

**EXCELSIOR ENERGY LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008**

The following discussion and analysis 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 audited consolidated financial statements for the years ended December 31, 2008 and 2007, together with the notes related thereto. The Company's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The information has been prepared effective April 22, 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 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 through its 75% owned subsidiary ENS Energy Ltd ("ENS"). The Company has two 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 a licence in two partial blocks in the UK North Sea. Excelsior also holds 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 from the North Sea.

During the later part of 2008, the world experienced a global financial crisis marked by volatility and instability in global financial markets. This activity has restricted access to capital markets for many companies. The depth of the global recession and timing of an economic recovery is still unpredictable. With uncertainty surrounding the return of normal and stable conditions in financial markets, Excelsior has prioritized its capital and funding requirements to preserve capital and re-allocate funds to activities which progress the Company to production and reserve valuations.

The Company confirmed resource potential at Hangingstone in 2008 and will focus efforts to develop this property. The Company has suspended plans to develop Hangingstone with steam assisted gravity drainage ("SAGD") technology in favour of a strategy to deploy a proprietary 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 diluents than that used in SAGD applications. The budget estimate for the experimental pilot project equates to approximately 10% of the cost of a 10,000 bpd SAGD project, reducing Excelsior's financing requirements for Hangingstone in 2011. 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. Regulatory authorities for the North Sea licence have extended the 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.

Excelsior's core drilling activity in 2007/2008 was predominately focused at Hangingstone drilling 26 of 35 total core wells and nine core wells at Surmont. The Company engaged McDaniel & Associates Consultants Limited ("McDaniels") to prepare an independent evaluation of bitumen resources ("the Report") at Hangingstone as of July 1, 2008 based on the results of the 2007/2008 winter drilling program. The Report confirmed the commercial potential of the Hangingstone Asset assigning 119 million barrels of contingent resources with a net present value before income tax discounted at 10% of \$178 million (\$1.24 per basic common share of the Company). Excelsior completed its 2008/2009 core drilling program in March 2009. The results of the drilling program achieved all the program objectives to support the COGD experimental project application at Hangingstone ("the Project Application") and further delineated three of five areas that encountered thick net bitumen pay during the Company's 2007/2008 winter drilling program. A 2D seismic infill program was completed at Hangingstone in October to assist in selecting optimum drilling locations. The Company drilled 29 core wells in the 2008/2009 program.

The Company is in the final stages of preparing an application for Project Application. The experimental project 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 is expected to be submitted to the Energy Resource and Conservation Board by June 30, 2009 with anticipated regulatory approval in approximately one year for the subsequent implementation and commissioning of the pilot in the first quarter of 2011. The Company requires funding for the development and production facilities. Success of funding would be dependent on market conditions at that time.

The Company drilled nine core wells at Surmont in the 2007/2008 winter drilling program. During 2008, Excelsior renegotiated the farmin agreement with its partner to extend the deadline to drill the remaining nine core wells by March 31, 2010 to earn a 75% working interest (currently 64.3% working interest). Additional financing will be required to drill these nine wells.

In April 2008, the Company restructured its holdings in Excelsior Energy North Sea Limited ("EENS") by exchanging all shares of EENS for shares in ENS Energy Ltd. ("ENS"), a newly incorporated Alberta private company. Subsequent to the restructuring ENS completed a private placement of common shares and common share purchase warrants for gross proceeds of \$1.0 million. 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 transaction provides the structure to execute an international strategy and adds value to assets which management believes were undervalued within Excelsior. By segregating the oil sands and North Sea assets, capital markets can be accessed for these opportunities independently.

EENS has license P1500 covering two part blocks, 16/1a and 16/6c in the UK North Sea. Seismic reprocessing has been completed and interpreted. A potential drilling location has been identified to test one of the prospects which is a step-out from an existing oil discovery drilled in 1992. The Company is required to commit to drill on the block by November 30, 2009, or relinquish the licence at no further cost. If ENS commits to drill on the block, drilling must occur prior to March 2011. The cost to drill is estimated to be approximately \$16.0 million. If a commitment is made to drill, ENS will provide the UK Department of Energy and Climate Change (“DECC”) with confirmation that they are able to fund and operate the drilling program. ENS’s success in funding the drilling commitment is dependent on market conditions. ENS is evaluating financing options including farm-out opportunities.

In March 2009 ENS was awarded licence P1691 for two new blocks in the UK North Sea at 16/1b and 16/2c in the UKCS 25th Licensing Round by DECC. These blocks are contiguous to ENS’s existing North Sea blocks.

The Company completed two equity financings in 2008 for gross proceeds of \$12,485,708. Excelsior has sufficient working capital at December 31, 2008 to fund the remainder of the 2008/2009 winter core drilling program at Hangingstone, submit an experimental COGD in situ pilot application and general corporate expenses to the end of 2010. Funding the COGD experimental pilot project, drilling nine core wells at Surmont and drilling activity in the North Sea will require additional financing. The recent global financial crisis has temporarily limited access to debt and equity markets for junior energy companies. There is no certainty the Company will be successful in financing its capital projects as planned, when required. Management continues to monitor financial markets to evaluate access to capital.

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 ANNUAL INFORMATION

	2008	2007	2006
Gas revenue	\$ 108,001	\$ 76,335	\$ 193,238
General and administrative expenses	1,537,808	1,232,441	1,844,323
Net loss and comprehensive loss	\$ (3,401,081)	\$ (4,941,321)	\$ (3,689,781)
Loss per share – basic and diluted	\$(0.03)	\$(0.07)	\$(0.25)
Cash flows used in operations	\$ (1,086,857)	\$ (1,023,540)	\$ (1,765,071)
Expenditures on petroleum and natural gas properties	\$ 11,591,620	\$ 42,554,517	\$ 2,465,010
Weighted average number of shares outstanding	119,986,718	65,768,355	158,036,063

RESULTS OF OPERATIONS

Gas revenue, royalties and operating costs

	2008	2007
Gas revenue	\$ 108,001	\$ 76,335
Royalties	(16,496)	(16,585)
Operating costs	(35,102)	(19,115)

Gas revenue is generated from a 27% working interest in a non-operated gas well at Hastings Alberta. The well averaged 36 mcf/d (net to Excelsior) for the year ended December 31, 2008 (2007 – 31 mcf/d) at an average price of \$8.16 per mcf (2007 - \$6.83/mcf). The property is non-core, non-operated and is experiencing greater than anticipated production declines with exit production at 15 mcf/d. Crown royalties of \$16,496 averaged 15% of revenues compared to \$16,585 in crown royalties averaging 21% of revenue in 2007. Operating costs of \$35,102 averaged \$2.65 per mcf compared to \$19,115 averaging \$1.71 per mcf in 2007. Depletion for the Hastings property was calculated at a rate of \$5.76 per mcf, totalling \$76,300 (2007 - \$3.85 per mcf).

Interest and other income

	2008	2007
Interest income	\$ 317,672	\$ 370,104
Gain on sale of marketable securities	-	4,660
Average cash deposit balance outstanding	\$ 9,842,000	\$ 8,703,000
Average effective interest rate	3.2%	4.3%

Interest income of \$317,672 in 2008 (2007 - \$370,104) was generated by funds held in short term deposits. Short term deposit balances were higher throughout 2008 derived by funds received from equity financings in 2008 and 2007, however the decrease in the effective interest rate resulted in lower interest income than 2007. In 2007 the Company sold its investment in a publicly-listed company for proceeds of \$6,670 and recorded a gain of \$4,660.

General and administrative expenses

	2008	2007
General and administrative expenses before overhead recoveries	\$ 1,696,521	\$ 1,250,612
Overhead recoveries	(158,713)	(18,171)
General and administrative expenses	\$ 1,537,808	\$ 1,232,441

General and administrative expenses were \$1,537,808 for the year ended December 31, 2008 compared to \$1,232,441 in 2007. The Company experienced higher general and administrative costs in 2008 for one additional staff member, increased salaries from annual performance reviews, investor relations services and higher professional and public company costs from resulting increase in corporate activity over 2007. Overhead recoveries in 2008 are derived from capital programs operated by Excelsior. Overhead fees are charged to the project based on standard industry rates that offset the administrative costs of being operator. General and administrative expenses were reduced by overhead recoveries in 2008 and 2007 predominantly from the 2007/2008 winter drilling program the Company operated.

Stock based compensation

	2008	2007
Stock based compensation	\$ 3,283,408	\$ 3,967,164

Stock based compensation was \$3,283,408 for the year ended December 31, 2008 and \$3,967,164 in 2007. Stock based compensation expense declined from the prior year primarily from stock option exercise prices being lower for new grants in 2008 than 2007 resulting in lower fair value estimates. The weighted average fair value of options expensed for the year ended December 31, 2008 was 33% lower than 2007.

Impairment of petroleum and natural gas properties

	2008	2007
Impairment of petroleum and natural gas properties	\$ 172,157	\$ 101,521

At December 31, 2008 the ceiling test assessment for impairment of the Hastings property resulted in a write-down of \$172,157 (2006 - \$101,521), representing the net book value of the property. Reserve volumes evaluated at December 31, 2008 declined 80% from December 31, 2007. The ceiling test impairment on this non core asset occurred as a result of poor well production performance. The Hastings property is non-core, generates nominal income and is not significant to the Company's oil sands focus. The write-down of this property has no impact on the Company's plans to explore and develop its oil sands properties.

Capital expenditures

	2008	2007
Hangingstone	\$ 9,473,250	\$ 14,964,637
Hangingstone – non-cash additions	-	18,213,697
Surmont	4,558,841	17,478,243
North Sea	252,940	29,129
Total additions	\$ 14,285,031	\$ 50,685,706

The Company incurred petroleum and natural gas properties expenditures of \$14.3 million in the year ended December 31, 2008. Costs incurred at Hangingstone in 2008 totalled \$9.4 million for drilling 24 of the 26 core wells during the winter core drilling program, commencement of a 2D seismic program in September and initial costs for the 2008/2009 winter drilling program. The 2008/2009 winter program was completed in March 2009 for a total of 55 delineation wells. Sufficient core drilling over the past two winter seasons has confirmed the resource potential at Hangingstone to support a project application for production.

Costs incurred at Hangingstone totalled \$33.2 million for land, seismic and part of the winter core drilling program in the year ended December 31, 2007. Excelsior's initial interest in the Hangingstone property was acquired pursuant to a farmin agreement. The farmin agreement required Excelsior to reimburse land and bonus costs of \$11.8 million, issue 8,647,359 common shares valued at \$7.9 million, undertake a seismic program for a cost of \$1.4 million and complete a 24 well drilling program budgeted at \$7.9 million in the winter of 2007/2008 to earn up to 52.5% working interest. At December 31, 2007, \$1.7 million was incurred for the winter drilling program. The drilling program was completed in March 2008 thereby fulfilling all the farmin obligations for Excelsior to earn its working interest in the property.

In addition to its initial interest, the Company undertook the acquisition of a private company ("PrivateCo"), also a participant in the farmin agreement, to acquire up to an additional 22.5% working interest at Hangingstone. PrivateCo also had \$1.2 million in working capital. The transaction contemplated the issuance of up to 16,000,000 common shares of Excelsior. At closing Excelsior issued 10,000,000 common shares to acquire all the common shares of PrivateCo. The acquisition was valued at \$11.1 million. Up to an additional 6,000,000 common shares of Excelsior may be issued upon certain reserves performance thresholds being met. Excelsior will issue 3,000,000 common shares to the shareholders of PrivateCo upon receiving an independent engineering evaluation which allocates and assigns to the Hangingstone Asset a value greater than 75,000,000 barrels of gross recoverable bitumen (100% project) in the NI 51-101 compliant probable and possible category by December 31, 2009. An additional 3,000,000 common shares will be issued to the shareholders of PrivateCo if Excelsior receives a NI 51-101 compliant evaluation assigning to the Hangingstone Asset a value greater than 150,000,000 barrels of gross recoverable bitumen (100% project) in the NI 51-101 compliant probable and possible category by December 31, 2010. As at December 31, 2008, the Company did not meet these performance thresholds and no common shares have been issued.

Costs at Surmont totalled \$4.5 million for the year ended December 31, 2008 for a total of nine core wells completed in the spring earning Excelsior 64.3% working interest. The Company entered into a farmin agreement to acquire 18 contiguous sections at Surmont in July 2007. Excelsior incurred \$17.5 million for land, seismic and pre-drilling costs for the 2007/2008 winter drilling program in the year ended December 31, 2007. In September 2007, the Company added to its contiguous land position at Surmont by acquiring one additional section (net 75% working interest). Excelsior can earn up to 75% working interest pursuant to the farmin agreement by drilling an additional nine wells before March 31, 2010. In addition to the earning obligations, the Company agreed to a supplemental payment by funding \$2,900,000 of the farmor's share of continuing operations at Hangingstone or Surmont by March 31, 2011. At December 31, 2008 the obligation under this supplemental payment totalled \$2,273,000. With completion of the 2008/2009 winter drilling program in March 2009, the obligation under the supplemental bonus is approximately \$300,000.

The Company incurred \$252,940 for costs to re-process and interpret seismic on the North Sea prospect pursuant to the licence requirements in 2008. Costs in 2007 related to the acquisition of the licence.

Asset retirement obligations

Asset retirement obligations increased to \$8,129 in 2008 from \$5,059 at December 31, 2007 as a result of accretion recorded for the year and an adjustment for a change in reserve life of the well from 14 to 3 years. 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, EENS. Excelsior incorporated a subsidiary 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. The balance of \$278,423 at December 31, 2008 represents the non-controlling interest's share of the net assets of ENS.

Income taxes

The Company recorded a future income tax liability of \$3,216,483 at December 31, 2008 (2007 – nil) resulting from the reduction in tax pools for the renunciation of \$16,425,800 of flow through expenditures in the first quarter of 2008. At December 31, 2008, the Company had non-capital losses totalling \$8,163,000 expiring between 2009 and 2028.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2008 the Company had working capital of \$11,479,198 (December 31, 2007 - \$14,337,806) which included \$13,748,057 of cash and cash equivalents (December 31, 2007 - \$15,848,648). 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 year ended December 31, 2008 was from funds received from the issue of common and flow through shares through private placement offerings that occurred throughout 2007 and 2008. In 2008, the Company completed two equity financings for gross proceeds of \$12,485,708. Excelsior completed three financings in 2007 for gross proceeds of \$45,308,650.

The recent global financial crisis has temporarily limited access to debt and equity markets for junior energy companies. This has prompted the Company to prioritize its capital and funding requirements to preserve capital and re-allocate funds to activities which progress the Company to production and reserve valuations. The Company will spend \$10.2 million at Hangingstone for the 2008/2009 core drilling program, and experimental project application during the 2008/2009 winter drilling season. Excelsior has sufficient working capital at December 31, 2008 for these programs. 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, when required and may experience delays in commencement of these projects if financing is not available at that time.

The Company incurred costs of \$225,000 for seismic re-interpretation and a feasibility study on licence P1500 in the North Sea in 2008. With the restructuring of its holding in ENS and completion of the June private placement financing in ENS, the Company had sufficient funds to

fulfill this obligation. The Company is required to commit to drill on the block by November 30, 2009, or relinquish the licence at no further cost. If ENS commits to drill on the block, drilling must occur prior to March 2011. The cost to drill is estimated to be \$16.0 million. If a commitment is made to drill, ENS will provide DECC with confirmation they are able to fund and operate the drilling program. ENS's success in funding the drilling commitment is dependent on market conditions. ENS is evaluating financing options including farm-out opportunities.

At April 22, 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 April 22, 2008. 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 December 31, 2008 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 \$11.5 million; however, the Company continues to incur operating losses, use cash resources to support operations and has flow through and drilling 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 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 which is contingent upon continuing operations at Surmont or Hangingstone. This supplemental payment can be satisfied by funding the farmor's 25% share of continuing operations on either property. At December 31, 2008 the obligation under the supplemental payment totalled \$2,273,000. With completion of the 2008/2009 winter drilling program in March 2009, the obligation under the supplemental bonus is approximately \$300,000.

Pursuant to a share purchase agreement with PrivateCo acquired by the Company in 2007, up to an additional 6,000,000 common shares of Excelsior may be issued to the shareholders of PrivateCo upon certain resources performance thresholds being met. Excelsior will issue 3,000,000 common shares to the shareholders of PrivateCo upon receiving an independent engineering evaluation which allocates and assigns to the Hangingstone Asset reserves greater

than 75,000,000 barrels of gross recoverable bitumen (100% project) in the NI 51-101 compliant probable and possible category by December 31, 2009. An additional 3,000,000 common shares will be issued to the shareholders of PrivateCo if Excelsior receives a NI 51-101 compliant evaluation assigning to the Hangingstone Asset reserves greater than 150,000,000 barrels of gross recoverable bitumen (100% project) in the NI 51-101 compliant probable and possible category by December 31, 2010. These performance thresholds were not met at December 31, 2008 therefore no common shares were issued.

The Company has commitments to incur and renounce \$16,425,800 of eligible expenditures by December 31, 2008 and \$9,237,766 of eligible expenditures by December 31, 2009. As at December 31, 2008, the Company had incurred approximately \$18,080,000 of eligible expenditures. The remaining \$7,583,566 of eligible expenditures to be incurred by December 31, 2009 are expected to be satisfied with the 2008/2009 winter drilling program at Hangingstone.

Excelsior, through its subsidiary EENS, was successful in the 24th Offshore UK Licensing Round in February, 2007, and was awarded license P1500 covering two part blocks, 16/1a and 16/6c in the UK North Sea. 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. 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 this drilling commitment. ENS is evaluating financing options including farm-out opportunities.

The Company has committed to leasing office space in the aggregate amount of \$108,108 over the next two years (2009 - \$64,865; 2010 - \$43,243).

The Company has not entered into any off balance sheet transactions.

SUBSEQUENT EVENTS

The Board of Directors of ENS Energy Ltd. approved the grant of 1,600,000 stock options to purchase common shares of ENS exercisable at \$0.25 per share in February 2009.

The Company, through its subsidiary EENS, was awarded licence P1691 in the 25th bid round in the UKCS. EENS is required to acquire and reprocess seismic over the following two years and elect to drill an exploratory well by March 31, 2011 or relinquish the licence.

RELATED PARTY TRANSACTIONS

The Company utilizes the services of a law firm of which a director of the Company is a partner. During the year ended December 31, 2007, the Company recorded \$35,851 as share issue costs and \$2,815 in general and administrative expenses for legal fees with this firm.

The Company utilizes the services of a law firm of which a former officer of the Company is a partner. During the year ended December 31, 2007, the Company recorded \$23,411 in general and administrative expenses and \$14,207 in share issue costs for legal fees with this firm.

These transactions were in the normal course of business and were measured at the exchange amount agreed to by both the parties.

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 2008.

As of January 1, 2008 the Company adopted new CICA Handbook requirements, Section 3862, *Financial Instruments – Disclosures*, Section 3863, *Financial Instruments – Presentations* regarding the Company's financial instruments and Section 1535, *Capital Disclosures*, regarding capital management.

Section 3862 requires increased disclosure regarding the Company's financial instruments, the risks associated with these instruments and how the risks are managed. Section 3863 new presentation standard carries forward the former presentation requirements. The required disclosures are contained in Note 12 to the Company's consolidated financial statements.

Section 1535 – *Capital Disclosures*, requires the Company to disclose its definition of capital and its objectives, policies and processes for managing its capital structure. The required disclosures are contained in Note 10 to the Company's 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 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 is currently evaluating the impact these sections will have on its results of operation and financial position.

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 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

The oil sands industry is faced with the challenge of operating during a global financial crisis, global recession, and volatile oil prices. The timing of an economic recovery is uncertain. Excelsior has addressed the uncertainty by re-allocating funds to its Hangingstone asset and employing a COGD technology which could improve bitumen recovery economics compared to SAGD applications. The Company is fully funded to complete its operations at Hangingstone, submit its Project Application, and cover ongoing general administration and public company costs to the end of 2010. Management continues to monitor financial markets during this period to evaluate access to capital. A return to more favorable and stable capital market conditions would signal an opportunity to finance further appraisal and development of its Hangingstone and Surmont properties beyond 2009.

Excelsior has completed the 2008/2009 winter drilling program. Planning and engineering studies for the Project Application have commenced. Excelsior has engaged an Environmental Consultant and Submission Coordinator to complete an environmental impact assessment at Hangingstone. A water source has been identified within the focus area and mapped using well and seismic data. A flow test has been conducted over the water source aquifer as part of the winter drilling program. A cap rock integrity evaluation has commenced with an evaluation of wellbore image logs across the seal formation. The cap rock integrity will be confirmed by core tests obtained in December as part of the drilling program. Excelsior has engaged an engineering company with extensive oil sands and SAGD experience to prepare the front end engineering and design for Project Application. This contractor expects to finalize the project submission by June 30, 2009 when the results of the winters drilling information have been integrated.

Seismic reprocessing on licence P1500 in the UK North Sea has been completed and interpreted. A potential drilling location has been identified to test one of the prospects which is a step-out from an existing oil discovery drilled in 1992. The Company is required to commit to drill on the block by November 30, 2009, or relinquish the licence at no further cost. The cost to drill is estimated to be approximately \$16.0 million. ENS is evaluating financing options including farm-out opportunities to fund drilling costs.

ENS was awarded licence P1691 for two new blocks in the UK North Sea at 16/1b and 16/2c in the UKCS 25th Licensing Round by DECC in March 2009. These blocks are contiguous to ENS's existing North Sea blocks. The licence requires seismic reprocessing and interpretation on the blocks over the next two years.

SUMMARY OF QUARTERLY RESULTS

Selected Quarterly Information

Three months ended	Dec. 31, 2008	Sept. 30, 2008	June 30, 2008	Mar. 31, 2008
Gas sales	\$ 10,481	\$ 15,408	\$ 45,074	\$ 37,038
Stock based compensation expense	(918,173)	407,935	1,165,507	791,793
General and administrative expense	426,433	407,453	424,894	279,028
Cash provided by (used in) operating activities	(405,378)	(396,652)	117,474	(407,158)
Net loss and comprehensive loss	\$ (1,326,939)	\$ (666,845)	\$ (834,659)	\$ (577,495)
Loss per share – basic and diluted	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)

Three months ended	Dec. 31, 2007	Sept. 30, 2007	June 30, 2007	Mar. 31, 2007
Gas sales	\$ (22)	\$ 16,537	\$ 27,866	\$ 31,954
Stock based compensation expense	876,511	2,902,285	91,006	97,362
General and administrative exp.	420,607	316,607	258,786	236,441
Cash used in operating activities	(264,983)	(190,641)	(354,183)	(218,393)
Net loss and comprehensive loss	\$ (1,287,057)	\$ (3,030,554)	\$ (319,607)	\$ (304,103)
Loss/share	(\$0.01)	(\$0.03)	(\$0.01)	(\$0.01)

Fourth quarter 2008 results

Three months ended December 31	2008	2007
Gas revenue	\$ 10,481	\$ (22)
General and administrative expense	426,433	420,607
Stock based compensation expense	918,173	876,511
Net loss and comprehensive loss	\$ (1,326,939)	\$ (1,287,057)

Production from the gas well at Hastings averaged 17 mcf/d (net to Excelsior) for the three month period ended December 31, 2008 at an average price of \$6.92 per mcf. Gas production was shut in for the majority of the fourth quarter in 2007. A major workover was completed on the well in December, 2007 and production commenced late in the quarter. The Hastings property is non-core, generates nominal income and is not significant to the Company's oil sands focus.

General and administrative expenses in both 2008 and 2007 were higher than expected due to onetime charges. In 2008 the Company determined a receivable to be uncollectible in the amount of \$30,000 and in 2007 costs for listing on the TSX Venture Exchange were incurred. The Company anticipates general and administrative expenses to average \$390,000 per quarter in 2009.

Stock based compensation increased from the prior quarter predominantly due to the cancellation of 4,477,710 stock options originally granted in 2007. An amount of \$746,000 representing the unamortized portion of the initial fair value of this grant was expensed in the three month quarter ended December 31, 2008. The weighted average fair value of options expensed for the three month period ended December 31, 2008 was 91% lower than 2007 excluding the effect of the cancelled options.