

EXCELSIOR ENERGY LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE THREE MONTHS ENDED
MARCH 31, 2009 AND 2008**

EXCELSIOR ENERGY LIMITED

UNAUDITED CONSOLIDATED BALANCE SHEETS

	March 31, 2009	December 31, 2008
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 5,016,900	\$ 13,748,057
Accounts receivable	477,167	427,548
Prepays and deposits	118,053	48,724
	5,612,120	14,224,329
Petroleum and natural gas properties (note 3)	72,803,429	65,064,068
Property and equipment	55,895	23,135
	\$ 78,471,444	\$ 79,311,532
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 2,143,694	\$ 2,745,131
Future income tax liability	5,507,512	3,216,483
Asset retirement obligation	8,282	8,129
Non-controlling interest (note 4)	240,825	278,423
	7,900,313	6,248,166
SHAREHOLDERS' EQUITY		
Share capital (note 5)	75,553,629	77,863,071
Contributed surplus (note 5)	9,138,347	8,882,893
Warrants (note 5)	-	27,447
Deficit	(14,120,845)	(13,710,045)
	70,571,131	73,063,366
	\$ 78,471,444	\$ 79,311,532

Basis of presentation (note 1)

Commitments and contingencies (note 8)

See accompanying notes to the consolidated financial statements.

EXCELSIOR ENERGY LIMITED

**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS
AND DEFICIT**

For the three months ended March 31	2009	2008
REVENUE		
Gas sales	\$ 6,153	\$ 37,038
Royalties	(249)	(6,051)
Interest income	27,979	140,529
	33,883	171,516
EXPENSES		
Operating expenses	4,195	8,046
General and administrative	261,614	279,028
Stock-based compensation (note 5)	228,007	791,793
Depreciation, depletion and accretion	6,654	26,593
Foreign currency translation loss	224	-
	500,694	1,105,460
Loss before income taxes and non-controlling interest	(466,811)	(933,944)
Future income tax reduction	18,413	356,449
Loss before non-controlling interest	(448,398)	(577,495)
Non-controlling interest (note 4)	37,598	-
NET LOSS AND COMPREHENSIVE LOSS	(410,800)	(577,495)
DEFICIT, beginning of period	(13,710,045)	(10,308,964)
DEFICIT, end of period	\$ (14,120,845)	\$ (10,886,459)
Loss per share		
Basic and diluted (note 6)	-	\$ (0.01)

See accompanying notes to the interim unaudited consolidated financial statements.

EXCELSIOR ENERGY LIMITED

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31	2009	2008
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net loss and comprehensive loss	\$ (410,800)	\$ (577,495)
Items not affecting cash		
Depreciation, depletion and accretion	6,654	26,593
Stock-based compensation	228,007	791,793
Non-controlling interest	(37,598)	-
Future income tax reduction	(18,413)	(356,449)
Foreign currency translation loss	224	-
	(231,926)	(115,558)
Changes in non-cash working capital items (note 7)	(177,446)	(291,600)
	(409,372)	(407,158)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Expenditures on petroleum and natural gas properties	(7,739,361)	(10,839,905)
Expenditures on property and equipment	(39,261)	-
Changes in non-cash working capital items (note 7)	(543,163)	4,142,443
	(8,321,785)	(6,697,462)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Issuance of share capital net of issue costs	-	1,119,705
Changes in non-cash working capital items (note 7)	-	(7,980)
	-	1,111,725
DECREASE IN CASH AND CASH EQUIVALENTS	(8,731,157)	(5,992,895)
CASH and cash equivalents, beginning of period	13,748,057	15,848,648
CASH and cash equivalents, end of period	\$ 5,016,900	\$ 9,855,753
Cash and cash equivalents consist of		
Cash	\$ 216,900	\$ 333,693
Guaranteed investment certificates with Canadian chartered banks	4,800,000	9,522,060
	\$ 5,016,900	\$ 9,855,753

See accompanying notes to the interim unaudited consolidated financial statements.

EXCELSIOR ENERGY LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

THREE MONTHS ENDED MARCH 31, 2009 AND 2008

Page 1

1. BASIS OF PRESENTATION

Excelsior Energy Limited (“Excelsior” or the “Company”) is a development stage enterprise active in oil sands exploration, development and appraisal in the Hangingstone (“Hangingstone Asset” or “Hangingstone”) and West Surmont (“Surmont Asset” or “Surmont”) areas near Fort McMurray, Alberta and exploration in the UK North Sea. The unaudited consolidated financial statements of Excelsior for the three month periods ended March 31, 2009 and 2008 are presented in accordance with Canadian generally accepted accounting principles (“GAAP”).

These financial statements are prepared on the assumption that the Company will continue as a going concern and realize its assets and discharge its liabilities in the normal course of business. The Company has working capital of approximately \$3.5 million; however, the Company continues to incur operating losses, use cash resources to support operations and has flow through and drilling commitments (note 8). The recoverability of the amounts shown for oil and gas assets is dependent upon the ability of the Company to obtain the financing necessary to complete the exploration and development and the discovery of economically recoverable oil and gas resources. If the going concern assumption is inappropriate, adjustments would be necessary to the carrying values of assets and liabilities, reported revenues and expenses, and the balance sheet classifications used in the consolidated financial statements.

2. CHANGES IN ACCOUNTING POLICIES

The unaudited interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as indicated in the audited consolidated financial statements for the year ended December 31, 2008, except as described below. The disclosures do not conform in all respects to the requirements of GAAP for annual financial statements and should be read in conjunction with Excelsior’s audited consolidated financial statements and the notes thereto for the year ended December 31, 2008.

The preparation of financial statements in conformity with generally accepted accounting principles in Canada requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. Actual results could differ from those estimates and assumptions; however, management believes that such differences would not be material.

Goodwill and intangible assets

In February 2008, the Accounting Standards Board (“AcSB”) issued Section 3064, *Goodwill and Intangible Assets*, and amended Section 1000, *Financial Statement Concepts*, clarifying the criteria for the recognition of assets, intangible assets and internally developed intangible assets. The standard is effective for fiscal years beginning on or after October 1, 2008. The Company adopted the new standards for its fiscal year beginning January 1, 2009. The adoption of this standard did not have an impact on its consolidated financial statements.

EXCELSIOR ENERGY LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

THREE MONTHS ENDED MARCH 31, 2009 AND 2008

Page 2

2. CHANGES IN ACCOUNTING POLICIES (continued)

New Accounting Standards - International financial reporting standards

In February 2008, Canadian accounting standard setters announced that International Financial Reporting Standards (“IFRS”) will replace Canada’s current Generally Accepted Accounting Principles (“GAAP”) for all publicly accountable profit-oriented enterprises for fiscal years beginning on or after January 1, 2011. The eventual changeover to IFRS represents changes due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company’s reported financial position and results of operations. The Company is currently in the process of developing an implementation strategy to establish timelines and identify significant differences between Canadian GAAP and IFRS.

3. PETROLEUM AND NATURAL GAS PROPERTIES

			March 31, 2009	Dec. 31, 2008
	Cost	Accumulated Depletion and Depreciation	Net	Net
Canada	\$ 73,175,302	\$ 882,914	\$ 72,292,388	\$ 64,704,644
North Sea	2,047,560	1,536,519	511,041	359,424
	\$ 75,222,862	\$ 2,419,433	\$ 72,803,429	\$ 65,064,068

For the three month period ended March 31, 2009, the Company incurred capital expenditures of \$7,587,744 (December 31, 2008 - \$14,033,531) on the Hangingstone and Surmont properties and \$151,617 (December 31, 2008 - \$252,940) on the North Sea. No overhead charges have been capitalized to petroleum and natural gas properties.

Costs for unproven properties in the amount of \$72,803,429 (2008 - \$65,064,068) were excluded from the costs subject to depletion and depreciation, representing accumulated costs incurred at Hangingstone, Surmont and in the North Sea.

4. NON-CONTROLLING INTEREST

In April 2008, the Company restructured its holding in its subsidiary, EENS. Excelsior incorporated a subsidiary ENS Energy Ltd. (“ENS”), and exchanged all of the common shares of EENS for 12,000,000 common shares of ENS. Subsequent to the restructuring, ENS closed a \$1.0 million private placement equity financing consisting of common shares and common share purchase warrants. The financing had the effect of reducing the Company’s interest in ENS from 100% to 75% as Excelsior did not participate in the financing. The balance of \$240,825 at March 31, 2009 (December 31, 2008 - \$278,423) represents the non-controlling interest’s share of the net assets of ENS.

During the three months ended March 31, 2009, ENS granted 1,600,000 stock options at an exercise price of \$0.25. The non-controlling interest’s share of net loss of \$37,598 included its share of \$90,622 of stock based compensation recorded by ENS. These options were fair valued using the weighted average assumptions for risk free interest rate of 2.0%, expected volatility of 103%, expected life of five years and 0% dividend yield.

EXCELSIOR ENERGY LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

THREE MONTHS ENDED MARCH 31, 2009 AND 2008

Page 3

5. SHARE CAPITAL

(a) Authorized

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

(b) Common shares issued

	Number	Amount
Balance December 31, 2008	143,060,590	\$ 77,863,071
Tax effect of flow through shares issued in 2008	-	(2,309,442)
Balance March 31, 2009	143,060,590	\$ 75,553,629

(c) Stock options

The Company has established a stock option plan under which it may grant options to directors, officers, employees and service providers up to 10% of the issued and outstanding common shares. Stock options vest one-third at the time of grant, and one-third each on the first and second anniversaries of the grant date. Under this plan, stock options are granted with an exercise price equal to market at the date of the grant.

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

Three months ended March 31	2009	2008
Risk-free interest rate	-	2.91%
Expected life	-	5 years
Expected volatility	-	113%
Dividend yield	-	0%

	Number of Options	Weighted Average Exercise Price
Balance December 31, 2008	9,061,289	\$ 0.25
Granted	-	-
Balance, March 31, 2009	9,061,289	\$ 0.25

EXCELSIOR ENERGY LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

THREE MONTHS ENDED MARCH 31, 2009 AND 2008

Page 4

5. SHARE CAPITAL (continued)

(c) Stock options (continued)

The following table summarizes the information about stock options outstanding and exercisable as at March 31, 2009.

Exercise Price	Options Outstanding	Options Exercisable	Remaining Life (years)
\$1.05	83,333	83,333	1.9
0.20	1,092,956	1,092,956	1.7
0.45	500,000	500,000	2.9
0.40	450,000	300,000	3.0
0.50	75,000	50,000	3.8
0.38	350,000	116,667	4.0
0.43	250,000	83,333	4.1
0.46	1,935,000	645,000	4.2
0.10	4,325,000	1,441,667	4.7
Total	9,061,289	4,312,956	

(d) Warrants

The Company used the Black Scholes pricing model to determine the fair value of the warrants issued during the periods using the following assumptions:

Three months ended March 31	2009	2008
Risk-free interest rate	-	3.29%
Expected volatility	-	122%
Expected life	-	1 year
Dividend yield	-	nil
Weighted average fair value per warrant	-	\$ 0.20

	Warrants Outstanding	Amount
Balance, December 31, 2008	138,330	\$ 27,447
Warrants expired	(138,330)	(27,447)
Balance, March 31, 2009	-	-

(e) Contributed surplus

Balance, December 31, 2008	\$ 8,882,893
Stock-based compensation	228,007
Fair value of expired warrants	27,447
Balance, March 31, 2009	\$ 9,138,347

EXCELSIOR ENERGY LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

THREE MONTHS ENDED MARCH 31, 2009 AND 2008

Page 5

6. LOSS PER SHARE

Basic loss per common share is calculated using the weighted average number of shares outstanding during the period. The weighted average number of common shares outstanding is as follows:

Three months ended March 31	2009	2008
Basic and diluted weighted average number of common shares outstanding during the period	143,060,590	108,517,539

As the Company is in a loss position for each period, 15,061,289 common shares that would be issued on the exercise of stock options, warrants and issued on certain performance thresholds being met (note 8) (2008 – 16,592,965) have been excluded from the calculation as these dilutive instruments are anti-dilutive in nature.

7. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non cash working capital:

Three months ended March 31	2009	2008
Operating activities		
Accounts receivable	\$ (10,590)	\$ (260,891)
Prepaid and deposits	(69,329)	18,546
Accounts payable and accrued liabilities	(97,527)	(49,255)
	\$ (177,446)	\$ (291,600)
Investing activities		
Accounts receivable	\$ (39,029)	\$ (1,818)
Prepays and deposits	-	(127,992)
Accounts payable and accrued liabilities	(504,134)	4,272,253
	\$ (543,163)	\$ 4,142,443
Financing activities		
Accounts payable and accrued liabilities	-	\$ (7,980)
	-	\$ (7,980)

Interest income in the amount of \$83,384 was received in the three months ended March 31, 2009 (2008 - \$161,951).

8. COMMITMENTS AND CONTINGENCIES

The Company entered into a farmin agreement to acquire up to a 75% working interest in Surmont. The Company currently has a 64.3% working interest at Surmont and could earn up to 75% working interest by funding a nine core drilling program to a maximum of \$6,750,000, by March 31, 2010. The Company has also agreed to pay a supplemental payment of \$2,900,000 by March 31, 2011. This supplemental payment can be satisfied by funding the farmer's 25% share of continuing operations at Hangingstone or Surmont. At March 31, 2009 the obligation under the supplemental payment totalled \$434,000.

EXCELSIOR ENERGY LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

THREE MONTHS ENDED MARCH 31, 2009 AND 2008

Page 6

8. COMMITMENTS AND CONTINGENCIES (continued)

The Company, through its subsidiary EENS, has licence P1500 in the UKCS. Under the terms of the licence, EENS is required to elect by November 30, 2009 to drill an exploratory well or relinquish the licence at no further cost and costs associated with this licence would be written off. The budget to drill a well is estimated to be \$16 million and will require ENS to issue equity or arrange alternate financing to fund the drilling commitment. EENS was awarded licence P1691 during the period ended March 31, 2009. Under the terms of this licence EENS is required to reprocess seismic over the next two years and decide by March, 2011 to drill a well or relinquish the licence. Costs to acquire and reprocess seismic are budgeted to be \$250,000 over the next two years.

The Company has commitments to incur and renounce \$9,237,766 of eligible expenditures, to subscribers of its flow through private placements by December 31, 2009. As at March 31, 2009, the Company had incurred approximately \$9,085,207 of eligible expenditures.

The Company acquired a private company ("PrivateCo") pursuant to a share purchase agreement in 2007. PrivateCo's net assets consisted primarily of a right to earn a 22.5% working interest in the Hangingstone oil sands asset. The share purchase agreement contemplates up to an additional 6,000,000 common shares of the Company to be issued upon certain reserves performance thresholds being met on the Hangingstone property prior to December 31, 2010. These performance thresholds were not met at March 31, 2009 and accordingly no common shares were issued.

The Company has committed to leasing office space in the aggregate amount of \$91,892 over the next two years. Annual payments are as follows:

2009	\$ 48,649
2010	43,243
	<u>\$ 91,892</u>