

XXL ENERGY CORP.

Unaudited Condensed Interim Consolidated Financial Statements For the Nine Months Ended September 30, 2019 and 2018 (Expressed in US Dollars)

Index

Notice of No Auditor Review of Interim Financial Statements

Condensed Interim Consolidated Financial Statements

Condensed Interim Consolidated Statements of Financial Position

Condensed Interim Consolidated Statements of Operations and Comprehensive Loss

Condensed Interim Consolidated Statements of Changes in Shareholders' Deficiency

Condensed Interim Consolidated Statements of Cash Flows

Notes to the Condensed Interim Consolidated Financial Statements

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, 2019 and 2018.

XXL Energy Corp.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited - Prepared by Management)

(Expressed in US dollars)

		As at	As at
	Notes	September 30, 2019	December 31, 2018
ASSETS			
Current assets			
Cash		\$ 679,378	\$ 564,057
Accounts receivable	7	309,851	896,302
Prepaid expenses		722	701
		989,951	1,461,060
Non-current assets			
Reclamation bond	10	25,000	25,000
Exploration and evaluation assets	8	137,851	137,851
Developed and producing properties	8	9,988,237	11,230,420
		\$ 11,141,039	\$ 12,854,331
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 826,092	\$ 1,767,577
Loans payable to related parties	12	27,844,552	25,645,237
Due to related parties	13	1,266,763	1,220,074
		29,937,407	28,632,888
Non-current liabilities			
Loans payable to related party	12	451,836	399,179
Decommissioning obligations	9	925,993	925,993
		31,315,236	29,958,060
SHAREHOLDERS' DEFICIENCY			
Capital stock	11	85,314,772	85,314,772
Contributed surplus	12	(293,163)	(293,163)
Translation reserve		1,412,567	1,653,431
Deficit		(106,608,373)	(103,778,769)
		(20,174,197)	(17,103,729)
		\$ 11,141,039	\$ 12,854,331

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 Loss

(Unaudited - Prepared by Management)

(Expressed in US dollars)

	Notes	For the nine months ended September 30 2019	For the three months ended September 30 2019	For the nine months ended September 30 2018	For the three months ended September 30 2018
Revenue					
Petroleum and natural gas sales		\$ 3,291,470	\$ 794,794	\$ 4,362,494	\$ 4,307,967
Royalties		(787,708)	(191,971)	-	-
		2,503,762	602,823	4,362,494	4,307,967
Direct Operating Expenses					
Operating		1,096,098	338,778	1,536,098	1,490,054
Depletion and depreciation	8	1,800,000	600,000	4,500	1,500
		2,896,098	938,778	1,540,598	1,491,554
Operating Income (loss)		(392,336)	(335,955)	2,821,896	2,816,413
General and Administrative Expenses					
Finance	12	2,290,146	782,228	1,944,070	983,518
General and administrative fees	13	77,714	23,597	75,223	23,957
Foreign exchange (gain) loss		(20,213)	9,633	23,292	(13,466)
Professional fees		68,877	24,840	42,618	14,553
Filing and transfer agent fees		10,588	3,638	15,088	2,584
Director and officer fees	13	10,156	3,407	10,485	3,443
		2,437,268	847,343	2,110,776	1,014,589
Net Income (Loss) for the Period		(2,829,604)	(1,183,298)	711,120	1,801,824
Other Comprehensive Loss					
Items that may be reclassified subsequently to profit or loss					
Foreign exchange gain on translating foreign operations		\$ (240,864)	96,673	222,998	(125,979)
Total Comprehensive Income (Loss) for the Period		(3,070,468)	(1,086,625)	934,118	1,675,845
Basic and Diluted Income (Loss) Per Share		\$ (0.39)	\$ (0.16)	\$ 0.10	\$ 0.25
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, 2019 and 2018

(Unaudited - Prepared by Management)

(Expressed in US dollars)

	Capital Stock		Contributed Surplus	Translation Reserve	Deficit	Total
	Number of Shares	Amount				
Balance as at January 1, 2018	7,252,943	\$ 85,314,772	\$ 143,167	\$ 1,041,196	\$ (102,138,567)	\$ (15,639,432)
Foreign exchange gain on translating foreign operations	-	-	-	222,998	-	222,998
Recognition of deferred tax liability	-	-	-	-	-	-
Net 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)

	Capital Stock		Contributed Surplus	Translation Reserve	Deficit	Total
	Number of Shares	Amount				
Balance as at January 1, 2019	7,252,943	\$ 85,314,772	\$ (293,163)	\$ 1,653,431	\$ (103,778,769)	\$ (17,103,729)
Foreign exchange loss on translating foreign operations	-	-	-	(240,864)	-	(240,864)
Net income for the period	-	-	-	-	(2,829,604)	(2,829,604)
Balance as at September 30, 2019	7,252,943	\$ 85,314,772	\$ (293,163)	\$ 1,412,567	\$ (106,608,373)	\$ (20,174,197)

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, 2019	For the nine months ended September 30, 2018
Cash Provided by (Used in):		
Operating Activities		
Net income (loss) for the period	\$ (2,829,604)	\$ 711,120
Adjustments for items not involving cash		
Depletion and depreciation	1,800,000	4,500
Unrealized foreign exchange gain	(148,376)	443,641
Accrued interest and accretion on loans payable	2,290,143	1,944,070
	<u>1,112,163</u>	<u>3,103,331</u>
Changes in non-cash working capital		
Accounts receivable	586,472	(66,354)
Prepaid expenses	(21)	23
Accounts payable and accrued liabilities	(962,069)	413,619
Due to related parties	(86,280)	9,173,755
	<u>650,266</u>	<u>12,624,374</u>
Cash Used in Operating Activities		
Investing Activity		
Expenditures on petroleum and natural gas properties	(557,817)	(12,655,251)
	<u>(557,817)</u>	<u>(12,655,251)</u>
Cash Used in Investing Activity		
Financing Activity		
Proceeds on loan payable	22,783	22,783
	<u>22,783</u>	<u>22,783</u>
Cash Provided by Financing Activity		
Foreign Exchange Effect on Cash	89	274
Change in Cash During the Period	115,321	(7,820)
Cash, Beginning of the Period	564,057	86,076
Cash, End of the Period	\$ 679,378	\$ 78,256

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, 2019 and 2018

(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 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 incurred a net loss of \$3,070,468 (2018 – net income \$934,118) during the nine months ended September 30, 2019, has a working capital deficit of \$28,947,456 (December 31, 2018 - \$27,171,828), an accumulated deficit of \$106,608,373 (December 31, 2018 - \$103,778,769), 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”).

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.

XXL Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended September 30, 2019 and 2018

(Expressed in US Dollars, unless otherwise noted)

(Unaudited – Prepared by Management)

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

The accounting policies set out in note 3 have been applied consistently to all periods presented by the Company and 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 future rates of production, commodity pricing and timing of future expenditures, all of which are subject to significant judgment and interpretation.

XXL Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended September 30, 2019 and 2018

(Expressed in US Dollars, unless otherwise noted)

(Unaudited – Prepared by Management)

2. BASIS OF PREPARATION (continued)

(d) Critical judgments and estimates (continued)

Critical accounting judgments (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 regarding shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality.

Recoverability of long-lived asset 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.

XXL Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended September 30, 2019 and 2018

(Expressed in US Dollars, unless otherwise noted)

(Unaudited – Prepared by Management)

2. BASIS OF PRESENTATION (continued)

(d) Critical judgments and estimates (continued)

Critical accounting estimates (continued)

Asset acquisitions

Management has had to apply judgments with respect to whether the acquisition of the additional interests in the petroleum and natural gas interests is a business combination or an asset acquisition. Management applies a three-element process to determine whether a business or an asset was purchased, considering inputs, processes and outputs of each acquisition in order to reach a conclusion.

In instances where the Company acquired additional working interest, the Company does not re-measure the previously held interest in the assets that it already controls.

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 an 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, 2019 and 2018 were reviewed, approved and authorized for issue by the Board of Directors on November 14, 2019.

XXL Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended September 30, 2019 and 2018

(Expressed in US Dollars, unless otherwise noted)

(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 based on 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

Initial recognition and measurement

A financial asset is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. On initial recognition, a financial asset is classified as measured at amortized cost or fair value through profit or loss. A financial asset is measured at amortized cost if it meets the conditions that i) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows, ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and iii) is not designated as fair value through profit or loss.

XXL Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended September 30, 2019 and 2018

(Expressed in US Dollars, unless otherwise noted)

(Unaudited – Prepared by Management)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(i) Financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss (“FVTPL”)

Financial assets measured at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value therein, recognized in the statement of operations.

Financial assets measured at fair value through other comprehensive income (“FVTOCI”)

A financial asset measured at fair value through other comprehensive income is recognized initially at fair value plus transaction cost directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as “financial asset at fair value through other comprehensive income” in other comprehensive income. Accumulated gains or losses recognized through other comprehensive income are directly transferred to retained earnings (deficit) when the financial instrument is derecognized or its fair value substantially decreases.

Financial assets measured at amortized cost

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment allowance, if:

- the asset is held within a business whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

Derecognition

A financial asset or, where applicable a part of a financial asset or part of a group of similar financial assets is derecognized when:

- the contractual rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

XXL Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended September 30, 2019 and 2018

(Expressed in US Dollars, unless otherwise noted)

(Unaudited – Prepared by Management)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(i) Financial liabilities

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or financial liabilities subsequently measured at amortized cost. All interest-related charges are reported in profit or loss within interest expense, if applicable.

(ii) Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Inputs for assets or liabilities that are not based on observable market data value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

(d) Revenue recognition

Revenue from the sale of petroleum and natural gas is recorded when performance obligations are satisfied. Performance obligations are satisfied at the point in time when products are delivered based on volumes to customers at contractual delivery points, and prices have been agreed with the purchaser and collectability is reasonably assured. Delivery is generally at the time the petroleum enters the tanks and when the natural gas enters the pipeline. The costs associated with the 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.

XXL Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended September 30, 2019 and 2018

(Expressed in US Dollars, unless otherwise noted)

(Unaudited – Prepared by Management)

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 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, 2019, 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.

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:

XXL Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended September 30, 2019 and 2018

(Expressed in US Dollars, unless otherwise noted)

(Unaudited – Prepared by Management)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Petroleum and natural gas properties (continued)

Depletion and depreciation (continued)

- 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.

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.

XXL Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended September 30, 2019 and 2018

(Expressed in US Dollars, unless otherwise noted)

(Unaudited – Prepared by Management)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Impairment losses recognized in prior years 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.

(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 year. 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.

XXL Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended September 30, 2019 and 2018

(Expressed in US Dollars, unless otherwise noted)

(Unaudited – Prepared by Management)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(i) 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 year 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.

(j) 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.

XXL Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements
For the Nine Months Ended September 30, 2019 and 2018
(Expressed in US Dollars, unless otherwise noted)
(Unaudited – Prepared by Management)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Newly adopted accounting 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*, and is effective reporting periods beginning on or after January 1, 2018.

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

- Revenue is recognized based on a five-step analysis of transactions to determine the nature of an entity's obligation to perform and whether, how much and when revenue is recognized as follows:
 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.

The Company has adopted IFRS 15 effective January 1, 2018, using the modified retrospective method. Under this method, prior period financial statements have not been restated.

Management has reviewed its revenue streams and major contracts with customers, using the IFRS 15 principles-based five step model. The adoption of IFRS 15 did not have a significant impact on the Company's consolidated financial statements.

IFRS 9 Financial Instruments

The Company adopted IFRS 9 *Financial Instruments* ("IFRS 9") effective January 1, 2018 which replaces the multiple classification and measurement models for financial assets under IAS 39 *Financial Instruments* ("IAS 39") with a new model that has two measurement categories: amortized cost and fair value, either through profit/loss ("FVTPL") or through other comprehensive income. This determination is made at initial recognition. For financial liabilities, the new standard retains most of the IAS 39 requirements.

As a result of adopting IFRS 9, the Company's cash classified at fair value through profit and loss ("FVTPL") and accounts receivable classified as loans and receivables at December 31, 2017 have been reclassified to financial assets at FVTPL and amortized cost, respectively; however, there is no impact to the measurement of these financial assets. There were no changes to the classifications of the Company's financial liabilities which continue to be measured at amortized cost. The classification and measurement guidance was adopted retrospectively without restatement of comparative information. After adoption of IFRS 9, there was no impact to the Company's interim financial statements.

XXL Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended September 30, 2019 and 2018

(Expressed in US Dollars, unless otherwise noted)

(Unaudited – Prepared by Management)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- (k) Newly adopted accounting pronouncements (continued)

IFRS 16 Leases

This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease.

The main features of the new standard are as follows:

- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.
- A lease asset is initially measured at cost, and is then depreciated similarly to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payments.
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income.
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

The new standard supersedes the requirements in IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Applicable to the Company's annual period beginning on January 1, 2019.

After adoption of IFRS 16, there was no material impact to the Company's interim financial statements.

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, at amortized cost; and accounts payable and accrued liabilities, due to related parties and loans payable to related parties, at amortized cost.

XXL Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended September 30, 2019 and 2018

(Expressed in US Dollars, unless otherwise noted)

(Unaudited – Prepared by Management)

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, 2019	December 31, 2018
Cash	\$ 8,393	\$ 687
Loans payable	(8,263,834)	(7,785,340)
	\$ (8,255,442)	\$ (7,784,653)
US dollar equivalent	\$ (6,233,815)	\$ (5,718,685)

A 10% (2018 - 10%) change in the Canadian dollar against the US dollar at September 30, 2019 would result in a change of approximately \$623,382 (December 31, 2018 - \$571,868) in comprehensive loss.

XXL Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended September 30, 2019 and 2018

(Expressed in US Dollars, unless otherwise noted)

(Unaudited – Prepared by Management)

5. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(i) 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, 2019 and December 31, 2018.

The Company's loans are at fixed interest rates, and therefore, the Company has 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, 2019 and December 31, 2018, 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 \$28,947,456 (December 31, 2018 - \$27,171,828). 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.

XXL Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended September 30, 2019 and 2018

(Expressed in US Dollars, unless otherwise noted)

(Unaudited – Prepared by Management)

5. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

The Company's accounts payable and accrued liabilities of \$826,092 (December 31, 2018 - \$1,767,577) are due in the short-term within 90 days; \$27,844,552 (December 31, 2018 - \$25,645,237) of the Company's loans payable to related parties are due on demand and \$451,836 (2017 - \$399,179) is due within the next seven years. Other amounts due to related parties of \$1,266,763 (December 31, 2018 - \$1,220,074) are due on demand.

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, 2019 or the year ended December 31, 2018.

7. ACCOUNTS RECEIVABLE

	September 30, 2019	December 31, 2018
GST receivable	\$ 1,375	\$ 1,202
Trade receivables	308,476	895,100
	\$ 309,851	\$ 896,302

8. PETROLEUM AND NATURAL GAS PROPERTIES

Exploration and Evaluation Assets

	Green River Basin, Wyoming	Total
September 30, 2019 and December 31, 2018	\$ 137,851	\$ 137,851

XXL Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements
For the Nine Months Ended September 30, 2019 and 2018
(Expressed in US Dollars, unless otherwise noted)
(Unaudited – Prepared by Management)

8. PETROLEUM AND NATURAL GAS PROPERTIES (continued)

Developed and Producing Properties

Cost	Green River Basin, Wyoming	Piceance Basin, Colorado	Pinedale Field, Wyoming	Asset Retirement	Total
December 31, 2017	\$ 1,506,763	\$ 27,827	\$ -	\$ 136,853	\$ 1,671,443
Additions	4,923	-	12,823,844	-	12,828,767
Change in estimate of decommissioning obligation	-	-	-	591,367	591,367
December 31, 2018	1,511,686	27,827	12,823,844	728,220	15,091,577
Additions	-	-	557,817	-	557,817
Change in estimate of decommissioning obligation	-	-	-	-	-
September 30, 2019	\$ 1,511,686	\$ 27,827	13,381,661	\$ 728,220	\$ 15,649,394
Accumulated Depletion and Impairment	Green River Basin, Wyoming	Piceance Basin, Colorado	Pinedale Field, Wyoming	Asset Retirement	Total
December 31, 2017	\$ (1,393,984)	\$ (6,007)	\$ -	\$ (35,539)	\$ (1,435,530)
Depletion	(20,751)	(21,820)	(2,260,932)	(122,124)	(2,425,627)
December 31, 2018	(1,414,735)	(27,827)	(2,260,932)	(157,663)	(3,861,157)
Depletion	(54,000)	-	(1,674,000)	(72,000)	(1,800,000)
September 30, 2019	\$ (1,468,735)	\$ (27,827)	\$ (3,934,932)	\$ (229,663)	\$ (5,661,157)
Net Book Value	Green River Basin, Wyoming	Piceance Basin, Colorado	Pinedale Field, Wyoming	Asset Retirement	Total
December 31, 2018	\$ 96,951	\$ -	\$ 10,562,912	\$ 570,557	\$ 11,230,420
September 30, 2019	\$ 42,951	\$ -	\$ 9,446,729	\$ 498,557	\$ 9,988,237

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.

XXL Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended September 30, 2019 and 2018

(Expressed in US Dollars, unless otherwise noted)

(Unaudited – Prepared by Management)

8. PETROLEUM AND NATURAL GAS PROPERTIES (continued)

(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. As at September 30, 2019, all the wells are shut-in and are awaiting pending reclamation activities. 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. Standard is related to the Company as it is controlled by a director of the Company.

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

Pursuant to the Farmout Agreement, the Company acquired the right to earn the working interests owned by Standard in up to approximately 70 development and extension wells to be drilled on oil and gas leases located in the Farmout Lands. The Company will earn its interest in each well through the payment of 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 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.

Standard will fund the Company's initial drilling, testing and completion costs, until such time as the Company can arrange traditional reserve-based financing. The advances from Standard bears interest bearing at an annual rate of 10% (note 12).

As of September 30, 2019, fifteen of the wells are online and producing.

XXL Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended September 30, 2019 and 2018

(Expressed in US Dollars, unless otherwise noted)

(Unaudited – Prepared by Management)

8. PETROLEUM AND NATURAL GAS PROPERTIES (continued)

(iii) Impairment

During the year ended December 31, 2018, 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.

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.

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 \$1,020,000. An inflation factor of 1.91% has been applied to the estimated asset retirement cost. A risk-free rate of 2.91% 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, 2018 and thus no change to the obligation has been recorded at September 30, 2019.

Balance, December 31, 2017	\$	334,093
Accretion expense		533
Change in estimate *		591,367
Balance, December 31, 2018		925,993
Accretion expense		-
Change in estimate		-
Balance, September 30, 2019	\$	925,993

*During the year ended December 31, 2018, pursuant to the Farmout Agreement, the Company completed and tied-in a number of new producing wells, for which the decommissioning obligations was recorded as a change in estimate. No accretion has been recognized for these new wells.

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.

XXL Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended September 30, 2019 and 2018

(Expressed in US Dollars, unless otherwise noted)

(Unaudited – Prepared by Management)

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, 2019 and the year ended December 31, 2018.

(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, 2019 and the year ended December 31, 2018.

12. LOANS PAYABLE TO RELATED PARTIES

	September 30, 2019	December 31, 2018
Current		
Loan payable to a company with a common director (note 12(a))	\$ 1,604,052	\$ 1,502,311
Advances from a company controlled by a director (note 12(b))	1,977,335	1,771,108
Loan from a director (note 12(c))	4,052,039	3,645,431
Loan acquired by a director (note 12(d))	9,849,294	8,862,886
Loan payable to a company controlled by a director (note 12(f))	10,361,832	9,863,501
	<u>27,844,552</u>	<u>25,645,237</u>
Non-current		
Loan from a director (note 12(e))	451,836	399,179
	<u>\$ 28,296,388</u>	<u>\$ 26,044,416</u>

XXL Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended September 30, 2019 and 2018

(Expressed in US Dollars, unless otherwise noted)

(Unaudited – Prepared by Management)

12. LOANS PAYABLE TO RELATED PARTIES (continued)

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

On June 23, 2008, the Company issued an unsecured note payable in the amount of \$755,116 (C\$1,000,000) due December 17, 2008 to Lender 1. As at September 30, 2019 and December 31, 2018, the loan is considered to be in default. The note bears interest at 10% per annum payable at maturity. Accrued interest of \$848,937 (C\$1,124,247) (December 31, 2018 - \$769,281 (C\$1,049,452)) is included in the balance owing.

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

The advances of \$575,107 (December 31, 2018 - \$613,229) 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 \$1,402,229 (December 31, 2018 - \$1,196,002) is included in the balance owing. \$151,894 (C\$201,153) of the total advances to the Company and \$229,829 (C\$304,362) of the total interest are denominated in Canadian dollars.

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

On February 8, 2010, the Company issued a note payable in the amount of \$1,132,674 (C\$1,500,000) to Lender 3. The note bore interest at 12% per annum, compounded monthly and was payable at maturity on January 31, 2018. On January 31, 2018, the note was renewed adjusting the interest to 15% per annum. All other terms remained unchanged. As a result of the of the new interest rate, the loan was revalued using the previous interest rate of 12% per annum, resulting in a loss of \$445,916 (C\$608,319). This loss was recorded in contributed surplus to reflect the effect of the increase in the interest rate from the loan received from a related party.

Accrued interest of \$2,617,784 (C\$3,466,732) (December 31, 2018 - \$2,156,101 (C\$2,941,354)) is included in the balance owing. 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 the Company’s real and personal assets.

- (d) Loan acquired by a director 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, 2019, the total loan was \$9,849,294 (December 31, 2018 - \$8,862,886), including accrued interest of \$7,349,298 (December 31, 2018 - \$6,362,886). 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.

XXL Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements
For the Nine Months Ended September 30, 2019 and 2018
(Expressed in US Dollars, unless otherwise noted)
(Unaudited – Prepared by Management)

12. LOANS PAYABLE TO RELATED PARTIES (continued)

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

		Total
Carrying amount, December 31, 2017	\$	309,159
Proceeds from new loans in 2018		29,321
Revaluation of loan		8,969
Interest expense		45,376
Accretion expense		6,354
Carrying amount, December 31, 2018		399,179
Proceeds from new loans in 2019		-
Revaluation of loan		-
Interest expense		40,844
Accretion expense		11,813
Carrying amount, September 30, 2019	\$	451,836

The loans issued during fiscal 2016 and 2017 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, 2018, the Company was advanced loans in the amount of \$29,933 (C\$40,000) by Lender 5.

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	\$	415,659
Next 61 – 72 months		36,177
Next 73 – 84 months		-
	\$	451,836

(f) Loan payable to a Company controlled by a director of the Company (“Lender 6” – Standard)

In September 2018, the Company closed its Farmout Agreement with Standard (note 8). 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% per annum and is repayable upon demand.

As of September 30, 2019, the total loan was \$10,361,832 (December 31, 2018 - \$9,863,501). Accrued interest of \$1,184,389 (December 31, 2018 - \$686,058) is included in the balance owing.

XXL Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended September 30, 2019 and 2018

(Expressed in US Dollars, unless otherwise noted)

(Unaudited – Prepared by Management)

13. RELATED PARTY TRANSACTIONS

The following is a summary of related party transactions that occurred throughout the nine months ended September 30, 2019 and 2018 that have not otherwise been disclosed:

- (a) Fees paid to directors and officers of \$10,156 (2018 - \$10,485). 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, 2019 and 2018; and
- (b) Administrative fees paid or accrued to a company controlled by a director of \$67,710 (2018 - \$69,897).

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

- (a) Included in due to related parties is a total of \$1,652,930 (December 31, 2018 - \$1,220,074) 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.