                        | \$ (3,689,781)                             | \$ (67,611)                                 |
| Anticipated income tax expense (recovery)                      | \$ (1,258,954)                             | \$ (22,717)                                 |
| Stock based compensation cost                                  | 49,534                                     | 4,596                                       |
| Non-capital loss carryforwards expired                         | 43,699                                     | -   |
| Resource Allowance   | 37,087                                     | -   |
| Share issue costs  | (205,546)                                  | -   |
| Tax assets in excess of book value acquired<br>on amalgamation | (223,765)                                  | -   |
| Effect of decrease in statutory tax rate                       | 201,849                                    | 17,431                                      |
| Change in valuation allowance                                  | 1,355,500                                  | (1,500)                                     |
| Other  | 596  | 2,190                                       |
| Provision for income taxes                                     | \$ -                                       | \$ -  |

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

| Year | Amount       |
|------|--------------|
| 2007 | \$ 165,737   |
| 2008 | 206,305      |
| 2009 | 22,513       |
| 2010 | 125,471      |
| 2013 | 21,603       |
| 2025 | 1,820,996    |
| 2026 | 291,288      |
|      | \$ 2,653,913 |

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**12. FINANCIAL INSTRUMENTS**

Financial instruments consist of recorded amounts of cash and cash equivalents, accounts receivable and marketable securities which will result in future cash receipts, as well as accounts payable and accruals which will result in future cash outlays.

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

**(a) Credit risk**

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from operators.

**(b) Fair value**

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

**13. RELATED PARTY TRANSACTIONS**

During the 15 month period ended December 31, 2006, the Company paid consulting fees in the amount of \$192,300 (2005 - \$86,461) to companies controlled by directors and officers of the Company prior to the amalgamation. 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.

During the period ended December 31, 2006, severance payments in the amount of \$450,000 (2005 - \$nil), included in general and administrative expenses, were made to former directors and officers of Qeva.

Officers and directors were issued 516,667 common shares for proceeds of \$40,000 and settlement for services valued at \$37,499 (note 9b ix) during the period ending December 31, 2006.

The Company utilizes the services of a law firm of which an officer of the Company is a partner. During the period ended December 31, 2006 the Company expended \$133,886 (2005 - \$nil).

During the year ended September 30, 2005, the Company acquired an interest in petroleum and natural gas properties from a party related by virtue of common directors. The purchase price was \$100,000 less net revenues earned between the contractual effective date and the acquisition date for an adjusted price of \$32,796. The transaction was not in the normal course of business but was recorded at the exchange amount which was supported by an independently prepared engineering reserve report.

Included in accounts payable and accrued liabilities are amounts payable to companies controlled by a director of the Company in the amount of \$nil (2005 - \$32,500). The amount was non-interest bearing with no specific terms of repayment. The director was issued 325,000 common shares for the forgiveness of this outstanding balance of \$32,500 (note 9b iii).

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**14. SUBSEQUENT EVENTS**

In March, 2007 the Company closed a private placement, issuing 6,275,322 common shares at \$0.30 per share for gross proceeds of \$1,882,597 and 3,018,000 flow-through common shares at \$0.40 per share for gross proceeds of \$1,207,200.

In March, 2007 the Company executed a farm-in agreement to earn a 52.5% interest in a Hangingstone Oil Sands property south of Fort McMurray. Excelsior made an initial payment of \$1.4 million cash and, subject to regulatory approval, will issue 2,333,333 common shares priced at \$0.30 per share to satisfy the initial consideration of \$2.1 million. Excelsior will earn its 52.5% working interest and operatorship over the next year by paying additional consideration of \$17.2 million over the next year comprised of a \$4.2 million bonus paid in Excelsior shares and cash of \$13 million for land, seismic acquisition and drilling costs for up to 24 evaluation wells. A finder's fee associated with this transaction consists of issuing 200,000 common shares upon executing the farm-in agreement and an additional 300,000 common shares when Excelsior elects to increase its working interest pursuant to the farm-in agreement.

In February, 2007 the Company was awarded one license covering two part blocks, 16/1a and 16/6c in the 24<sup>th</sup> Offshore UK Licensing Round. Excelsior has a 100% working interest in the blocks and anticipates incurring approximately \$500,000 for seismic reprocessing and interpretation before September 30, 2008.

The Board of Directors approved the grant of 700,000 and 450,000 stock options to purchase common shares exercisable at \$0.45 and \$0.40 per share, respectively, under the terms of the Company's Stock Option Plan to management and directors.

**15. COMPARATIVE FIGURES**

Certain prior period figures have been reclassified to conform with current years' presentation. The reclassifications have not affected prior year earnings.