

**EXCELSIOR ENERGY LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008**

The following discussion and analysis ("MD&A") is management's opinion of Excelsior Energy Limited's ("Excelsior" or the "Company") financial and operational results and should be read in conjunction with the unaudited interim consolidated financial statements for the three and nine month periods ended September 30, 2009 and 2008, together with the notes related thereto, and the audited financial statements and MD&A for the year ended December 31, 2008. The Company's financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The information has been prepared effective November 25, 2009.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements. Management's assessment of future plans and operations, capital expenditures, methods of financing capital expenditures and the ability to fund financial liabilities, expected commodity prices and the impact on Excelsior, expected increase in royalty rates, and the timing of and impact of adoption of IFRS and other accounting policies may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, the inability to fully realize the benefits of the acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources. As a consequence, the Company's actual results may differ materially from those expressed in, or implied by, the forward looking statements. Forward-looking statements or information are based on a number of factors and assumptions which have been used to develop such statements and information but which may prove to be incorrect. Although Excelsior believes that the expectations reflected in such forward looking statements or information are reasonable, undue reliance should not be placed on forward looking statements because the Company can give no assurance that such expectations will prove to be correct.

In addition to other factors and assumptions which may be identified in this document and other documents filed by the Company, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic and political environment in which Excelsior operates; increased/decreased capital costs as a result of increased/decreased development activities on the Company's oil sand properties, including Hangingstone and Surmont; the viability of Excelsior's proprietary processes and technologies regarding COGD development of oil sand properties and the continued intellectual property protection of the same; the ability of the Company to obtain qualified staff, equipment and

services in a timely and cost efficient manner; drilling results; Excelsior's ability to obtain financing on acceptable terms including anticipated sources of funding for capital expenditures and plans for improving liquidity which may include, accessing new equity, corporate acquisitions or business combinations, joint venture arrangements and restructuring components of the balance sheet; development and exploration results; the timing and costs of the experimental COGD project; the ability of the Company to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Company operates, including relating to oil sand operations in Alberta; and Excelsior's ability to successfully market its oil and natural gas products, once commercial production has been established. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities (including our Annual Information Form) and may be accessed through the SEDAR website (www.sedar.com) or at the Company's website (www.excelsior-energy.com). Furthermore, the forward looking statements contained in this document are made as at the date of this document and the Company does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

OVERVIEW

Excelsior is a development stage enterprise active in oil sands exploration and appraisal in Alberta and oil exploration and appraisal in the UK North Sea. The Company has properties in the Hangingstone ("Hangingstone Asset" or "Hangingstone") and West Surmont ("Surmont" or "Surmont Asset") areas in the Athabasca oil sands region located south of Fort McMurray, Alberta. The Company holds two licences in contiguous blocks in the UK North Sea through its 75% owned subsidiary ENS Energy Ltd ("ENS"). Excelsior also has a minor interest in a producing gas well in Alberta. The Company's purpose is to develop, extract and sell bitumen from oil sands deposits in Alberta and develop, extract and sell oil and gas from the North Sea.

The Company operated a 29 well delineation drilling program during the nine months ended September 30, 2009 at Hangingstone for a total of 55 delineation wells in 39 sections. Sufficient core drilling over the past two winter seasons has confirmed the resource potential at Hangingstone. Excelsior obtained an independent resource report by McDaniel & Associates Consultants Limited ("McDaniel Report") at Hangingstone in the second quarter of 2009. The McDaniel Report assigned 172 million barrels of best estimate contingent resource at Hangingstone with a net present value before income tax discounted at 10% ("NPV₁₀") of \$208 million. On a NPV₁₀ unit basis the report valued Excelsior's contingent resources at \$1.21 per barrel or \$1.45 per outstanding common share.

Excelsior intends to develop this property with an experimental in situ combustion bitumen recovery process ("Combustion Overhead Gravity Drainage" or "COGD"). The COGD technology could significantly improve bitumen recovery economics through both enhanced recovery gains and substantial reductions in the amount of required water, fuel gas and diluent relative to that used in steam assisted gravity drainage ("SAGD") applications. This translates to

a potential 50% reduction in West Texas Intermediate (“WTI”) levelized supply cost for bitumen extraction using COGD technology versus SAGD. The COGD experimental project application at Hangingstone (the “Project Application”) will seek approval to operate three COGD well arrays with a production target of up to 1,000 barrels of bitumen per day. The Project Application was submitted to the Alberta Energy Resources Conservation Board and Alberta Environment in June 2009. Regulatory approval is anticipated mid-year 2010 with subsequent implementation and commissioning of the pilot project in the first quarter of 2011.

In September 2009, the Company filed a patent application for the proprietary process associated with COGD technology. The proprietary process (the “Process”) is designed to prepare a viscous oil reservoir for exploitation using COGD. The Process uses cyclic steam and steam flood techniques to predispose the viscous oil reservoir to form a combustion chamber similar in geometry to the steam chamber using SAGD technology.

The Surmont Asset is in an earlier stage of exploration and further activity on the property has been delayed into the 2009/2010 winter drilling season. Excelsior can drill the remaining nine core wells required by the farm-in agreement by March 31, 2010 in order to increase its current 64.3% working interest to 75%.

The Company through its 75% owned subsidiary ENS Energy Ltd. (“ENS”) was awarded licence P1691 in the UK North Sea. This licence is contiguous to P1500 licence awarded in 2007. Over the next two years Excelsior will acquire and reprocess seismic to evaluate resource potential on licence P1691. Seismic reprocessing has been completed and interpreted on licence P1500. A drilling location has been identified to test one of the prospects which is a step-out from an existing oil discovery drilled in 1992. Regulatory authorities for the North Sea licence have extended the deadline for the Company’s decision to drill a well to November 30, 2009 from March 31, 2009, providing the Company additional time to seek financing options to undertake a drilling program in the North Sea. ENS is evaluating financing options including farm-out opportunities. If financing is not obtained or if a further extension is not granted the Company may relinquish the licence at no further cost and costs associated with this licence in the amount of \$481,000 would be written off.

Shares of the Company trade on the TSX Venture Exchange under the trading symbol ELE. Additional information about Excelsior and its business activities is available on SEDAR at www.sedar.com.

Selected Information

	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2009	2008	2009	2008
Gas sales	\$ 1,937	\$ 15,408	\$ 12,552	\$ 97,520
General and administrative expenses	293,074	407,453	829,338	1,111,375
Net loss and comprehensive loss	(313,029)	(666,845)	(1,061,559)	(2,086,602)
Loss per share	-	(\$0.01)	(\$0.01)	(\$0.02)
Cash flows used in operating activities	(286,781)	(396,652)	(719,832)	(686,336)
Expenditures on petroleum and natural gas properties	\$ 215,547	\$ 403,090	\$ 8,779,187	\$11,659,794
Weighted average number of shares outstanding	143,060,590	112,251,793	143,060,590	119,244,452

Gas sales, royalties and operating costs

	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2009	2008	2009	2008
Gas sales	\$ 1,937	\$ 15,408	\$ 12,552	\$ 97,520
Royalties	(20)	(3,070)	(349)	(15,531)
Operating costs	\$ (3,544)	\$ (8,159)	\$ (12,383)	\$ (26,225)

Gas revenue is generated from a 27% working interest in a non-operated gas well at Hastings Alberta. The gas well averaged 10 mcf (net to Excelsior) for the nine month period ended September 30, 2009 (2008 – 43 mcf). Gas prices averaged \$4.43 per mcf (2008 - \$8.32 per mcf) contributing to the decline in gas revenue in 2009 over the prior period. Crown royalties of \$349 averaged 3% of revenue (2008 – 16%). Operating costs of \$12,383 averaged \$4.39 per mcf (2008 - \$2.24 per mcf). The property is non-core, is experiencing greater than anticipated production declines and the impairment test in 2008 resulted in a write down equivalent to its net book value. Accordingly there was no depletion recorded for this property in 2009 (2008 - \$4.72 per mcf totalling \$55,300).

For the three months ended September 30, 2009 the Hastings gas well produced approximately 3 mcf (2008 – 21 mcf) at an average price of \$6.18 per mcf (2008 - \$7.90 per mcf). Well production is minimal in the third quarter of 2009 as the well was shut in during September. Crown royalties of \$20 averaged 1% of revenue (2008 – 20%). Operating costs of \$3,544 averaged \$11.32 per mcf (2008 - \$4.18 per mcf). Depletion for the Hastings property was calculated at a rate of \$4.41 per mcf in the three months ended September 30, 2008 totalling \$8,600.

Interest income

	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2009	2008	2009	2008
Interest income	\$ 1,842	\$ 51,388	\$ 32,326	\$ 243,335
Average cash deposit balance outstanding	\$ 3,332,000	\$ 8,862,000	\$ 6,610,000	\$ 9,842,000
Average effective interest rate	0.24%	2.25%	0.76%	3.17%

Interest income for all periods was generated by funds held in short term deposits. Short term deposit balances and average effective interest rates were higher throughout 2008 compared to 2009 resulting in lower interest income for the three and nine month periods ended in 2009 than the comparable 2008 periods. The Company's primary source of funds are derived from equity financings. In 2008, the Company completed two equity financings for gross proceeds of \$12,485,708. Excelsior has not undertaken an equity financing in 2009.

General and administrative expenses

	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2009	2008	2009	2008
General and administrative expenses before overhead recoveries	\$ 295,928	\$ 414,583	\$ 918,220	\$ 1,237,885
Overhead recoveries	(2,854)	(7,130)	(88,882)	(126,510)
General and administrative expenses	\$ 293,074	\$ 407,453	\$ 829,338	\$ 1,111,375

General and administrative expenses were \$829,338 for the nine month period ended September 30, 2009 compared to \$1,111,375 in 2008. Costs related to managing a public company decreased associated with a decline in investor relations services which were terminated in the fall of 2008. Professional fees declined with a reduction in third party costs related to corporate development from 2008 and a decline in resource evaluation costs in 2009 as Surmont activity has been curtailed and a resource update will not be done. There was a decline in interest charges associated with unspent flow-through funds from 2008 with flow through expenditure commitments being fulfilled early in 2009. These circumstances reflect the same decrease in general and administrative expenses of \$293,074 for the three month period ended September 30, 2009 compared to \$407,453 in 2008.

Stock based compensation

	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2009	2008	2009	2008
Stock based compensation	\$ 88,296	\$ 407,935	\$ 448,612	\$ 2,365,235

Stock based compensation was \$448,612 in the nine month period ended September 30, 2009 and \$2,365,235 in 2008. The weighted average fair value of options expensed in 2009 was 83% lower than 2008 predominantly due to lower market/grant prices. Included in stock based compensation for the nine months ended September 30, 2009 is \$160,866 from ENS, a 75% owned subsidiary, as a result of granting 1,600,000 stock options at an exercise price of \$0.25 during the period. 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.

Stock based compensation was \$88,296 (ENS - \$34,930) in the three month period ended September 30, 2009 and \$407,935 in 2008 (ENS - nil). The weighted average fair value of options expensed was 84% lower in 2009 than 2008 predominantly due to lower market/grant prices.

Capital Expenditures

	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2009	2008	2009	2008
Hangingstone	\$ 205,586	\$ 307,485	\$ 8,515,932	\$ 6,960,510
Surmont	2,401	68,266	68,949	4,517,227
North Sea	7,560	27,339	194,306	182,057
Total additions	\$ 215,547	\$ 403,090	\$ 8,779,187	\$ 11,659,794

Hangingstone

Costs incurred at Hangingstone totalled \$8.5 million in the nine months ended September 30, 2009 for drilling 27 of the 29 core wells during the winter delineation drilling program. The 2008/2009 winter program was completed in March 2009 for a total of 55 delineation wells at Hangingstone. Sufficient core drilling over the past two winter seasons has confirmed the resource potential at Hangingstone to support the COGD experimental project application and has identified two additional project areas for future development. Costs incurred at Hangingstone in 2008 totalled \$7.0 million for drilling 24 of the 26 core wells during the winter

core drilling program, commencement of a 2D seismic program in September and pre-drilling costs for the 2008/2009 winter drilling program.

Costs at Hangingstone for the three months ended September 30, 2009 were incurred to prepare the experiment COGD pilot application. Costs for the same period in 2008 related to commencement of a 2D seismic program and pre-drilling costs for the 2008/2009 winter drilling program.

Surmont

Due to the current global recession and restricted access to equity markets, Excelsior postponed further activity at Surmont and re-allocated funds to Hangingstone where resources are further delineated and closer to commercial production. Costs at Surmont for the three and nine month periods ended September 30, 2008 were to drill a total of nine delineation wells completed in the spring earning Excelsior a 64.3% working interest. Excelsior can earn up to a 75% working interest pursuant to the farmin agreement by drilling an additional nine wells before March 31, 2010.

North Sea

The Company incurred costs to acquire seismic and incur geological fees on licence P1691 in the North Sea pursuant to the licence requirements in the three and nine months ended September 30, 2009. In the same periods in 2008 the Company incurred costs to re-process and interpret seismic on licence P1500.

Asset retirement obligations

Asset retirement obligations increased to \$8,588 in 2009 from \$8,129 at December 31, 2008 as a result of accretion recorded for the period. The asset retirement obligation represents the estimate for and accumulated accretion of the 27% working interest in a gas well at Hastings, Alberta.

Non-controlling interest

In April 2008 the Company restructured its holding in its subsidiary, Excelsior Energy North Sea Limited ("EENS") by incorporating a subsidiary ENS Energy Ltd. ("ENS"), and exchanging all 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 nine month period ended September 30, 2008. The balance of \$199,351 at September 30, 2009 (December 31, 2008 - \$278,423) represents the non-controlling interest's share of the net assets of ENS.

During the nine months ended September 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 \$79,072 included its share of \$160,866 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.

Income taxes

The Company recorded a future income tax liability of \$5,399,400 at September 30, 2009 (December 31, 2008 – \$3,216,483). The increase in the liability resulted from the tax effect of the renunciation of \$9,237,766 of flow through expenditures in the first quarter of 2009. At September 30, 2009, the Company had non-capital losses of approximately \$9,680,000 expiring between 2009 and 2029.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2009 the Company had working capital of \$1,860,100 (December 31, 2008 - \$11,479,198) which included \$1,885,835 of cash and cash equivalents (December 31, 2008 - \$13,748,057). The Company's cash is held in accounts on deposit and short term guaranteed investment certificates issued by a major Canadian bank.

The Company's primary source of cash to cover expenditures for the nine month period ended September 30, 2009 was from funds received from the issue of common and flow through shares through private placement offerings that occurred in 2008. In 2008, the Company completed two equity financings for gross proceeds of \$12,485,708.

Excelsior has sufficient working capital at September 30, 2009 to submit the COGD experimental project application at Hangingstone and general corporate purposes for the next four quarters. Funding for Surmont, the COGD experimental pilot project in 2011 and drilling activity in the North Sea in 2012 is dependent on successful financing. There is no certainty the Company will be successful in financing its capital projects as planned, nor when required and may experience delays in commencement of these projects if financing is not available at that time.

At November 25, 2009 Excelsior had 143,060,590 common shares outstanding.

There are 9,061,289 stock options to purchase common shares of the Company as of November 25, 2009. The Company also has a commitment to issue 6,000,000 common shares contingent on certain performance thresholds being met on the Hangingstone property under the terms of a share purchase agreement for a private company acquired in 2007.

At September 30, 2009 the Company had no debt or credit facilities.

The 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 \$1.9 million; however, the Company continues to incur operating losses, use cash resources to support operations and has commitments. The recoverability of the amounts shown for oil and gas assets is dependent upon the ability of the Company to obtain 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.

COMMITMENTS, CONTINGENCIES, CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET ARRANGEMENTS

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 September 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 September 30, 2009 the remaining obligation was approximately \$294,000.

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 and demonstrate it has the financial capacity for drilling operations 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 September 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 September 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 September 30, 2009 and accordingly no common shares were issued.

The Company has committed to leasing office space in the aggregate amount of \$59,460 (2009 - \$16,217; 2010 - \$43,243).

The Company has not entered into any off balance sheet transactions other than those previously mentioned in this report.

FINANCIAL INSTRUMENTS

Financial instruments of the Company include cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to their short-terms to maturity.

CHANGES IN ACCOUNTING POLICIES

The following accounting pronouncements had an impact on the financial statements of the company in 2009.

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.

New accounting standards

The Company has assessed new accounting pronouncements that have been issued that are not yet effective and determined that the following may have an impact on the Company:

In December 2008, Canadian accounting standard setters issued Sections 1601, Business Combinations, and 1602, Non-Controlling Interests. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective for fiscal years beginning on or after January 1, 2011. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

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. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

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. Canadian entities will need to begin reporting under IFRS by the first quarter of 2011 with appropriate comparative data from the prior year. 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 has not completed development of its IFRS changeover plan, which will include project structure and governance, resourcing and training, analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as potential IFRS exemptions. The Company intends to complete its project scoping, which will include a timetable for assessing the impact on data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements, in 2009.

RISK FACTORS

The Company is exposed to a variety of business risks and uncertainties in the international petroleum industry including the uncertainty of finding reserves, developing and marketing those reserves, availability of equipment and services, commodity prices, liquidity risk, volatility of financial markets and changes in government regulations.

Excelsior addresses these risks by employing and contracting highly skilled and motivated personnel and focusing management's efforts in areas where they have existing knowledge and using current technology to assess projects and control costs. The Company maintains a corporate insurance program consistent with industry practice to protect against losses due to property damage, well blowouts and other operating accidents.

The Company's focus is to continue to explore and develop its oil sands properties. In light of the recent global financial crisis and restricted access to financial markets, Excelsior has prioritized its capital budget and funding requirements by re-allocating funding to the Hangingstone property, investigating COGD technology which could significantly improve bitumen recovery economics and delaying further exploration at Surmont. Funding for the ongoing capital requirements associated with oil sands exploration and development beyond 2010 will primarily be from equity financing. The Company's ability to raise equity or project financing will be subject to market conditions at that time. Management continues to monitor the return of normal and stable conditions to financial markets and access to capital.

On October 25, 2007, the Government of Alberta proposed a new royalty regime for conventional oil, natural gas and bitumen effective January 1, 2009. The changes to the royalty regime require new legislation and changes to the existing legislation. The new royalty regime will apply to new and existing oil sands projects. The impact of the proposed new royalty regime on project economics for development of potential projects is expected to be negative although such economics are dependent on multiple factors. Excelsior's initial evaluation indicates that the impact of the proposed new royalty regime will not be significant for early stage oil sands

appraisal projects, particularly in the context of reduced federal corporate income tax changes enacted in 2008.

The oil and gas industry is subject to varying environmental regulations imposed by governments to protect the environment. The Company is committed to operating safely and in an environmentally sensitive manner. The Company complies with all regulatory requirements.

In March 2008, the Federal Government released a detailed plan for reducing greenhouse gas emissions introducing a carbon capture and storage requirement for all oil sands projects coming on-stream after 2011. The proposal will result in increased costs of operating and producing from Alberta's oil sands. The Company is monitoring the discussion and implementation of this proposal and effects it will have on its future COGD plans.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that management make estimates and assumptions and use judgment regarding assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur.

Amounts recorded for depletion and amounts used for asset impairment calculations are based on estimates of oil and natural gas reserves, future cash flows and future costs required to develop these reserves.

The estimate related to asset retirement obligations requires estimates of the amount and timing of future abandonment liabilities, inflation, and interest rates. The recognition of amounts in relation to stock-based compensation requires estimates related to valuation of stock options at the time of issuance. The determination of the Company's future income taxes and other tax liabilities requires interpretation of complex laws and regulations subject to audit and potential reassessment after the lapse of considerable time.

By their nature, these estimates are subject to measurement uncertainty and the effect of changes in such estimates on the financial statements of current and future periods could be material.

OUTLOOK

Excelsior has identified three project development areas at Hangingstone capable of supporting a commercial scale project from results of two successful winter drilling seasons. Contingent resources assigned to Hangingstone by McDaniel & Associates Consultants Ltd. effective July 1, 2009 increased by 45% from the July 1, 2008 report supported by 2008/2009 winter drilling results.

The Company advanced development at Hangingstone by submitting the Project Application using COGD technology to regulatory authorities at the end of June 2009. Regulatory approval is anticipated in approximately one year. Subsequent implementation and commissioning of the pilot project in the first quarter of 2011 would proceed subject to obtaining the necessary financing. The Company has a number of years to further develop the Hangingstone and Surmont properties prior to any lease expiries. The Company engaged CIBC World Markets Inc. (“CIBC”) in November as its strategic advisor to help evaluate joint venture opportunities for its COGD pilot project at Hangingstone.

The Company has re-submitted its application to the Alberta government’s Innovative Energy Technology Program (“IETP”) for the COGD experimental technology. The IETP program provides for royalty credits being awarded for capital spent on new technology. Approval of this submission is expected by March 31, 2010.

A drilling location has been identified on licence P1500 in the North Sea to test one of the prospects which is a step-out from an existing oil discovery drilled in 1992. The Company has requested an extension to February 28, 2010 for this licence. This will provide additional time to obtain financing or secure a joint venture partner for an exploratory well. In the event the licence is relinquished, costs associated with this licence in the amount of \$481,000 would be written off.

The Company has working capital for general corporate purposes for the next four quarters, however new funding will be required to undertake further activity in its oil sands properties in Alberta and oil exploration in the North Sea. There is no certainty the Company will be successful in financing its capital projects as planned, nor when required and may experience delays in commencement of these projects if financing is not available. The engagement with CIBC provides Excelsior with a strong financial advisor to identify and investigate joint venture partners or other alternative financing options for the Hangingstone project.

SUMMARY OF QUARTERLY RESULTS

Selected Quarterly Information

Three months ended	Sept 30, 2009	June 30, 2009	Mar 31, 2009	Dec 31, 2008
Gas sales	\$ 1,937	\$ 4,462	\$ 6,153	\$ 10,481
Stock based compensation expense	88,296	132,309	228,007	918,173
General and administrative expense	293,074	274,650	261,614	426,433
Cash provided by (used in) operating activities	(286,781)	(23,679)	(409,372)	(400,521)
Net loss and comprehensive loss	\$ (313,029)	\$ (337,730)	\$ (410,800)	\$ (1,322,082)
Loss per share – basic and diluted	-	-	-	(\$0.01)

Three months ended	Sept 30, 2008	June 30, 2008	Mar 31, 2008	Dec 31, 2007
Gas sales	\$ 15,408	\$ 45,074	\$ 37,038	\$ (22)
Stock based compensation expense	407,935	1,165,507	791,793	876,511
General and administrative exp.	407,453	424,894	279,028	420,607
Cash provided by (used in) operating activities	(396,652)	117,474	(407,158)	(264,983)
Net loss and comprehensive loss	\$ (666,845)	\$ (834,659)	\$ (577,495)	\$ (1,287,057)
Loss/share	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)