

XXL ENERGY CORP.

Unaudited Condensed Interim Consolidated Financial Statements For the Nine Months Ended September 30, 2018 and 2017 (Expressed in US Dollars)

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Notice of No Auditor Review of Interim Financial Statements

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102, Part 4, subsection 4.3(3) released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed interim consolidated financial statements as at and for the nine months ended September 30, 2018 and 2017.

XXL Energy Corp.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited - Prepared by Management)

(Expressed in US dollars)

		As at September 30, 2018	As at December 31, 2017
ASSETS			
Current assets			
Cash		\$ 78,256	\$ 86,076
Accounts receivable	7	88,396	21,982
Prepaid expenses		739	762
		167,391	108,820
Non-current assets			
Reclamation bond	10	25,000	25,000
Exploration and evaluation assets	8	137,851	137,851
Developed and producing properties	8	12,886,664	235,913
		\$ 13,216,906	\$ 507,584
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 876,946	\$ 410,856
Loans payable to related parties	12	25,056,334	13,844,847
Due to related parties	13	1,278,442	1,248,061
		27,211,722	15,503,764
Non-current liabilities			
Loans payable to related party	12	376,405	309,159
Decommissioning obligations	9	334,093	334,093
		27,922,220	16,147,016
SHAREHOLDERS' DEFICIENCY			
Capital stock	11	85,314,772	85,314,772
Contributed surplus	12	143,167	143,167
Translation reserve		1,264,194	1,041,196
Deficit		(101,427,447)	(102,138,567)
		(14,705,314)	(15,639,432)
		\$ 13,216,906	\$ 507,584

The accompanying notes are an integral part of these condensed interim consolidated financial statements

Approved on behalf of the Board:

"Alistair Palmer"

Director

"Fletcher FitzGibbon"

Director

XXL Energy Corp.

Condensed Interim Consolidated Statements Operations and Comprehensive Income (Loss)

(Unaudited - Prepared by Management)

(Expressed in US dollars)

	Notes	For the nine months ended September 30, 2018	For the three months ended September 30, 2018	For the nine months ended September 30, 2017	For the three months ended September 30, 2017
Revenue					
Petroleum and natural gas sales		\$ 4,362,494	\$ 4,307,967	\$ 100,440	\$ 28,044
Direct Operating Expenses					
Operating		1,536,098	1,490,054	65,448	22,104
Depletion and depreciation	8	4,500	1,500	5,400	1,800
		1,540,598	1,491,554	70,848	23,904
Operating Income (loss)					
		2,821,896	2,816,413	29,592	4,140
General and Administrative Expenses					
Finance	12	1,944,070	983,518	1,220,059	428,026
General and administrative fees	13	75,223	23,957	74,508	26,305
Foreign exchange (gain) loss		23,292	(13,466)	(51,099)	(27,633)
Professional fees		42,618	14,553	4,182	3,172
Filing and transfer agent fees		15,088	2,584	10,787	2,389
Director and officer fees	13	10,485	3,443	12,238	3,619
		2,110,776	1,014,589	1,270,675	435,878
Net Income (Loss) for the Period					
		711,120	1,801,824	(1,241,083)	(431,738)
Other Comprehensive Income (Loss)					
Items that may be reclassified subsequently to profit or loss					
Foreign exchange gain on translating foreign operations		222,998	(125,979)	(475,300)	(261,785)
Total Comprehensive Income (Loss) for the Period					
		\$ 934,118	1,675,845	(1,716,383)	(693,523)
Basic and Diluted Loss Per Share					
		\$ 0.10	\$ 0.25	\$ (0.17)	\$ (0.06)
Weighted Average Number of Common Shares Outstanding					
		7,252,943	7,252,943	7,252,943	7,252,943

The accompanying notes are an integral part of these condensed interim consolidated financial statements

XXL Energy Corp.

Condensed Interim Consolidated Statements of Changes in Shareholders' Deficiency

For the nine month period ended September 30, 2018 and 2017

(Unaudited - Prepared by Management)

(Expressed in US dollars)

	Capital Stock		Contributed Surplus	Translation Reserve	Deficit	Total
	Number of Shares	Amount				
Balance as at December 31, 2016	7,252,943	\$ 85,314,772	\$ 185,780	\$ 1,484,739	\$ (100,559,011)	\$ (13,573,720)
Foreign exchange gain on translating foreign operations	-	-	-	(475,300)	-	(475,300)
Net loss for the period	-	-	-	-	(1,241,083)	(1,241,083)
Balance as at September 30, 2017	7,252,943	\$ 85,314,772	\$ 185,780	\$ 1,009,439	\$ (101,800,094)	\$ (15,290,103)

	Capital Stock		Contributed Surplus	Translation Reserve	Deficit	Total
	Number of Shares	Amount				
Balance as at December 31, 2017	7,252,943	\$ 85,314,772	\$ 143,167	\$ 1,041,196	\$ (102,138,567)	\$ (15,639,432)
Foreign exchange loss on translating foreign operations	-	-	-	222,998	-	222,998
Net income (loss) for the period	-	-	-	-	711,120	711,120
Balance as at September 30, 2018	7,252,943	\$ 85,314,772	\$ 143,167	\$ 1,264,194	\$ (101,427,447)	\$ (14,705,314)

The accompanying notes are an integral part of these condensed interim consolidated financial statements

XXL Energy Corp.

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited - Prepared by Management)

(Expressed in US dollars)

	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Cash Provided by (Used in):		
Operating Activities		
Net income (loss) for the period	\$ 711,120	\$ (1,241,083)
Adjustments for items not involving cash		
Depletion and depreciation	4,500	5,400
Unrealized foreign exchange gain	443,641	60,358
Accrued interest and accretion on loans payable	1,944,070	1,220,059
	3,103,331	44,734
Changes in non-cash working capital		
Accounts receivable	(66,354)	(1,540)
Prepaid expenses	23	(54)
Accounts payable and accrued liabilities	413,619	(114,357)
Due to related parties	9,173,755	96,888
Cash Used in Operating Activities	12,624,374	25,671
Investing Activity		
Expenditures on petroleum and natural gas properties	(12,655,251)	(1,676)
Cash Used in Investing Activity	(12,655,251)	(1,676)
Financing Activity		
Proceeds on loan payable	22,783	-
Cash Provided by Financing Activity	22,783	-
Foreign Exchange Effect on Cash	274	205
Change in Cash During the Period	(7,820)	24,200
Cash, Beginning of the Period	86,076	63,958
Cash, End of the Period	\$ 78,256	\$ 88,158

The accompanying notes are an integral part of these condensed interim consolidated financial statements

XXL ENERGY CORP.

Notes to the Condensed Interim Consolidated Financial Statements
For the Nine Months Ended September 30, 2018 and 2017
(Expressed in US Dollars, unless otherwise noted)
(Unaudited – Prepared by Management)

1. NATURE OF OPERATIONS AND GOING CONCERN

XXL Energy Corp. (the “Company” or “XXL Energy”) is a petroleum and natural gas entity engaged in the acquisition, exploration and development of petroleum and natural gas properties located in the United States of America.

The Company is a publicly listed company incorporated in Canada with limited liability under the legislation of the province of British Columbia. The Company’s shares are listed on the TSX Venture Exchange.

The principal mailing address of the Company is RPO Box 60610 Granville Park, Vancouver, British Columbia, Canada, V6H 4B9. The records of the Company are located at 1500 West 16th Avenue, Vancouver, British Columbia, Canada, V6K 2L6. The Company’s registered address is 595 Howe Street, Suite 700, Vancouver, British Columbia, Canada, V6C 2T5.

These unaudited condensed interim consolidated financial statements (“interim financial statements”) have been prepared on a going concern basis, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company has a net income of \$711,120 (2017 – net loss of \$1,241,083), a working capital deficit of \$27,044,331 (December 31, 2017 - \$15,394,944), an accumulated deficit of \$101,427,447 (December 31, 2017 - \$102,138,567), limited cash resources, limited resources of operating cash flow, and no assurances that sufficient funding will be available to maintain or conduct further exploration and development of its petroleum and natural gas interests. The Company will require additional equity and/or debt financing to continue exploration work on its petroleum and natural gas interests.

The application of the going concern concept is dependent upon the Company’s ability to generate future profitable operations and receive continued financial support from its shareholders, related parties and from continued forbearance from debt holders. Management is actively seeking to raise the necessary capital to meet its funding requirements and has undertaken available cost-cutting measures. There can be no assurance that management’s plan will be successful.

These matters indicate material uncertainties that may cast significant doubt about the Company’s ability to continue as a going concern. These interim financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. BASIS OF PREPARATION

(a) Statement of compliance

These interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

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2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

These interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting. They do not include all the information required for full annual financial statements.

The accounting policies set out in note 3 have been applied consistently to all periods presented by the Company and its wholly owned subsidiary, Exxel Energy (USA) Inc. (“Exxel Energy”).

(b) Basis of measurement

These interim financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are measured at fair value. In addition, these interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(c) Functional and presentation currency

The functional currency of the Company is the Canadian dollar. The functional currency of Exxel Energy is the US dollar. These interim financial statements are presented in US dollars.

(d) Critical judgments and estimates

The preparation of interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that may affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Following are the accounting policies subject to such judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position.

Critical accounting judgments

Reserves

The estimate of petroleum and natural gas reserves is integral to the calculation of the amount of depletion charged to the consolidated statements of operations and comprehensive loss and is also a key determinant in assessing whether the carrying value of any of the Company’s development and production assets have been impaired. Changes in reported reserves can impact asset carrying values and the decommissioning provision due to changes in expected future cash flows. The Company’s reserves are evaluated and reported on by independent reserve engineers at least annually in accordance with Canadian Securities Administrators’ National Instrument 51-101 *Standards of Disclosure of Oil and Gas Activities*. Reserve estimation is based on a variety of factors including engineering data, geological and geophysical data, projected

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2. BASIS OF PREPARATION (continued)

Reserves (continued)

future rates of production, commodity pricing and timing of future expenditures, all of which are subject to significant judgment and interpretation.

(d) Critical judgments and estimates (continued)

Identification of cash-generating units (“CGUs”)

The Company’s assets are aggregated into CGUs for the purpose of calculating impairment. CGUs are based on an assessment of the unit’s ability to generate independent cash inflows. The determination of these CGUs was based on management’s judgment with regard to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality.

Recoverability of asset carrying values

At each reporting date, the Company assesses its petroleum and natural gas properties and exploration and evaluation assets for possible impairment, to determine if there is any indication that the carrying amounts of the assets may not be recoverable. An assessment is also made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. Determination as to whether and how much an asset is impaired or no longer impaired, involves management estimates on highly uncertain matters, such as future commodity prices, discount rates, production profiles, operating costs, future capital costs and reserves. Changes in circumstances may impact these estimates, which may impact the recoverable amount of assets. Any change in the impairment loss or reversal of impairment loss could have a material financial impact in future periods, but future depletion expense would be impacted as a result.

Going concern

The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company’s ability to continue as a going concern.

The determination of functional currency

The functional currency of the Company and its subsidiary is the currency of the primary economic environment and the Company reconsiders the functional currency if there is a change in events and conditions, which determines the primary economic environment.

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2. BASIS OF PRESENTATION (continued)

(d) Critical judgments and estimates (continued)

Critical accounting estimates (continued)

Decommissioning obligations

Amounts recorded for decommissioning obligations require the use of management's best estimates of future decommissioning expenditures, expected timing of expenditures, future inflation rates and expected discount rates. The estimates are based on internal and third-party information and calculations are subject to change over time and may have a material impact on profit or loss or financial position.

Recoverability of accounts receivable

Accounts receivable are recorded at the estimated recoverable amount, which involves the estimate of uncollectible accounts.

Discount rate of loans

The loans payable are initially recognized at fair value, calculated as the net present value of the liability based upon discount rates used by comparable issuers and accounted for at amortized cost using the effective interest rate method.

Income taxes

Related assets and liabilities are recognized for the estimated tax consequences between amounts included in the consolidated financial statements and their tax basis using substantively enacted future income tax rates. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences, and accordingly, affect the amount of the deferred tax asset or liability calculated at a point in time. These differences could materially impact earnings.

(e) Approval of the interim financial statements

The interim financial statements of XXL Energy Corp. for the nine months ended September 30, 2018 and 2017 were reviewed, approved and authorized for issue by the Board of Directors on November 29, 2018.

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Notes to the Condensed Interim Consolidated Financial Statements
For the Nine Months Ended September 30, 2018 and 2017
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(Unaudited – Prepared by Management)

3. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the Company's significant accounting policies:

(a) Basis of consolidation

(i) Subsidiary

The interim financial statements include the accounts of the Company and its wholly owned subsidiary, Exxel Energy. A subsidiary is an entity in which the Company has control, where control requires exposure or rights to variable returns and the ability to affect those returns through power over the investee. All intercompany transactions and balances have been eliminated upon consolidation.

(ii) Jointly controlled operations and jointly controlled assets

The Company's petroleum and natural gas activities involve jointly controlled operations. The interim financial statements include the Company's share of costs, deferred costs and liabilities incurred in respect of its interests in jointly controlled operations.

(b) Foreign currency translation

Transactions in foreign currencies are translated to the respective functional currencies of the Company and Exxel Energy, at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the respective functional currency at the reporting date and foreign currency gains or losses are recognized in net loss for the period.

XXL Energy's financial information is translated from Canadian dollars, its functional currency, at each reporting period to US dollars, the Company's reporting currency. Assets and liabilities are translated at the exchange rates prevailing at the consolidated statement of financial position dates, and revenue and expenses are translated on the basis of average exchange rates during the period. Any recognized and unrecognized gains or losses arising from the translation of these amounts are recorded in other comprehensive loss and classified as a component of equity.

(c) Financial instruments

(i) Financial assets

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity ("HTM") and available-for-sale ("AFS"). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(i) Financial assets (continued)

Fair value through profit or loss

An instrument is classified at FVTPL if it is held-for-trading or is designated as such upon initial recognition. Financial instruments are designated at FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at FVTPL are measured at fair value and changes therein are recognized in operations.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment losses. The impairment loss on receivables is based on a review of all outstanding amounts at year-end. Bad debts are written off during the period in which they are identified. Interest income is recognized by applying the effective interest rate method.

Held-to-maturity

HTM financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. HTM financial assets are recognized on a trade-date basis and are initially measured at fair value using the effective interest rate method.

Available-for-sale

AFS financial assets are non-derivatives that are either designated as AFS or not classified in any of the other financial assets categories. Changes in the fair value of AFS financial assets other than impairment losses are recognized as other comprehensive income and classified as a component of equity. When an AFS financial asset is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in accumulated other comprehensive income is included in profit or loss for the period.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(ii) Financial liabilities

The Company classifies its financial liabilities as FVTPL and other financial liabilities.

Fair value through profit or loss

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Fair value changes on financial liabilities classified as FVTPL are recognized in profit or loss.

Other financial liabilities

Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost using the effective interest rate method. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method. Other financial liabilities are classified as current or non-current based on their maturity date.

(iii) Effective interest method

The effective interest method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

(iv) Fair value hierarchy

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

- Level 1 - quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(v) Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

(d) Revenue recognition

Revenue from the sale of petroleum and natural gas is recorded when title passes to an external party and is based on volumes delivered to customers at contractual delivery points, and rates and collectability are reasonably assured. Delivery is generally at the time the petroleum enters the tank and when the natural gas enters the pipeline. The costs associated with delivery, including operating and maintenance costs, transportation and production-based royalty expenses, are recognized during the same period in which the related revenue is earned and recorded.

(e) Petroleum and natural gas properties

Exploration and evaluation ("E&E") assets

Once a legal right to explore has been acquired the costs of the following: exploration licenses, unproved property acquisition costs, geological and geophysical costs, and costs directly associated with an exploration well and appraisal activities are capitalized as E&E assets. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Petroleum and natural gas properties (continued)

Exploration and evaluation (“E&E”) assets (continued)

The technical feasibility and commercial viability are based upon estimates of the recoverability of capitalized costs by future exploitation or sale and where the activities have reached a stage that permits reasonable assessment of the existence of proved and proven reserves. A review of each exploration license or field will be carried out, at least annually, to ascertain whether proven plus probable reserves have been discovered. Upon determination of proven plus probable reserves, E&E assets attributable to those reserves will be first tested for impairment and then reclassified from E&E assets to developed petroleum and natural gas properties.

Certain of the Company’s properties in North Dakota and Wyoming are classified as E&E assets.

Developed and producing properties

Items in developed and producing properties are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development assets are grouped into CGUs for impairment testing. As at September 30, 2018, the Company has three CGUs based on geographic locations, which are Green River Basin, Wyoming, Pinedale, Wyoming and Garfield, Colorado.

Gains and losses on disposal of developed petroleum and producing properties are determined by comparing the proceeds from disposal with the carrying amount of the asset and are recognized net within profit or loss.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of development and production assets are recognized as petroleum and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized petroleum and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of development and production assets are recognized in profit or loss as incurred.

Depletion and depreciation

The net carrying value of development or production assets is depleted using the unit-of-production method by reference to the ratio of production in the year of the related proved and probable reserves. These estimates are reviewed by independent reserve engineers at least annually.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Petroleum and natural gas properties (continued)

Depletion and depreciation (continued)

Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids, which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially viable. There should be a minimum 90% statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and a maximum 10% statistical probability that it will be less. Such reserves may be considered commercially viable if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Reserves may only be considered proven if future economic feasibility is supported by either actual production or conclusive formation testing. The area of reservoir considered proven includes (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, or both, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of oil and natural gas controls the lower proved limit of the reservoir.

(f) Impairment of non-financial assets

E&E assets are assessed for impairment when they are reclassified to developing and producing assets, as developed petroleum and natural gas properties, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

E&E assets are grouped together with the Company's CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to developing and producing assets (petroleum and natural gas properties).

The carrying amount of E&E assets and petroleum and natural gas assets are reviewed at each reporting date to determine whether there is any indication of impairment. An impairment test is completed if any such indication exists. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Impairment of non-financial assets (continued)

Fair value less costs to sell is determined to be the amount for which the asset could be sold in an arm's length transaction. Fair value less costs to sell can be determined by using an observable market or by using discounted future net cash flows of proved and probable reserves using forecasted prices and costs. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU.

An impairment loss would be recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

(g) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in net loss, except to the extent that if the income tax expense related to items recognized directly in equity, the income tax expense would also be recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the asset and liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing net income (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed using the treasury stock method. In accordance with the treasury stock method, the weighted average number of common shares outstanding is increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. Diluted earnings (loss) per share excludes the exercise of options and warrants and other convertible features to the extent they are anti-dilutive.

(i) Share-based payments

The Company may grant share options to acquire common shares of the Company to directors, officers, employees and consultants. The fair value of share-based payments to employees is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period for employees using the graded method. Fair value of share-based payments to non-employees is recognized and measured at the date the goods or services are received based on the fair value of such goods or services. If it is determined that the fair value of goods and services received cannot be reliably measured, the share-based payment is measured at the fair value of the equity instruments issued using the Black-Scholes option pricing model.

For both employees and non-employees, the fair value of share-based payments is recognized as either an expense or as petroleum and natural gas properties with a corresponding increase in options reserve. The amount recognized as expense is adjusted to reflect the number of share options expected to vest. Consideration received on the exercise of stock options is recorded in capital stock and the related share-based payment in options reserve is transferred to capital stock. For those options that expire, the recorded value is transferred to deficit.

(j) Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. A provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the consolidated statement of financial position date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Provisions

A provision is recognized if, as a result of a past event, the Company has a present obligation (legal or constructive) that can be estimated reliably, and it is probable that an expenditure will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflect current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

(l) New accounting pronouncements

IFRS 9 *Financial Instruments*

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- ***Classification and measurement of financial assets:***
Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".
- ***Classification and measurement of financial liabilities:***
When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.
- ***Impairment of financial assets:***
An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at "amortized cost" or "fair value through other comprehensive income", lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.
- ***Hedge accounting:***
Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) New accounting pronouncements (continued)

Applicable to the Company's annual period beginning January 1, 2018. The Company is currently assessing the full impact of this new pronouncements.

IFRS 15 Revenue from Contracts with Customers

This new standard establishes a comprehensive framework for the recognition, measurement and disclosure of revenue replacing IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue — Barter Transactions Involving Advertising Services*.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- Revenue is recognized based on a five-step model:
 1. Identify the contract with customer;
 2. Identify the performance obligations;
 3. Determine the transaction price;
 4. Allocate the transaction price to the performance obligations; and
 5. Recognize revenue when (or as) the performance obligations are satisfied.
- New disclosure requirements on information about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

Applicable to the Company's annual period beginning January 1, 2018. The Company currently assessing the full impact of this new pronouncements.

4. FINANCIAL INSTRUMENTS

Fair value

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities and due to related parties approximate their fair values due to the short-term maturity of these financial instruments. The loans payable to related parties are valued as Level 2 financial instruments on the fair value hierarchy.

Classification

The Company classifies its financial instruments as follows: cash is classified as a financial asset at FVTPL; accounts receivable, as loans and receivables; and accounts payable and accrued liabilities, due to related parties and loans payable to related parties, as other financial liabilities.

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5. FINANCIAL RISK MANAGEMENT

(a) Overview

The Company has exposure to the following risks from its use of financial instruments:

- Market risk;
- Credit risk; and
- Liquidity risk.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk.

(i) Foreign currency risk

The Company is exposed to foreign currency risk to the extent that expenditures incurred or funds received and balances maintained by the Company are denominated in currencies other than the Canadian dollar (primarily US dollars) and funds received and balances maintained by Exxel Energy that are denominated in currencies other than the US dollar (primarily Canadian dollars).

The Company operates in Canada and the United States and a significant portion of its expenses are incurred in US dollars. A significant change in the exchange rate between the Canadian dollar relative to the US dollar could have a significant effect on the Company's financial performance, financial position and cash flows.

The Company is exposed to currency risk through the following financial assets and liabilities denominated in Canadian dollars:

	September 30, 2018	December 31, 2017
Cash	\$ 574	\$ 376
Loans payable	(6,937,280)	(6,860,367)
	\$ (6,939,706)	\$ (6,859,991)
US dollar equivalent	\$ (5,358,599)	\$ (5,468,303)

A 10% (2017 - 10%) change in the Canadian dollar against the US dollar at September 30, 2018 would result in a change of approximately \$535,860 (December 31, 2017 - \$546,830) in comprehensive loss.

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5. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to the changes in market interest rates.

The Company's cash is held in bank accounts and, due to the short-term nature of this financial instrument, fluctuations in market interest rates do not have a significant impact on the fair value as at September 30, 2018 and 2017.

The Company's loans are at fixed interest rates, and therefore, the Company's exposure to interest rate cash flow risk.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk. The Company is not exposed to significant other price risk on its financial assets and liabilities.

(c) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its payment obligations. The Company is exposed to credit risk with respect to its cash and accounts receivable.

The credit risk associated with cash is mitigated, as cash is held at major financial institutions with high credit ratings.

Accounts receivable primarily consists of trade receivables outstanding from operators of its petroleum and natural gas interests. To mitigate this risk, the Company regularly reviews the collectability of the accounts receivable to ensure there is no indication that these amounts will not be fully recoverable. As at September 30, 2018 and 2017, the Company has not recorded any allowance for doubtful accounts. The Company's accounts receivable are due within 60 days.

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company assesses its liquidity risk by forecasting cash flows required by operations and anticipated financing activities.

The Company has a working capital deficiency of \$27,044,331 (December 31, 2017 - \$15,394,944). Based on the current funds held, the Company will need to rely upon the continued forbearance of its creditors and/or additional financing from shareholders and/or debt holders to obtain sufficient working capital. There is no assurance that such financing will be available and on terms and conditions acceptable to the Company.

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5. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

The Company's accounts payable and accrued liabilities of \$876,946 (December 31, 2017 - \$410,856) are due in the short-term within 90 days; \$25,046,334 (December 31, 2017 - \$13,844,847) of the Company's loans payable to related parties are due on demand and \$376,405 (December 31, 2017 - \$309,159) is due within the next seven years.

6. CAPITAL MANAGEMENT

The Company defines its capital structure as debt and shareholders' deficiency. Capital requirements are driven by the Company's exploration activities on its petroleum and natural gas interests. Management's objective is to ensure that there are sufficient capital resources to safeguard the Company's ability to continue as a going concern. Management reviews its capital management approach on an ongoing basis and believes that its approach, given the relative size of the Company, is reasonable.

Although the Company has been successful at raising funds in the past through obtaining equity and debt financing from shareholders it is uncertain whether it can continue this financing methodology.

The Board of Directors does not establish a quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company's capital stock and debt is not subject to any externally imposed capital requirements. The Company did not change its approach to capital management during the nine months ended September 30, 2018 and the year ended December 31, 2017.

7. ACCOUNTS RECEIVABLE

	September 30, 2018	December 31, 2017
GST receivable	\$ 1,464	\$ 2,144
Trade receivables	86,932	19,838
	\$ 88,396	\$ 21,982

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8. PETROLEUM AND NATURAL GAS PROPERTIES

Exploration and Evaluation Assets

	Green River Basin, Wyoming	Williston Basin, North Dakota	Total
September 30, 2018 and December 31, 2017	\$ 137,851	\$ -	\$ 137,851

Developed and Producing Properties

	Green River Basin, Wyoming	Piceance Basin, Colorado	Pinedale Field, Wyoming	Asset Retirement	Total
December 31, 2016	\$ 1,504,261	\$ 27,827	\$ -	\$ 207,021	\$ 1,739,109
Additions	2,502	-	-	-	2,502
Change in estimate of decommissioning obligation	-	-	-	(70,168)	(70,168)
December 31, 2017	1,506,763	27,827	-	136,853	1,671,443
Additions	3,092	-	12,652,159	-	12,655,251
Change in estimate of decommissioning obligation	-	-	-	-	-
September 30, 2018	\$ 1,509,855	\$ 27,827	\$ 12,652,159	\$ 136,853	\$ 14,326,694

Accumulated Depletion and Impairment	Green River Basin, Wyoming	Piceance Basin, Colorado	Pinedale Field, Wyoming	Asset Retirement	Total
December 31, 2016	\$ (1,390,939)	\$ (5,418)	\$ -	\$ (32,803)	\$ (1,429,160)
Depletion	(3,045)	(589)	-	(2,736)	(6,370)
December 31, 2017	(1,393,984)	(6,007)	-	(35,539)	(1,435,530)
Depletion	(4,365)	(135)	-	-	(4,500)
September 30, 2018	\$ (1,398,349)	\$ (6,142)	\$ -	\$ (35,539)	\$ (1,440,030)

Net Book Value	Green River Basin, Wyoming	Piceance Basin, Colorado	Pinedale Field, Wyoming	Asset Retirement	Total
December 31, 2017	\$ 112,779	\$ 21,820	\$ -	\$ 101,314	\$ 235,913
September 30, 2018	\$ 111,506	\$ 21,685	\$ 12,652,159	\$ 101,314	\$ 12,886,664

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8. PETROLEUM AND NATURAL GAS PROPERTIES (continued)

(a) Properties

(i) Green River Basin (Wyoming) and Williston Basin (North Dakota)

Green River Basin

In the Green River Basin, the Company currently has interests in six wells and three royalty interest wells.

(ii) Piceance Basin (Colorado)

On March 16, 2005, the Company acquired an interest in certain oil and gas leases and related assets in Piceance Basin, Colorado.

The Company developed its interests in the properties in a joint venture with a third-party operator and drilled four wells all of which are currently shut-in, pending abandonment operations or abandoned. The Company has a 75% working interest in the wells and a corresponding decommissioning obligation for each of the wells.

Included in the acreage purchased, the Company holds a 16.98% working interest in the well.

(iii) Pinedale Field (Wyoming)

In September 2018, the Company's wholly-owned subsidiary, Exxel USA closed a Farmout Agreement (the "**Farmout Agreement**") with Standard Energy ("**Standard**"), a Nevada corporation, dated effective the 1st day of July, 2017.

Standard is the owner of certain working interests ranging from 18.75% to 21.25% in oil and gas leases covering approximately 1,840 net acres located in the Warbonnet area of Pinedale Field, Sublette County, Wyoming (the "**Farmout Lands**").

Under the Farmout Agreement, the Company can earn working interests from 18.75% to 21.25% in up to approximately 70 development and extension wells to be drilled on approximately total 12,949.8 acres (1,794.6 acres net) located in the Farmout Lands. The Company has agreed to bear Standard's entire cost of drilling, testing and completing the wells on a well-by-well basis. Should the Company elect not to participate in any well, Standard may thereupon terminate the Farmout Agreement or permit the Company to participate in future wells. For wells in which the Company participates, upon testing and completion of a well as a commercial producer, Standard will assign 100% of its interest in the well and appurtenant lease rights to the Company. With respect to each well assigned to the Company, Standard will retain a 3% overriding royalty interest, subject to its right to convert the royalty on a well-by-well basis to a 25% working interest upon the successful completion of the well and the return to the Company of its actual costs of drilling, testing and completing the well. Should the Company determine that any well in which it participates is incapable of production and should be plugged and abandoned, Standard may elect to have the Company plug and abandon the well at the Company's cost, or receive a re-assignment of its interest in that well. Standard has also agreed to front the

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8. PETROLEUM AND NATURAL GAS PROPERTIES (continued)

(a) Properties (continued)

(iii) Pinedale Field (Wyoming) (continued)

Company's drilling, testing and completion costs, until such time as the Company can arrange traditional reserve-based financing. Standard will receive interest at the annual rate of 10% on the monies advanced

Drilling has commenced on the Farmout Lands, including sixteen wells in which the Company will earn an interest under the Farmout Agreement. As of September 30, 2018, fifteen of the wells are online and producing. One well is shut-in pending further testing.

(iv) Impairment

During the year ended December 31, 2017, the Company performed an assessment of potential impairment indicators. Management determined that with the increase in crude oil and natural gas prices that there were no indicators of impairment on its developed and producing petroleum and natural gas assets was.

Management determined that there were indicators of impairment of its exploration and evaluation assets. In assessing recoverable values management observed the bid prices of recent sales of leases in adjacent properties to those held by the Company. Using the market approach, management concluded no impairment was required based on this using the Level 3 fair value hierarchy.

(b) Realization of assets

The investment in, and expenditures on, petroleum and natural gas interests comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal.

Petroleum and natural gas exploration and development is highly speculative and involves inherent risks. While the rewards if a petroleum or natural gas deposit is discovered can be substantial, few properties that are explored are ultimately developed into production. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of petroleum or natural gas.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.

Although the Company has taken steps to verify title to its property interests, in accordance with industry standards, these procedures do not guarantee the Company's title. Properties may be subject to unregistered prior agreements or inadvertent non-compliance with regulatory requirements. Although the Company believes that it has title to its petroleum and natural gas interests, it cannot control or completely protect itself against the risk of title disputes or challenges.

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9. DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from net ownership interest in petroleum and natural gas properties, including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its decommissioning liabilities is approximately \$400,800. An inflation factor of 2.615% has been applied to the estimated asset retirement cost. A risk-free rate of 2.11% was used to calculate the fair value of the decommissioning obligations. The change in timing of the estimated future obligations and a change in the risk-free rate results in an increase in the present value of the decommissioning obligations. The assumptions above have remained relatively unchanged since the year ended December 31, 2017 and thus no change to the obligation has been recorded at September 30, 2018.

Balance, December 31, 2016	\$	401,317
Accretion expense		2,944
Change in estimate		(70,168)
<hr/>		
Balance, December 31, 2017		334,093
Accretion expense		-
Change in estimate		-
<hr/>		
Balance, September 30, 2018	\$	334,093

10. RECLAMATION BOND

The Company has a bond with the state of Wyoming authorities for a total of \$25,000. The reclamation bond represents funds held in trust to ensure the Company has adequate resources to finance road repairs and any other environmental or reclamation obligations that may arise on its Green River Basin and Williston Basin properties. The reclamation bond may be refunded to the Company upon completion of reclamation obligations.

11. CAPITAL STOCK

(a) Authorized

The Company has authorized an unlimited number of common shares without par value. No shares were issued during the nine months ended September 30, 2018 and the year ended December 31, 2017.

(b) Stock options

In 2008, the Company adopted an incentive stock option plan under which the Company may issue up to a maximum of 20% of the issued shares of the Company as stock options to acquire common shares in the capital of the Company as an incentive to officers, directors, employees and consultants. Options issued to consultants performing investor relations activities must vest in stages over a minimum period of twelve months with no more than 25% of the options vesting in any three-month period. Any options granted under a prior plan shall continue to be governed by the plan under which they were granted.

No options or warrants were granted or outstanding during the nine months ended September 30, 2018 and the year ended December 31, 2017.

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12. LOANS PAYABLE TO RELATED PARTIES

	September 30, 2018	December 31, 2017
Current		
Loan payable to a company with a common director (note 12(a))	\$ 1,563,729	\$ 1,553,967
Advances from a company controlled by a director (note 12(b))	1,706,153	1,528,596
Loan from a director and officer (note 12(c))	3,305,432	3,057,581
Loan acquired by a director and officer (note 12(d))	8,554,506	7,704,703
Loan payable to a company that is wholly-owned by a director and officer of the Company (note 12(f))	9,926,514	-
	25,056,334	13,844,847
Non-current		
Loans from a director and officer (note 12(e))	376,405	309,159
	\$ 25,432,739	\$ 14,154,006

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12. LOANS PAYABLE TO RELATED PARTIES (continued)

- (a) Loan payable to a company with a common director and officer (“Lender 1” – Giant Energy Ltd.)

On June 23, 2008, the Company issued an unsecured note payable in the amount of \$772,499 (C\$1,000,000) due December 17, 2008 to Lender 1. As at September 30, 2018 and December 31, 2017, the loan is considered to be in default. The note bears interest at 10% per annum payable at maturity. Accrued interest of \$791,230 (C\$1,024,247) (December 31, 2017 - \$756,837 (C\$949,452)) is included in the balance owing.

- (b) Advances from a company controlled by a director (“Lender 2” – Caravel Management Corp.)

The advances are unsecured, with no specified terms of repayment and bear interest at 15% per annum, calculated monthly and compounded quarterly and is payable on demand. Accrued interest of \$1,131,046 (December 31, 2017 - \$953,490) is included in the balance owing. \$151,894 (C\$196,627) of the total advances to the Company and \$177,128 (C\$229,292) of the total interest are denominated in Canadian dollars.

- (c) Loan from a director and officer (“Lender 3” – John Hislop)

On February 8, 2010, the Company issued a note payable in the amount of \$1,158,749 (C\$1,500,000) to Lender 3. The note bore interest at 12% per annum, compounded monthly and is payable at maturity. Accrued interest of \$2,146,684 (C\$2,778,882) (December 31, 2017 - \$1,861,886 (C\$2,335,736)) is included in the balance owing. On January 31, 2018, the note was renewed adjusting the interest to 15% per annum. All other terms remained unchanged. The note will mature at the earlier of the following:

- (i) January 31, 2025; or
(ii) 10 business days following the delivery of demand repayment by Lender 3.

As collateral Lender 3 has a fixed and floating charge over all of the Company’s real and personal assets.

- (d) Loan acquired by a director and officer of the Company (“Lender 4” – John Hislop)

On November 24, 2008, Warrior Oil and Gas Holdings Inc. (“Warrior”) acquired a note payable from the Company in the amount of \$2,000,000 (including the mortgage attached to the note) from a third party. The note was collateralized by a mortgage over certain petroleum and natural gas interests (note 8). Effective May 30, 2009, the Company commenced accruing interest on the loan at 15% per annum. As of September 30, 2018, the total loan was \$8,554,506 (December 31, 2017 - \$7,704,703), including accrued interest of \$6,054,506 (December 31, 2017 - \$5,204,703). At the time of the transaction, the Company and Warrior were related parties by virtue of common directors and officers. As of May 2011, they ceased being related parties. This loan is currently considered to be in default.

On October 30, 2012, Warrior finalized an assignment of debt agreement with Lender 4, whereby Warrior assigned the loan payable to Lender 4. All of the terms and conditions of the loan remained unchanged.

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12. LOANS PAYABLE TO RELATED PARTIES (continued)

- (e) Loans from a director and officer of the Company (“Lender 5” – John Hislop)

		Total
Carrying amount, December 31, 2016	\$	211,995
Proceeds from new loans in 2017		47,031
Interest expense		42,228
Accretion expense		7,905
Carrying amount, December 31, 2017		309,159
Proceeds from new loans in 2018		27,037
Interest expense		26,100
Accretion expense		14,109
Carrying amount, September 30, 2018	\$	376,405

The loans issued during fiscal 2016 were revalued on issuance and renewal to account for comparable market interest rates. As a result, the effective interest rate was determined to be 30% and 16% per annum, respectively, and a gain of \$119,554 was deemed to have been received. This gain was recorded in contributed surplus to reflect the benefit having been received from a related party.

During the year ended December 31, 2017, the Company was advanced various loans in the amount of \$44,806 (C\$59,000) by Lender 5. During the nine months ended September 30, 2018, the Company was advanced loans in the amount of \$27,037 (C\$35,000).

The loans all bear interest at 15% per annum, calculated quarterly, and the principal amounts will become due and payable as follows:

Next 12 – 60 months	\$	34,553
Next 61 – 72 months		282,459
Next 73 – 84 months		27,037
	\$	344,049

- (f) Loan payable to a Company that is wholly-owned by a director and officer of the Company (“Lender 6” – Standard)

In September 2018, the Company successfully closed its Farmout Agreement with Standard. Based on the Farmout Land reserves, the Company is negotiating with arm’s length financial institutions to provide traditional reserve-based lending to support its drilling operations. The Company expects to receive binding commitments in the near term. In the interim, Standard is funding the Company’s initial costs of each well, secured against title to the wells. Funds borrowed by the Company under this arrangement bear interest at the rate of 10.0% per annum.

As of September 30, 2018, the total loan was \$9,926,514. Accrued interest of \$470,470 is included in the balance owing.

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13. RELATED PARTY TRANSACTIONS

The following is a summary of related party transactions that occurred throughout the nine months ended September 30, 2018 and 2017 that have not otherwise been disclosed:

- (a) Fees paid to directors and officers of \$10,485 (2017 - \$12,238). There were no post-employment benefits, termination benefits or other long-term benefits paid to key management personnel for the nine months ended September 30, 2018 and 2017; and
- (b) Administrative fees paid or accrued to a company controlled by a director of \$69,897 (2017 - \$68,839).

Amounts due to related parties not otherwise disclosed consist of the following:

- (a) Included in due to related parties is a total of \$1,278,443 (December 31, 2017 - \$1,248,061) due to companies controlled by a director of the Company.

Amounts due to related parties are non-interest-bearing, unsecured and due on demand.

14. SEGMENTED DISCLOSURE

The Company operates in one reportable operating segment, being the exploration and development of petroleum and natural gas interests. The Company's long-term assets and activities are located in the US, with the head office located in Canada.