

**EXCELSIOR ENERGY LIMITED**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED  
JUNE 30, 2009 AND 2008**

**EXCELSIOR ENERGY LIMITED**

**UNAUDITED CONSOLIDATED BALANCE SHEETS**

	<b>June 30, 2009</b>	December 31, 2008
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	\$ 2,626,629	\$ 13,748,057
Accounts receivable	80,036	427,548
Prepays and deposits	76,805	48,724
	<b>2,783,470</b>	14,224,329
Petroleum and natural gas properties (note 3)	73,627,708	65,064,068
Property and equipment	49,394	23,135
	<b>\$ 76,460,572</b>	<b>\$ 79,311,532</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 408,780	\$ 2,745,131
Future income tax liability	5,456,971	3,216,483
Asset retirement obligation	8,435	8,129
Non-controlling interest (note 4)	220,676	278,423
	<b>6,094,862</b>	6,248,166
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 5)	75,553,629	77,863,071
Contributed surplus (note 5)	9,270,656	8,882,893
Warrants (note 5)	-	27,447
Deficit	(14,458,575)	(13,710,045)
	<b>70,365,710</b>	73,063,366
	<b>\$ 76,460,572</b>	<b>\$ 79,311,532</b>

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**

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
<b>REVENUES</b>				
Gas sales	\$ 4,462	\$ 45,074	\$ 10,615	\$ 82,112
Royalties	(80)	(6,410)	(329)	(12,461)
Interest income	2,505	51,418	30,484	191,947
	<b>6,887</b>	<b>90,082</b>	<b>40,770</b>	<b>261,598</b>
<b>EXPENSES</b>				
Operating expenses	4,644	10,020	8,839	18,066
General and administrative	274,650	424,894	536,264	703,922
Stock-based compensation (note 5)	132,309	1,165,507	360,316	1,957,300
Depreciation, depletion and accretion	6,654	25,020	13,308	51,613
Gain on reorganization of North Sea assets (note 4)	-	(614,544)	-	(614,544)
Foreign currency translation gain	(2,950)	-	(2,726)	-
	<b>415,307</b>	<b>1,010,897</b>	<b>916,001</b>	<b>2,116,357</b>
<b>Loss before income taxes and non-controlling interest</b>	<b>(408,420)</b>	<b>(920,815)</b>	<b>(875,231)</b>	<b>(1,854,759)</b>
Future income tax reduction	50,541	86,156	68,954	442,605
<b>Loss before non-controlling interest</b>	<b>(357,879)</b>	<b>(834,659)</b>	<b>(806,277)</b>	<b>(1,412,154)</b>
Non-controlling interest (note 4)	20,149	-	57,747	-
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>(337,730)</b>	<b>(834,659)</b>	<b>(748,530)</b>	<b>(1,412,154)</b>
<b>DEFICIT, beginning of period</b>	<b>(14,120,845)</b>	<b>(10,886,459)</b>	<b>(13,710,045)</b>	<b>(10,308,964)</b>
<b>DEFICIT, end of period</b>	<b>\$(14,458,575)</b>	<b>\$(11,721,118)</b>	<b>\$(14,458,575)</b>	<b>\$(11,721,118)</b>
<b>Loss per share</b>				
Basic and diluted (note 6)	\$ -	\$ (0.01)	\$ (0.01)	\$ (0.01)

See accompanying notes to the interim unaudited consolidated financial statements.

**EXCELSIOR ENERGY LIMITED**

**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>				
Net loss and comprehensive loss	\$ (337,730)	\$ (834,659)	\$ (748,530)	\$ (1,412,154)
Items not affecting cash				
Depreciation, depletion and accretion	6,654	25,020	13,308	51,613
Stock-based compensation	132,309	1,165,507	360,316	1,957,300
Future income tax reduction	(50,541)	(86,156)	(68,954)	(442,605)
Non-controlling interest	(20,149)	-	(57,747)	-
Gain on reorganization of North Sea assets	-	(614,544)	-	(614,544)
Foreign currency translation gain	(2,950)	-	(2,726)	-
	(272,407)	(344,832)	(504,333)	(460,390)
Changes in non-cash working capital items (note 7)	248,728	462,306	71,282	170,706
	(23,679)	117,474	(433,051)	(289,684)
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>				
Expenditures on petroleum and natural gas properties	(824,279)	(416,799)	(8,563,640)	(11,256,704)
Expenditures on property and equipment	-	(2,656)	(39,261)	(2,656)
Changes in non-cash working capital items (note 7)	(1,542,313)	(5,224,606)	(2,085,476)	(1,082,163)
	(2,366,592)	(5,644,061)	(10,688,377)	(12,341,523)
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>				
Issuance of share capital net of issue costs	-	-	-	1,119,705
Issuance of shares by subsidiary (note 4)	-	1,000,000	-	1,000,000
Changes in non-cash working capital items (note 7)	-	-	-	(7,980)
	-	1,000,000	-	2,111,725
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,390,271)</b>	<b>(4,526,587)</b>	<b>(11,121,428)</b>	<b>(10,519,482)</b>
<b>CASH and cash equivalents, beginning of period</b>	<b>5,016,900</b>	<b>9,855,753</b>	<b>13,748,057</b>	<b>15,848,648</b>
<b>CASH and cash equivalents, end of period</b>	<b>\$ 2,626,629</b>	<b>\$ 5,329,166</b>	<b>\$ 2,626,629</b>	<b>\$ 5,329,166</b>
Cash and cash equivalents consist of				
Cash	\$ 76,629	\$ 1,329,166	\$ 76,629	\$ 1,329,166
Guaranteed investment certificates with Canadian chartered banks	2,550,000	4,000,000	2,550,000	4,000,000
	\$ 2,626,629	\$ 5,329,166	\$ 2,626,629	\$ 5,329,166

See accompanying notes to the interim unaudited consolidated financial statements.

# EXCELSIOR ENERGY LIMITED

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008

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### 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.

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 \$2.4 million; however, the Company continues to incur operating losses, use cash resources to support operations and has 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.

The unaudited interim consolidated financial statements of the Company have been prepared by management in accordance with the accounting principles generally accepted in Canada. In the opinion of management, these interim consolidated financial statements contain all adjustments of a normal and recurring nature necessary to present fairly the Company’s financial position as at June 30, 2009 and the results of its operations and cash flows for the three and six months ended June 30, 2009 and 2008. The unaudited interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2008 except for the accounting policy changes described below. The unaudited interim consolidated financial statement note disclosures do not include all of those required by Canadian generally accepted accounting principles (“GAAP”) applicable for annual financial statements. Accordingly, the interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto for the years ended December 31, 2008 and 2007.

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.

### 2. CHANGES IN ACCOUNTING POLICIES

#### **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**  
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**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.

**New Accounting Standards – Financial Instruments – Disclosure**

In May 2009, the Canadian Institute of Chartered Accountants amended Section 3862, “Financial Instruments – Disclosures,” to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments are effective for the Company on December 31, 2009.

**3. PETROLEUM AND NATURAL GAS PROPERTIES**

			<b>June 30, 2009</b>	December 31, 2008
	<b>Cost</b>	<b>Accumulated Depletion and Depreciation</b>	<b>Net</b>	Net
Canada	<b>\$ 73,964,452</b>	<b>\$ 882,914</b>	<b>\$ 73,081,538</b>	\$ 64,704,644
North Sea	<b>2,082,689</b>	<b>1,536,519</b>	<b>546,170</b>	359,424
	<b>\$ 76,047,141</b>	<b>\$ 2,419,433</b>	<b>\$ 73,627,708</b>	\$ 65,064,068

For the six month period ended June 30, 2009, the Company incurred capital expenditures of \$8,376,894 (December 31, 2008 - \$14,033,531) on the Hangingstone and Surmont properties and \$186,746 (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 \$73,627,708 (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.

# EXCELSIOR ENERGY LIMITED

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008

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### 4. NON-CONTROLLING INTEREST

In April 2008 the Company restructured its holding in its subsidiary, Excelsior Energy North Sea Limited (“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 25% reduction in its holding resulted in a dilution gain to the Company of \$614,544 and a reduction of petroleum and natural gas properties of \$87,068, relating to the Company’s North Sea assets in the six month period ended June 30, 2008. The balance of \$220,676 at June 30, 2009 (December 31, 2008 - \$278,423) represents the non-controlling interest’s share of the net assets of ENS.

During the six months ended June 30, 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 \$57,747 included its share of \$125,552 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% per annum, expected volatility of 103%, expected life of five years and 0% dividend yield.

### 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)
<b>Balance June 30, 2009</b>	<b>143,060,590</b>	<b>\$ 75,553,629</b>

#### (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:

	2009	2008
Risk-free interest rate	-	2.74%-3.29%
Expected life	-	0.5-5 years
Expected volatility	-	106%-113%
Dividend yield	-	0%

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**5. SHARE CAPITAL (continued)**

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

	Number of Options	Weighted Average Exercise Price
Balance December 31, 2008	9,061,289	\$0.25
Granted	-	-
<b>Balance June 30, 2009</b>	<b>9,061,289</b>	<b>\$0.25</b>

The following table summarizes the options outstanding and exercisable as at June 30, 2009:

Exercise Price	Options Outstanding	Options Exercisable	Remaining Life (years)
\$1.05	83,333	83,333	1.6
0.20	1,092,956	1,092,956	1.4
0.45	500,000	500,000	2.7
0.40	450,000	300,000	2.8
0.50	75,000	50,000	3.5
0.38	350,000	233,333	3.8
0.43	250,000	166,667	3.9
0.46	1,935,000	1,290,000	3.9
0.10	4,325,000	1,441,667	4.5
Total	9,061,289	5,157,956	

**(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:

	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)
<b>Balance, June 30, 2009</b>	<b>-</b>	<b>-</b>

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**5. SHARE CAPITAL (continued)**

**(e) Contributed surplus**

Balance, December 31, 2008	\$8,882,893
Stock-based compensation	360,316
Fair value of warrants expired	27,447
<b>Balance, June 30, 2009</b>	<b>\$ 9,270,656</b>

**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 June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Basic and diluted weighted average number of common shares outstanding during the period	<b>143,060,590</b>	108,824,891	<b>143,060,590</b>	107,917,809

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 and issued on certain performance thresholds being met (note 8) (2008 – 6,638,662) 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 June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Operating activities				
Accounts receivable	\$ 336,117	\$ 455,431	\$ 325,527	\$ 194,540
Prepaid and deposits	41,248	11,963	(28,081)	30,509
Accounts payable and accrued liabilities	(128,637)	(5,088)	(226,164)	(54,343)
	<b>\$ 248,728</b>	\$ 462,306	<b>\$ 71,282</b>	\$ 170,706
Investing activities				
Accounts receivable	\$ 61,014	\$ (31,869)	\$ 21,985	\$ (33,687)
Prepays and deposits	-	127,992	-	-
Accounts payable and accrued liabilities	(1,603,327)	(5,320,729)	(2,107,461)	(1,048,476)
	<b>\$(1,542,313)</b>	\$(5,224,606)	<b>\$(2,085,476)</b>	\$(1,082,163)

# EXCELSIOR ENERGY LIMITED

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008

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### 7. SUPPLEMENTAL CASH FLOW INFORMATION (continued)

Changes in non cash working capital:

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Financing activities				
Accounts receivable	-	-	-	-
Accounts payable and accrued liabilities	-	-	-	\$ (7,980)
	-	-	-	\$ (7,980)

Interest income in the amount of \$11,342 and \$94,726 was received in the three and six month periods ended June 30, 2009 (2008 - \$41,796 & \$203,747).

### 8. COMMITMENTS AND CONTINGENCIES

The Company entered into a farmin agreement to acquire up to a 75% working interest at 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, none of which has been spent as at June 30, 2009. The Company has also agreed to pay a supplemental payment of \$2,900,000 by March 31, 2011. This supplemental payment can be satisfied with cash or by funding the farmor's 25% share of continuing operations at Hangingstone and/or Surmont. Excelsior has funded the supplemental payment by funding the farmor's share of continuing operations at Hangingstone and at June 30, 2009 the remaining obligation was approximately \$338,000.

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. In the event the licence is relinquished costs associated with this licence in the amount of \$481,000 would be written off. The budget to drill a well is estimated to be approximately \$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 June 30, 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 by December 31, 2009, to subscribers of its flow through private placements. As at June 30, 2009, the Company had fulfilled its obligations under this flow through private placement.

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 June 30, 2009 and accordingly no common shares were issued.

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**8. COMMITMENTS AND CONTINGENCIES (continued)**

The Company has committed to leasing office space in the aggregate amount of \$75,676 over the next two years. Annual payments are as follows:

2009	\$ 32,433
2010	43,243
	<hr/>
	\$ 75,676