

EXCELSIOR ENERGY LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2009 AND 2008**

EXCELSIOR ENERGY LIMITED
UNAUDITED CONSOLIDATED BALANCE SHEETS

	September 30, 2009	December 31, 2008
ASSETS		
CURRENT		
Cash and cash equivalents	\$1,885,835	\$ 13,748,057
Accounts receivable	24,913	427,548
Prepays and deposits	114,064	48,724
	2,024,812	14,224,329
Petroleum and natural gas properties (note 3)	73,843,255	65,064,068
Property and equipment	44,961	23,135
	\$75,913,028	\$ 79,311,532
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$164,712	\$ 2,745,131
Future income tax liability	5,399,400	3,216,483
Asset retirement obligation	8,588	8,129
Non-controlling interest (note 4)	199,351	278,423
	5,772,051	6,248,166
SHAREHOLDERS' EQUITY		
Share capital (note 5)	75,553,629	77,863,071
Contributed surplus (note 5)	9,358,952	8,882,893
Warrants (note 5)	-	27,447
Deficit	(14,771,604)	(13,710,045)
	70,140,977	73,063,366
	\$75,913,028	\$ 79,311,532

Basis of presentation (note 1)

Commitments and contingencies (note 8)

See accompanying notes to the interim unaudited consolidated financial statements.

EXCELSIOR ENERGY LIMITED

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
REVENUE				
Gas sales	\$ 1,937	\$ 15,408	\$ 12,552	\$ 97,520
Royalties	(20)	(3,070)	(349)	(15,531)
Interest income	1,842	51,388	32,326	243,335
	3,759	63,726	44,529	325,324
EXPENSES				
Operating expenses	3,544	8,159	12,383	26,225
General and administrative	293,074	407,453	829,338	1,111,375
Stock-based compensation (note 5)	88,296	407,935	448,612	2,365,235
Depreciation, depletion and accretion	6,822	11,120	20,130	62,733
Gain on reorganization of North Sea assets (note 4)	-	-	-	(614,544)
Foreign currency translation loss	3,948	-	1,222	-
	395,684	834,667	1,311,685	2,951,024
Loss before income taxes and non- controlling interest	(391,925)	(770,941)	(1,267,156)	(2,625,700)
Future income tax reduction	57,571	96,493	126,525	539,098
Loss before non-controlling interest	(334,354)	(674,448)	(1,140,631)	(2,086,602)
Non-controlling interest (note 4)	21,325	7,603	79,072	7,603
NET LOSS AND COMPREHENSIVE LOSS	(313,029)	(666,845)	(1,061,559)	(2,078,999)
DEFICIT, beginning of period	(14,458,575)	(11,721,118)	(13,710,045)	(10,308,964)
DEFICIT, end of period	\$(14,771,604)	\$(12,387,963)	\$(14,771,604)	\$(12,387,963)
Loss per share				
Basic and diluted (note 6)	\$ -	\$ (0.01)	\$ (0.01)	\$ (0.02)

See accompanying notes to the interim unaudited consolidated financial statements.

EXCELSIOR ENERGY LIMITED

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES				
Net loss for the period	\$ (313,029)	\$ (666,845)	\$ (1,061,559)	\$ (2,078,999)
Items not affecting cash				
Depreciation, depletion and accretion	6,822	11,120	20,130	62,733
Stock-based compensation	88,296	407,935	448,612	2,365,235
Future income tax reduction	(57,571)	(96,493)	(126,525)	(539,098)
Non-controlling interest	(21,325)	(7,603)	(79,072)	(7,603)
Gain on reorganization of North Sea assets	-	-	-	(614,544)
Foreign currency translation loss	3,948	-	1,222	-
	(292,859)	(351,886)	(797,192)	(812,276)
Changes in non-cash working capital items (note 7)	6,078	(44,766)	77,360	125,940
	(286,781)	(396,652)	(719,832)	(686,336)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES				
Expenditures on petroleum and natural gas properties	(215,547)	(403,090)	(8,779,187)	(11,659,794)
Expenditures on property and equipment	(2,236)	-	(41,497)	(2,656)
Changes in non-cash working capital items (note 7)	(236,230)	(198,285)	(2,321,706)	(1,280,448)
	(454,013)	(601,375)	(11,142,390)	(12,942,898)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES				
Issuance of share capital and warrants for cash	-	11,286,848	-	12,485,708
Share issue costs	-	(814,868)	-	(894,023)
Issuance of shares by subsidiary (note 4)	-	-	-	1,000,000
Changes in non-cash working capital items (note 7)	-	5,721	-	(2,259)
	-	10,477,701	-	12,589,426
CHANGE IN CASH AND CASH EQUIVALENTS	(740,794)	9,479,674	(11,862,222)	(1,039,808)
CASH and cash equivalents, beginning of period	2,626,629	5,329,166	13,748,057	15,848,648
CASH and cash equivalents, end of period	\$1,885,835	\$14,808,840	\$1,885,835	\$14,808,840
Cash and cash equivalents consist of				
Cash	\$ 35,835	\$ 558,840	\$ 35,835	\$ 558,840
Guaranteed Investment Certificates with Canadian chartered banks	1,850,000	14,250,000	1,850,000	14,250,000
	\$1,885,835	\$14,808,840	\$1,885,835	\$14,808,840

See accompanying notes to the interim unaudited consolidated financial statements.

EXCELSIOR ENERGY LIMITED

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE AND NINE MONTHS ENDED SEPTEMBER 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 \$1.9 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 Company, through its subsidiary Excelsior Energy North Sea Limited (“EENS”), holds licence P1500 in the United Kingdom Continental Shelf. 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. The Company has requested an extension to February 28, 2010 to provide additional time to obtain financing 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 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 September 30, 2009 and the results of its operations and cash flows for the three and nine months ended September 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 in note 2. 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.

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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.

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 with respect to the consolidated financial statements as at and for the year ended December 31, 2009.

3. PETROLEUM AND NATURAL GAS PROPERTIES

	September 30, 2009			December 31, 2008
	Cost	Accumulated Depletion and Depreciation	Net	Net
Canada	\$ 74,172,439	\$ 882,914	\$ 73,289,525	\$ 64,704,644
North Sea	2,090,249	1,536,519	553,730	359,424
	\$76,262,688	\$ 2,419,433	\$ 73,843,255	\$ 65,064,068

EXCELSIOR ENERGY LIMITED

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

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3. PETROLEUM AND NATURAL GAS PROPERTIES (continued)

For the nine month period ended September 30, 2009, the Company incurred capital expenditures of \$8,584,881 (December 31, 2008 - \$14,033,531) on the Hangingstone and Surmont properties and \$194,306 (December 31, 2008 - \$252,940) in the North Sea. No overhead charges have been capitalized to petroleum and natural gas properties.

Costs for unproven properties in the amount of \$73,843,255 (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 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 Black Scholes option pricing model using 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)
Balance September 30, 2009	143,060,590	\$75,553,629

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5. SHARE CAPITAL (continued)

(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	-	2.87%-3.35%
Expected life	-	0.5-5 years
Expected volatility	-	106%-122%
Dividend yield	-	0%

	Number of Options	Weighted Average Exercise Price
Balance December 31, 2008	9,061,289	\$0.25
Granted	-	-
Balance September 30, 2009	9,061,289	\$0.25

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

Exercise Price	Options Outstanding	Options Exercisable	Remaining Life (years)
\$1.05	83,333	83,333	1.4
0.20	1,092,956	1,092,956	1.2
0.45	500,000	500,000	2.4
0.40	450,000	450,000	2.5
0.50	75,000	50,000	3.3
0.38	350,000	233,333	3.5
0.43	250,000	166,667	3.6
0.46	1,935,000	1,290,000	3.7
0.10	4,325,000	1,441,667	4.2
Total	9,061,289	5,307,956	

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5. SHARE CAPITAL (continued)

(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)
Balance, September 30, 2009	-	-

(e) Contributed surplus

Balance, December 31, 2008	\$8,882,893
Stock-based compensation	448,612
Fair value of warrants expired	27,447
Balance, September 30, 2009	\$ 9,358,952

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 September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Basic and diluted weighted average number of common shares outstanding during the period	143,060,590	112,251,793	143,060,590	119,244,452

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 – 16,358,519) have been excluded from the calculation as these dilutive instruments are anti-dilutive in nature.

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7. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non cash working capital:

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Operating activities				
Accounts receivable	\$ 55,123	\$ (78,578)	\$ 380,650	\$ 115,962
Prepaid expenses and deposits	(37,259)	(63,722)	(65,340)	(33,213)
Accounts payable and accrued liabilities	(11,786)	97,534	(237,950)	43,191
	\$ 6,078	\$ (44,766)	\$ 77,360	\$ 125,940
Investing activities				
Accounts receivable	-	\$(18,074)	\$ 21,985	\$(51,761)
Accounts payable and accrued liabilities	\$(236,230)	(180,211)	(2,343,691)	(1,228,687)
	\$(236,230)	\$ (198,285)	\$(2,321,706)	\$(1,280,448)
Financing activities				
Accounts payable and accrued liabilities	-	\$ 5,721	-	\$ (2,259)
	-	\$ 5,721	-	\$ (2,259)

Interest income in the amount of \$9,143 and \$103,869 was received in the three and nine month periods ended September 30, 2009 (2008 - \$63,960 & \$203,882).

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 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. At September 30, 2009, the remaining obligation for the supplemental payment was approximately \$294,000.

The Company, through its subsidiary EENS, holds licence P1500 in the United Kingdom Continental Shelf. 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. The Company has requested an extension to February 28, 2010 to provide additional time to obtain financing 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 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

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8. COMMITMENTS AND CONTINGENCIES (continued)

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. Remaining payments are as follows:

2009	\$ 16,217
2010	43,243
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	\$ 59,460