

GUARDIAN EXPLORATION INC.

Management's Discussion & Analysis

For the Three and six months ended
June 30, 2018

Management's Discussion & Analysis

The following Management's Discussion and Analysis ("MD&A") of Guardian Exploration Inc. ("Guardian" or the "Company") provides Management's analysis of financial conditions, results of operations, significant trends and external factors that may affect future performance. It is dated August 16, 2018 and should be read in conjunction with the Company's unaudited interim consolidated financial statements as at and for the three and six months ended June 30, 2018 and the MD&A and audited consolidated financial statements for the year ended December 31, 2017. Additional information relating to the Company can be found on the SEDAR website at www.sedar.com.

Discussion with regard to Guardian's current financial position and outlook is based on currently available information. The financial data presented below has been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The reporting and operating currency of the Company is the Canadian dollar. The operating currency of its subsidiaries is US dollar. The information in this MD&A was approved by the Company's Board of Directors on August 16, 2018.

This MD&A contains the terms "funds flow from operations," "funds flow per share" and "operating netback," which do not have standardized meanings prescribed by Canadian GAAP, and, therefore, it may not be comparable to performance measures presented by others.

Funds flow from operations, as used by the Company, is comprised of cash flow from operating activities before changes in non-cash operating working capital. Operating netback represents revenue less royalties, operating expenses and transportations expenses. These non-GAAP measures may not be comparable to the calculation of similar measures for other entities.

The Company believes that operating netback and funds flow from (used by) operations represent indicators of the Company's performance and a key measure of the Company's ability to generate the necessary cash to fund future capital expenditures.

Funds from (used by) operations and operating netback, as presented, is not intended to represent operating cash flow or operating profits for the period, nor should they be viewed as an alternative to cash flow from operating activities, net earnings (loss) or other measures of financial performance calculated in accordance with Canadian GAAP. See "Funds Flow from Operations" and "Netbacks".

The term barrels of oil equivalent ("boe") may be misleading, particularly, if used in isolation. A boe conversion ratio of nine thousand cubic feet (mcf) equal to one barrel (bbl) is based on an energy equivalency conversion method primarily applicable at the burner tip, and it does not represent a value equivalency at the wellhead. In this report, all boe conversions are derived by converting gas to oil using the ratio of nine thousand cubic feet of gas to one barrel of oil.

All amounts are reported in Canadian dollars unless otherwise indicated.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information regarding the Company set forth in this report includes forward looking statements. All statements, other than statements of historical facts contained in this MD&A, including statements regarding our future financial position, business strategy and plans and objectives of management for

future operations, are forward-looking statements. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "should," "plan," "expect" and similar expressions, as they relate to us, are intended to identify forward-looking statements.

We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions described elsewhere in this report.

Other sections of this report may include additional factors, which could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment.

New risk factors emerge from time to time, and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business, or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements.

We undertake no obligation to update publicly or revise any forward-looking statements. The forward-looking statements in this report are expressly qualified by this cautionary statement.

CORPORATE OVERVIEW

The Company was incorporated in Alberta as Guardian Resources Inc. ("Resources") on March 27, 2001. On May 14, 2001, resources changed its name to Guardian Exploration Inc. ("Guardian"), and it obtained Extra-provincial Registration in British Columbia on September 22, 2001. On April 21, 2006, Guardian amalgamated with Resilient Resources Ltd. ("Resilient"), a public company listed on the TSX Exchange. The amalgamated company continued under the name Guardian Exploration Inc.

Guardian is engaged in the acquisition, exploration and development of petroleum and natural gas properties in western Canada and the State of Montana. The Company's shares trade on the TSX Venture Exchange under the symbol "GX". Until June 20, 2018, GX owned 100% of a US based operating subsidiary, K2 America Corp ("K2"). K2 was sold on June 20, 2018 to Graydon Kowal, CEO and director of the Company, for proceeds of \$10.

CORPORATE UPDATE

During the six-month period ended June 30, 2018, all of the Company's oil and gas wells remained shut-in. The Company recorded total revenue for the three and six-month period ended June 30, 2018 of \$Nil. In addition, the Company recorded a Net Income for the three and six months ended June 30, 2018 of \$930,044 and \$861,9841 respectively. Guardian's expenses in the first and second quarters consisted

primarily of general & administrative expenses with \$55,344 in Q1 and \$71,561 in Q2. In addition, the foreign exchange translation adjustment related to K2 was \$49,220 in Q1 and \$109,208 in Q2. In Q2, the Company recorded a gain on the sale of K2 of \$1,019,939. As at June 30, 2018, the Company had a working capital deficiency of approximately \$824,000, of which \$353,228 related to loans from related parties.

Guardian is in the process of restructuring its business. There are three significant steps anticipated in the restructuring:

Step 1 - Shares for debt conversions (completed).

In Q4, 2017, the Company completed shares for debt agreements with five trade creditors and issued 1,863,287 common shares at a value of \$0.05 per share to settle current liabilities of \$93,164. In addition, the Company completed shares for debt agreements with four related parties and issued 48,199,575 common shares at a value of \$0.05 per share to settle related party loans and interest in the amount of \$2,409,979. As a result, current liabilities were reduced by a total of \$2,503,143.

Step 2 - Sale of K2 America subsidiary (completed).

In Q2 2018, Guardian completed an agreement to sell the shares of K2 to Graydon Kowal ("Kowal"), the President and CEO of Guardian, for \$10. At the time of the sale, K2 had assets of \$670,000 USD (a related party receivable from Guardian that was previously eliminated upon consolidation) and liabilities of approximately USD \$1.42 million (\$1.88 million CAD). As a result of the sale, the Company recorded a gain on sale of shares of \$1,019,939.

The purpose of the transaction was to shed approximately \$1.88 million of debt from the consolidated financial statements of Guardian. This result was achieved in the Q2 2018 financial statements, as the transaction closed on June 20, 2018. For Q2 2018 and subsequent periods, the assets and liabilities of K2 are no longer included in the financial statements of Guardian.

In conjunction with the sale, Guardian entered into a shares for debt agreement with K2 to settle its related party advances payable to K2 (that were previously eliminated upon consolidation). As part of the agreement, Guardian issued 16,803,340 shares to K2 to settle related party loans of \$593,527 CAD.

Step 3 - Complete an acquisition and financing (ongoing).

The Company intends to review possible acquisitions and arrange a financing in conjunction with the acquisition sufficient to complete the transaction, settle outstanding liabilities and fund working capital requirements of the Company. The Company is currently reviewing possible transactions. The timing of a possible transaction and financing are uncertain at this time.

SELECTED INFORMATION	Three Months Ended June 30	
	2018	2017
Petroleum and natural gas revenue, before royalties (\$)	-	-
Funds flow used in operations	(645,153)	(45,417)
Funds flow used in operations per share - basic (\$/share)	(0.01)	(0.01)
Funds flow used in operations per share - diluted (\$/share)	(0.01)	(0.01)
Total net income (loss) (\$)	1,039,252	(65,308)
Total net income (loss) per share - basic (\$/share)	.02	(0.01)
Total net income (loss) per share - diluted (\$/share)	.02	(0.01)
Capital expenditures (\$)	-	-

SELECTED INFORMATION	Six Months Ended June 30	
	2018	2017
Petroleum and natural gas revenue, before royalties (\$)	-	-
Funds flow used in operations	(582,051)	(109,104)
Funds flow used in operations per share - basic (\$/share)	(0.01)	(0.01)
Funds flow used in operations per share - diluted (\$/share)	(0.01)	(0.01)
Total net income (loss) (\$)	1,020,409	(204,098)
Total net income (loss) per share - basic (\$/share)	.02	(0.03)
Total net income (loss) per share - diluted (\$/share)	.02	(0.03)
Capital expenditures (\$)	-	-

	As at June 30 2018	As at June 30 2017
Current assets	21,273	17,940
Current liabilities	(845,071)	(2,052,975)
Working capital deficiency	(823,798)	(2,035,035)
Total assets	182,216	178,564
Total liabilities	(1,163,035)	(2,773,319)
Shareholders' deficiency	(980,819)	(2,594,755)

RESULTS OF OPERATIONS

PRODUCTION	Three and Six months ended June 30	
	2018	2017
Production (boe/day)		
Crude oil	-	-
Natural gas	-	-

Production for the first six months of 2018 remained shut-in.

PRICING

Benchmark prices

	Three months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Crude oil – WTI (US\$/bbl)	67.91	48.15	65.46	49.95
Mixed Sweet Stream Price at Edmonton Cdn\$/bbl)	80.63	61.74	76.45	62.78
Exchange rate (\$US/\$Cdn)	1.29	1.34	1.28	1.33

West Texas Intermediate at Cushing, Oklahoma ("WTI") is the benchmark reference price for North American crude oil prices. Canadian crude oil prices are based on the average of several postings, primarily at Edmonton, Alberta, and represents the WTI adjusted for quality and transportation differentials, the US/CDN dollar exchange rate and local demand and supply influences. For the six months ended June 30, 2018, WTI crude oil prices averaged US\$65.46 and CAD\$76.45 at Edmonton.

Realized prices

	Three and Six Months Ended June 30	
	2018	2017
Average prices		
Crude oil (US\$/bbl)	-	-
Natural gas (US\$/mcf)	-	-
Oil equivalent (US\$/bbl)	-	-

Guardian's average realized price for its share of non-operated crude oil sales was \$Nil per barrel for the six months ended June 30, 2018. As noted previously, Guardian's operated oil and natural gas wells remained shut-in during the first six months of 2018.

REVENUE

	Three and Six Months Ended June 30	
	2018	2017
Production revenue (\$)		
Crude oil	-	-
Natural gas	-	-
Total production revenue	-	-

The Company currently has no financial derivatives or physical delivery contracts in place. All production volumes are currently sold into the spot market.

ROYALTIES

	Three and Six Months Ended June 30	
	2018	2017
Royalties (\$)	-	-
As a percentage of revenue	-	-

Royalties were \$Nil for the three and six months ended June 30, 2018 as all properties were shut-in for the period.

OPERATING EXPENSES

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Operating expenses (\$)	11,899	12,115	14,085	12,135

As all of the Company's wells were shut in for the duration of the first six months of 2018, operating expenses were insignificant, similar to 2017.

GENERAL AND ADMINISTRATIVE EXPENSES

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
General and administrative expenses (\$)	71,561	54,852	126,905	174,752

General and administrative expenses decreased in 2018 compared to 2017 primarily due to a \$59,000 one-time Canada Revenue Agency penalty that was recorded in Q1 2017.

INTEREST AND FINANCING EXPENSES

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Financing fees (\$)	2,300	3,751	8,681	7,459
Interest expense (\$)	4,304	44,182	8,608	81,211

Financing fees relate primarily to the treatment of maturing asset retirement obligations under IFRS. The provision for asset retirement obligations is determined by Management in consultation with the Company's independent engineers, and it is based on prevailing regulations, costs, technology and industry standards. The Company estimates that the undiscounted value of its asset retirement obligations at June 30, 2018 is \$317,964. Current expenditures for actual abandonment and site

restoration in the three months ended June 30, 2018 were \$Nil. As a result of the sale of K2 in Q2 2018, USD \$327,616 (CAD \$435,763) of asset retirement obligations were eliminated.

Interest expense for the three and six months ended June 30, 2018 and 2017 relates primarily to loans from related parties. Interest expense decreased substantially in Q1 and Q2 of 2018 compared to 2017 as \$2,409,979 of related party loans were converted to 48,199,580 common shares at a value of \$0.05 per share in Q4 2017.

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, 2017 and 2016.

	2017	2016 \$
Income (loss) before taxes	(731,952)	(337,383)
Statutory income tax rates	27%	27%
Expected income tax expense (recovery)	(197,627)	(91,093)
Adjustment related to foreign earnings	(30,449)	(84,150)
Deferred tax benefits not recognized	228,076	175,244
Income tax expense (recovery)	-	-

As at December 31, 2017, the Company has Canadian non-capital losses of approximately \$10,932,000 (December 31, 2016 - \$10,200,000) 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 2035.

The Company also has Canadian capital losses of approximately \$41,200,000 (2016 - \$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.

NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Comprehensive income (loss) (\$)	1,039,252	(65,308)	1,020,409	(204,098)
Comprehensive income (loss) – per basic share (\$/share)	.02	(0.01)	.02	(0.03)
Comprehensive income (loss) – per diluted share (\$/share)	.02	(0.01)	.02	(0.03)

Weighted average shares outstanding:				
Basic	59,541,581	7,447,546	58,531,605	7,447,546
Diluted	59,541,581	7,447,546	58,531,605	7,447,546

During Q4 2017, the Company completed shares for debt agreements with five trade creditors and four related parties and issued 50.06 million shares at a value of \$0.05 to settle current liabilities and related party loans of \$2.5 million. As a result, total outstanding shares increased from 7.45 million at March 31, 2017 to 57.51 million shares at March 31, 2018.

During Q2 2018, in conjunction with the sale of K2, the Company issued 16.8 million shares to settle \$583k of a related party loan payable to K2. As a result, total outstanding shares increased from 57.51 million shares at March 31, 2018 to 74.3 million at June 30, 2018.

In the first six months of 2018, there were no outstanding stock options or warrants.

FLOW FROM OPERATIONS

It is Management's view that funds flow from operations is a useful measure of performance and a good benchmark when comparing results from period to period. Funds flow from operations is a non-GAAP measure, reconciled with net income (loss) for the three and six months ended June 30 in the table below:

(\$ Canadian)	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Cash flow from (used in):				
Operating activities				
Net income (loss)	930,044	(107,790)	861,981	(269,504)
Items not affecting cash:				
Accretion on decommissioning liabilities	2,300	3,751	8,681	7,459
Bad debts	-	(6,975)	-	(5,918)
Proceeds on sales of shares of a subsidiary	10	-	10	-
Foreign exchange loss (gain)	109,208	42,482	158,428	65,406
	1,041,562	(68,532)	1,029,099	(202,557)
Changes in non-cash working capital	(1,686,715)	23,115	(1,611,150)	93,453
	)			
Cash used in operating activities	(645,153)	(45,417)	(582,051)	(109,104)

In Q2 2018, the Company sold its shares in K2, a subsidiary company, and recorded a gain on the sale of the shares in the amount of \$1,019,939. As a result of the sale, the Company eliminated approximately \$1.88 million of liabilities. In conjunction with the sale of the shares of K2, the Company entered into a shares for debt agreement with K2 and eliminated a \$583k related party loan payable to K2. Otherwise, cash used in operations for the six months ended June 30, 2018 were consistent with the previous year.

SHARE CAPITAL

	As at June 30	
	2018	2017
Outstanding common shares		
Basic	74,313,748	7,447,546
Diluted	74,313,748	7,447,546

Detail of outstanding securities	As at June 30	
	2018	2017
Common shares	74,313,748	7,447,546
Stock options	-	-

At June 30, 2018, 74,313,748 common shares, and no options were outstanding.

CAPITAL EXPENDITURES AND SEGMENTED DISCLOSURES

For the six months ended June 30, 2018:

	Canada	United States	June 30, 2018
	\$	\$	
Assets	182,216	-	182,216
Current liabilities	(845,071)	-	(845,071)
Total liabilities	(1,163,035)	-	(1,163,035)
Interest expense	8,608	-	8,608
Net income (loss) for the year	866,062	(4,081)	861,981

For the year ended December 31, 2017:

	Canada	United States	December 31,
	\$	\$	2017
			\$
Assets	180,303	(1,739)	178,564
Current liabilities	(693,880)	(1,359,095)	(2,052,975)
Total liabilities	(1,007,244)	(1,766,075)	(2,773,319)
Interest expense	129,389	-	129,389
Income (loss) for the year	(552,840)	(179,112)	(731,952)

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2018, the Company had a working capital deficit of approximately \$824,000.

The future operations of the Company are dependent on the Company's ability to raise capital to support its activities and meet its obligations, as outlined in Note 1 to the consolidated financial statements. The capital-intensive nature of the Company's activities may create a negative working capital position during times of high levels of capital investment. The industry has a pre-arranged monthly clearing day for payment of revenues from all buyers of crude oil and natural gas. This occurs for all the Company's

Canadian operations on the 25th day following the month of sale. As a result, the Company's production revenues are collected in an orderly fashion. To the extent that the Company has joint venture partners in its activities it will attempt to collect on a monthly basis the partner's share of capital and operating expenses. These are subject to collection risk. For the six months ended June 30, 2018, \$Nil of accounts receivable was considered overdue but not impaired (June 30, 2017 - \$Nil). The Company's cash flow and earnings are highly sensitive to changes in commodity prices, exchange rates and other factors that are beyond the control of the Company.

SUMMARIZED QUARTERLY INFORMATION

The following table presents selected unaudited financial data for the last eight quarters up to June 30, 2018.

CAD (\$000's)	June 30 2018	March 31, 2018	Dec 31, 2017	Sept 30, 2017	June 30, 2017	March 31, 2017	Dec 31, 2016	Sept 30, 2016
P&NG net revenue	-	-	-	-	-	-	-	-
Operating expenses	12	2	24	34	12	-	(130)	46
G&A expenses	72	55	292	71	55	120	(230)	245
Net Income (loss)	930	(68)	(309)	(153)	(108)	(162)	(819)	(177)
Working capital (deficiency)	(824)	(2,135)	(2,035)	(4,370)	(4,258)	(4,190)	(4,053)	(2,925)

The Company's working capital position has fluctuated between a maximum deficiency of \$4.37 million to minimum deficiency of \$824,000 over the past eight quarters. The working capital deficiency improved significantly in Q4 2017 due to the conversion of approximately \$2.5 million of trade payables and related party loans to 50.06 million common shares of the Company. The working capital deficiency also improved significantly in Q2 2018 due to the sale of K2, a subsidiary of the Company with significant liabilities.

RELATED PARTY TRANSACTIONS

- (a) On June 20, 2018, the Company sold the shares of a subsidiary (K2 America Corp. ("K2")) to a related party (Graydon Kowal, CEO and director of the Company) for \$10. As a result of the sale, the Company recorded a gain on sale of shares and eliminated certain assets and liabilities as follows:

	\$
Net proceeds on sale of shares	10
Cash	1,843
Due from related parties	(593,527)
Accounts payable and accrued liabilities	1,321,278
Decommissioning liabilities	435,763
Due to related parties (USD \$90,000)	119,709
Accumulated foreign exchange translation	(265,137)
Gain on sale of subsidiary	1,019,939

In conjunction with the sale, the Company entered into a shares for debt agreement with K2 and issued 16,803,340 shares to settle \$593,527 of a related party debt to K2.

- (b) The Company from time to time obtains loans from related parties. Certain related party loans accrue interest at the rate of 15% per year, payable monthly, and are secured against the assets of the Company. Certain related parties have waived a portion of their interest during the six months ended June 30, 2018. The loans and advances do not have maturities and are payable upon demand.
- (c) Advances from Guardian Helicopters, a company owned by Graydon Kowal, CEO and director of the Company, amounted to \$32,176 in the six months ended June 30, 2018 (2017 - \$29,455). At June 30, 2018, the balance of accounts payables and accrued interest of \$83,096 (December 31, 2017 - \$50,920) and USD \$Nil (2017 - USD \$90,000) remains outstanding within accounts payable and accrued liabilities. As a result of the sale of K2, USD \$90,000 of advances from Guardian Helicopters has been eliminated.
- (d) Advances from Deckland Inc., a private company owned by Graydon Kowal, CEO and director of the Company, amounted to \$62,263 in the six months ended June 30, 2018 (2017 - \$2,377). At June 30, 2018, the balance of accounts payables and accrued interest of \$83,458 (December 31, 2017 - \$21,196) remains outstanding within accounts payable and accrued liabilities.
- (e) Legal fees in the amount of \$3,965 for the six months ended June 30, 2018 (2017 - \$3,168) have been incurred with a legal firm of which a Company director is a partner. \$24,011 is payable to this legal firm at June 30, 2018 (December 31, 2017 - \$19,203) and is included in accounts payable and accrued liabilities.
- (f) The transactions from items (a) to (d) are in the normal course of business.
- (g) Total wages, salaries, benefits and other personnel costs included in the consolidated statements of net income (loss) and comprehensive income (loss) for the three months ended June 30, 2018 were \$7,500 (2017 - \$42,034). The aggregate remuneration of key management for the six months ended June 30, 2018 was \$19,425 in salaries, benefits and consulting fees (2017 - \$Nil).

As of June 30, 2018, the Company owed Graydon Kowal, CEO of the Company \$186,674 including accrued interest of \$71,902 (2017 - \$170,183 including accrued interest of \$55,411). Mr. Kowal also agreed not to accrue any wages, salary or benefits for this period.

COMMITMENTS AND CONTINGENCIES

(a) Contractual

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.

(b) **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.

SIGNIFICANT ACCOUNTING POLICIES

(a) **Principles of consolidation**

The consolidated financial statements of the Company 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.

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 Company. All intra- company transactions, balances, income and expenses are eliminated in full on consolidation.

(b) **Jointly controlled operations and assets**

Most of the Company's oil and gas exploration activities and operations are conducted through unincorporated joint ventures. A joint venture is a contractual arrangement whereby the Company 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 Company undertakes its activities directly under joint venture arrangements, the Company's share of jointly controlled assets and jointly incurred liabilities are recognized proportionately in the financial statements of the Company 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 Company'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 Company 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 income (loss) and comprehensive income (loss) as incurred. The Company 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.

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.

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 Company 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 Company 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.

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 Company'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).

(f) Financial instruments

Financial instruments include cash, accounts receivable, refundable 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 Company has no held-to-maturity investments or AFS 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 is designated as held-for-trading and is 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 Company'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.

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 to the statement of income (loss) and comprehensive income (loss). 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 Company 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 Company 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 Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

(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 income (loss) and comprehensive income (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 Company'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 income. 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 income nor the accounting income.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company 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 Company 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 Company intends to settle its current tax assets and liabilities on a net basis.

(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 Company'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 Company 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.

(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) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. The Company has designated two operating segments on a geographic basis, Canada and the United States. Segment results include items directly attributable to each segment as allocated on a reasonable basis.

(l) 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 reservoir 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.

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 Company'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 attempts by the vendor over a period of time, in line with the legal requirements of the jurisdiction in which the Company incurred the liability.

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.

(m) New and future accounting standards

Financial instruments

The Company has adopted new accounting standard IFRS 9 - Financial Instruments, effective for the Company's annual period beginning January 1, 2018. The adoption of IFRS 9 did not result in any changes to the classification, measurement or carrying amounts of the Company's existing financial instruments on transition date.

The new standard brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 - Financial instruments: recognition and measurement. The standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value.

The Company continues to classify and measure its cash and cash equivalents at fair value through profit or loss with changes in fair value recognized in profit or loss as they arise ("FVTPL"). Prepaids are classified initially at FVTPL, and subsequently at amortized cost using the effective interest rate method. Accounts payable and accrued liabilities and due to related parties are classified and measured as financial liabilities, initially at FVTPL, and subsequently at amortized cost using the effective interest rate method.

Accounting policies issued for adoption in future periods

Certain new accounting standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRS Interpretations Committee (“IFRIC”) that are not yet effective for the financial period ended June 30, 2018. The standards and amendments issued that are applicable to the Company are as follows:

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 that provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases and its associated interpretive guidance. Significant changes were made to lessee accounting with its distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). In contrast, IFRS 16 does not include significant changes to the requirements for lessors. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted for those Companies that have also adopted IFRS 15, *Revenue from Contracts with Customers*. Management will be assessing the impact of this new standard on its financial statements.

ADDITIONAL INFORMATION

Additional information relating to the Company is filed on the SEDAR website at www.sedar.com.

Information can also be obtained by contacting the Company at Guardian Exploration Inc., 538 Hurricane Drive, Springbank, Alberta, Canada, T3Z 3S8.