

**GUARDIAN EXPLORATION INC.**

Consolidated Financial Statements

For the Years Ended

December 31, 2015 and 2014

## Independent Auditors' Report

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To the Shareholders of Guardian Exploration Inc.

We have audited the accompanying consolidated financial statements of Guardian Exploration Inc., which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Guardian Exploration Inc. as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

### *Emphasis of Matter – Going Concern*

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that Guardian Exploration Inc. and its subsidiaries have had negative working capital in the year and an accumulated deficit. These conditions indicated the existence of material uncertainties that cast significant doubt about Guardian Exploration Inc.'s ability to continue as a going concern.

April 28, 2016  
Calgary, Alberta

*MNP LLP*  
Chartered Professional Accountants



**GUARDIAN EXPLORATION INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**FOR THE YEARS ENDED DECEMBER 31,**  
*(All amounts in Canadian dollars unless indicated otherwise)*

	Notes	2015	2014
<b>Assets</b>			
Current assets			
Cash		15,667	-
Accounts receivable		40,363	31,567
Prepaid expenses		3,035	11,336
		<b>59,065</b>	<b>42,903</b>
Deposits	4	557,284	529,804
Investment	3	-	10,200
<b>Total Assets</b>		<b>616,349</b>	<b>582,907</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities		3,299,599	4,908,823
Loans from related parties	5	635,975	307,416
		<b>3,935,574</b>	<b>5,216,239</b>
Decommissioning liabilities	6	894,218	852,270
<b>Total Liabilities</b>		<b>4,829,792</b>	<b>6,068,509</b>
<b>Shareholders' deficit</b>			
Share capital	8	12,630,220	12,630,220
Contributed surplus		5,131,404	5,131,404
Deficit		(21,631,759)	(23,340,904)
Accumulated other comprehensive income		(343,308)	93,678
<b>Total shareholders' deficit</b>		<b>(4,213,443)</b>	<b>(5,485,602)</b>
<b>Total liability and shareholders' deficit</b>		<b>616,349</b>	<b>582,907</b>

Going concern (Note 1)

Commitments and contingencies (Note 9)

*See accompanying notes to the consolidated financial statements.*

**Approved on behalf of the Board of Directors**

"Graydon Kowal"

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Graydon Kowal  
Director

"Scott Reeves"

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Scott Reeves  
Director

**GUARDIAN EXPLORATION INC.**  
**CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS**  
**FOR THE YEARS ENDED DECEMBER 31,**  
*(All amounts in Canadian dollars unless indicated otherwise)*

	Notes	2015	2014
<b>Revenue</b>			
Petroleum and natural gas		1,998	9,435
Royalties		-	(2,187)
		<b>1,998</b>	<b>7,248</b>
<b>Expenses</b>			
Operating		78,990	81,270
General and administrative		191,879	463,172
Accretion on decommissioning liabilities	6	10,309	24,731
Bad debts		(5,000)	-
Gain on foreign exchange		-	(3,486)
Interest	5	73,236	37,278
Interest income		(2,009)	(1,160)
Gain on sale of property and equipment		-	(10,000)
Loss on held for trading investments	3	12,516	3,520
Gain on settlement of accounts payable	14	(2,067,068)	(123,056)
		<b>(1,707,147)</b>	<b>472,269</b>
<b>Net income (loss) before tax</b>		<b>1,709,145</b>	<b>(465,021)</b>
<b>Net income (loss)</b>		<b>1,709,145</b>	<b>(465,021)</b>
<b>Other comprehensive income, net of tax</b>			
Foreign currency translation adjustment		(436,986)	(198,890)
<b>Total net income (loss and comprehensive income (loss))</b>		<b>1,272,159</b>	<b>(663,911)</b>
<b>Net income (loss) per share</b>			
Basic	8	0.02	(0.01)
Diluted	8	0.02	(0.01)

*See accompanying notes to the consolidated financial statements.*

**GUARDIAN EXPLORATION INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31,**  
*(All amounts in Canadian dollars unless indicated otherwise)*

	Notes	2015	2014
<b>Share Capital</b>			
Balance, beginning of year		12,630,220	12,630,220
Balance, end of year	8	12,630,220	12,630,220
<b>Contributed surplus</b>			
Balance, beginning of year		5,131,404	5,131,404
Balance, end of year		5,131,404	5,131,404
<b>Accumulated other comprehensive income</b>			
Balance, beginning of year		93,678	292,568
Foreign currency translation adjustments		(436,986)	(198,890)
Balance, end of year		(343,308)	93,678
<b>Deficit</b>			
Balance, beginning of year		(23,340,904)	(22,875,883)
Net income (loss)		1,709,145	(465,021)
Balance, end of year		(21,631,759)	(23,340,904)
<b>Total shareholders' deficit</b>		<b>(4,213,443)</b>	<b>(5,485,602)</b>

See accompanying notes to the consolidated financial statements.

**GUARDIAN EXPLORATION INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
*(All amounts in Canadian dollars unless indicated otherwise)*

	Notes	2015	2014
<b>Cash flows provided by (used in):</b>			
<b>Operating activities</b>			
<b>Net income (loss)</b>		<b>1,709,145</b>	<b>(465,021)</b>
Items not affecting cash:			
Accretion	6	10,309	24,731
Gain on settlement of accounts payable		(2,067,068)	(123,056)
Loss on held for trading investments	3	12,516	3,520
Reduction in decommissioning liabilities	6	(37,451)	-
Bad debts		(5,000)	-
Foreign exchange loss		(456,628)	(169,755)
Cash used in operating activities before non-cash working capital		(834,177)	(729,581)
Changes in non-cash working capital		521,285	517,956
<b>Cash used in operating activities</b>		<b>(312,892)</b>	<b>(211,625)</b>
<b>Financing activities</b>			
Proceeds on loans from related parties	5	328,559	155,916
<b>Cash provided by financing activities</b>		<b>328,559</b>	<b>155,916</b>
<b>Investing activities</b>			
Proceeds from deposits		-	(10,948)
<b>Cash provided by (used in) investing activities</b>		<b>-</b>	<b>(10,948)</b>
<b>Change in cash</b>		<b>15,667</b>	<b>(66,657)</b>
<b>Cash, beginning of year</b>		<b>-</b>	<b>66,657</b>
<b>Cash, end of year</b>		<b>15,667</b>	<b>-</b>

Supplementary cash flow information 13

*See accompanying notes to the consolidated financial statements.*

**GUARDIAN EXPLORATION INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2015 and 2014**  
*(All amounts in Canadian dollars unless indicated otherwise)*

**1. BASIS OF PREPARATION AND GOING CONCERN**

Guardian Exploration Inc. (the “Company”) is engaged in the exploration, development and production of oil and natural gas properties in Western Canada and the State of Montana in the United States. The Company’s registered office is 600, 815 – 8 Avenue SW, Calgary, Alberta, Canada and the principal place of business is 538 Hurricane Drive, Springbank, Alberta, Canada, T3Z 3S8.

The consolidated financial statements are comprised of the Company and its controlled entities (“Group”). The consolidated financial statements have been prepared on a historical cost basis and are stated in Canadian dollars, which is functional currency of the Company. The functional currency of the Company’s subsidiaries is the US dollar. The consolidated financial statements have been prepared using policies consistent with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standard Board (IASB).

The consolidated financial statements were authorized by the Board of Directors on April 28, 2016.

**Going Concern**

The consolidated financial statements have been prepared by management in accordance with IFRS on a going concern basis. The going concern basis contemplates the realization of assets and the settlement of liabilities in the ordinary course of business. If the Company is unable to raise funds to pay its liabilities as they become due and successfully finance its current and future oil and natural gas properties and projects, it may not be able to realize its assets and discharge its liabilities in the normal course of operations.

For the year ended December 31, 2015, the Company reported income of \$1.7 million. As at December 31, 2015, the Company had a working capital deficiency of \$3.9 million, a shareholders’ deficit of \$4.2 million and an accumulated deficit of \$21.6 million.

The Company will need further financing in the form of either equity or debt, in order to proceed with oil and gas development projects and to fund ongoing corporate and administrative activities. The Company’s operating losses, negative working capital and uncertainty regarding its ability to obtain financing in a timely manner raises significant doubt as to the Company’s ability to continue as a going concern. If the going concern assumption is not appropriate, adjustments may be necessary to the carrying amounts and classification of the Company’s assets and liabilities. The accompanying consolidated financial statements do not include any adjustments that may result if the Company is unable to continue as a going concern, and, such adjustments could be material.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**a) Principles of consolidation**

The consolidated financial statements of the Group include the following controlled entities (wholly owned subsidiaries):

- K2 America Corp. - incorporated November 16, 1995 under the General and Business Corporate Law of the State of Montana, United States.
- K2 Operating Corp. - incorporated February 12, 1998 under the General and Business Corporate Law of the State of Montana, United States.

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**2. SIGNIFICANT ACCOUNTING POLICIES** *(continued from previous page)*

**a) Principles of consolidation** *(continued)*

Control is achieved where the Company has the power to govern the financial and operating policies of an entity, so as to obtain benefits from its activities.

K2 Operating Corp. had no assets or liabilities for any of the periods presented.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

**b) Jointly controlled operations and assets**

Most of the Group's oil and gas exploration activities and operations are conducted through unincorporated joint ventures. A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic, financial and operating policy decisions relating to the activities of the joint venture are made jointly).

When the Group undertakes its activities directly under joint venture arrangements, the Group's share of jointly controlled assets and jointly incurred liabilities are recognized proportionately in the financial statements of the Group and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

**c) Property, plant and equipment and exploration and evaluation assets**

**(i) Recognition and measurement**

Pre-license expenditures are expensed in the statements of net loss and comprehensive loss as incurred. The Group accounts for exploration and evaluation ("E&E") costs, having regard to the requirement of IFRS 6 *Exploration for and Evaluation of Mineral Resources*. Costs of exploring for and evaluating oil and natural gas properties are capitalized. Such E&E costs may include costs of license acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, directly attributable overhead and administration expenses and the projected costs of retiring the assets (if any), but do not include general prospecting or evaluation costs incurred prior to having obtained the legal rights to explore an area, which are expensed directly to the statements of loss and comprehensive loss as they are incurred.

Tangible assets acquired for use in E&E activities are classified as property, plant and equipment; however, to the extent that such a tangible asset is consumed in developing an intangible exploration asset, the amount reflecting that consumption is recorded as part of the cost of the intangible exploration asset.

**GUARDIAN EXPLORATION INC.**  
**Notes to the Consolidated Financial Statements**  
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**2. SIGNIFICANT ACCOUNTING POLICIES** *(continued from previous page)*

**c) Property, plant and equipment and exploration and evaluation assets** *(continued)*

Intangible exploration assets are not depleted and are carried forward until technical feasibility and commercial viability of extracting a petroleum resource is considered to be determined. The technical feasibility and commercial viability of extracting a petroleum resource is determined when proven and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to assess whether proven and/or probable reserves have been discovered. Upon determination of proven and probable reserves, E&E assets attributable to those reserves are first tested for impairment using cash generating units (CGUs - refer to 'Impairment' below), and then reclassified from intangible exploration assets to oil and natural gas interests, a separate category within property, plant and equipment.

Items of property, plant and equipment are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within "other income" or "other expense" within the statements of loss and comprehensive loss.

**(ii) Subsequent costs**

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil 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 oil 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 costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

**(iii) Depletion and depreciation**

The net carrying value of development or production (i.e. producing) assets is depleted using the unit of production method by reference to the ratio of production in the quarter to the related proven reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. The estimates are reviewed by independent reserve engineers at least annually.

Proven reserves are estimated using independent reserve engineer reports which 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 producible. There should be a 90 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven.

**GUARDIAN EXPLORATION INC.**  
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**2. SIGNIFICANT ACCOUNTING POLICIES** *(continued from previous page)*

**c) Property, plant and equipment and exploration and evaluation assets** *(continued)*

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

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

Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of nine thousand cubic feet of gas to one barrel of oil.

Tangible equipment, such as drilling, production or well equipment available for use in exploration and evaluation activities, is also depreciated on a unit of production basis unless the estimated useful life of the asset is shorter than that implied by the unit of production rate, in which case the asset is depreciated on a straight-line basis over its estimated useful life.

For other assets, depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for other assets are as follows:

- Office Equipment - 2 to 5 years
- Fixtures and Fittings - 2 to 5 years
- Computer Software - 2 to 3 years

**(iv) Impairment**

E&E assets are assessed for impairment when they are reclassified as oil and natural gas interests to property and equipment, and when facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. CGUs represent the smallest group of assets that generate independent cash inflows from continuing use, and they typically consist of oil and natural gas fields in close geographic proximity that share common infrastructure and have independent cash inflows. Where a reasonable and consistent basis of allocation can be identified, corporate assets are allocated to individual CGUs, otherwise, they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

**GUARDIAN EXPLORATION INC.**  
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*(All amounts in Canadian dollars unless indicated otherwise)*

**2. SIGNIFICANT ACCOUNTING POLICIES** *(continued from previous page)*

**c) Property, plant and equipment and exploration and evaluation assets** *(continued)*

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows from proven and probable reserves are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where the conditions that give rise to an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**d) Decommissioning liabilities**

The Group's core activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category unless it arises from the normal course of production activities, in which case it is recognized in profit or loss.

Provisions are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the reporting 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 timing or change in discount rates. 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 (unless the obligating event was related to production activities). Actual costs incurred upon settlement of the site restoration obligation are charged against the provision to the extent the provision was established.

The interest rate used to discount future costs is a risk-free rate over the period to when the costs are expected to be incurred.

**e) Revenue recognition**

Revenue from the sale of crude oil, natural gas and natural gas liquids is recorded when the significant risks and rewards of ownership of the product are transferred to the buyer. This is usually when legal title passes to the external party, generally at the time product enters the pipeline. Revenue is measured net of discounts, and royalties that are taken 'in-kind' (e.g. oil royalties due to the Alberta Minister of Finance).

**GUARDIAN EXPLORATION INC.**  
**Notes to the Consolidated Financial Statements**  
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*(All amounts in Canadian dollars unless indicated otherwise)*

**2. SIGNIFICANT ACCOUNTING POLICIES** *(continued from previous page)*

**f) Financial instruments**

Financial instruments include cash, accounts receivable, deposits, investment, accounts payable and accrued liabilities and loans from related parties. All financial instruments are recognized initially at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

***Financial assets***

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables.' The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Group has no 'held-to-maturity' investments or 'available-for-sale' financial assets.

**(i) Financial assets at FVTPL**

A financial asset is classified as FVTPL when the financial asset is either held-for-trading or it is designated as FVTPL. Cash and investment are designated as held-for-trading and are measured at fair value.

**(ii) Loans and receivables**

Accounts receivable are classified as 'loans and receivables' and are measured at amortized cost using the effective interest method, less any impairment.

**(iii) Impairment of financial assets**

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

**GUARDIAN EXPLORATION INC.**  
**Notes to the Consolidated Financial Statements**  
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*(All amounts in Canadian dollars unless indicated otherwise)*

**2. SIGNIFICANT ACCOUNTING POLICIES** *(continued from previous page)*

**f) Financial instruments** *(continued)*

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

***Financial liabilities and equity instruments***

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. The Group has no financial liabilities at FVTPL.

**(i) Other financial liabilities**

Other financial liabilities, including accounts payables and accrued liabilities and loans from related parties, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

**(ii) Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Common shares issued by the Group are classified as equity and are recognized at the proceeds received, net of direct issue costs and any tax effects.

**(iii) Derecognition of financial liabilities**

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

**GUARDIAN EXPLORATION INC.**  
**Notes to the Consolidated Financial Statements**  
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*(All amounts in Canadian dollars unless indicated otherwise)*

**2. SIGNIFICANT ACCOUNTING POLICIES** *(continued from previous page)*

**g) Taxes**

Tax expense represents the sum of the tax currently payable and deferred tax.

**(i) Current tax**

The tax currently payable is based on taxable income for the year. Taxable income differs from income as reported in the statement of net loss and comprehensive loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

**(ii) Deferred tax**

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**GUARDIAN EXPLORATION INC.**  
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*(All amounts in Canadian dollars unless indicated otherwise)*

**2. SIGNIFICANT ACCOUNTING POLICIES** *(continued from previous page)*

**h) Flow-through shares**

The Company, from time to time, issues flow-through shares to finance a portion of its capital expenditure program. Pursuant to the terms of the flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. The difference between the value ascribed to flow-through shares issued and the value that would have been received for common shares at the date of issuance of the flow-through shares is initially recognized as a liability on the consolidated statement of financial position. When the expenditures are renounced and incurred, the liability is drawn down, a deferred income tax liability is recorded equal to the estimated amount of deferred income tax payable by the Company as a result of the renunciation, and the difference is recognized as income tax expense in comprehensive income (loss).

**i) Share-based payments**

Equity-settled share-based payments to employees, directors and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value of equity instruments is determined using the Black-Scholes option pricing model.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a graded basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. The vesting period is the period over which the recipient becomes unconditionally entitled to the share-based award.

At the end of each reporting period, the Group assesses its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled items reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Warrants to acquire shares are similarly valued at fair value at the grant date using the Black-Scholes pricing model. Warrants which are issued as part of an equity or debt raising process are accounted for as a reduction in the cost assigned to the equity or debt instrument with a corresponding amount recorded in shareholders' equity.

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**2. SIGNIFICANT ACCOUNTING POLICIES** *(continued from previous page)*

**j) Foreign currency**

Transactions in foreign currencies are translated to the entities' functional currency. Monetary assets and liabilities denominated in foreign currencies are translated at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the time of the prevailing transaction. Foreign currency translation amounts are recognized in net income/loss.

In the consolidated financial statements, all assets, liabilities and transactions of Guardian's subsidiaries with a functional currency other than the Canadian dollars (the Company's presentation currency) are translated into Canadian dollars. These assets and liabilities have been translated into Canadian dollars at the closing rate at the reporting date. Income and expenses have been translated into the Company's presentation currency at the average rate over the reporting period. Exchange differences are recorded to other comprehensive income/loss and recognized in the accumulated other comprehensive income balance in equity. On disposal of a foreign operation, the cumulative translation differences recognized in equity are reclassified to profit or loss and recognized as part of the gain or loss on disposal. The functional currency of these subsidiaries has remained unchanged during the reporting period.

**k) Use of estimates and measurement uncertainty**

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Such estimates primarily relate to unsettled transactions and events at the reporting date and are based on information available to management at the reporting date. Actual results could differ from those estimated. Key sources of estimation uncertainty and judgment are discussed below:

Estimates of recoverable quantities of proved and probable reserves include assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact asset carrying values, the provision for decommissioning liabilities and the recognition of deferred tax assets, due to changes in expected future cash flows. Reserve estimates are prepared in accordance with the Canadian Oil and Gas Evaluation Handbook and are reviewed by third party reserve engineers.

The amounts recorded for depletion and depreciation of property, plant and equipment, the provision for decommissioning and the amounts used for the impairment test calculations are based on estimates of reserves, future commodity prices, royalties, operating expenses, development costs, abandonment costs and the fair value of E&E assets, all of which are inherently uncertain. The Company's reserve estimates are evaluated at least annually by an independent engineering firm.

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**2. SIGNIFICANT ACCOUNTING POLICIES** *(continued from previous page)*

**k) Use of estimates and measurement uncertainty** *(continued)*

The amount recorded as decommissioning liabilities is based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology.

The determination of share-based payment expense requires a calculation of the fair value of the equity instrument at grant date, which involves a number of estimates, in particular, the volatility of the Group's future share price.

The recognition of deferred income tax assets requires judgment as to the existence of future taxable income or reversal of temporary differences to which the tax assets can be applied and benefit realized.

The write down of accounts payable and obligations requires judgment by management as to the likelihood of future collection attempts on those amounts, specifically assessing whether amounts may be considered stale-dated due to lack of collection activities over a period of time.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. By their nature, estimates are subject to measurement uncertainty and the effect of changes in such estimates on the consolidated financial statements for current and future periods could be significant.

Key judgments of the Company include the assessment of functional currency for each entity and the determination of cash generating units.

**l) New and future accounting standards**

New standards adopted in the current year

The Company has adopted standards, amendments and interpretations to existing standards that are effective in the current year as follows:

**I. IAS 32 financial instruments – presentation**

Amendments to IAS 32 provides clarification on the application of the offsetting rules. The amendment was effective and adopted by the Company as of January 1, 2015. The adoption of the standard did not have a material effect on the Company.

**II. IAS 36 impairment of assets**

Amendments to IAS 36 require entities to disclose the recoverable amount of an impaired CGU. The amendment was effective and adopted by the Company as of January 1, 2015. The adoption of the standard did not have a material effect on the Company.

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**2. SIGNIFICANT ACCOUNTING POLICIES** *(continued from previous page)*

III. IFRIC 21 levies

IFRIC 21 provides an interpretation of IAS 37 which sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payment of the levy. The interpretation did not have a material effect on the Company.

A number of new standards, amendments to standards and interpretations have been issued by the IASB which are not yet effective for the year ended December 31, 2015, and have not been applied in preparing these consolidated financial statements. The Company does not expect the amendments to have a material impact on the financial statements.

I. IFRS 9 financial instruments

IFRS 9 addresses requirements for the classification and measurement of financial instruments, impairment methodology and hedge accounting. The IASB set a mandatory effective date for annual periods beginning on or after January 1, 2018. The Company continues to assess this new standard, but does not expect it to have a significant impact.

II. IFRS 15 revenue from contracts with customers

IFRS 15 replaces the existing revenue recognition guidance with a new framework to determine the timing and measurement of revenue, providing users of the financial statements more information and relevant disclosures. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company continues to assess this new standard, but does not expect it to have a significant impact.

III. IAS 38 intangible assets

Amendments to IAS 38 provides clarification of acceptable methods of depreciation and amortization. The amendments were issued in May 2015 and apply to annual reporting periods beginning on or after January 1, 2016, with early adoption permitted under IFRS. The Company continues to assess this new standard, but does not expect it to have a significant impact.

IV. IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases which replaces the previous leases standard, IAS 17 Leases. IFRS 16 eliminates the classification of leases as either operations leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessors continue to classify leases as operating leases or finance leases, and account for those two types of leases differently. IFRS 16 is effective for periods beginning on or after January 1, 2019.

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**3. INVESTMENT**

In 2015, the Company sold 88,000 shares of Stone Point Energy Inc. for net cash proceeds of \$6,875. The investment was previously classified as held for trading and was carried at its fair value (December 31, 2014 – \$10,200).

**4. DEPOSITS**

As part of the finalization of the Third Amended Agreement with the Blackfeet Nation, the Company has a deposit of USD \$114,120; CDN \$157,943 (December 31, 2014 – USD \$113,446; CDN \$131,609) in favor of the Bureau of Indian Affairs-Blackfeet Agency, Environmental Protection Agency, and Montana Board of Oil and Gas, in order to cover the decommissioning liabilities on the Company's U.S. properties. This deposit is considered to be refundable, subject to application for refund, which may or may not be granted. The total amount also includes an abandonment and reclamation deposit in the amount of \$43,891. (December 2014 - \$42,745) with Alberta Energy Conservation Board and a deposit of \$355,450 (December 31, 2014 - \$355,450) with the British Columbia Oil and Gas Commission.

**5. LOANS FROM RELATED PARTIES**

The Company obtains loans from certain related parties from time to time to supplement its working capital. During the year ended December 31, 2015, the Company obtained additional loans from related parties in the amount of \$328,559. For the year ended, December 2015 related party loans totaled \$635,975. The related party loans are with companies controlled by certain directors of the Company. The loans accrue interest at the rate of 15% per year, payable monthly, and are secured against the assets of the Company. The following loan principle and interest owing amounts are payable to related parties at December 31, 2015.

	Principal	Interest	Total
Deckland Inc. <sup>(1)</sup>	57,699	1,588	59,287
Guardian Helicopter <sup>(1)</sup>	465,651	86,318	551,969
Guardian Drilling <sup>(1)</sup>	-	955	955
G. Kowal	112,625	28,685	141,310
	<u>635,975</u>	<u>117,546</u>	<u>753,521</u>

(1) A private company wholly owned and controlled by Mr. G. Kowal, CEO and President of the Company.

	\$
<b>Balance, December 31, 2013</b>	<b>151,500</b>
Move loan from former director to accounts payable	(10,000)
Additional loans	165,916
<b>Balance, December 31, 2014</b>	<b>307,416</b>
Additional loans	328,559
<b>Balance, December 31, 2015</b>	<b>635,975</b>
Accrued interest payable, December 31, 2014	47,418
Accrued interest payable, December 31, 2015	117,546

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**6. DECOMMISSIONING LIABILITIES**

The total undiscounted amount of cash flows required to settle the obligations as measured at December 31, 2015 are estimated to be \$894,218 (December 31, 2014 - \$852,270). The estimated inflation rate used to project future costs was 2% in 2015 (2014 – 3%). A reconciliation of the Company’s undiscounted decommissioning liabilities is provided below:

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Balance, beginning of the year</b>	852,270	798,404
Abandonments	(37,451)	-
Changes in estimates and foreign exchange	69,090	29,135
Accretion	10,309	24,731
<b>Balance, end of the year</b>	<b>894,218</b>	<b>852,270</b>

**7. INCOME TAXES**

The following table reconciles the expected income tax expense at the Canadian federal and provincial statutory income tax rates to the amounts recognized in the consolidated statements of loss and comprehensive loss for the years ended December 31, 2015 and 2014.

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Income (loss) before taxes	1,709,145	(465,021)
Statutory income tax rates	26%	25%
Expected income tax expense (recovery)	444,378	(116,255)
Adjustment related to foreign earnings	102,180	1,088
Deferred tax benefits not recognized	(108,306)	115,167
Tax benefit previously unrecognized/other	(438,252)	-
Income tax expense (recovery)	-	-

As at December 31, 2015, the Company has Canadian non-capital losses of approximately \$9,300,000 (2014 - \$9,800,000) which may be carried forward to apply against future years’ taxable income for Canadian tax purposes, subject to final determination by taxation authorities and will expire between 2026 and 2034.

The Company also has Canadian capital losses of approximately \$41,200,000 (2014 - \$41,200,000) which may be carried forward to apply against future years’ taxable capital gains for Canadian tax purposes subject to final determination by taxation authorities.

At this time, management does not believe that it is probable that the Company will generate sufficient taxable income in the future to use any of its Canadian tax pools and loss carry forwards.

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**8. SHARE CAPITAL**

**a) Authorized shares**

- Unlimited number of no par value common voting shares.
- Unlimited number of no par value preferred shares, issuable in series.

**b) Shares issued and outstanding**

<b>Share Capital</b>	<b>Number of Shares</b>	<b>Amount \$</b>
Balance, December 31, 2014	74,475,877	12,630,220
Balance, December 31, 2015	74,475,877	12,630,220

**c) Stock options**

The Company has a stock option plan under which directors, officers, employees and consultants are eligible to receive stock option grants. The stock options issued shall not exceed 10% of the issued shares of the Company at the time of granting of options. The exercise price and vesting terms of any options granted are fixed by the Board of Directors of the Company at the time of grant. The following table outlines the stock option plan activity:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Balance and Exercisable, December 31, 2014	2,675,000	\$0.10
Balance and Exercisable, December 31, 2015	1,400,000	\$0.10

<b>Stock options outstanding</b>			<b>Stock options exercisable</b>		
<b>Exercise Prices</b>	<b>Outstanding Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (Years)</b>	<b>Options Exercisable</b>	<b>Weighted Average Exercise Price</b>
\$0.10	1,400,000	\$0.10	.25	1,400,000	\$0.10

**d) Loss per share**

Basic per share amounts are calculated using the weighted average number of shares outstanding of 74,475,877 at December 31, 2015 (2014 - 74,475,877). There were no dilutive instruments in place as at December 31, 2015.

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**9. COMMITMENTS AND CONTINGENCIES**

**a) Flow-through share transactions**

- (i) Pursuant to a flow-through share issuance completed in 2008, the Company was committed to incur \$2,777,110 of qualifying expenditures by December 31, 2009. At December 31, 2015, approximately \$2,300,000 of the obligation had been fulfilled. As the Company did not make the necessary qualifying expenditures by the aforementioned deadline, as required under the income tax rules, the unexpended flow-through amount could be reassessed by the tax authorities, and the Company could potentially be liable for investor income taxes and penalty interest thereon if an arrangement with the Canada Revenue Agency (“CRA”) cannot be made to remedy this matter. The Company has been in contact with the CRA regarding this matter, and it is optimistic that the matter will be resolved through negotiation with the tax authorities. The Company has accrued interest and penalties relating to the unexpended flow-through amount of approximately \$53,000 (2014 - \$53,000) which has been recorded in the accounts payable and accrued liabilities as of December 31, 2015.

**b) Contractual**

- (i) K2 was committed to drill a well on one of its leases located on the Blackfeet Indian Reservation in Montana by July 10, 2014. K2 failed to fulfill this obligation and surrendered its leases that were held with the Blackfeet Tribe. The drilling commitment agreement also contained a penalty of \$371,931 to the Office of Natural Resources Revenue. The Company has accrued this penalty in accounts payable and accrued liabilities.
- (ii) Under the terms of an employment contract with the Chief Executive Officer, the Company is committed to pay (i) severance equal to 24 months' base salary; (ii) compensation for loss of employee benefits; (iii) all accrued but unpaid bonuses; and (iv) accrued and unpaid salary, benefits, perquisites and expenses to the termination date and any un-received vacation allotment (see Note 10).

**c) Other**

The Company is involved in a limited number of legal claims associated with the normal course of operations. The Company believes it has made adequate provisions for such legal claims. The Company has not presented a detailed breakdown of the claims as it may prejudice the position of management on these claims. While the outcome of these claims is uncertain, and there can be no assurance that such claims will be resolved in the Company's favour, the Company does not believe that the outcome of adverse decisions in any proceedings related to these claims, or any amount which it may be required to pay, would have a material adverse impact on its financial position, results of operations or liquidity.

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**10. RELATED PARTY TRANSACTIONS**

- a) The Company from time to time obtains loans from related parties. Related party loans accrue interest at the rate of 15% per year, payable monthly, and are secured against the assets of the Company. The loans and advances do not have maturities and are payable upon demand (see Note 5).
- b) Charges from Guardian Helicopters, a company owned by Graydon Kowal, CEO and director of the Company, amounted to \$Nil in the year ended December 31, 2015 (2014 - \$Nil). At December 31, 2015, the balance of accounts payables and loans of \$551,969 (2014 - \$321,377) remains outstanding.
- c) In the year ended December 31, 2015, no charges were incurred related to the joint venture well with Deckland and no amounts is included in accounts payable or accrued liabilities. Deckland is a private company owned by Graydon Kowal, a director and CEO of Guardian.
- d) Legal fees in the amount of \$1,022 for the year ended December 31, 2015 (2014 - \$831) have been incurred with a legal firm of which a Company director is a partner. \$Nil is payable to this legal firm at December 31, 2015 (2014 - \$Nil) and is included in accounts payable and accrued liabilities.
- e) The transactions from items (a) to (d) are in the normal course of business.
- f) Total wages, salaries, benefits and other personnel costs included in the consolidated statements of net loss and comprehensive loss for the year ended December 31, 2015 were \$88,542 (2014 - \$208,173).

The aggregate expense of key management personnel, defined as the Company's chief executive officer, chief financial officer and the Company's board of directors, was as follows:

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Wages, salaries, benefits and other personnel costs	25,713	206,048
Total remuneration	25,713	206,048

As of December 31, 2015, the Company owed Graydon Kowal, CEO of the Company \$Nil (2014 - \$522,000). During 2015, Mr. Kowal forgave all wages, salaries and benefits owing to him by the Company. Mr. Kowal also agreed not to accrue any wages, salary or benefits for 2015.

**11. SEGMENT DISCLOSURES**

For the year ended December 31, 2015:

	<b>Canada</b>	<b>United States</b>	<b>December 31</b>
	<b>\$</b>	<b>\$</b>	<b>2015</b>
			<b>\$</b>
Assets	458,807	157,542	616,349
Liabilities	2,587,214	2,242,578	4,829,792
Petroleum and natural gas revenue	1,998	-	1,998
Interest expense	72,784	452	73,236
Income for the year	431,892	1,277,253	1,709,145

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**11. SEGMENT DISCLOSURES** *(continued from previous page)*

For the year ended December 31, 2014:

	Canada \$	United States \$	December 31 2014 \$
Assets	450,253	132,654	582,907
Liabilities	2,936,613	3,131,896	6,068,509
Petroleum and natural gas revenue	9,435	-	9,435
Interest expense	37,278	-	37,278
Loss for the year	(477,105)	12,084	(465,021)

**12. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT**

**a) Fair value of financial assets and liabilities**

The Company's carrying value of cash, accounts receivable, accounts payable and accrued liabilities and loans from related parties approximates their fair values, due to the immediate or short-term maturity of these instruments. The carrying value of the deposits (see Note 4) does not differ significantly from its fair value. The carrying value of the investment is at fair value.

Financial instruments consisting of accounts receivable, accounts payable and accrued liabilities, and loans from related parties on the statements of financial position are carried at amortized cost. Investments and cash are carried at fair value. All of the fair value items are transacted in active markets. The Company classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Company's financial assets carried at fair value are considered Level 1.

**b) Interest rate risk**

At December 31, 2015, the Company is not significantly exposed to interest rate cash flow risk in relation to its loan from a related party, which is at a fixed rate of interest.

**c) Commodity price risk**

The nature of the Company's operations results in an exposure to fluctuations in commodity prices. At December 31, 2015, the Company had no financial derivative or physical delivery contracts in place.

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**12. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT** *(continued from previous page)*

**d) Currency risk**

Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is exposed to currency risk on the translation of its U.S. dollar denominated subsidiary. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. As at December 31, 2015, the following are denominated in the United States dollar (Canadian dollar equivalent):

Accounts receivable	1,246
Deposits	157,945
Accounts payables and accrued liabilities	1,686,459
Decommissioning liabilities	431,559

At December 31, 2015, if the United States dollar strengthened or weakened by 10% relative to the Canadian dollar, the impact on comprehensive loss would be approximately \$29 thousand.

**e) Capital Management**

The Company's objective is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders. The Company defines capital as shareholder equity, working capital and credit facilities, when available. The Company manages its capital structure, including making adjustments to its capital structure in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's objective is met by retaining adequate equity to guard against the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. The Board of Directors does not establish quantitative return on capital criteria for management; but, rather, promotes year over year sustainable growth in net income and funds flow. There have been no changes to the Company's objectives in managing capital or in management's management of capital since last year.

The capital structure of the Company is as follows:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
	<b>\$</b>	<b>\$</b>
Total shareholders' deficiency	(4,213,443)	(5,485,602)
Working capital deficiency	(3,876,509)	(5,173,337)

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**12. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT** *(continued from previous page)*

**f) Credit Risk**

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. The Company is subject to credit risk on its cash and accounts receivable. The Company's cash is held at major financial institutions, and, as such, is subject to only minor credit risk. A majority of the Company's accounts receivable at the balance sheet date arises from crude oil, natural gas liquids and natural gas sales. Industry standard dictates that commodity sales are settled on the 25th day of the month following the month of production. Account receivables outstanding for greater than 90 days are considered overdue. For the year ended 2015 and 2014, no amounts were considered overdue.

The Company assesses if there has been any impairment of its financial assets on a quarterly basis.

**g) Liquidity Risk**

Liquidity risk includes the following, as a result of the Company's operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value less than what they are worth; or
- The Company may be unable to settle or recover a financial asset at all.

The Company's operating cash requirements, including amounts projected to complete the Company's existing capital expenditure program, are continuously monitored and adjusted as input variables change. The variables include, but are not limited to, oil and natural gas production from existing wells, results from new wells drilled, commodity prices, cost overruns on capital projects and regulations relating to prices, taxes, royalties, land tenure, allowable production and availability of markets. As these variables change, liquidity risk may necessitate the Company to conduct equity issues, obtain project debt financing, enter into joint venture arrangements or carry out asset divestitures. There is no assurance that adequate funds will be available to the Company in a timely manner (refer to Note 1 Going Concern). The loan from a related party is due upon demand.

**13. SUPPLEMENTARY INFORMATION**

**a) Supplementary cash flow information**

	<b>Year ended December 31, 2015</b>	<b>Year ended December 31, 2014</b>
	<b>\$</b>	<b>\$</b>
Interest received	2,898	1,160
Sale of investment in Stone Point Energy Inc.	6,875	-

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**14. SETTLEMENT OF ACCOUNTS PAYABLE**

Periodically, certain debts of the Company become statute barred and/or management negotiated the settlement of debt at a value less than the amount recorded in Guardian's liabilities. During the year ended 2015, the Company recorded a gain on the settlement of accounts payable of \$2,067,068 (2004 - \$123,056).