

**EXCELSIOR ENERGY LIMITED  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007**

The following discussion and analysis is management's opinion of Excelsior Energy Limited's ("Excelsior" or the "Company") historical financial and operational results and should be read in conjunction with the interim consolidated financial statements for the three and nine month periods ended September 30, 2008 and 2007, together with the notes related thereto. The Company's financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The information has been prepared effective November 26, 2008.

**FORWARD-LOOKING STATEMENTS**

Certain statements contained in this management discussion and analysis ("MD&A") include statements which contain words such as "anticipate", "could", "should", "expect", "seek", "may", "intend", "likely", "will", "believe" and similar expressions, statements relating to matters that are not historical facts, and such statements of our beliefs, intentions and expectations about development, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and are based on certain assumptions and analysis made by us derived from our experience and perceptions. Forward-looking information in this MD&A includes, but is not limited to: future oil and gas prices and well production performance, exploitation and exploration successes, continued availability of capital and financing, and general economic, market or business conditions.

Actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do, what benefits will be derived there from. Except as required by law, Excelsior disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

The forward-looking information contained herein is expressly qualified by this cautionary statement.

**OVERVIEW**

Excelsior is active in oil sands exploration and appraisal in Alberta and oil exploration and appraisal in the UK North Sea through its 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 confirmed resource potential at Hangingstone in 2008 and will focus efforts to develop this property with production targeted for 2011.

During the quarter ended September 30, 2008 the world witnessed a global financial crisis marked by unprecedented volatility and instability in global financial markets. This activity has restricted access to capital markets at the current time for most companies. The depth of the global recession and timing of an economic recovery is still uncertain. In October 2008, Monetary Policy Report published by The Bank of Canada stated that “growth in Canada will be sluggish through the first quarter of next year, then pick up over the rest of 2009 and accelerate to above potential growth in 2010.” With uncertainty surrounding the return of normal and stable conditions in financial markets, Excelsior has prioritized its capital and funding requirements for the next 12-18 months to preserve capital and re-allocate funds to activities which progress the Company to production and reserve valuations.

Excelsior’s core drilling activity in 2007/2008 was predominately focussed at Hangingstone. The Company engaged McDaniel & Associates Consultants Limited (“McDaniels”) to prepare an independent evaluation of bitumen resources (“the Report”) at Hangingstone based on the results of the 2007/2008 winter drilling program. The Report, dated July 1, 2008, 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 has reduced its core drilling program in 2008/2009 to drill the core wells necessary to support a 10,000 bopd SAGD demonstration project application at Hangingstone (“the Project Application”). The Project Application is expected to be submitted to the Energy Resource and Conservation Board by June 30, 2009.

The Surmont Asset is in an earlier stage of exploration. Further exploration activity on the property has been delayed until the 2009/2010 winter drilling season. The Company renegotiated the farmin agreement with its partner to extend the deadline to complete its earning obligations. The Company has nine core wells to complete its earning obligations for its 75% working interest.

In August 2008 the Company announced an equity financing to fund the 2008/2009 winter drilling program. The financing was completed on September 3, 2008 for gross proceeds of \$11,286,848. The proceeds from this financing contributed to working capital of \$14,454,765 at September 30, 2008. The Company is fully funded for the Hangingstone seismic, drilling and Project Application related work. Excelsior therefore does not anticipate a requirement for financing over the next 12 months. Management will continue to monitor financial markets during this period to evaluate access to capital.

Excelsior has commenced operations for the 2008/2009 winter drilling program to delineate the focus area identified for the Project Application in the south eastern portion of the Hangingstone asset. A 2D seismic infill program was completed at Hangingstone in October to assist in selecting optimum drilling locations. The drilling program will consist of up to 32 core wells. Well site surveying and site preparation are underway and two drilling rigs will be deployed in the first week of December. A 3D seismic program is planned in the focus area to further define the geometry of the reservoir sands and to support engineering studies and the placement of SAGD well pair production wells.

Planning and engineering studies for the Project Application has commenced. Excelsior has engaged an Environmental Consultant and Submission Coordinator to complete an environmental impact assessment at Hangingstone.

- i. The environmental work commenced in August and will continue through the winter and spring. Constraint mapping was completed in October for the proposed site of the SAGD central processing facility.
- ii. A water source has been identified within the focus area and mapped using well and seismic data. Existing well data indicates that the water is saline and likely available for industrial use. The water source aquifer will be flow tested in December 2008 as part of the winter drilling program.
- iii. A cap rock integrity evaluation has commenced with an evaluation of wellbore image logs across the seal formation. This work indicates that the cap rock shales are thick (50 – 70 meters) with very few natural fractures indicating cap rock integrity to be high. This will be confirmed by core tests which will be obtained in December as part of the drilling program.
- iv. Excelsior has engaged an engineering company with extensive oil sands and SAGD experience to prepare the front end engineering and design for the development project application. This contractor expects to finalize the Project Application in Q2 2009 when the results of the 2008/2009 drilling program have been evaluated.

Approval of the Project Application is expected in 2010. Development drilling and construction of the Hangingstone facilities would target production to commence in 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, through its subsidiary ENS, has one license covering two part blocks, 16/1a and 16/6c in the UK North Sea. Seismic reprocessing has been completed and interpreted. A number of prospects have been identified and mapped in Eocene and Palaeocene aged sand reservoirs which are productive in the neighbouring West Brae Field. 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. ENS completed a private placement of common shares and common share purchase warrants for gross proceeds of \$1.0 million in June 2008. The proceeds were used to fund the seismic reprocessing and interpretation. The Company is required to commit to drill on the block by March 31, 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 they are able to fund and operate the drilling program. ENS’s success in funding the drilling commitment is dependent on market conditions. If financing is not obtained, ENS may relinquish the licence at no further cost. ENS is evaluating financing options including farm-out opportunities.

ENS has been awarded two new blocks in the UK North Sea at 16/1b and 16/2c in the UKCS 25<sup>th</sup> Licensing Round by DECC. These blocks are contiguous to ENS’s existing North Sea blocks.

The Company's strategy is to capture oil and gas appraisal and development opportunities where it can leverage management's diverse international experience and field development expertise. This includes heavy oil reservoir engineering and development of complex fields. The scale of the oil sands resource opportunity in Alberta complements Excelsior's international portfolio.

Shares of the Company trade on the TSX Venture Exchange under the trading symbol ELE.

### THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

#### Selected Information

	Nine Months Ended Sept 30		Three Months Ended Sept 30	
	2008	2007	2008	2007
Gas revenue	\$ 97,520	\$ 76,357	\$ 15,408	\$ 16,537
General and administrative expenses	1,111,375	811,834	407,453	316,607
Net and comprehensive loss	(2,078,999)	(3,654,264)	(666,845)	(3,030,554)
Loss/share	(\$0.02)	(\$0.07)	(\$0.01)	(\$0.03)
Cash flows used in operations	(686,336)	(763,217)	(396,652)	(190,641)
Expenditures on petroleum and natural gas properties	\$11,659,794	\$28,412,026	\$ 403,090	\$ 19,457,407
Weighted average number of shares outstanding	112,251,793	54,812,486	119,244,452	93,971,291

#### *Gas sales, royalties and operating costs*

	Nine Months Ended Sept 30		Three Months Ended Sept 30	
	2008	2007	2008	2007
Gas sales	\$ 97,520	\$ 76,357	\$ 15,408	\$ 16,537
Royalties	(15,531)	(16,830)	(3,070)	(2,894)
Operating expenses	(26,225)	(10,721)	(8,159)	(2,456)

Excelsior has a 26.66% working interest in a non-operated gas well located in the Hastings area of Alberta. The gas well averaged 43 mcf/d (net to Excelsior) for the nine month period ended September 30, 2008 (2007 – 41 mcf/d). Gas prices averaged \$8.32 per mcf (2007 - \$6.87 per mcf) contributing to the increase in gas revenue in 2008 over the prior period. Crown royalties of \$15,531 averaged 16% of revenue (2007 – 22%). Operating costs of \$26,225 averaged \$2.24 per mcf (2007 - \$0.96 per mcf). Depletion for the Hastings property was calculated at a rate of \$4.72 per mcf in 2008 totalling \$55,300 (2007 - \$3.11 per mcf, totalling \$34,600).

For the three months ended September 30, 2008 the Hastings gas well produced approximately 21 mcf/d (2007 – 29 mcf/d) at an average price of \$7.90 per mcf (2007 - \$6.12 per mcf). Crown royalties of \$3,070 averaged 20% of revenue (2007 – 18%). Operating costs of \$8,159 averaged \$4.18 per mcf (2007 - \$0.88 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 (2007 - \$3.11 per mcf, totalling \$8,400).

### *Interest and other income*

	Nine Months Ended Sept 30		Three Months Ended Sept 30	
	2008	2007	2008	2007
Interest income	\$ 243,335	\$ 238,361	\$ 51,388	\$ 188,683
Gain on sale of marketable securities	-	4,660	-	
Interest and other income	\$ 243,335	\$ 243,021	\$ 51,388	\$ 188,683

Interest income for all periods was interest income generated by funds held in short term deposits. The majority of the Company's cash and cash equivalents is held in short term guaranteed investment certificates issued by a major Canadian bank.

In addition to interest income for the nine months ended September 30, 2007, a gain of \$4,660 was realized on the sale of marketable securities.

### *General and administrative expenses*

	Nine Months Ended Sept 30		Three Months Ended Sept 30	
	2008	2007	2008	2007
General and administrative expenses before overhead recoveries	\$ 1,237,885	\$ 811,834	\$ 414,583	\$ 316,607
Overhead recoveries	(126,510)	-	(7,130)	-
General and administrative expenses	\$ 1,111,375	\$ 811,834	\$ 407,453	\$ 316,607

General and administrative expenses were \$1,111,375 for the period ended September 30, 2008 compared to \$811,834 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 from the winter drilling program the Company operated in 2007/2008. These circumstances reflect the same increase in general and administrative expenses of \$407,453 for the three month period ended September 30, 2008 compared to \$316,607 in 2007.

### *Stock based compensation*

	Nine Months Ended Sept 30		Three Months Ended Sept 30	
	2008	2007	2008	2007
Stock based compensation	\$ 2,365,235	\$ 3,090,653	\$ 407,935	\$ 2,902,285

Stock based compensation was \$2,365,235 in the nine month period ended September 30, 2008 and \$3,090,653 in 2007. Stock based compensation expense has declined from the prior period primarily from stock option exercise prices being lower for new grants in 2008 than 2007

resulting in lower fair values estimated. The weighted average fair value of options expensed for the nine months ended September 30, 2008 was 24% lower than the same period in 2007.

Similarly, in the three month period ended September 30, 2008 the weighted average fair value of options expensed was 46% lower than the same period in 2007. Contributing further to the decline of stock based compensation expense in the three month period ended September 30, 2008 was 1.7 million fewer options vesting than the same period in 2007.

### *Capital expenditures*

	Nine Months Ended Sept 30		Three Months Ended Sept 30	
	2008	2007	2008	2007
Petroleum and natural gas properties – cash additions	\$ 11,659,794	\$ 28,412,026	\$ 403,090	\$ 19,457,407
Petroleum and natural gas properties – non-cash additions	-	13,413,697	-	5,099,602
Total capital expenditures	\$ 11,659,794	\$41,825,723	\$ 403,090	\$ 24,557,009

The Company incurred petroleum and natural gas properties expenditures of \$11.7 million in the nine months ended September 30, 2008. 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 Surmont totalled \$4.5 million for the nine core wells completed in the spring. The Company also incurred \$182,057 for costs to re-process and interpret seismic on the North Sea prospect in 2008.

In 2007 the Hangingstone property was acquired for land, bonus costs and seismic of \$12.0 million and by issuing 19,147,359 common shares valued at \$13.4 million. Additionally a seismic program was undertaken for \$1.4 million to assist in identifying drilling locations for the 2007/2008 winter drilling program. Excelsior incurred \$15.0 million at Surmont for land, bonus consideration, seismic and pre-drilling expenses.

Expenditures in the quarter ended September 30, 2008 were for completion of the core analysis and lease clean up at Hangingstone and Surmont. In addition, costs were incurred at Hangingstone for a 2D seismic program at Hangingstone which commenced in September and pre-drilling costs associated with planning the 2008/2009 drilling program. Data derived from the 2D seismic program will assist in selecting core drilling locations for the 2008/2009 drilling program.

Expenditures in the quarter ended September 30, 2007 were for land, bonus costs and pre-drilling expenditures of \$4.5 million at Hangingstone and \$15.0 at Surmont. In addition the Company issued 10,000,000 common shares valued at \$5.1 million relating to the acquisition of a private company with an interest in the Hangingstone property.

### ***Asset retirement obligations***

Asset retirement obligations increased to \$5,344 in 2008 from \$5,059 at December 31, 2007 as a result of accretion recorded for the nine months ended September 30, 2008. The asset retirement obligation represents the estimate for, and accumulated accretion of, the 26.66% working interest in one well at Hastings, Alberta.

### ***Non-controlling interest***

In April 2008 the Company restructured its holding in its subsidiary, Excelsior Energy North Sea Limited (“EENS”). Excelsior incorporated a subsidiary ENS 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 reduction of petroleum and natural gas properties of \$87,068, relating to the Company’s North Sea assets. The balance of \$290,785 at September 30, 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 \$3,343,846 at September 30, 2008 (2007 – nil) mostly 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 September 30, 2008 the Company had non-capital losses totalling \$7,536,000 expiring between 2009 and 2027.

## **LIQUIDITY AND CAPITAL RESOURCES**

At September 30, 2008 the Company had working capital of \$14,454,765 (December 31, 2007 - \$14,337,806) which included \$14,808,840 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 nine month period ended September 30, 2008 was from funds received from the sale of common shares through private placement offerings that occurred throughout 2007 and 2008. Excelsior completed three financings in 2007 for gross proceeds of \$45,308,650. In 2008, the Company completed two equity financings for gross proceeds of \$12,485,708.

At November 26, 2008, Excelsior had 143,060,590 common shares outstanding.

There are 9,313,999 stock options and 794,520 warrants to purchase common shares of the Company as of November 26, 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 September 30, 2008 the Company had no debt or credit facilities.

The recent global financial crisis has prompted the Company to prioritize its capital and funding requirements for the next 12-18 months to preserve capital and re-allocate funds to activities which progress the Company to production and reserve valuations. Excelsior has delayed further exploration on the Surmont property until the 2009/2010 winter season. The Company will spend \$11.5 million at Hangingstone for the core drilling, seismic and development project application during the 2008/2009 winter drilling season. Excelsior has sufficient working capital at September 30, 2008 for these programs. Excelsior therefore does not anticipate a requirement for financing over the next 12 months. Management continues to monitor financial markets during this period to evaluate access to capital.

The Company is obligated to complete seismic re-interpretation and a feasibility study on the North Sea asset in 2008, budgeted to be \$200,000. With the restructuring of its holding in ENS and completion of the June private placement financing in ENS, the Company has sufficient funds to fulfill this obligation. The Company is required to commit to drill on the block by March 31, 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. If financing is not obtained, ENS may relinquish the licence at no further cost. ENS is evaluating financing options including farm-out opportunities.

## **COMMITMENTS, CONTINGENCIES, CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET ARRANGEMENTS**

The Company's obligation at September 30, 2008 at Surmont is to complete a nine well core drilling program by March 31, 2010 pursuant to a farm-in agreement. The Company also agreed to fund \$2.9 million of the farmor's 25% share of continuing operations, contingent upon successful drilling results and the parties' agreement to continue operations by March 31, 2011. The Company plans to drill nine wells in the 2009/2010 winter drilling season and, upon successful drilling results, will pay \$2.9 million in ongoing work commitments to fulfill the remaining earning obligations. Funding for the drilling program in 2009/2010 and payment of the \$2.9 million in ongoing work commitments will require Excelsior to obtain equity financing. Excelsior's ability to raise equity financing will be subject to market conditions at that time. If Excelsior is unable to fund this obligation its working interest will remain at 53.7%.

Pursuant to a share purchase agreement with a private company ("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 September 30, 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 September 30, 2008, the Company had incurred approximately \$15,711,000 of eligible expenditures. Excelsior completed a 2D seismic program in October 2008 and will incur pre-drilling costs at Hangingstone before December 31, 2008 to satisfy \$714,800 of eligible expenditures for the remaining flow through commitments that must be spent by December 31, 2008. The \$9,237,766 of eligible expenditures to be incurred by December 31, 2009 are expected to be satisfied with the 2008/2009 winter drilling and 3D seismic program at Hangingstone.

Excelsior was successful in the 24<sup>th</sup> Offshore UK Licensing Round in February, 2007, and was awarded one license covering two part blocks, 16/1a and 16/6c in the UK North Sea. The Company is obligated to complete seismic re-interpretation and a feasibility study in 2008 budgeted to be \$225,000. With the restructuring of its holding in ENS and completion of the private placement financing in ENS, the Company has sufficient funds to fulfill this obligation.

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

## **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.

## **NEW ACCOUNTING POLICIES**

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 Notes 8 and 9 to the Company's interim unaudited 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 7 to the Company's interim unaudited consolidated financial statements.

## **RELATED PARTY TRANSACTIONS**

The Company utilizes the services of a law firm of which a director of the Company is a partner. During the three and nine month periods ended September 30, 2007 the Company expended \$35,851, recorded in share capital as share issue costs, in legal fees with this firm.

The Company utilized the services of another law firm of which a former officer of the Company is a partner. During the nine month period ended September 30, 2007 the Company expended \$23,147 recorded in general and administrative expenses, \$16,337 in share capital for share issue costs and \$15,047 in petroleum and natural gas properties in legal fees with this firm. During the three month period ended September 30, 2007 there were no fees paid to this firm.

## **IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS**

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 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 hopes 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, by June 30, 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, 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 for the next 12-18 months. The Company has re-allocated funding to the Hangingstone property and has delayed further exploration at Surmont. This shift will preserve capital and re-allocate funds to activities which progress the Company to production and reserve valuations. The Company does not anticipate equity financing will be required in the next 12 months. Funding for the ongoing capital requirements associated with oil sands exploration and development beyond 2009 will primarily be from equity and project 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 SAGD development plans.

## OUTLOOK

The oil sands industry is faced with the challenge of operating during a global financial crisis, global recession, and unstable 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 to preserve capital and progress the Company to reserve assignment and production of its oil sands resource. The Surmont exploration program has been deferred to the 2009/2010 drilling season. These measures ensure the Company is fully funded to complete its operations at Hangingstone, submit its Project Application, and cover ongoing general administration and public company costs into early 2010 without further equity financing. 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.

Commercial potential has been identified on the Hangingstone Asset as confirmed in The Report prepared by McDaniels. Excelsior has reduced its core drilling program in 2008/2009 to drill the core wells necessary to support a Project Application at Hangingstone. The Project Application is expected to be submitted to the Energy Resource and Conservation Board by June 30, 2009.

Excelsior is currently planning the 2008/2009 winter drilling program to delineate the focus area identified for the Project Application in the south eastern portion of the Hangingstone Asset. A 2D seismic infill program was completed at Hangingstone in October to assist in selecting optimum drilling locations. The winter drilling program will consist of up to 32 core wells. Wellsite surveying and site preparation are underway and two drilling rigs will be deployed in the first week of December. A 3D seismic program is planned in the focus area to further define the geometry of the reservoir sands and to support engineering studies and the placement of SAGD well pair production wells.

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. The environmental work commenced in August and will continue through the winter and spring. A water source has been identified within the focus area and mapped using well and seismic data. A flow test will be 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 in Q2 2009 when the results of the winter drilling information have been integrated.

Seismic reprocessing on the licenced area in the UK North Sea has been completed and interpreted. A number of prospects have been identified and mapped in Eocene and Palaeocene aged sand reservoirs which are productive in the neighbouring West Brae Field. 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 March 31, 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 has been awarded two new blocks in the UK North Sea at 16/1b and 16/2c in the UKCS 25<sup>th</sup> Licensing Round by DECC. 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	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 expense	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 per share – basic and diluted	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)

Three Months Ended	Sept. 30, 2007	June 30, 2007	Mar. 31, 2007	Dec. 31 2006
Gas sales	\$ 16,537	\$ 27,866	\$ 31,954	\$ 8,900
Stock based compensation expense	2,902,285	91,006	97,362	-
General and administrative exp.	316,607	258,786	236,441	444,953
Cash used in operating activities	(190,641)	(354,183)	(218,393)	(442,483)
Net loss and comprehensive loss	\$ (3,030,554)	\$ (319,607)	\$ (304,103)	\$ (2,296,200)
Loss/share	(\$0.03)	(\$0.01)	(\$0.01)	(\$0.08)

## DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management, as appropriate, to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of September 30, 2008 that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to them by others within those entities. There have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **ADDITIONAL INFORMATION**

Additional information about Excelsior and its business activities is available on SEDAR at [www.sedar.com](http://www.sedar.com).