

GUARDIAN EXPLORATION INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2020 AND 2019

MANAGEMENTS' DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") should be read in conjunction with Guardian Exploration Inc.'s ("Guardian" or the "Company") unaudited condensed interim financial statements as at and for the three months ended March 31, 2020 and 2019, and the audited financial statements as at and for the years ended December 31, 2019 and 2018. The financial data presented herein, including comparative periods, have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". Accordingly, certain information and disclosure normally included in audited annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed.

The commentary is as of **May 28, 2020**. The reader should be aware that historical results are not necessarily indicative of future performance.

Additional information about the Company, filed with the Canadian securities commissions, including periodic yearly and quarterly reports, is available online at www.sedar.com.

FORWARD LOOKING STATEMENTS

Certain of the statements set forth under "Management's Discussion and Analysis" including statements which may contain words such as "could", "expect", "believe", "will" and similar expressions and statements relating to matters that are not historical facts, are forward-looking and are based upon the Company's current belief as to the outcome and timing of such future events. There are numerous risks and uncertainties, certain of which are beyond Guardian's control, including: the impact of general economic conditions in Canada and the United States, industry conditions, changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced, increased competition, the lack of availability of qualified personnel or management, fluctuations in foreign exchange or interest rates, stock market volatility and market valuations of companies with respect to announced transactions and the final valuations thereof, and obtaining required approvals of regulatory authorities. Guardian's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur.

NATURE OF OPERATIONS

Guardian Exploration Inc. was incorporated in Alberta as Guardian Resources Inc. on March 27, 2001. On May 14, 2001, Guardian changed its name to Guardian Exploration Inc., 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.

The Company is engaged in the exploration, development and production of oil and natural gas properties in Western Canada. The Company's registered office is 1250, 639 – 5th Avenue SW, Calgary, Alberta, Canada and the principal place of business is 538 Hurricane Drive, Calgary, Alberta, Canada, T3Z 3S8. The Company is listed on the TSX Venture Exchange under the trading symbol "GX".

All amounts are reported in Canadian dollars unless otherwise indicated.

CORPORATE UPDATE

During the three months ended March 31, 2020 and year ended December 31, 2019, all of the Company's oil and gas wells remained shut-in.

For the three months ended March 31, 2020, the Company recorded revenue of \$nil (March 31, 2019 - \$nil), reported a net loss of \$28,337 (March 31, 2019 - \$24,966) and negative cash flow from operations of

\$32,155 (March 31, 2019 - \$18,592). As at March 31, 2020, the Company had a working capital deficiency of \$1,053,931.

These conditions indicate the existence of a material uncertainty which may cast significant doubt related 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 interim 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.

Guardian's expenses for the three-month period ended March 31, 2020 consisted primarily of operating and general and administrative expenses. The Company initiated a program to reduce overall expenses during 2019 and as a result, the Company was successful in reducing operating costs. In addition, the Company implemented a plan to reduce general and administrative expenses. The cost savings came primarily from terminating a month-to-month office lease and the reduction in associated office costs.

Guardian is in the process of restructuring its business and streamlining its operations. As part of this process, Guardian approached all significant creditors and negotiated settlement agreements where possible. In 2019, the Company recorded a gain on settlement of accounts payable of \$83,554. Guardian expects to either settle or complete shares for debt agreements with the remaining significant creditors in 2020.

The Company is actively reviewing potential acquisitions and intends to arrange a financing in conjunction with an acquisition, that is sufficient to complete the transaction, settle remaining 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 FINANCIAL INFORMATION (\$)

	Year Ended December 31,		
	2019	2018	2017
Net revenue, after royalties	-	-	-
Net income (loss) and comprehensive income (loss)	(84,158)	806,854	(613,745)
per share (basic and fully diluted)	(0.00)	0.01	(0.08)
Non-current liabilities:			
- Decommissioning liabilities	258,389	307,616	720,344
Total assets	162,254	170,410	178,564

QUARTERLY DATA (\$)

Period	Net Revenue ⁽¹⁾	Net Income (Loss)	Basic	Fully Diluted	Total Assets
March 31, 2020	-	(28,337)	(0.00)	(0.00)	166,385
December 31, 2019	-	56,393	0.00	0.00	162,254
September 30, 2019	-	(77,625)	(0.00)	(0.00)	169,365
June 30, 2019	-	(37,960)	(0.00)	(0.00)	170,632
March 31, 2019	-	(24,966)	(0.00)	(0.00)	166,394
December 31, 2018	-	(156,742)	(0.00)	(0.00)	170,410
September 30, 2018	-	(56,813)	(0.00)	(0.00)	178,956
June 30, 2018	-	1,039,252	0.02	0.02	182,216

⁽¹⁾ Revenue after royalties

SUMMARY OF RESULTS (\$, except Boe/d amounts)

	Three Months Ended Mar. 31 2020	Three Months Ended Mar. 31 2019
Petroleum and gas sales revenue	-	-
Royalties	-	-
Net revenue	-	-
Expenses		
Operating costs	5,884	140
General and administrative	17,080	18,446
Depletion and depreciation	-	-
Abandonment expenses	-	-
Share-based compensation	-	-
Finance expenses	1,300	2,300
Net loss and comprehensive loss	(28,337)	(24,966)
Loss per share – basic and diluted	(0.00)	(0.00)
Petroleum and natural gas sales (Boe/d) ⁽¹⁾	-	-
Net cash used in operating activities	(32,155)	(18,592)
Total assets	166,385	166,394
Average sales for the period		

PETROLEUM AND NATURAL GAS SALES VOLUMES

	Three Months Ended Mar. 31 2020	Three Months Ended Mar. 31 2019
Sales volumes mcf to boe (6:1 boe conversion)		
Natural Gas (mcf/d)	-	-
Oil and NGL's (bbls/d)	-	-
Total boe/d	-	-

GROSS REVENUE AND PRICING (\$)

	Three Months Ended Mar. 31 2020	Three Months Ended Mar. 31 2019
Petroleum	-	-
Natural gas	-	-
Natural gas liquids	-	-
	-	-
Petroleum (\$/bbl)	-	-
Gas (\$/mcf)	-	-
Natural gas liquids (\$/bbl)	-	-

During the three-month period ended March 31, 2020 and 2019, all of the Company's oil and gas wells remained shut-in.

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

ROYALTIES (\$, except percent of total revenue)

	Three Months Ended Mar. 31 2020	Three Months Ended Mar. 31 2019
Crown	-	-
Gross overriding	-	-
Total royalties	-	-
\$/boe	-	-
Percent of total revenue	-	-

Royalties were \$nil for the three-month period ended March 31, 2020 and 2019 as all properties were shut-in for the periods.

OPERATING EXPENSES (\$)

	Three Months Ended Mar. 31 2020	Three Months Ended Mar. 31 2019
Operating expenses	5,884	140
\$/boe	-	-
Percentage of gross revenue	-	-

Operating expenses have declined significantly due to reduced spending and maintenance costs on shut-in wells.

GENERAL AND ADMINISTRATIVE (“G&A”) EXPENSES (\$)

	Three Months Ended Mar. 31 2020	Three Months Ended Mar. 31 2019
G&A expenses	17,080	18,446
\$/boe	-	-

G&A expenses for the three months ended March 31, 2020 totalled \$17,080, representing a 7% decrease from \$18,446 from the comparative period last year. Decreased G&A during the current period was partly due to audit fees of approximately \$18,000, which were incurred during the period.

G&A costs for the three months ended March 31, 2020 are as follows: consulting fees - \$7,303 (March 31, 2019 - \$6,745), agent and filing fees - \$1,300 (March 31, 2019 - \$1,938), audit and legal - \$3,810 (March 31, 2019 - \$4,250), travel - \$1,063 (March 31, 2019 - \$nil), computer services and office supplies - \$550 (March 31, 2019 - \$647), and insurance and other - \$3,054 (March 31, 2019 - \$4,866).

During the three-month period ended March 31, 2020 and 2019, no G&A costs have been capitalized.

NET FINANCE EXPENSES (\$)

	Three Months Ended Mar. 31 2020	Three Months Ended Mar. 31 2019
Accretion on decommissioning liabilities	(1,300)	(2,300)
Interest expense	(4,304)	(4,304)
Interest income	231	224
	(5,373)	(6,380)

Interest expense for the three-month period ended March 31, 2020 and 2019 relates to a loan from a shareholder.

DEPOSITS

Deposits include an abandonment and reclamation deposit in the amount of \$46,484 (December 31, 2019 - \$45,253) with Alberta Energy Regulator and a deposit of \$116,000 (December 31, 2019 - \$116,000) with the British Columbia Oil and Gas Commission.

LOANS FROM RELATED PARTIES

From time to time, the Company obtains loans from certain related parties to supplement its working capital.

During the three-month period ended March 31, 2020 and year ended December 31, 2019, the Company obtained additional loans from related parties in the amount of \$27,850 and \$144,045, respectively. The related party loans are with companies controlled by certain directors of the Company. Certain loans accrue interest at the rate of 15% per year, payable monthly and all loans are secured against the assets of the Company and due on demand. The following loan amounts are payable to related parties at March 31, 2020 and December 31, 2019:

	Deckland Inc. (\$) ⁽¹⁾	Guardian Helicopters Inc. (\$) ⁽¹⁾	G. Kowal (\$)	Total (\$)
Principal	128,283	273,652	114,772	516,707
Interest	-	-	97,725	97,725
Balance, December 31, 2019	128,283	273,652	212,497	614,432
Advances	14,429	13,421	-	27,850
Interest	-	-	4,305	4,305
Balance, March 31, 2020	142,712	287,073	216,802	646,587

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

	\$
Balance, December 31, 2018	372,662
Advances	144,045
Balance, December 31, 2019	516,707
Advances	27,850
Balance March 31, 2020	544,557
Accrued interest payable, December 31, 2018	80,510
Accrued interest payable, December 31, 2019	97,725
Accrued interest payable, March 31, 2020	102,030

SHARE CAPITAL

Share Capital	Number of Shares	Amount (\$)
Balance, December 31, 2018	74,313,748	15,724,195
Shares issued	-	-
Balance, December 31, 2019 and March 31, 2020	74,313,748	15,724,195

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. There were no stock options issued during the three months ended March 31, 2020 or year ended December 31, 2019 and there are no stock options outstanding as at March 31, 2020 and December 31, 2019.

NET LOSS AND COMPREHENSIVE LOSS, AND CASH FLOWS FROM OPERATING ACTIVITIES (\$)

	Three Months Ended Mar. 31 2020	Three Months Ended Mar. 31 2019
Net loss and comprehensive loss	(28,337)	(24,966)
Per share – basic and diluted	(0.00)	(0.00)
Net cash used in operating activities	(32,155)	(18,592)

During the three-month period ended March 31, 2020, the Company recorded a net loss and comprehensive loss of \$28,337 (March 31, 2019 - \$24,966). On a per share basis, this loss equates to \$0.00 per share (March 31, 2019 - \$0.00 per share).

SUPPLEMENT TO THE FINANCIAL STATEMENTS

The outstanding common shares, warrants, and stock options are summarized below (also see note 7 to the unaudited condensed interim financial statements for three months ended March 31, 2020 and 2019):

	May 28, 2020	March 31, 2020	December 31, 2019
Common shares	74,313,748	74,313,748	74,313,748
Warrants	-	-	-
Share options	-	-	-

The weighted-average number of common shares outstanding during the three months ended March 31, 2020 was 74,313,748 (March 31, 2019 – 74,313,748).

LIQUIDITY AND CAPITAL RESOURCES

During the three-month period ended March 31, 2020, the Company incurred a net loss of \$28,337, (March 31, 2019 - \$24,966) and had negative cash flows from operations of \$32,155 (March 31, 2019 - \$18,592). As at March 31, 2020, the Company has a working capital deficit of \$1,053,931 (December 31, 2019 - \$1,026,663) and an accumulated deficit of \$22,006,735 (December 31, 2019 - \$21,978,398).

RELATED PARTY TRANSACTIONS

From time to time, the Company obtains loans from related parties. Shareholders loans accrue interest at the rate of 15% per year, payable monthly, and are secured against the assets of the Company. The remaining related party loans do not accrue interest. The loans and advances do not have maturities and are payable upon demand.

Advances from Guardian Helicopters Inc., a company owned by Graydon Kowal, CEO and director of the Company, amounted to \$13,421 during the three months ended March 31, 2020 (year ended December 31, 2019 - \$94,773). At March 31, 2020, the balance of \$287,073 (December 31, 2019 - \$273,652) remains outstanding within loans from related parties.

Advances from Deckland Inc., a private company owned by Graydon Kowal, CEO and director of the Company, amounted to \$14,429 during the three months ended March 31, 2020 (year ended December 31, 2019 - \$49,272). At March 31, 2020, the balance of \$142,712 (December 31, 2019 - \$128,283) remains outstanding within loans from related parties.

Legal fees in the amount of \$810 for the three months ended March 31, 2020 (March 31, 2019 - \$nil) have been incurred with a legal firm of which a partner is the spouse of a Company officer. As at March 31, 2020, \$810 is payable to this legal firm (March 31, 2019 - \$nil) and is included in accounts payable and accrued liabilities.

The transactions above are in the normal course of business.

Total consulting fees, wages, salaries, benefits and other personnel costs included in the statements of net loss and comprehensive loss for the three months ended March 31, 2020 were \$7,303 (March 31, 2019 - \$6,745). The aggregate remuneration of key management for the three months ended March 31, 2020 was \$7,303 in consulting fees, salaries and benefits (March 31, 2019 - \$6,745).

MATERIAL TRANSACTIONS

To date in 2020, crude oil prices have declined dramatically, largely due to the actual and anticipated impact of the novel coronavirus ("COVID-19") outbreak upon global commerce and energy demand, and the recent disagreements between major oil producing nations of Saudi Arabia and Russia with respect to production quotas. The production cuts by the Organization of Petroleum Exporting Countries ("OPEC") in late 2019 and discussions of potentially further cuts in 2020 had, until recently, kept WTI oil prices in the mid-to-low US\$50's.

The COVID-19 outbreak was declared a pandemic by the World Health Organization on March 11, 2020. This has resulted in significant economic uncertainty and governments worldwide are enacting emergency measures to contain the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global financial markets have experienced significant volatility and weakness as a consequence of this economic uncertainty. The duration and impact of the COVID-19 outbreak is unknown as this time, as is the effectiveness of interventions by governments and central banks.

On May 21, 2020, the Company announced that it has entered into a letter of intent with Graydon Kowal and DG Resources Management Ltd. ("DGM" and together with Graydon Kowal, the "Vendors") to acquire from the Vendors (the "Acquisition") their interests in and to a mining property known as the Mount Cameron Property located in the Mayo Mining District in the Yukon (the "Assets"). The purchase price for the Assets will be satisfied through issuance of 4,000,000 Common Shares in the share capital of Guardian to be divided equally between the Vendors and a 2% Net Smelter Royalty to be divided equally between the Vendors, which Net Smelter Royalty shall be repurchaseable by Guardian from the Vendors at a price of \$1,000,000 for a period of five years.

The Acquisition is a "Reviewable Transaction" under the policies of the TSX Venture Exchange and is therefore subject to the prior approval of the Exchange.

In connection with the Acquisition, the Company will complete a private placement of a minimum of 6,000,000 Common Shares and a maximum of 10,000,000 Common Shares at a price of \$0.05 per Common Share for total gross proceeds of between \$300,000.00 and \$500,000.00 (the "Private Placement"). The Company intends to use the proceeds from the Private Placement in order to fund the proposed work program for the Assets. The Company may pay finders fees to persons who assist the Company in filling the Private Placement.

Additionally, the Company will also assume debt in the amount of \$50,000 owed by Graydon Kowal to Dahrouge Geological Consulting Ltd. (an affiliate of DGM) and debt in the amount of \$10,000 owed by DGM to Dahrouge Geological Consulting Ltd. (the "Debt Assumption"). The debt assumed by the Company shall bear no interest and shall be payable in increments of \$15,000 semi-annually until repaid.

Completion of the Acquisition is subject to the concurrent completion of the Private Placement and Debt Assumption as well as Exchange approval for the Acquisition, Private Placement and Debt Assumption in addition to conditions usual to transactions of this nature.

Because Graydon Kowal is one of the Vendors of the Assets and is also a director of the Company and is its President and CEO, the Acquisition is a "Related Party Transaction" under Multilateral Instrument 61-101 - Protection of Minority Security Holders in Special Transactions ("MI 61-101"). Mr. Kowal also owns, directly and indirectly, an aggregate of 66,490,085 common shares in the capital of the Company, or 89.47% of the common shares of the Company now issued and outstanding. The Company will rely upon the exemptions from the minority shareholder approval and valuation requirements set out in Sections 5.7(1)(a) and 5.5(a), respectively, of MI 61-101.

SETTLEMENT OF ACCOUNTS PAYABLE

Periodically, management negotiates the settlement of accounts payable at a value less than the amount recorded. During the three months ended March 31, 2020, the Company recorded a gain on the settlement of accounts payable of \$nil (December 31, 2019 - \$83,554).

COMMITMENTS AND CONTINGENCIES

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.

Other

The Company is involved in a 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.

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 does not differ significantly from its fair value.

Financial instruments consisting of deposits, accounts receivable, accounts payable and accrued liabilities, and loans from related parties on the statements of financial position are carried at amortized cost. Cash is 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 March 31, 2020 and December 31, 2019, the Company is not significantly exposed to interest rate cash flow risk in relation to its loan from related parties, which are 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 March 31, 2020 and December 31, 2019, the Company had no financial derivative or physical delivery contracts in place.

d) 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 cash flows. There have been no changes to the Company's objectives in managing capital or in management's management of capital in the current period.

The capital structure of the Company is as follows:

	March 31, 2020 (\$)	December 31, 2019 (\$)
Total shareholders' deficiency	(1,151,136)	(1,122,799)
Working capital deficiency	(1,053,931)	(1,026,663)

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. Historically the Company's accounts receivable arises from crude oil, natural gas liquids and natural gas sales, as well as recoverable government remittances. 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. As at March 31, 2020, \$nil of accounts receivable was considered overdue but not impaired (December 31, 2019 - \$nil).

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. The loans from related parties are due upon demand. All accounts payable and accruals are due within thirty days of year end.

OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements.

CONTRACTUAL OBLIGATIONS AND CAPITAL COMMITMENTS

There are no contractual obligations or capital commitments.

BASIS OF BARREL OF OIL EQUIVALENT

For the purposes of calculating unit costs, natural gas has been converted to a barrel of oil equivalent (boe) using 6,000 cubic feet ("6 mcf") equal to one barrel (6:1), unless otherwise stated. The boe conversion ratio of 6 mcf: 1 bbl is based on an energy equivalency conversion method and does not represent a value equivalency; therefore, boe may be misleading if used in isolation. This conversion conforms to the Canadian Securities Regulators' National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities.

CRITICAL ACCOUNTING ESTIMATES

(a) Management's judgments and estimates

The timely preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, as at the balance sheet date and the reported amounts of revenues and expenses during the year. Accordingly, actual results may differ from these estimates. Estimates and judgments reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The following discussion sets forth management's significant judgments and estimates made in the preparation of these financial statements:

Critical judgments in applying accounting policies

The following are the critical judgments that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in these financial statements:

(i) Identification of cash-generating units

Property and equipment is aggregated into cash-generating-units ("CGUs") based on the ability to generate largely independent cash flows and are used for impairment testing. The classification of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users, shared infrastructures and the way in which management monitors the Company's operations.

(ii) *Impairment of petroleum and natural gas assets*

Judgments are required to assess when impairment indicators, or reversal indicators, exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of petroleum and natural gas reserves, production rates, future oil and natural gas prices, future costs, discount rates and other relevant assumptions.

(iii) *Componentization*

For the purposes of depletion, the Company allocates its property and equipment to components with similar lives and depletion methods. The groupings of assets are subject to management's judgment and are performed on the basis of geographical proximity and similar reserve life.

(iv) *Deferred taxes*

Judgments are made by management to determine the likelihood of whether deferred tax assets at the end of the reporting period will be realized from future taxable earnings. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit and loss in the period in which the change occurs.

(v) *Joint operations*

The Company is party to various joint interest, operating and other agreements in conjunction with its petroleum and natural gas activities. The revenues and expenses allocated between partners are governed by the terms of these agreements and are subject to interpretation and audit by the appropriate parties.

Key sources of estimation uncertainty:

The following are the key estimates and their assumptions concerning the sources of estimation during the reporting period, that have a significant risk of causing adjustments to the carrying amounts of the assets and liabilities.

(i) *Reserves*

The assessment of reported recoverable quantities of proved and probable reserves include estimates regarding production volumes, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Company's oil and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning liabilities, and the recognition of deferred tax assets due to changes in expected future cash flows. The Company's petroleum and natural gas reserves are determined pursuant to National Instrument 51 -101, "*Standard of Disclosures for Oil and Gas Activities*", at least annually by independent reserve engineers.

(ii) *Decommissioning liabilities*

The calculation of decommissioning liabilities and related accretion expense includes management's estimates of current risk-free interest rates, future inflation rates, future restoration and reclamation expenditures and the timing of those expenditures. In most instances, removal of assets occurs many years in the future.

(iii) *Share-based payments*

The amounts recorded for stock-based compensation expense relating to the fair value of stock options issued are estimated using the Black-Scholes option pricing model including management's estimates of the future volatility of the Company's share value, expected forfeiture rates, expected lives of the stock options (based on historical experience and general holder behaviour) and the risk-free interest rate (based on government bonds).

(iv) *Income taxes*

The amounts recorded for deferred tax asset are based on management's estimate as to the timing of the reversal of temporary differences and tax rates currently substantively enacted and the likelihood of tax assets being realized. The availability of tax pools and other deductions are subject to audit and interpretation by taxation authorities.