

XXL Energy Corp.

Management's Discussion and Analysis

September 30, 2023

The following management's discussion and analysis ("**MD&A**") for XXL Energy Corp. ("**XXL**"), was prepared by management based on information available as of November 21, 2023. This MD&A should be reviewed in conjunction with the unaudited condensed interim consolidated financial statements (the "**Interim Financial Statements**") for the quarter ended September 30, 2023 and the MD&A and the audited annual consolidated financial statements for the year ended December 31, 2022, all of which were filed on SEDAR+ and are available for review at www.sedarplus.ca.

The information provided herein in respect of XXL, includes information with respect to its wholly owned subsidiary Exxel Energy (USA) Inc. ("**Exxel USA**"). As used in this MD&A, the terms "we", "us", "our", "XXL", and "Company" refer collectively to XXL and Exxel USA.

Unless otherwise noted, all dollar amounts are expressed in United States dollars ("**US\$**" or "**\$**") and references to C\$ are to Canadian dollars. References to common shares are to common shares in the capital of XXL Energy Corp. unless the context clearly requires otherwise.

Barrels of oil equivalent ("**boe**") amounts have been calculated using a conversion rate of six thousand cubic feet ("**Mcf**") of natural gas per barrel ("**bbl**") of oil or natural gas liquids ("**6:1**"). A conversion ratio of six Mcf to one bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Boe disclosure may be misleading, particularly if used in isolation.

Forward-Looking Statements

Certain information in this MD&A and the documents incorporated by reference contain forward-looking statements within the meaning of applicable Canadian securities laws. Forward-looking statements are statements which relate to future events or our future performance, including our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", or "potential" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks described in the section titled "Business Risks and Uncertainties" commencing on page 18 and "Risks Relating to the Industry" commencing on page 23 of this MD&A, that may cause the Company's or the industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. No assurance can be given that any of the events anticipated by the forward-looking information and statements will occur or, if they do occur, what benefits we will obtain from them. This MD&A contains forward-looking information and statements, which may include but are not limited to: statements with respect to the financial and operating performance of the Company and its subsidiaries; investments objectives and strategies; business goals and strategies; forecast operating and financial results; planned capital expenditures; potential future market for our products; our treatment under governmental regulatory and royalty regimes and tax laws; competitive advantages; business prospects and opportunities; our management's assessment of future plans and operations; our anticipated liquidity and various matters that may impact such liquidity; and requirements for additional capital.

While these forward-looking statements, and any assumptions upon which they are based, are made in good faith, and reflect our current judgement regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions, or other future performance suggested in this MD&A. These assumptions, which include: management's current expectations; estimates and assumptions about certain projects and the markets we operate in; the global economic environment; interest rates; estimates of quantities of oil and natural gas from our properties and other sources not currently classified as proved; our ability to generate sufficient cash flow to meet our current and future obligations and other risks and uncertainties described from time to time in the filings we make with securities and regulatory authorities; the timely receipt of any required regulatory approvals; the impact of increasing competition; our ability to obtain qualified staff, equipment and services in a timely and cost efficient manner; the ability of the operator of the projects in which we have an interest to operate the field in a safe, efficient and effective manner; future natural gas and oil prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which we operate may prove to be incorrect. A number of risks and uncertainties could cause our actual results to differ materially from those expressed or implied by the forward-looking information and statements, including, but not limited to: the failure of the Company to execute our business plans; general economic conditions, as they affect us; risks arising from our operations generally; competition; volatility of and assumptions regarding oil and gas prices; the effectiveness and limited scope of our risk management program; accuracy of cost estimates; fluctuations in commodities prices; fluctuations in product supply and demand; accuracy of our reserves, resources and future production estimates; our ability to replace and expand oil and gas reserves; the reliability of our assets; risks associated with technology and its application to our business; changes in the applicable regulatory framework, including changes in regulatory approval process and land-use designations, royalty, tax, environmental, greenhouse gas, carbon and other laws or regulations; the loss of key management employees; our ability to control our operating costs, general administrative and other expenses; other factors beyond our control; insufficient investor interest in our securities which may impact on our ability to raise additional financing as required.

The forward-looking information is based on the estimates and opinions of our management at the time they are made. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Readers of this MD&A are cautioned not to rely on these forward-looking information and statements. The forward-looking information contained in this MD&A is made as of November 21, 2023 and the Company assumes no obligation to update or revise it to reflect new events or circumstances, except as required by law.

Description of Business

The Company is an energy company that has focused on acquiring, exploring, and developing oil and gas leasehold properties located in the States of Colorado and Wyoming, USA. The following is a summary of XXL's properties:

Green River Basin, Wyoming

XXL purchased its interests in the Green River Basin, Wyoming and Williston Basin, North Dakota in May 2007, from an arm's length private oil and gas company for approximately \$8,350,000.

Green River Basin

In the Green River Basin, Wyoming, the Company owns working interests in six natural gas wells and five royalty interest wells including the Jade 10-11 in which the Company owns a working interest with the corresponding net revenue interest as well as a separate overriding royalty interest ("**ORRI**") in the well. The Company's working interests in these wells are tabled as follows:

Well	Property	Year Drilled	Working Interest	Net Revenue Interest	Status
Jade 10-11	Jade	2006	37.5%	30%	On sales
Puckett Federal #1	Jade	2007	43%	36.6%	On sales
Musial #1	Jade	2008	30.60%	26.8%	On sales
Jackalope #1	Jade	2008	33.30%	28.7%	Shut-In (will be plugged & abandoned)
Stengal State #2	Jade	2008	12.50%	10.00%	Shut-In
Wynn Federal #1	Jade	2007	100%	80.0%	Plugged & Abandoned

The Company's royalty interests in these wells are tabled as follows:

Well	Property	Year Drilled	Over-riding Royalty Interest	Status
Sutter Federal #2	Jade	2008	0.375%	On sales
Robbers Gulch Fed #2	Jade	2011	1.25%	On sales
Jade 10-11	Jade	2006	0.189585%	On sales
Jade 7-10-24-98	Jade	2007	0.189585%	On sales
Mull Federal #14-18	Mulligan Draw	2008	0.328396%	On sales

In September 2010, the Company sold 320 net acres of undeveloped leasehold interests in the Green River Basin to a third party for total consideration of \$32,000 and a retained net 1.25% overriding royalty interest in the acreage sold. As of September 30, 2023, XXL's existing leasehold in Wyoming totalled approximately 5,757 net acres.

XXL is not the operator of any of the existing natural gas wells. Our capital commitments during the year are limited to our participation in leasehold obligations relating to our oil and gas properties and general and administrative costs.

Piceance Basin, Colorado

XXL acquired its initial interests in oil and gas leases and related assets located in the Piceance Basin, Colorado in 2005. The acreage included the RWF 14-13 Well (the "**Clough Well**") which is operated by a third-party partner. As owner of a 16.98% working interest (13.04% net revenue interest) in the Clough Well, XXL receives revenues from production proceeds.

In the Piceance Basin, the Company owns working interests in four producing natural gas wells and four non-producing wells. The Company's activities are limited to its developed acreage totaling 320 acres. In 2006, the Company participated in the drilling of three wells, the Biscuit Ranch 10-31d, the Biscuit Ranch 03-03b, and the Mulvihill 15-32d which were drilled and are currently plugged and abandoned. A fourth Company well, the Purkey Ranch was plugged and abandoned prior to completion due to severe hole problems. XXL has a 75% working interest and corresponding abandonment liability in each of the four wells.

XXL is not the operator of any of these oil and gas properties. Our capital commitments during 2023 are limited to our participation in leasehold obligations relating to our oil and gas properties and general and administrative costs.

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 was the owner of certain working interests ranging from 18.75% to 21.25% in oil and gas leases covering approximately 1,840 acres located in the Warbonnet area of Pinedale Field, Sublette County, Wyoming (the "**Farmout Lands**"). The operator of the Farmout Lands is Ultra Resources, Inc. which, pursuant to the governing joint operating agreement, had notified Standard of its intention to drill up to approximately 70 wells on the Farmout Lands by December 31, 2019, to test the Lance formation. Operations on the Standard leases are performed by a designated operator pursuant to existing joint operating agreements. Standard is therefore reliant upon the designated operator for all aspects relating to the success, timing, costs of drilling, completion, and development activities undertaken on the leases. The leases are federal oil and gas issued leases located on federal lands. Development activities at the Pinedale Field are subject to the regulation of the Bureau of Land Management ("BLM") which is responsible for governing surface and mineral rights and regulating certain development activities at the Pinedale Field. An Environmental Impact Study ("EIS") was prepared by the operators to quantify and address potential impacts of natural gas development at the Pinedale Field. In September 2008, the BLM issued the Pinedale Record of Decision ("ROD") that currently governs the development activities in the Pinedale Field area. In addition to the Pinedale ROD, the BLM issues site-specific authorizations such as rights of way and permits to drill on an ongoing basis. The Pinedale ROD enables operators to plan and execute on concentrated, sustained drilling and completion programs that have in turn generated operational efficiencies and accelerated development of the field.

The State of Wyoming maintains governance over some of the more traditional state-regulated matters such as individual well drilling permits, spacing, and pooling, wellbore construction, as well as its own regulations on safety and environmental matters.

Regulations are well documented, and it is believed that the operators of the Standard properties are substantially in compliance with current applicable laws and regulations.

Under the Farmout Agreement, Exxel USA acquired the right to 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. Exxel USA will earn 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 Exxel USA elect not to participate in any well, Standard may thereupon terminate the Farmout Agreement or permit Exxel USA to participate in future wells. For wells in which Exxel USA 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 Exxel USA. With respect to each well assigned to Exxel USA, 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 Exxel USA of its actual costs of drilling, testing, and completing the well. Should Exxel USA determine that any well in which it participates is incapable of production and should be plugged and abandoned, Standard may elect to have Exxel USA plug and abandon the well at Exxel USA's cost or receive a re-assignment of its interest in that well. Standard has also agreed to front Exxel USA's drilling, testing, and completion costs, until such time as Exxel USA can arrange traditional reserve-based financing. Standard will receive interest at the annual rate of 10% on the monies advanced.

The Farmout Lands were the subject of a reserve report prepared for Standard by Netherland, Sewell & Associates, Inc. as of December 31, 2016, which was prepared in accordance with mandated National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities of the Canadian Securities Administrators. Based on that report, the Farmout Lands contain proved reserves of 61.9 billion cubic feet of gas and 546,200 barrels of oil, 92% undeveloped with a PV10 value of \$24.2 million.

Drilling has been suspended on the Farmout Land by the operator. To date seventeen wells in which Exxel USA, the Company's wholly owned subsidiary, holds an interest under the Farmout Agreement have been drilled. As of September 30, 2023, fifteen of the wells are online and producing. Two wells are shut-in pending further testing.

Based on the Farmout Land reserves, Exxel USA was able to negotiate with an arm's length financial institution to provide traditional reserve-based lending to support Exxel USA's drilling operations. Please refer below for details on the loan. Prior to the loan, Standard was funding Exxel USA's initial costs of each well, secured against title to the wells. Funds borrowed by Exxel USA under this arrangement bear interest at the rate of 10.0% per annum. The first well on the Farmout Lands in which the Company earned an interest under the Farmout Agreement was spudded on August 19, 2017.

Overall Performance

The Company has a net loss of \$2,474,525 (2022 – \$2,042,106), a working capital deficit of \$38,699,759 (December 31, 2022 - \$36,141,333), an accumulated deficit of \$122,992,415 (December 31, 2022 - \$120,517,890), 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 meet its administrative overhead costs, to continue exploration work on its petroleum and natural gas interests and settle its current and long-term liabilities. 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.

The Company could possibly receive well proposals on its acreage in the Green River Basin from operating partners. The Company will need to participate in these proposals or risk forfeiting potential revenues that could be derived from well programs that the Company non-consents or forfeit certain leasehold interests.

The Company's business and results of operations may be negatively affected by economic and other consequences from Russia's military action against Ukraine and the sanctions imposed in response in late February 2022. Certain countries including Canada and the United States, have imposed strict financial and trade sanctions against Russia, which may have far reaching effects on the global economy. Russia is a major exporter of oil and natural gas therefore disruption of supplies of oil and natural gas from Russia could cause a significant worldwide supply shortage of oil and natural gas and have a significant impact on worldwide prices of oil and natural gas. The long-term impacts of the conflict and the sanctions imposed on Russia remain uncertain.

Selected Quarterly Financial Information

The following table contains a summary of our financial results for the three-month and nine-month periods ended September 30, 2023 and 2022:

	Three months ended September 30		Nine months ended September 30	
(US\$)	2023	2022	2023	2022
Operating Results				
Gross Revenue	457,927	1,101,561	2,824,319	3,029,291
Net Income (Loss)	(1,200,728)	(709,212)	(2,474,525)	2,042,106
Basic and Diluted Income (Loss) per share	(0.17)	(0.10)	(0.34)	(0.28)
Total Assets	5,654,917	5,787,248	5,654,917	5,787,248
Long-term Liabilities	1,053,995	2,606,160	1,053,995	2,606,160

The Company's revenue performance and the income the Company realizes varies from period to period in relation to the number of wells the Company has in production, our production volumes, and the prices we receive for our commodities from time to time. The number of successfully developed wells turned to sales, if any, varies from quarter to quarter. Historically, commodity prices and hence the prices we realize, are subject to variations arising from market supply and demand fundamentals beyond our control.

If, and when our operations become profitable, we will be subject to taxes in the jurisdictions where we conduct our business.

The discussion and analysis of our financial condition and results of operations is based on our Interim Financial Statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Application of IFRS requires the use of estimates, judgements, and assumptions that affect the reported amounts of assets and liabilities as of the date of the Interim Financial Statements as well as the revenues and expenses reported during the period. Changes in these estimates, judgements, and assumptions will occur as a result of future events, and accordingly, actual results could differ from amounts estimated.

Discussion of Operations

Nine-month period ended September 30, 2023, compared with the nine-month period ended September 30, 2022:

Revenue

Gross revenue decreased to \$2,824,319 for the nine-month period ended September 30, 2023 compared to \$3,029,291 for the nine-month period ended September 30, 2022. The decrease is primarily due to lower commodity prices received throughout most of 2023.

Direct Operating Expenses

Direct operating expenses decreased to \$886,533 for nine-month period ended September 30, 2023, compared to \$1,012,437 for the nine-month period ended September 30, 2022. Depletion expense decreased to \$243,900 for the nine-month period ended September 30, 2023, compared to \$255,000 for the same period in 2022.

General and Administrative Expenses

General and administrative expenses increased to \$3,717,113 in the nine-month period ended September 30, 2023, versus \$3,298,606 in the nine-month period ended September 30, 2022. Finance expense increased to \$3,513,755 in the nine-month period ended September 30, 2023, compared to \$3,048,711 in the same period of 2022. The Company had a foreign exchange loss of \$577 for the nine-month period ended September 30, 2023, compared to \$81,860 in the same period of 2022.

Third Quarter

Three-month period ended September 30, 2023, compared with the three-month period ended September 30, 2022:

Revenue

Gross revenue decreased to \$457,927 for the three-month period ended September 30, 2023 compared to \$1,101,561 for the three-month period ended September 30, 2022. The decrease is primarily due to lower commodity prices received during the third quarter of 2023 and lower volumes produced.

Direct Operating Expenses

Direct operating expenses decreased to \$253,105 for three-month period ended September 30, 2023, compared to \$364,573 for the three-month period ended September 30, 2022. Depletion expense decreased to \$81,300 for the three-month period ended September 30, 2023, compared to \$85,000 for the same period in 2022.

General and Administrative Expenses

General and administrative expenses increased to \$1,292,478 in the three-month period ended September 30, 2023, versus \$1,170,034 in the three-month period ended September 30, 2022. Finance expense increased to \$1,206,425 in the three-month period ended September 30, 2023, compared to \$1,044,642 in the same period of 2022. The Company had a foreign exchange loss of \$20,862 for the three-month period ended September 30, 2023, compared to a loss of \$64,471 in the same period of 2022.

On July 26, 2023, the Company held its annual general meeting and all resolutions placed before the shareholders were voted in favour. For additional information, please refer to the Company's Information Circular filed on SEDAR+ and available for review at www.sedarplus.ca.

On August 10, 2023, Smythe LLP ("Smythe") tendered its resignation as auditors of the Company.

In accordance with NI 51-102, Smythe resigned on their own initiative, the resignation of Smythe and the appointment of a successor auditor was approved by the Company's Board of Directors, Smythe has not expressed any modified opinion in its reports for the Company's two most recently completed fiscal years nor for the period from the most recently fiscal period for which Smythe issued an audit report in respect of the Company and the date of the notice, and there have been no reportable events (as such term is defined in section 4.11(1) NI 51-102) between the Company and Smythe.

Effective September 6, 2023, Geib & Company was appointed as the Company's new auditors.

Summary of Quarterly Results

The following tables set out selected unaudited consolidated financial information as reported in the quarterly filings of the Company, for each of the eight most recently completed quarters:

	2023			
	For the three months ended December 31 (\$)	For the three months ended September 30 (\$)	For the three months ended June 30 (\$)	For the three months ended March 31 (\$)
Gross Revenue		457,927	342,017	2,024,375
Net income (loss)		(1,200,728)	(1,218,140)	(55,657)
Net income (loss) per share: Basic and diluted		(0.17)	(0.17)	(0.01)

	2022 (restated)			
	For the three months ended December 31 (\$)	For the three months ended September 30 (\$)	For the three months ended June 30 (\$)	For the three months ended March 31 (\$)
Gross Revenue	1,410,447	1,101,561	1,069,748	857,982
Net income (loss)	587,050	(709,212)	(621,274)	(711,620)
Net income (loss) per share: Basic and diluted	0.09	(0.10)	(0.09)	(0.10)

	2021 (restated)			
	For the three months ended December 31 (\$)	For the three months ended September 30 (\$)	For the three months ended June 30 (\$)	For the three months ended March 31 (\$)
Gross Revenue	1,000,735			
Net income (loss)	119,890			
Net income (loss) per share: Basic and diluted	0.02			

Our revenue performance and the income we realize varies from period to period in relation to the number of wells we have in production, our production volumes, and the prices we receive for our commodities from time to time. The number of successfully developed wells turned to sales, if any, may vary from quarter to quarter. As of September 30, 2023, fifteen of the wells are online and producing. Two wells are shut-in pending further testing.

Liquidity

As of September 30, 2023, the Company has cash totalling \$1,574,878 and accounts receivable of \$145,062 to settle current accounts payable and accrued liabilities of \$328,843, current loan payable of \$555,851, current loans payable to related parties of \$38,358,385 and due to related parties of \$1,177,327. The Company's accounts payable and accrued liabilities and due to related parties are due in the short-term (0 to 3 months).

The Company has 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.

On December 17, 2019, the Company entered into a business loan agreement with the Jonah Bank of Wyoming in the amount of \$3,275,000 (the "Loan"). The Loan has an interest rate of 6% per annum and will mature on December 17, 2024. It is collateralized by the Company's Pinedale Field assets. The Company was required to make fixed monthly payments of \$92,648 in the first year of the loan, \$71,021 in the second year of the loan, and \$48,752 for the remaining term. The balance of the principal due within 12 months is \$555,851 with the remaining balance of \$147,285 due over the period to December 2024.

As of September 30, 2023, the Company had an decrease in working capital to deficiency \$38,699,759 compared to \$38,776,366 as of September 30, 2022. 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.

The operating income was \$1,242,588 for the nine-month period ended September 30, 2023, compared to \$1,256,500 in the same period of 2022.

Our objective is to meet our capital requirements by a combination of cash flows from current and future well production, and to obtain financing where required. However, production volumes and the market price we receive for oil, natural gas, and natural gas liquids we produce and sell determine our revenue from operations. Future cash flows and the continued availability of financing are subject to several uncertainties, such as financial market conditions, production rates, commodity prices, and the results of our drilling programs, if any.

Capital Resources

Our capital commitments during 2023 are limited to our participation in leasehold obligations relating to our oil and gas properties and general and administrative costs. Given our current cash position, we will need to raise additional funding through equity and/or debt financings to continue to fund drilling operations. The Company is subject to annual delay rentals on portions of its acreage in each operating area. Additional capital may be required in the Green River Basin or other regions depending on the drilling success of other operators in the region as well as drilling programs initiated by the Company's partners in the respective project regions.

Off-Balance Sheet Arrangements and Other Financial Instruments

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

We do not have any commitments under oil and gas forward sales contracts or other types of hedging arrangements which might expose us to commodity price or production volume risks. We do not have in place any off-balance sheet financing type arrangements.

Transactions with Related Parties

On June 23, 2008, the Company entered into a loan pursuant to which it borrowed \$739,645 (C\$1,000,000) (the "**Giant Loan**") from Giant Energy Ltd. ("**Giant**"). The Giant Loan is unsecured and bears interest at an annual rate of 10%, payable at maturity. As of September 30, 2023, the loan is considered to be in default. Accrued interest of \$1,127,604 (C\$1,524,520) (December 31, 2022 - \$1,070,382 (C\$1,449,726)) is included in the balance owing. In consideration for the Giant Loan, XXL issued in August 2008, 71,301 common shares in the capital of XXL to Giant. The Giant Loan is considered a related party transaction as John R. Hislop is a Director and Officer of both XXL and Giant.

On November 24, 2008, Warrior Oil and Gas Holdings Inc. ("**WOGH**") acquired the balance of a note payable on the purchase of the Green River and Williston Basin acreage ("**Warrior Loan**"). Under the terms of the purchase, WOGH has taken an assignment of the mortgage security registered on the property. The Warrior Loan was due May 29, 2009, and as of the date of this MD&A, the Company has not repaid any of the Warrior Loan, extension and modification fee or accrued interest. The amount outstanding on the Warrior Loan, including the extension and modification fee and accrued interest, as of September 30, 2023, is \$8,282,058. At the time the Warrior Loan was acquired by WOGH, Gordon Nielsen was a director of the Company, and a director and officer of WOGH and Summus Energy N.V. (formerly known as Warrior Energy N.V.) ("**Summus**"). In March 2012, Summus entered into an assignment of debt agreement dated March 21, 2012, with John R. Hislop, whereby Summus has agreed to assign to Mr. Hislop for C\$100,000 the debt that the Company owes to Summus pursuant to the Warrior Loan. The assignment of debt agreement received TSX Venture Exchange approval and closed on October 30, 2012.

The Company has borrowed a total \$575,107 from Caravel Management Corp ("**Caravel**"), a private company owned by John R. Hislop. 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. As of September 30, 2023, accrued interest of \$2,987,229 (December 31, 2022 - \$2,616,501) is included in the balance owing.

On February 8, 2010, the Company and John R. Hislop entered into a loan agreement for total proceeds to the Company of \$1,109,467 (December 31, 2022 - \$1,107,501) (C\$1,500,000). On January 31, 2018, the loan was renewed for an additional period of 7 years, expiring on January 31, 2025, increasing the interest rate from 12% to 15% per annum. All other terms of the loan remained the same. As of September 30, 2023, accrued interest of \$5,559,453 (C\$7,516,380)

(December 31, 2022 – \$4,823,853 (C\$6,533,426)) is included in the balance owing. The note will mature at the earlier of (1) January 31, 2025; or (2) 10 business days following the delivery of demand repayment by the lender. As such, the balance is classified as a short-term liability.

On September 16, 2014, the Company's wholly owned subsidiary, Exxel USA, issued a promissory note in the amount of \$180,697 to John R. Hislop. On September 16, 2016, the promissory note was amended to extend the term for an additional 7 years. The amended promissory note became due and payable on September 16, 2023. On September 16, 2023 the loan was renewed for an additional period of 7 years, expiring on September 16, 2030. All other terms of the loan remained the same.

	Total
Carrying amount, December 31, 2021	\$ 619,732
Interest expense	54,571
Accretion expense	26,922
Foreign exchange	(34,101)
Carrying amount, December 31, 2022	667,124
Interest expense	81,944
Accretion expense	19,346
Foreign exchange	(21,520)
Carrying amount, September 30, 2023	\$ 746,894

The loans issued during fiscal 2015 and 2017 were revalued on issuance and renewal to account for comparable market interest rates. During the nine months ended September 30, 2023, the 2016 loans were renewed for the outstanding principal sum and accrued interest for a total of \$45,656.

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

Next 12 months	\$ 43,639
Next 2 – 5 years	29,586
After 5 years	182,275
	\$ 255,500

In September 2018, the Company successfully closed its Farmout Agreement with Standard. The Farmout Agreement between Standard and Exxel USA constitutes a related party transaction under Multilateral Instrument 60-101, as Standard is wholly owned by John R. Hislop, the Company's President, CEO, a director, and significant shareholder. The Farmout Agreement was therefore subject to minority shareholder approval. The Company received minority shareholder approval to the Transaction at an Annual and Special General Meeting held on February 23, 2018, TSX Venture Exchange final approval on March 8, 2018, and Farmout Agreement transaction closed on September 20, 2018.

Based on the Farmout Land reserves, the Company was able to negotiate with an arm's length financial institution to provide traditional reserve-based lending to support its drilling operations. Prior to the loan, Standard was 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.

On April 8, 2019, the Company made a payment of \$200,000 against the interest payable on the loan with Standard Energy. On December 18, 2019, Exxel USA made a partial repayment of the amount owed to Standard in the amount of \$3,275,000. On June 28, 2023, the Company made a payment against the interest payable of \$1,500,000. As of September 30, 2023, the total loan from Standard was \$8,282,058 (December 31, 2022 - \$9,323,284). Accrued interest of \$2,179,615 (December 31, 2022 - \$3,220,841) is included in the balance owing.

On July 13, 2010, the Company entered into a Management Services Agreement ("**MSA**") with Caravel, a private management company wholly owned by John R. Hislop, a director, officer, and shareholder of the Company. Pursuant to the MSA, a monthly administrative fee of C\$10,000 plus any out-of-pocket expenses and specialized management expenses incurred shall be due to the management company. During the nine-month period ended September 30, 2023, the Company has incurred a total of \$66,880 (C\$90,000) in administrative fees for services rendered.

The Company also paid an aggregate of \$10,032 (C\$13,500) to officers and directors of the Company for the nine-month period ended September 30, 2023. Mr. Scott Hislop, Chief Financial Officer, received \$3,344 (C\$4,500), Mr. Alistair Palmer and Mr. FitzGibbon, both Directors, each received \$3,344 (C\$4,500) for their services during the nine-month period ended September 30, 2023.

Included in due to related parties is a total of \$1,177,327 (December 31, 2022 - \$1,174,556) due to companies controlled by a director of the Company.

During the year ended December 31, 2022, the Company became aware of an error in discounting the carrying value of the loans payable to related parties resulting in a restatement of the previously issued consolidated financial statements. Please refer to Note 4 in the Interim Financial Statements for a full description.

Subsequent Events

There are no subsequent events as of the date of this MD&A.

Critical Accounting Estimates

The preparation of interim financial statements in conformity with IFRS requires management to make judgements, 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 judgements and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position.

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 judgement and interpretation.

Carrying value of petroleum and natural gas interests

The Company assesses at each reporting date whether there is an indication that an asset or cash-generating unit ("**CGU**") may be impaired. A CGU is defined as the lowest grouping of assets that generate identifiable cash inflows that are largely independent of cash inflows of other assets or groups of assets. The allocation of assets into CGUs requires significant judgement and interpretation with respect to the way in which management monitors operations. If any indication exists that an asset or CGU may be impaired, the Company estimates the recoverable amount. The recoverable amounts of individual assets and CGUs have been determined based on the higher of value-in-use calculations and fair value less costs to sell. These calculations require the use of estimates and assumptions, such as estimates of proved plus probable reserves, future production rates, oil and natural gas prices, future costs, and other relevant assumptions, all of which are subject to change.

A material adjustment to the carrying value of the Company's petroleum and natural gas interests could arise as a result of changes to these estimates and assumptions.

Decommissioning obligations

Amounts recorded for decommissioning obligations require the use of management's best estimates of future decommissioning expenditures, expected timing of expenditures and future inflation 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. For more information on the Company's decommissioning obligations, see Note 9 of the Interim Financial Statements for the quarter ended September 30, 2023, and 2022.

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.

Going concern assumption

The assessment of whether the going concern assumption is appropriate requires management to consider 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 the Company and its subsidiary's 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 determined the primary economic environment.

Discount rate of loans

The promissory notes are initially recognized at fair value, calculated as the net present value of the liability based upon discount rate issued by comparable issuers and accounting for at amortized cost using the effective interest rate method.

Significant Accounting Policies

The significant accounting policies used by the Company are disclosed in Note 3 of our Interim Financial Statements for the quarter ended September 30, 2023. There have been no significant changes to these accounting policies during the period. Please refer to the Interim Financial Statements for a description of the Company's significant accounting policies.

Changes in Accounting Policies

New Accounting Pronouncements

At the date of this MD&A, certain new standards, amendments, and interpretations to existing standards have been published, but are not yet effective, and have not been early adopted by the Company. The Company does not expect these new pronouncements to have a significant impact on its Interim Financial Statements.

Reserves Data and Other Oil and Gas Information

Our independently prepared reserves assessment and evaluation of our oil and gas properties effective December 31, 2022, have been prepared in accordance with mandated National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities of Canadian Securities Administrators. A summary of our reports is available on SEDAR+ at www.sedarplus.ca.

Financial Instruments and Other 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 classified as Level 2 financial instruments.

Classification

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

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

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

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.

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 XXL 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 material 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, 2023	December 31, 2022
Cash	\$2,876	\$ 19,175
Accounts payable	(292)	(98)
Loans payable	(12,914,593)	(13,326,300)
	<u>\$(12,912,009)</u>	<u>\$ (13,307,223)</u>
US dollar equivalent	\$ (9,550,302)	\$ (9,825,179)

A 10% (2022 - 10%) change in the Canadian dollar against the US dollar on September 30, 2023 would result in a change of approximately \$955,030 (December 31, 2022 - \$982,000) in comprehensive loss.

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 an impact on the fair value as of September 30, 2023.

The Company's loans are at fixed interest rates, and therefore, the Company's exposure to interest rate cash flow risk on the debt is not significant.

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.

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 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.

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 deficit of \$38,699,759 (December 31, 2022 - \$36,141,333). 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.

The Company's accounts payable and accrued liabilities of \$328,843 (December 31, 2022 - \$744,754) are due in the short-term within 90 days; \$38,358,385 (December 31, 2022 - \$36,481,668) of the Company's loans payable to related parties are due on demand. Other amounts due to related parties of \$1,177,327 (December 31, 2022 - \$1,174,556) are due on demand.

Disclosure of Outstanding Share Data

Our common shares are listed for trading on the TSXV under the symbol "XL".

As of September 30, 2023, and the date of this MD&A, the Company has the following securities outstanding:

Class of Shares	Par Value	Number Authorized	Number Issued
Common	Nil	Unlimited	7,252,943

As of September 30, 2023, and the date of this MD&A, the Company had no options or warrants issued or outstanding.

Business Risks and Uncertainties

As discussed in XXL's continuous disclosure documents, certain risks and uncertainties that could cause XXL's actual results to materially differ from our current expectations include, but are not limited to:

Going Concern

As of September 30, 2023, the Company has a net loss of \$2,474,525 (2022 – \$2,042,106), a working capital deficit of \$38,699,759 (December 31, 2022 – \$36,141,333), an accumulated deficit of \$122,992,415 (December 31, 2022 - \$120,517,890), 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 meet its administrative overhead costs, and 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. These material uncertainties may cast significant doubt about the Company's ability to continue as a going concern. 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.

Risk of Foreign Operation

All the Company's oil and gas operations and assets are located in the United States. As a result, they are subject to political, economic, and other uncertainties for reasons that include:

- changes in energy policies or the personnel administering them;
- expropriation of property without fair compensation;
- cancellation or modification of contract rights;
- foreign exchange restrictions;
- currency fluctuations;
- royalty and tax increases and other risks arising out of foreign governmental sovereignty over the areas in which the Company's operations are conducted; and
- risks of loss due to civil strife and acts of war.

The Company's international operations may also be adversely affected by laws and policies of Canada affecting foreign trade, taxation, and investment. In the event of a dispute arising in connection with the Company's foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons or entities to the jurisdiction of courts in Canada or enforcing Canadian judgements in such other jurisdictions. The Company may also be hindered or prevented from enforcing the Company's rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity. In addition, the Company's existing joint ventures were formed pursuant to, and the Company's operations are governed by, a number of legal and contractual relationships. The effectiveness of and enforcement of these contracts and relationships with parties in these jurisdictions cannot

be assured. Consequently, the Company's foreign exploration, development and production activities could be substantially affected by factors beyond the Company's control, any of which could have a materially adverse effect on the Company and the Company's business.

Property Defects

The Company uses its reasonable efforts to obtain title opinions with respect to the Company's properties on which wells are to be drilled. The Company also obtains informal title reports before acquiring its leases. Nevertheless, no assurances can be given that title defects do not exist. The properties may be subject to prior unregistered agreements, native land claims or transfers which have not been recorded or detected through title research. Additionally, the land upon which the Company holds leases may not have been surveyed; therefore, the precise area and location of such interests may be subject to challenge. If title defects do exist, it is possible that the Company may lose all or a portion of the Company's rights, title, estate, and interest in and to the asset.

Need to Manage Growth

The Company could experience rapid growth in production, revenues, personnel, complexity of administration and in other areas. There can be no assurance that the Company will be able to manage the impact that growth could place on the Company's administrative infrastructure, systems, and controls. If the Company is unable to manage future growth effectively, the Company's business, operations and operating results, and financial condition may be materially adversely affected.

Dependence on Operators, Key Personnel/Employees

We may not be the operator of certain oil and gas properties in which we acquire an interest. To the extent we are not the operator of our oil and gas properties, we will be dependent on these operators for the timing of activities related to such properties and will largely be unable to direct or control activities of the operators.

The Company currently does not have any employees. The Company is dependent on its ability to hire and retain additional highly skilled and qualified personnel. Therefore, the loss of the aforementioned personnel or its inability to attract and retain experienced technical personnel could adversely affect the Company's ability to operate.

The success of the Company's projects depends, in part, on the Company's ability to attract and retain experienced petroleum engineers, geologists, and other key personnel. From time to time, competition for experienced engineers and geologists is intense. If the Company cannot retain the personnel or attract additional experienced personnel, its ability to compete in the geographic regions in which the Company conducts operations could be harmed.

Conflicts of Interest

In addition to their interest in the Company, some of the Company's management and directors currently engage, and intend to continue to engage in the future, in the oil and gas business independently of the Company. As a result, conflicts of interest between the Company and the Company's management and directors may arise. Conflicts, if any, will be dealt with in accordance with the relevant provisions of the British Columbia *Business Corporations Act*. Some of our management and directors are or may become directors or officers of other companies engaged in other business ventures. To avoid the possible conflict of interest which may arise between the directors' duties to our Company and their duties to the other companies on whose boards they may serve, the directors and officers of our Company have agreed to the following:

participation in other business ventures offered to the directors will be allocated between the various companies and on the basis of prudent business judgement and the relative financial ability and needs of the companies to participate;

- no commissions or other extraordinary considerations will be paid to such directors and officers; and
- business opportunities formulated by or through other companies in which the directors and officers are involved will not be offered to our Company except on the same or better terms than the basis on which they are offered to third party participants.

Insurance

The Company does not maintain 'key man' insurance. The loss of service of any key personnel could have a material adverse effect on the Company's business operations and operating results and financial condition.

The Company does not intend to insure against all risks. The Company intends to maintain insurance, to the extent available in Canada and the USA, against various losses and liabilities arising from operations in accordance with customary industry practices and in amounts that management believes to be prudent. Losses and liabilities arising from uninsured and underinsured events or in amounts in excess of existing insurance coverage could have a materially adverse effect on the Company's business, financial condition, or results of operations. The Company's oil and gas exploration and production activities will be subject to hazards and risks associated with drilling for, producing and transporting oil and gas, and any of these risks can cause substantial losses resulting from:

- environmental hazards, such as uncontrollable flows of natural gas, oil, brine, well fluids, toxic gas or other pollution into the environment, including groundwater and shoreline contamination;
- abnormally pressured formations;
- mechanical difficulties, such as stuck oil field drilling, and service tools and casing collapse;
- fires and explosions;
- personal injuries and death;
- regulatory investigations and penalties; and
- natural disasters.

Any of these risks could have a materially adverse effect on the Company's business, operations and operating results and financial condition. The Company might elect not to obtain insurance if it believes the cost of available insurance is excessive relative to the risks presented. In addition, pollution and environmental risks generally are not fully insurable. If a significant accident or other event occurs and is not fully covered by insurance, it could have materially adverse effect on the Company's business, operations and operating results and financial condition.

Potential for Substantial Dilution

It is possible that in order to obtain additional funds as needed, the Company may sell additional securities including common shares or some form of convertible debt instruments, which may result in a substantial dilution of the equity interests of the Company's existing shareholders at the time.

Value of Common Shares

The value of the common shares might be affected by matters not related to the Company's own operating performance for reasons that may include the following:

- general economic conditions in the United States and globally;
- industry conditions, including fluctuations in the price of oil and gas;
- governmental regulation of the oil and gas industry, including environmental regulation;
- fluctuation in foreign exchange or interest rates;
- liabilities inherent in oil and gas operations;
- geological, technical, drilling, and processing problems;
- unanticipated operating events which can reduce production or cause production to be shut-in or delayed;
- failure to obtain industry partners and other third-party consents and approvals, when required;
- stock market volatility and market valuations;
- competition for, among other things, capital, acquisition of reserves, undeveloped land and skilled personnel;
- the need to obtain required approvals from regulatory authorities;
- political conditions in oil and gas producing regions;
- revenue and operating results failing to meet expectations in any particular period;
- investor perception of the oil and gas industry;
- limited trading volume of common shares;
- change in environmental and other governmental regulations;
- announcements relating to the Company's business or the business of its competitors;
- the Company's liquidity; and
- the Company's ability to raise additional funds.

In the past, companies that have experienced volatility in their value have been the subject of securities class action litigation. The Company might become involved in securities class action litigation in the future. Such litigation often results in substantial costs and diversion of management's attention and resources and could have a material adverse effect on the Company's business, operations and results of operations, and financial condition.

Potential to Incur Debt

It is possible the Company might incur debt to fund its exploration and development activities, which would continue to reduce its financial flexibility and could have a material adverse effect on the Company's business, operations and results of operations, and financial condition. General economic conditions, oil and gas prices, financial business, and other factors affect the Company's operations and future performance. Many of these factors are beyond the Company's control. No assurances can be made that the Company will be able to generate sufficient cash flow to pay the interest on its debt or that future working capital, borrowings, or equity financing will be available to repay or refinance such debt. Factors that will affect its ability to raise cash through an offering of common shares or a refinancing of its debt include: financial market conditions, the value of its assets, and the Company's performance at the time it needs capital. No assurances can be made that the Company will have sufficient funds to make such payments. If the Company does not have sufficient funds and is otherwise unable to negotiate renewals of its borrowings or arrange new financing, it might be required to sell significant assets. Any such

sale could have a material adverse effect on the Company's business, operations and results of operations and financial condition.

Financial Considerations

The Company's decisions as to whether the Company's properties contain commercial oil and gas deposits and whether these should be brought into production will require substantial funds and depend upon the results of exploration programs and feasibility studies and the recommendations of duly qualified engineers, geologists, or both. Such decisions will involve consideration and evaluation of several significant factors including, but not limited to:

- costs of bringing a property into production, including exploration and development work, preparation of production feasibility studies, and construction of production facilities;
- availability and costs of financing;
- ongoing costs of production;
- market prices for the oil and gas to be produced;
- environmental compliance regulations and restraints; and
- political climate, governmental regulation, and control.

As well, the Company's future growth depends on its ability to make large capital expenditures for the exploration and development of natural gas and oil properties. Future cash flows and the availability of financing will be subject to a number of variables, such as:

- the success of the Company's projects;
- success in locating and producing new reserves; and
- prices of oil and gas.

Additional financing sources may be required in the future to fund developmental and exploratory drilling. Issuing equity securities to satisfy the Company's financial requirements could cause substantial dilution to its existing stockholders. Additional debt financing could lead to:

- a substantial portion of operating cash flow being dedicated to the payment of principal and interest;
- the Company being more vulnerable to competitive pressures and economic downturns; and
- restrictions on the Company's operations.

Financing might not be available in the future, or the Company might not be able to obtain necessary financing on acceptable terms, if at all. If sufficient capital resources are not available, the Company might be forced to curtail drilling and other activities or be forced to sell some assets on an untimely or unfavourable basis, which would have a material adverse effect on the Company's business, financial condition, and results of operations.

Currency Fluctuations

The Company maintains the Company's deposit amounts in US and Canadian currencies and are therefore subject to currency fluctuations which may materially affect the Company's financial position and results.

Although the Company does not currently enter into hedging agreements to manage currency risk or commodity price risk, it may in the future enter into agreements to manage currency risk or to receive fixed prices on its oil and gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Company will not benefit from such increases.

Potential Acquisitions

Acquisitions of producing and undeveloped properties have been an important part of the Company's growth. The Company expects that acquisitions will also contribute to its future growth. The Company is continually assessing potential acquisitions. However, until such time, as the Company enters into a definitive purchase and sale agreement with respect to a particular acquisition, there can be no assurance that any particular acquisition will be completed. Moreover, even once a definitive purchase and sale agreement has been entered into, such an agreement will typically contain conditions that must be fulfilled prior to closing and the fulfillment of many of these conditions is beyond the control of the Company. As a result, the Company can make no assurance that any particular acquisition will be completed until such time as the closing of such acquisition occurs.

Additionally, successful acquisitions require an assessment of a number of factors, including recoverable reserves, exploration or development potential, future oil and gas prices, operating costs, and potential environmental and other liabilities. The process of assessing these factors is complex, requiring significant decisions and assumptions in the evaluation of available information and the accuracy of such assumptions is inherently imprecise. In connection with the Company's assessments, the Company performs an engineering, geological, and geophysical review of the acquired properties, which the Company believes is generally consistent with industry practices. However, such a review may not permit the Company to become sufficiently familiar with the properties to fully assess their deficiencies and capabilities. The Company does not physically inspect every well. Even when the Company inspects a well, the Company may not always be able to discover structural, subsurface, and environmental problems that may be even more limited. Often, the Company is not entitled to contractual indemnification for pre-closing liabilities, including environmental liabilities associated with acquired properties.

Risks Relating to the Industry

Potential Profitability of Oil and Gas Ventures Depends upon Factors beyond the Company's Control

The potential profitability of oil and gas properties is dependent upon many factors that are beyond the Company's control. For instance, world prices and markets for oil and gas are unpredictable, highly volatile, potentially subject to governmental fixing, pegging, controls, or any combination of these and other factors, and respond to changes in domestic, international, political, social, and economic environments. Additionally, due to worldwide economic uncertainty, the availability and cost of funds for production and other expenses have become increasingly difficult, if not

impossible, to project. These changes and events may materially affect the Company's financial performance.

A productive well may become uneconomic in the event water or other deleterious substances are encountered which impair or prevent the production of oil and gas from the well. In addition, production from any well may be unmarketable if it is impregnated with water or other deleterious substances. The marketability of oil and gas that the Company may acquire or discover could be affected by numerous factors beyond the Company's control. These factors include the proximity and capacity of oil and gas pipelines and processing equipment, market fluctuations of prices, taxes, royalties, land tenure, allowable production, adverse weather conditions, and environmental protection. The extent of these factors cannot be accurately predicted, and the combination of these factors may result in the Company not receiving an adequate return on invested capital.

Market Conditions

The marketability of the Company's production depends in part upon the availability, proximity, and capacity of pipelines, gathering systems and processing facilities. This dependence is heightened where this infrastructure is less developed. If drilling results are positive in certain areas where the Company's projects are located, a new gathering system may need to be built to handle the potential volume of gas produced. The Company might be required to shut-in wells, at least temporarily, for lack of a market, lower commodity prices or because of the inadequacy or unavailability of transportation facilities. If that were to occur, the Company would be unable to realize revenue from those wells until arrangements were made to deliver production to market.

The Company's ability to produce and market oil and gas is affected, and may also be harmed by:

- the lack of pipeline transmission facilities or carrying capacity;
- governmental regulations of oil and gas production;
- governmental transportation, tax and energy policies;
- changes in supply and demand; and
- general economic conditions.

Any change in such factors could have a materially adverse effect on the Company's business, operations and results of operations and financial condition.

Decline in Oil and Gas Prices

The Company's revenues, operating results, and future rate of growth are substantially dependent upon the prevailing prices of, and demand for, oil and gas. Declines in the prices of, or demand for, oil and gas may adversely affect the Company's business, operations and results of operations, and financial condition. Lower oil and gas prices may also reduce the amount of oil and gas the Company can produce economically. Historically, oil and gas prices and markets have been volatile, and they are likely to continue to be volatile in the future. A decrease in oil and gas prices will not only reduce revenues and profits but will also reduce the quantities of reserves that are commercially recoverable and may result in changes to earnings for impairment of the value of these assets. If oil and gas prices decline significantly for extended periods of time in the future, the Company might not be able to generate enough cash flow from operations to meet its obligations and make planned capital expenditures. Oil and gas prices are subject to wide fluctuations in response to relatively minor changes in the supply of, and demand for, oil or gas, market uncertainty and a variety of additional factors that are beyond the Company's control.

Among the factors that could cause this fluctuation are:

- change in global supply and demand for oil and gas;
- levels of production and other activities of the Organization of Petroleum Exporting Countries, and other oil and gas producing nations;
- market expectations about future prices;
- the level of global oil and gas exploration, production activity and inventories;
- political conditions, including embargoes, in or effecting other oil and gas producing activity; and
- the price and availability of alternative fuels.

Lower oil and gas prices may not only decrease the Company's revenues on a per unit basis, but also may reduce the amount of oil and gas it can produce economically. A substantial or extended decline in oil prices may have a materially adverse effect on the Company's business, financial condition, and results of operations.

Competitiveness of the Oil and Gas Industry

The oil and gas industry is intensely competitive. The Company competes with numerous individuals and companies, including many major and independent Canadian-based, US-based, and foreign companies doing business in Canada and the United States in each of the following areas:

- seeking oil and gas exploration licences and production licences in Canada and the United States;
- acquiring desirable producing properties or new leases for future exploration;
- marketing oil and gas production;
- integrating new technologies; and
- acquiring the equipment and expertise necessary to develop and operate properties.

Many of the Company's competitors have substantially greater financial, managerial, technological, and other resources. These companies might be able to pay more for exploratory prospects, and productive oil and gas properties and prospects than the Company's financial or human resources permit. To the extent competitors are able to pay more for properties than the Company is paying, it will be at a competitive disadvantage. Further, many competitors may enjoy technological advantages and may be able to implement new technologies more rapidly. Accordingly, there is a high degree of competition for desirable leases, suitable properties for drilling operations and necessary drilling equipment, as well as for access to funds. There can be no assurance that the necessary funds can be raised or that any projected work will be completed.

The Company's ability to explore for oil and gas prospects and to acquire additional properties in the future will depend upon its ability to successfully conduct operations, implement advanced technologies, evaluate, and select suitable properties, and consummate transactions in this highly competitive environment.

Equipment

From time to time, drilling costs have sharply increased in various areas around the world and could do so again. The demand for and wage rates of qualified drilling rig crews generally rise in response to the increased number of active rigs in service and could increase sharply in the event of a shortage. Shortages of drilling and completion rigs, field equipment or qualified personnel

could delay, restrict, or curtail the Company's exploration and development operations, which may have a materially adverse effect on the Company's business, financial condition, and results of operations.

Fluctuating Price and Demand

The marketability of natural resources the Company may acquire or discover may be affected by numerous factors beyond the Company's control. These factors include:

- market fluctuations in oil and gas pricing and demand;
- the proximity and capacity of natural resource markets and processing equipment;
- governmental regulations;
- land tenure;
- land use; and
- regulations concerning the importing and exporting of oil and gas and environmental protection regulations.

The impact of these factors cannot be accurately predicted, but the combination of these factors could have a materially adverse impact on the Company's business.

Regulation

The Company's operations are subject to federal, state, and/or local laws relating to the protection of the environment, including laws regulating removal of natural resources from the ground and the discharge of materials into the environment. The Company's operations are also subject to federal, state, and/or local laws and regulations that seek to maintain health and safety standards by regulating the design and use of drilling methods and equipment. The Company can give no assurance that environmental standards imposed by federal, state, or local authorities will not be changed or that any such changes would not have material adverse effects on the Company's activities. Moreover, compliance with such laws may cause substantial delays or require capital outlays in excess of those anticipated, thus causing an adverse effect on the Company and the Company's business. Additionally, the Company may be subject to liability for pollution or other environmental damages, which the Company may elect not to insure against due to prohibitive premium costs and other reasons.

Exploration, development, production, and sale of oil and gas in the United States is subject to extensive national and local laws and regulations, including complex tax laws and environmental laws and regulations, and requires various permits and approvals from various governmental agencies. If these permits are not issued, or unfavourable restrictions or conditions are imposed on the Company's drilling activities, it might not be able to conduct its operations as planned. Alternatively, failure to comply with these laws and regulations, including the requirements of any permits, might result in the suspension or termination of operations and subject the Company to penalties. Compliance costs are significant. Further, these laws and regulations could change in ways that substantially increase the Company's costs and associated liabilities. As a result, existing laws, or regulations, as currently interpreted or reinterpreted in the future, or future laws or regulations may have a materially adverse effect on the Company's business, operations and results of operations, and financial condition.

The actions, policies, regulations, or changes thereto, of any governmental body, regulatory agency, or other special interest groups, may have a detrimental effect on the Company. Any or all of these situations may have a negative impact on the Company's ability to operate and make a profit.

Permits and Approvals

Various permits from governmental bodies are required for drilling operations to be conducted; no assurance can be given that such permits will be received. However, the Company might not be able to obtain necessary approvals from one or more governmental agencies, surface owners, or other third parties, for one or more of the following:

- surface use for seismic surveys;
- surface use for drilling activities;
- surface use for gathering lines, pipelines, or surface equipment;
- commencing one or more wells (that is, drilling permits); and
- sales of the product.

The Company's failure to obtain the necessary permits and approvals, to be granted new exploration licences, and/or failure to obtain sufficiently large production licences covering a sufficiently large area would prevent or limit the Company from continuing to explore and develop a significant portion of the oil and gas interests covered by the Company's projects.

Risks Associated with Drilling

Drilling operations generally involve a high degree of risk. The Company's future success depends on the success of its exploration, development, and production activities in the Company's projects. These activities are subject to numerous risks beyond the Company's control, including:

- unusual or unexpected geological conditions;
- power outages;
- liability for pollution or hazards against which the Company cannot adequately insure or elects not to insure;
- labour disruptions;
- blow-outs;
- sour gas leakages;
- fires;
- equipment;
- labour; and
- the possibility that the Company will not find any commercially productive oil and gas reservoirs.

The Company's decisions to purchase, explore, and develop prospects or properties will depend in part on the evaluation of data obtained through geophysical and geological analyses, production data, and engineering studies, the results of which are often inconclusive or subject to varying interpretations. The costs of drilling, completing, and operating wells are often uncertain before drilling commences. Overruns in budgeted expenditures are common risks that can make a particular project uneconomical. Further, many factors may curtail, delay, or prevent drilling operations, including:

- unexpected drilling conditions;
- pressure or irregularities in geological formations;
- equipment failures or accidents;
- pipeline and processing interruptions or unavailability;
- title problems;
- adverse weather conditions;
- lack of market demand for oil and gas;
- delays imposed by or resulting from compliance with environmental and other regulatory requirements;
- shortages of, or delays in the availability of drilling rigs and the delivery of equipment; and
- reductions in oil and gas prices.

The Company's future drilling activities might not be successful, and drilling success rates overall or within a particular area could decline. The Company could incur losses by drilling unproductive wells. Although the Company has identified numerous potential drilling locations, no assurances can be made that the Company will ever drill them or will produce oil and gas from them or from any other potential drilling locations. Shut-in wells, curtailed production, and other production interruptions may have a materially adverse effect on the Company's business, financial condition, and results of operations.

Uncertainty of Estimates of Resources/Reserves

Under applicable regulatory requirements, the Company will be required to identify and disclose as proved, oil and gas reserves, estimated quantities of crude oil, natural gas, and natural gas liquids. This geological and engineering data demonstrates, with reasonable certainty, the estimated quantities of crude oil, natural gas, and natural gas liquids, which will be recoverable in future years from known reservoirs under existing economic and operating conditions. However, the process of estimating oil and gas reserves is complex, requiring significant decisions and assumptions in the evaluation of available geological, geophysical, engineering, and economic data for each reservoir. The assumptions required to be made include assumptions relating to:

- oil and gas prices;
- drilling and operating expenses;
- capital expenditures;
- ownership and title; and
- taxes and the availability of funds.

As a result, such estimates are inherently imprecise. Actual future production, oil and gas prices, revenues, taxes, development expenditures, operating expenses, and quantities of recoverable oil and gas reserved may vary substantially from the Company's estimations from year to year. Any significant variance in the assumptions could materially affect the estimated quantities and present values of reserves. For example, a material drop in oil and gas prices, or material increase in applicable taxes, will require management to reassess whether known reservoirs can continue to be reasonably judged as economically productive from one year to the next. In addition, the reserves may be subject to downward or upward revisions based upon production history, results of future exploration and development, prevailing oil and gas prices, and other factors, many of which are beyond the Company's control. Actual oil and gas prices, future production, revenues, operating expenses, taxes, and development expenditures will most likely vary from those estimated by the Company. Any significant variance could have a materially adverse effect on the

estimated quantities and present value of future net revenues. A reduction in oil and gas prices, for example, would reduce the value of resources and reduce the amount of oil and gas that could be economically produced, thereby reducing the quantity of reserves. The Company might adjust estimates of resources/reserves to reflect production history, results of exploration and development, prevailing oil and gas prices, and other factors, many of which are beyond the Company's control.

Further, undeveloped resources, by their nature, are significantly less certain than developed resources. The discovery, determination, and extraction of undeveloped resources require significant capital expenditures and successful drilling and exploration programs. The recovery of undeveloped resources requires significant capital expenditures and successful drilling operations. The Company's projects will require the Company to make significant capital expenditures to develop its resources. Although the Company has prepared estimates on certain of its oil and gas resources and the costs associated with these resources in accordance with industry standards, no assurances can be given that the estimated costs are accurate, that development will occur as scheduled, or that the actual results will be as estimated. The Company might not be able to raise the capital it needs to develop these resources.

Declining Reserves

In general, the volume of production from oil and gas properties declines as reserves are depleted. The decline rates depend on reservoir characteristics and vary from steep declines to the relatively slow declines characteristic of long-lived fields in other regions. If the Company establishes reserves, of which there is no assurance, and is not successful in its subsequent exploration and development activities or in subsequently acquiring properties containing proved reserves, its proved reserves will decline as reserves are produced. The Company's future oil and gas production is highly dependent upon its ability to economically find, develop, or acquire reserves in commercial quantities.

To the extent cash flow from operations is reduced, either by a decrease in prevailing prices for natural gas and oil or an increase in finding and development costs, and external sources of capital become limited or unavailable, the Company's ability to make the necessary capital investment to maintain or expand its asset base of oil and gas reserves would be impaired. Even with sufficient available capital, its future exploration and development activities may not result in additional proved reserves, and the Company might not be able to drill productive wells at acceptable costs.

Environmental Inspection

Inspections may not always be performed on every well and environmental problems, such as groundwater contamination, are not necessarily observable even when an inspection is undertaken. Even when problems are identified, a seller may be unwilling or unable to provide effective contractual protection against all or part of those problems, and the Company often assumes environmental and other risks and liabilities in connection with the acquired properties.

Additional Information

Additional information relating to our Company, including periodic quarterly and audited annual consolidated financial statements are available on SEDAR+ at www.sedarplus.ca. We also maintain a web site at www.xlenergy.com and email address info@xlenergy.com for shareholder communication. Our telephone number is (604) 331-3396.