GUARDIAN EXPLORATION INC.

Consolidated Interim Financial Statements

(Unaudited)

For the three and nine months ended

September 30, 2010 and 2009

Notice to Reader

The consolidated financial statements of Guardian Exploration Inc. and the accompanying consolidated interim balance sheet as of September 30, 2010 and the consolidated interim statement of operations and deficit and cash flows for the three and nine months ended September 30, 2010 are the responsibility of the Company's management.

The interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and are considered by management to present fairly the financial position, operating results and cash flows of the Company.

These interim consolidated financial statements have not been reviewed by an auditor. These interim consolidated financial statements are unaudited and include all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the consolidated financial position, results of operations and cash flows.

Dated: November 29, 2010

Signed "*Graydon Kowal*"

Graydon Kowal
President and Chief Executive Officer

GUARDIAN EXPLORATION INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	September 30 2010 $	December 31 2009 $
ASSETS		
Current assets		
Cash	**42,178**	264,214
Accounts receivable	**56,005**	598,869
Due from related company	**-**	50,000
Prepaid expenses	**20,323**	21,032
	119,046	934,115
Investment (Note 4)	**30,000**	-
Deposit (Note 5)	**368,841**	376,010
Future income taxes (Note 9)	**-**	-
Property and equipment (Note 6)	**1,055,168**	2,663,772
	1,573,055	3,973,897
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**1,593,563**	2,196,309
Loan from related party (Note 7)	**-**	550,000
	1,593,563	2,746,309
Asset retirement obligations (Note 8)	**1,058,165**	1,057,321
	2,651,728	3,803,630
Shareholders' equity		
Share capital (Note 10a,b)	**10,349,866**	10,349,866
Warrants (Note 10c)	**-**	944,840
Contributed surplus (Note 10e)	**3,297,548**	2,352,708
Deficit	**(14,726,087)**	(13,477,147)
	(1,078,673)	170,267
	1,573,055	3,973,897

Going Concern (Note 1)
Commitments (Note 11)
Contingencies (Note 13)

See accompanying notes to the consolidated interim financial statements

Approved on behalf of the Board of Directors

Graydon Kowal
Director

Scott Reeves
Director

GUARDIAN EXPLORATION INC.
STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT
(UNAUDITED)

	Three months ended September 30		Nine months ended September 30	
	2010	2009	**2010**	2009
	$	$	**$**	$
Revenue				
Petroleum and natural gas	**188,985**	967,268	**1,849,820**	3,468,222
Royalties	**(33,413)**	(368,832)	**(644,493)**	(1,157,460)
	155,572	598,436	**1,205,327**	2,310,762
Expenses				
Operating	**194,702**	312,446	**734,608**	1,204,573
General and administrative	**184,473**	334,266	**692,162**	1,286,541
Stock-based compensation	**-**	(55,908)	**-**	75,603
Financing fees	**-**	-	**75,000**	-
Depletion, depreciation and accretion	**42,741**	319,417	**399,086**	1,614,766
Impairment of property and equipment	**-**	-	**665,000**	-
Foreign exchange loss	**1,725**	38	**4,312**	18,937
	423,641	910,259	**2,570,168**	4,200,420
Loss before other items	**(268,069)**	(311,823)	**(1,364,481)**	(1,889,658)
Gain on disposal of property and equipment	**67,617**	-	**67,617**	-
Interest recovery (expense)	**(3,985)**	(31,196)	**(54,782)**	254,951
Interest income	**222**	24	**6,388**	11,927
Settlement of accounts payable	**18,795**	167,894	**96,678**	167,894
Loss before income taxes	**(185,420)**	(175,101)	**(1,248,940)**	(1,454,886)
Future income tax recovery	**-**	-	**-**	-
Net loss and comprehensive loss	**(185,420)**	(175,101)	**(1,248,940)**	(1,454,886)
Deficit, beginning of period	**(14,540,667)**	(12,457,100)	**(13,477,147)**	(11,177,315)
Deficit, end of period	**(14,726,087)**	(12,632,201)	**(14,726,087)**	(12,632,201)
Loss per share (note 10f)				
Basic & Diluted	**($0.01)**	($0.00)	**($0.03)**	($0.04)

See accompanying notes to these consolidated interim financial statements

GUARDIAN EXPLORATION INC.
STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three months ended September 30		Nine months ended September 30	
	2010	2009	**2010**	2009
	$	$	**$**	$
Cash provided by (used in)				
Operating activities				
Net loss for the period	**(185,420)**	(175,101)	**(1,248,940)**	(1,454,886)
Items not affecting cash:				
Depletion, depreciation and accretion	**42,741**	319,417	**399,086**	1,614,766
Impairment of property and equipment	**-**	-	**665,000**	-
Gain on disposal of property and equipment	**(67,617)**	-	**(67,617)**	-
Stock-based compensation	**-**	(55,908)	**-**	75,603
Settlement of accounts payable	**(18,795)**	(167,894)	**(96,678)**	(167,894)
Foreign exchange loss	**1,725**	38	**4,312**	18,937
	(227,366)	(79,448)	**(344,837)**	86,527
Changes in non-cash working capital	**110,978**	(93,499)	**(190,229)**	(843,460)
	(116,388)	(172,947)	**(535,066)**	(756,933)
Financing activities				
Advances/repayments from related party	**-**	(5,421)	**50,000**	435,346
Issuance of share capital, net of costs	**-**	**-**	**-**	22,501
Repayment of loan from related party	**(675,019)**	**-**	**(607,963)**	-
	(675,109)	(5,421)	**(557,963)**	457,847
Investing activities				
Expenditures on property and equipment	**(14,276)**	(20,626)	**(288,387)**	(136,780)
Disposition of property and equipment	**635,863**	75,874	**825,823**	92,103
Change in non-cash working capital	**67,225**	-	**333,557**	-
	688,812	55,248	**870,993**	134,879
Change in cash	**(102,595)**	(123,120)	**(222,036)**	(343,853)
Cash, beginning of period	**144,273**	472,323	**264,214**	693,056
Cash, end of period	**42,178**	349,203	**42,178**	349,203
Supplemental cash flow information				
Taxes paid	**-**	-	**-**	-
Interest paid (note 12)	**-**	850	**147,646**	10,203

See accompanying notes to these consolidated interim financial statements

1. BASIS OF PREPARATION AND GOING CONCERN

The consolidated interim financial statements of Guardian Exploration Inc. (the "Company") as at and for the three and nine months ended September 30, 2010 are comprised of the Company and its controlled entities. The consolidated interim financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

The consolidated interim financial statements have been prepared on the same basis as the annual consolidated financial statements for the year ended December 31, 2009. These interim consolidated financial statements do not contain all the note disclosure required for annual financial statements and therefore should be read in conjunction with the December 31, 2009 annual audited consolidated financial statements. A copy of those financial statements is available on SEDAR (www.sedar.com).

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses, assets and liabilities, and disclosure of contingent assets and liabilities. Key sources of judgment and estimation uncertainty relate to the amounts recorded for depletion and depreciation of property, plant and equipment, the provision for asset retirement obligations, and the amounts used for the impairment test calculations. These amounts are based on estimates of reserves, future commodity prices, royalties, operating costs, development costs, abandonment costs, and the fair value of unproven properties, all of which are inherently uncertain.

Going Concern

These consolidated interim financial statements have been prepared by management in accordance with GAAP on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the ordinary course of business. Should the Company not realize the value of its current and future projects and successfully raise financing to develop its current and future projects, it may not be able to realize its assets and discharge its liabilities in the normal course of operations.

For the nine months ended September 30, 2010, the Company reported an after-tax loss of $1.2 million and negative operating cash flows of $0.5 million. As at September 30, 2010, the Company had a working capital deficiency of $1.5 million, an accumulated deficit of $14.7 million, and capital expenditure commitments of approximately $0.4 million.

Subsequent to period end, the Company borrowed $150,000 from a related party for working capital purposes. 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 administrative activities.

The Company's recent 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 basis is not appropriate, adjustments may be necessary to the carrying amounts and classification of the Company's assets and liabilities. The accompanying consolidated interim financial statements do not include any adjustments that might result if the Company is unable to continue as a going concern, and such adjustments could be material.

2. NATURE OF OPERATIONS

Guardian Exploration Inc. ("Guardian") 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 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"). The Company is engaged in the acquisition, exploration, and development of petroleum and natural gas properties in western Canada and the State of Montana.

3. CHANGE IN ACCOUNTING POLICIES

Future Changes in Accounting Standards

In January 2009, the CICA issued Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. Management is currently assessing the potential impact of the adoption of this section on the results of operations, financial position and disclosures.

In January 2009, the CICA issued Sections 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests, which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. Management is currently assessing the impact of the adoption on the results of operations and financial position.

IFRS Adoption

In February 2008, the AcSB confirmed that all Canadian publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. The first reporting period under IFRS will be the three months ended March 31, 2011. Management is currently finalizing its assessment of the impact of the convergence of Canadian GAAP with IFRS on the results of operations, financial position and disclosures.

4. INVESTMENT

Part of the consideration received from the sale of the Company’s Girouxville properties in July 2010 was 100,000 shares in Blackdog Resources Inc. (“Blackdog”), at a deemed value of $0.30 per share. The investment is classified as ‘held for trading’ and is carried at its fair value at September 30, 2010 of $30,000.

5. DEPOSIT

As part of the finalization of the Third Amended Agreement with the Blackfeet Nation, the Company has placed a deposit of $368,841 (USD$ 360,000) (December 31, 2009 - $376,010; USD $360,000) in favor of the Bureau of Indian Affairs-Blackfeet Agency to cover the costs of future site restoration and abandonment liabilities. This deposit is considered to be refundable, subject to application for refund, which may or may not be granted. Accordingly, the deposit is shown as a long-term asset.

6. PROPERTY AND EQUIPMENT

	September 30, 2010 $	December 31, 2009 $
Petroleum and natural gas properties and equipment	16,363,674	16,969,136
Accumulated depletion, depreciation and impairment	(15,308,506)	(14,305,364)
	1,055,168	2,663,772

Sale of Girouxville Properties

On July 14, 2010, the Company closed the sale of its working interest in the Girouxville, Alberta oil properties to Blackdog Resources Inc. for gross proceeds of $740,000 ($711,405 net of transaction costs and a post-closing payment discussed below), consisting of $710,000 in cash and 100,000 shares in Blackdog at a deemed price of $0.30 per share. Net proceeds were used primarily to repay the Company's $675,019 loan from a related party.

A further payment of $9,807 will be made to Blackdog representing the net cashflows accruing to the Girouxville properties from June 1, 2010 (the effective date of sale per the purchase and sale agreement) to the closing date of July 14, 2010. (Note that the total payment to be made to Blackdog is approximately $55,000, of which $45,000 is a pass-through of net revenue on Girouxville subsequent to the closing date.)

A gain of $67,617 was recorded on the Girouxville disposition, being the difference between net proceeds received and the carrying value of the Girouxville property, net of its asset retirement obligation of $59,100. The recognition of the gain was required under GAAP as the disposal had a greater than 20% impact on the depletion rate in the Canadian cost center.

Note that the Girouxville properties were written down to their estimated fair value (expected net proceeds on the Blackdog transaction) at June 30, 2010, which is reflected in the Statement of Operations as an impairment charge of $665,000.

Sale of Gunnel Property

At the Company's annual general meeting held in August 2010, the Company's shareholders approved the sale of the Gunnel property in north-eastern British Columbia to a director of the Company, for proceeds of $40,000. The Company had obtained an independent valuation of the Gunnel property during 2010 that valued it between $20,000 and $60,000. The sale had not yet closed at September 30, 2010.

Canadian and US cost centers

For the three and nine months ended September 30, 2010 and 2009, there were no capitalized general and administrative expenses in either the Canadian or US cost center.

Unproven property costs of $452,000 (2009 - $40,000) have been excluded from capitalized costs subject to depletion in the Canadian cost center and $nil (2009 - $nil) have been excluded in the US cost center.

No impairment in property and equipment was required at September 30, 2010.

7. LOAN FROM RELATED PARTY

In January 2010, the Company drew a further $140,000 on its $1 million secured loan facility with a company controlled by a director of the Company, for the purpose of funding the Company's participating interest in an oil and gas development project. The Company repaid $72,944 in March 2010, and then repaid the balance owing ($675,019) in July 2010. Total interest incurred and paid on the loan during 2010 was $49,525.

8. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations are based on the Company's net ownership in wells and facilities, management's estimates of costs to abandon and reclaim those wells and facilities, as well as an estimate of the future timing of the costs to be incurred.

The total undiscounted amount of cash flows required to settle the obligations as measured at September 30, 2010 are estimated to be $1,348,000 (December 31, 2009 - $1,422,000). These obligations are expected to be settled at various times until 2017. The credit-adjusted risk free rate at which the estimated cash flows were discounted was 8% as at September 30, 2010 and the estimated inflation rate used to project future costs was 2.5%.

A reconciliation of the Company's asset retirement obligation is provided below:

	Nine months ended September 30, 2010 $	Year ended December 31, 2009 $
Asset retirement obligation, beginning of period	1,057,321	1,161,783
Obligations incurred	-	-
Disposals	(59,100)	-
Revisions to obligations	-	(197,547)
Accretion expense	59,946	93,085
Asset retirement obligation, end of period	1,058,165	1,057,321

9. INCOME TAX

A recovery of future income tax has not been recorded on the operating loss for the three and nine months ended September 30, 2010, as the likelihood of utilizing the loss against future taxable income is not considered probable at this time.

10. SHAREHOLDERS' EQUITY

a) Authorized

Unlimited number of common voting shares
Unlimited number of preferred shares, issuable in series

b) Issued and outstanding

Share Capital	Number of Shares	Amount $
Balance, December 31, 2008	39,737,877	11,021,365
Tax effect of flow-through shares	-	(694,000)
Share issue costs	-	22,501
Balance, December 31, 2009 and September 30, 2010	39,737,877	10,349,866

c) Warrants

	Number of Warrants	Amount $
Balance, December 31, 2008	11,471,513	1,618,440
Expiry of debenture warrants	(783,613)	(673,600)
Balance, December 31, 2009	10,687,900	944,840
Expiry of warrants	(10,687,900)	(944,840)
Balance, September 30, 2010	-	-

d) 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:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2008	2,950,000	$0.40
Forfeited	(1,050,000)	($0.27)
Balance, December 31, 2009	1,900,000	$0.44
Forfeited	(400,000)	($0.19)
Expired	(400,000)	($0.29)
Granted (i)	250,000	$0.10
Balance, September 30, 2010	1,350,000	$0.49
Exercisable, September 30, 2010	1,162,500	$0.56

(i) In June 2010, 250,000 options were granted to a director. Options have a 5 year term, one-year vesting period, and an exercise price of $0.10. The fair value of the options at the date of the grant was deemed to be $nil based on a valuation done using the Black-Scholes model.

	Stock options outstanding			Stock options exercisable	
Exercise Prices	**Outstanding Options**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life (Years)**	**Options Exercisable**	**Weighted Average Exercise Price**
$0.15	600,000	$0.15	2.0	600,000	$0.15
$1.10	500,000	$1.10	0.6	500,000	$1.10
$0.10	250,000	$0.10	4.6	62,500	$0.10
	1,350,000	$0.49	2.0	1,162,500	$0.56

e) Contributed surplus

	2010 $	2009 $
Balance, beginning of period	2,352,708	1,603,505
Expiry of warrants	944,840	673,600
Stock-based compensation	-	75,603
Balance, end of period	3,297,548	2,352,708

f) Loss per share

Basic per share amounts are calculated using the weighted average number of shares outstanding of 39,737,877 for the three and nine months ended September 30, 2010 (2009: 39,737,877).

The Company's dilutive instruments have not been included in the computation of loss per share as the effect would be anti-dilutive in 2010 and 2009.

11. COMMITMENTS

a) Flow-through share issuance

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 September 30, 2010, approximately $2.3 million of the obligation had been fulfilled.

b) Employment contract

Under the terms of an employment contract with the Chief Executive Officer, the Company is committed to pay severance under certain circumstances equal to 2 years salary plus 15%.

c) Office sub-lease

The Company is committed to sub-lease payments of approximately $3,400 per month until March 2012.

12. RELATED PARTY TRANSACTIONS

a) During the nine months ended September 30, 2010, $50,000 was repaid to the Company by a company controlled by a director of the Company, clearing the amount owing by that related party to zero.

b) As described in Note 7, the Company drew an additional $140,000 on its loan facility with a company controlled by a director to fund capital expenditure, made two repayments of $72,944 and $675,019, and incurred interest of $49,525. As noted earlier, the loan was repaid in full in July 2010.

c) The Company obtained engineering consulting services in the amount of $nil for the nine months ended September 30, 2010 ($23,460 for the nine months ended September 30, 2009) from a company controlled by a Company director, who resigned in March 2010. A balance of $nil is included in accounts payable and accrued liabilities at September 30, 2010 (December 31, 2009: $123,888).

d) Legal fees in the amount of $43,882 were incurred in the nine months ended September 30, 2010 ($43,057 for the nine months ended September 30, 2009) from a legal firm of which a Company director is a partner. A balance of $16,144 is included in accounts payable and accrued liabilities at September 30, 2010 (December 31, 2009: $50,911).

These transactions are in the normal course of business and are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties.

13. CONTINGENCIES

a) 2006 Flow-through capital raise – qualifying expenditures

Pursuant to a flow-through share issuance completed in March 2006, the Company was committed to incur $4,000,000 of qualified expenditures by December 31, 2007. By December 31, 2007 the Company had incurred only $2.2 million of qualifying expenditure. The remaining $1.8 million was incurred in 2008.

As the Company did not make the necessary qualifying expenditures by December 31, 2007 as required under the income tax rules, the unexpended flow-through amount (approximately $1.8 million) could be reassessed by the tax authorities and the Company could potentially be liable for investor income taxes and penalty interest thereon of up to $700,000 if an arrangement cannot be made to remedy this contingency.

Notwithstanding this, management is of the opinion that the matter can be resolved through negotiation with the tax authorities, however such reassessment is uncertain. No provision has been made in these consolidated interim financial statements other than an amount for estimated Part XII.6 interest and penalties.

b) Minerals Management Services

The Office of Natural Resources Revenue “ONRR” (previously known as the Minerals Management Service), a bureau of the US Department of the Interior that manages that nation's natural gas and oil resource revenues, alleged in the prior year that a subsidiary of the Company had been deficient in various administrative filing and payment requirements in the past and that, as a result, civil penalties of approximately $578,000 (US$500,000) were levied against the subsidiary. The subsidiary is disputing these penalties and, along with its legal counsel, has negotiated with ONRR, the US Department of Treasury, and their respective counsel/agents.

During the nine months ended September 30, 2010, settlement was reached with the US Department of Treasury covering approximately US$98,000 in asserted penalties, and a payment of US$49,000 was made (US$50,000 had previously been accrued).

A provision of $30,900 (US$30,000) is carried in relation to the remaining penalties with ONRR based on a proposed settlement agreement ("Proposed Agreement"). In the event that no settlement is reached, the maximum exposure of the subsidiary is US$400,000. However, given the subsidiary's challenge to these penalties, the final penalty amount would likely be reduced substantially.

The Proposed Agreement with ONRR included a probationary period that required the subsidiary to remain compliant with its reporting and payment requirements over a 24 month time frame; otherwise the full amount of the penalties, reduced on a declining basis for the period of compliance, would be due immediately to ONRR. The subsidiary met this requirement in August 2010 as it has been compliant with its reporting requirements since August 2008.

c) Other

The Company is also involved in various other claims arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in the Company’s favour, the Company does not currently believe that the outcome of adverse decisions in any proceedings related to these matters 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.

14. SEGMENTED DISCLOSURES

For the nine months ended September 30, 2010:

	Canada	United States	September 30, 2010
Petroleum and natural gas revenue	$1,245,331	$604,489	$1,849,820
Interest expense	$54,782	$ -	$54,782
Depletion, depreciation, impairment and accretion	$969,881	$94,205	$1,064,086
Loss for the period	$1,090,488	($35,320)	$1,248,940
Property and equipment	$803,678	$251,490	$1,055,168
Capital expenditures	$287,859	$528	$288,387

For the nine months ended September 30, 2009:

	Canada	United States	September 30, 2009
Petroleum and natural gas revenue	$2,945,414	$522,807	$3,468,222
Interest expense/(recovery)	($261,841)	$6,890	($254,951)
Depletion, depreciation and accretion	$1,513,251	$101,515	$1,614,766
Loss for the period	$1,344,854	$110,052	$1,454,886
Property and equipment	$2,468,899	$346,714	$2,815,613
Capital expenditures	$136,780	$ -	$136,780

15. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

a) Fair value of financial assets and liabilities

The Company's carrying value of cash, accounts receivable, investment, and accounts payable approximates their fair values due to the immediate or short-term maturity of these instruments. The carrying value of the deposit (Note 5) also does not differ significantly from its fair value.

b) Interest rate risk

At September 30, 2010, the Company is not significantly exposed to interest rate risk. There would be no significant impact on the financial statements at September 30, 2010 if interest rates were higher or lower by one percent.

c) Commodity price risk

The nature of the Company’s operations results in an exposure to fluctuations in commodity prices. At September 30, 2010, the Company had no financial derivative or physical delivery contracts in place.

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.

e) Capital Management

The Company's objective when managing capital 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 and makes adjustments to it 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 December 31, 2009.

The Company has a deficiency in shareholders' equity of $1,078,673 at September 30, 2010 (equity of $170,267 at December 31, 2009), and a working capital deficiency of $1,474,517 (deficiency of $1,812,194 at December 31, 2009). Refer to Note 1 Going Concern.

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 arise 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. The Company does not have any significant credit risk exposure to any single counterparty regarding is accounts receivable other than to the operator of its Montana area wells. As at September 30, 2010, the receivable from this company represented approximately 89% of the Company's total accounts receivable balance. This balance was collected subsequent to period-end. Accounts receivable greater than 90 days at September 30, 2010 was $5,000, for which an allowance has been recorded.

The Company assesses quarterly if there has been any impairment of the financial assets of the Company.

The carrying value of cash and accounts receivable approximates their fair value due to the relatively short periods to maturity on this instrument. The maximum exposure to credit risk is represented by the carrying amount on the balance sheet. There are no material financial assets that the Company considers past due.

g) Liquidity Risk

Liquidity risk includes the risk that, 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. These 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 risks may necessitate the Company to conduct equity issues, obtain project debt financing, enter into joint venture arrangements or conduct asset divestitures. There is no assurance that adequate funds will be available to the Company in a timely manner (refer Note 1 Going Concern).

16. SUBSEQUENT EVENTS

Subsequent to September 30, 2010, the Company borrowed $150,000 from a related party. The borrowing, in the form of two promissory notes, is secured by a General Security Agreement over the assets of the Company, and bears interest at 15%. The promissory notes are payable on demand.

GUARDIAN EXPLORATION INC.

Management's Discussion & Analysis

For the three and nine months ended

September 30, 2010 and 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") of financial conditions and results of operations is as of November 29, 2010 and should be read in conjunction with the unaudited consolidated interim financial statements of Guardian Exploration Inc. ("Guardian" or the "Company") for the three and nine months ended September 30, 2010. 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 for the remainder of 2010 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 is the Canadian dollar. The information in this MD&A was approved by the Company's Board of Directors on November 26, 2010.

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 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 6 thousand cubic feet (mcf) equals 1 barrel (bbl) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All boe conversions in this report are derived by converting gas to oil in the ratio of six thousand cubic feet of gas to one barrel of oil.

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

Guardian Exploration Inc. ("Guardian") 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 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"). The Company 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".

CORPORATE UPDATE

On July 14, 2010, the Company closed the sale of its working interest in the Girouxville, Alberta oil properties to Blackdog Resources Inc. ("Blackdog") for gross proceeds of $740,000 ($711,405 net of transaction costs and a post-closing adjustment payment), consisting of $710,000 in cash and 100,000 shares in Blackdog at a deemed price of $0.30 per share. Net proceeds were used primarily to repay the Company's $675,019 loan from a related party.

The third quarter of 2010 saw consistent production from the Company's oil-producing wells in Montana at 31 barrels/day, and consistent oil prices in the $70-$80/bbl range. The Company's natural gas wells in north-eastern British Columbia remain shut-in due to depressed gas prices. The Company recorded a loss in the third quarter of $185,420 (year-to-date loss of $1,248,940) on revenue of $188,985 (year-to-date $1,849,820). The year-to-date loss includes an impairment charge in relation to property and equipment of $665,000 recorded at June 30, 2010.

At September 30, 2010, the Company had a working capital deficiency of approximately $1.5 million and capital expenditure commitments of approximately $0.4 million in relation to flow-through funds raised in 2008. Subsequent to quarter end, the Company borrowed $150,000 from a related party to fund working capital requirements. In order to meet its capital commitments, and more generally to fund future exploration and development activities and corporate administrative costs, the Company requires financing. Management and the Board are investigating financing alternatives, possibly in conjunction with an acquisition transaction, to secure debt and/or equity financing.

SELECTED INFORMATION

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
	$	$	$	$
Petroleum and natural gas revenue, before royalties	188,985	967,268	1,849,820	3,468,222
Funds flow from (used in) operations	(227,366)	(79,448)	(344,837)	86,529
Funds flow from (used in) operations per share - basic and diluted	(0.01)	(0.00)	(0.01)	0.00
Net loss	(185,420)	($175,101)	(1,248,940)	1,454,886
Net loss per share – basic and diluted	(0.01)	(0.00)	(0.03)	(0.04)
Capital expenditures	14,276	(55,248)	288,387	44,767
Production (boe/day)	31	146	92	220

	September 30 2010	December 31 2009
Working capital deficiency	$1,474,517	$1,812,194
Total assets	$1,573,055	$3,973,897

RESULTS OF OPERATIONS

PRODUCTION

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Production (boe/day)				
Crude oil	31	146	92	209
Natural gas	-	-	-	11
Oil equivalent production	31	146	92	220

Production in the third quarter reflects the Company's interests in oil-producing wells in Montana, which is consistent with prior quarters and the prior year. Year-to-date production includes the Company's Girouxville wells to the point of disposal in July of approximately 89 bbls/day, which is down from 2009 due to declining production in 2010.

Guardian's gas production was shut-in in February 2009 due to uneconomic conditions from increasing amounts of water and decreasing amounts of gas being produced. The Company's independent reserve engineers have attributed reserves to only one of the Company's natural gas wells as at December 31, 2009.

PRICING

Benchmark Prices

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Crude oil – WTI (US$ per Bbl)	$76.06	$68.19	$77.55	$56.86
Crude oil – Edmonton Par Price ($ per Bbl)	$74.99	$71.71	$76.88	$62.68
Natural gas – AECO Spot ($/mcf)	$3.55	$3.11	$4.25	$4.13
Exchange rate ($US/$Cdn)	$1.04	$1.10	$1.04	$1.17

West Texas Intermediate at Cushing, Oklahoma ("WTI") is the benchmark reference price for North American crude oil prices. Canadian crude oil prices are based upon the average of several postings, primarily at Edmonton Alberta, and represents the WTI price adjusted for quality and transportation differentials, the US/CDN dollar exchange rate and local demand and supply influences.

For the three and nine months ended September 30, 2010, WTI crude oil prices averaged US$76.06 and US$77.55, while prices at Edmonton averaged $74.99 and $76.88 respectively. The recovery in oil prices beginning in the latter half of 2009 is evident in the comparative figures.

United States natural gas prices are commonly referenced to the New York Mercantile Exchange at Henry Hub in Louisiana ("NYMEX") while Canadian natural gas prices are typically referenced to the AECO Hub in Alberta. Natural gas prices are influenced more by North American supply and demand than global fundamentals. Natural gas prices averaged $3.55/Mcf and $4.25/Mcf for the respective three and nine months ended September 30, 2010, primarily reflecting excess supply in the North American gas market. Natural gas prices are expected to remain at low levels for the duration of 2010 and into 2011.

Realized Prices

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	**2009**	**2010**	**2009**
Average Prices				
Crude oil ($/bbl)	$66.19	$71.80	$73.76	$59.51
Natural gas ($/mcf)	-	-	-	$4.08
Oil equivalent ($/boe)	$66.19	$71.80	$73.76	$57.83

Guardian's averaged realized price for its crude oil for the three and nine months ended September 30, 2010 reflects a slight discount to, but are consistent with, the benchmark prices described above. Realized prices year-to-date are higher than in 2009, reflecting higher benchmark prices.

As noted previously, no natural gas was produced in the three and nine months ended September 30, 2010.

REVENUE

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	**2009**	**2010**	**2009**
Production Revenue				
Crude oil	$188,985	$967,268	$1,849,820	$3,397,920
Natural gas	-	-	-	$70,302
Total production revenue	$188,985	$967,268	$1,849,820	$3,468,222

The overall decrease in oil revenue from 2009 is due to significantly lower volumes (down 50%), which have been offset somewhat by higher realized prices. Third quarter revenue in 2010 reflects Montana production only with the sale of the Girouxville assets in July 2010.

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 Months Ended September 30		Nine Months Ended September 30	
	2010	**2009**	**2010**	**2009**
Royalties	$33,413	$368,832	$644,493	$1,157,460
As a percentage of revenue	18%	38%	35%	33%

Third quarter royalties represents those paid in Montana, which are at a lower rate than Alberta. As a percentage of revenue, year-to-date royalties are greater than in 2009, reflecting the impact of higher prices on royalty rates.

The Company expects that royalties as a percentage of sales will remain at or around present levels, barring any significant changes in well productivity levels and/or commodity prices.

OPERATING EXPENSES

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Operating expenses	$194,702	$312,446	$734,608	$1,204,573
Operating expenses per boe	$68.19	$23.19	$29.29	$20.09
As a percentage of revenue	103%	32%	40%	35%

Operating costs in the third quarter includes approximately $100k of first and second quarter trucking charges related to Girouxville which were only billed to the Company in the third quarter. Otherwise, operating costs in the third quarter are consistent with prior periods.

Year-to-date, operating costs on a per boe basis and as a percentage of revenue were higher in 2010 than 2009, due mainly to the impact of fixed operating costs on lower production volumes.

GENERAL AND ADMINISTRATIVE EXPENSES

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
General and administrative expenses	$184,473	$334,206	$692,162	$1,286,541
As a percentage of revenue	98%	35%	38%	37%

The decrease in overall G&A expenses during the three and nine months ended September 30, 2010 is due primarily to significant consulting and professional fees incurred in the prior periods in relation to the legal and regulatory matters involved in the potential sale of substantially all of the Company's petroleum and natural gas assets. As a percentage of revenue, G&A expenses are significantly higher in the third quarter of 2010 due to fixed overheads on lower production volumes; however, costs are more consistent with 2009 on a year-to-date basis.

STOCK-BASED COMPENSATION

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Stock-based compensation expense	-	($55,908)	-	$75,603

Stock-based compensation expense is the amortization over the vesting period of the fair value of stock options granted to employees, directors, and key consultants of the Company. The fair value of the stock options granted is estimated at the grant date using the Black Scholes option pricing model.

In June 2010, 250,000 options were granted to a director. The options have a 5 year term, one-year vesting period, and an exercise price of $0.10. The fair value of the options at the grant date as determined under the Black-Scholes model was $nil.

Stock-based compensation otherwise for the three and nine months ended September 30, 2010 was $nil as all other options were fully vested prior to the start of 2010. In the prior year, there was an adjustment to stock-based compensation processed in the third quarter resulting in a credit to the overall expense for the year.

INTEREST AND FINANCING EXPENSE

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Financing fees	-	-	$75,000	-
Interest expense	$3,985	$31,172	$54,782	($243,024)

Financing fees of $75,000 were paid during the first quarter of 2010 in relation to the secured loan from a related party. Interest expense for the three and nine months ended September 30, 2010 relates primarily to the same loan. During the nine months ended September 30, 2009, a recovery of interest expense was recorded, reflecting an adjustment to estimated Part XII.6 tax due to the Canada Revenue Agency on flow-through funds raised in prior years. This recovery was subsequently reversed in the fourth quarter of 2009.

DEPLETION, DEPRECIATION, IMPAIRMENT AND ACCRETION

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Depletion and depreciation	$23,541	$296,465	$315,601	$1,544,350
Accretion	$19,201	$22,962	$40,744	$70,416
Impairment of PP&E	-	-	$665,000	-
DD&A (excluding impairment) per boe	$14.97	$23.71	$16.04	$26.93

Depletion of the Company's oil and gas assets is calculated on a unit of production basis, using estimated proven reserves. The significant decrease in depletion and depreciation expense for the three and nine months ended September 30, 2010 as compared to the same periods in 2009 reflects the sale of the Girouxville assets in July 2010 combined with significantly lower production levels. On a per boe basis, DD&A is lower than in 2009, reflecting an overall lower depletable base in 2010.

As disclosed in Note 6 to the consolidated interim financial statements, an impairment charge of $665,000 was recorded at June 30, 2010 in relation to the Company's Girouxville properties, which were then sold in July 2010.

Accretion of the asset retirement obligation has decreased from 2009 due to a reduction in the obligation at December 31, 2009 based on revised cost estimates. Accretion expense reflects the unwinding of the discounted cash flows which form the basis for the asset retirement obligation.

The provision for asset retirement obligations is determined by management in consultation with the Company's independent engineers and are based on prevailing regulations, costs, technology and industry standards. The Company estimates that the present value of its asset retirement obligations at September 30, 2010 is $1,058,000. Current expenditures for actual abandonment and site restoration in the three and nine months ended September 30, 2010 were $nil.

TAXES

During the three and nine months ended September 30, 2010, consistent with the same periods in 2009, the Company recorded no current or future income tax expense or recovery, as the benefit of losses incurred is not considered more likely than not of realization.

As of September 30, 2010, the Company has approximately $3.7 million in resource tax pools available to offset future taxable income, and estimated carried forward non-capital losses of $3.4 million. Further, there are approximately US$36 million of resource and tax loss pools related to the Company's US subsidiary (none of which have been recognized for accounting purposes as not considered recoverable at this time).

NET LOSS AND COMPREHENSIVE LOSS

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	**2009**	**2010**	**2009**
Net loss	($185,420)	($175,101)	($1,248,940)	($1,454,886)
Net loss per share – basic and diluted	($0.01)	($0.00)	($0.03)	($0.04)
Weighted average shares outstanding:				
Basic and Diluted	39,737,877	39,737,877	39,737,877	39,737,877

In both 2010 and 2009, all outstanding stock options and warrants are anti-dilutive and have been excluded in calculating the diluted weighted average shares outstanding.

FUNDS 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) in the table below:

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	**2009**	**2010**	**2009**
Net loss	($185,420)	($175,101)	($1,248,940)	($1,454,886)
Add back (subtract) items not affecting cash:				
Depletion, depreciation and accretion	42,471	319,417	399,086	1,614,766
Impairment of PP&E	-	-	665,000	-
Gain on disposal of property and equipment	(67,617)	-	(67,617)	-
Stock-based compensation	-	(55,908)	-	75,603
Settlement of accounts payable	(18,795)	(167,894)	(96,678)	(167,894)
Foreign exchange loss (gain)	1,725	38	4,312	18,937
Funds flow from operations	($227,366)	($79,448)	($344,837)	$86,527
Funds flow per share - basic	($0.01)	($0.00)	($0.01)	$0.00
Funds flow per share - diluted	($0.01)	($0.00)	($0.01)	$0.00

Funds from operations were significantly higher in 2009, as a result of greater revenue from higher oil and natural gas production volumes.

SHARE CAPITAL

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	**2009**	**2010**	**2009**
Outstanding common shares				
Weighted average outstanding common shares				
Basic	39,737,877	39,737,877	39,737,877	39,737,877
Diluted	39,737,877	39,737,877	39,737,877	39,737,877

Due to the anti-dilutive effect of Guardian's net loss for the three and nine months ended September 30, 2010 (consistent with 2009), the diluted number of shares is considered equivalent to the basic number of shares for the purposes of all per share calculations.

Outstanding Securities	Outstanding at September 30	
	2010	**2009**
Common shares	39,737,877	39,737,877
Stock options	1,350,000	1,900,000
Warrants	-	8,871,300
Agent warrants	-	1,816,600
Debenture warrants	-	783,613

At September 30, 2010, and at present, there are 39,737,877 common shares, no warrants, and 1,350,000 options outstanding. The reduction in warrants and options since December 31, 2009 is due to the expiry of all remaining warrants, and the expiry/forfeiture of 800,000 options offset by the granting of 250,000 options in June 2010.

CAPITAL EXPENDITURES

	Three months ended September 30		Nine months ended September 30	
	2010	**2009**	**2010**	**2009**
Canada	$14,276	$20,626	$287,859	$136,780
United States	-	-	$528	-
Total	$14,276	$20,626	$288,387	$136,780

The majority of capital expenditures during 2010 relate to the Muskrat/Procyon farm-in agreement signed in late 2009 on which the Company is earning a 50% single-well interest. A total of approximately $410,000 has been spent to date on this farm-in.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2010, the Company had a working capital deficit of approximately $1.5 million, and capital expenditure commitments of approximately $0.4 million. Subsequent to quarter end, the Company borrowed $150,000 from a related party to fund working capital requirements. The borrowing, in the form of two promissory notes, is secured by a General Security Agreement over the assets of the Company, and bears interest at 15%. The promissory notes are payable on demand.

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 interim 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. With the exception of $5,000 of receivables on which an impairment provision has been recorded, no receivables at September 30, 2010 are past due.

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

	2010			2009				2008
SELECTED QUARTERLY HIGHLIGHTS (unaudited)	**Q3 2010**	**Q2 2010**	**Q1 2010**	**Q4 2009**	**Q3 2009**	**Q2 2009**	**Q1 2009**	**Q4 2008**
($000's)								
P&NG net revenue	156	497	552	923	598	883	830	1,542
Production expense	195	223	317	332	312	375	518	987
DDA/impairment	43	838	183	262	319	467	828	4,315
G&A	184	269	238	362	334	512	440	530
Financing fees/interest	4	26	99	467	31	1	(287)	(13)
Income tax expense	-	-	-	-	-	-		133
Net income (loss) for the period	(185)	(795)	(269)	(845)	(175)	(503)	(777)	(4,209)
Net income (loss) per share	(0.01)	(0.02)	(0.01)	(0.02)	(0.00)	(0.01)	(0.02)	(0.12)
Working Capital/(Deficiency)	(1,475)	(1,944)	(1,905)	(1,812)	(958)	(1,012)	(1,299)	(1,335)

Declining production volumes over the past two years are apparent in the net revenue figures above. The impairment charges of $0.7 million at June 30, 2010 and $2.7 million at December 31, 2008 also stand out.

The Company's working capital position has consistently been a deficiency of $1-2 million over the past eight quarters.

CRITICAL ACCOUNTING ESTIMATES

Oil and Gas Reserve Estimates

Estimates of economically recoverable oil and natural gas reserves (including natural gas liquids) and the future net cash flows there from are based upon a number of variable factors and assumptions, such as commodity prices, projected production from the properties, the assumed effects of regulation by government agencies and future operating costs. All of these estimates may vary from actual results. Estimates of the recoverable oil and natural gas reserves attributable to any particular group of properties, classifications of such reserves based on risk recovery and estimates of future net revenues expected there from may vary. The Company's actual production, revenues, taxes, development and operating expenditures with respect to its reserves may vary from such estimates, and such variances could be material.

Ceiling Test

The ceiling test calculation is used to assess the valuation of the Company's petroleum and natural gas properties. The first part measures whether impairment has occurred based on undiscounted future cash flows using estimated future prices, costs and proved reserves. When the first part indicates impairment exists, the second part of the test measures the amount of impairment based on discounted estimated future cash flows from proved and probable reserves. The Company reviews the related estimates when it performs its ceiling test on a quarterly basis. The impact of changes in the estimates of future prices and costs applied and the quantity of proved and probable reserves on the financial statements could be material.

Unproven Properties

Costs related to unproven properties are excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly, based on management's estimates of future prospects and any impairment is transferred to the costs being depleted.

Stock-Based Compensation

The Company has a stock-based compensation plan which reserves shares of common stock for issuance to key employees, consultants and directors. The Company accounts for grants issued under this plan using the fair value recognition provisions whereby the cost of options granted to employees is charged to income with a corresponding

increase in contributed surplus, based on an estimate of the fair value determined using the Black-Scholes option pricing model and amortized over the vesting period of the options issued.

Asset Retirement Obligations

The Company records the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the asset, normally when the asset is purchased or developed. The associated asset retirement costs are capitalized as part of the carrying amount of the long lived asset and depleted and depreciated using a unit-of-production method over the life of the estimated proved reserves. Subsequent to the initial measurement of the asset retirement obligations, the obligations are adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

Inherent in the fair value calculation of ARO are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal, regulatory, environmental and political environments. To the extent future revisions to these assumptions impact the fair value of the existing ARO liability, a corresponding adjustment is made to the petroleum and natural gas properties balance.

BUSINESS RISKS

Exploration, development and production of petroleum and natural gas involve many risks that even the combination of experience and diligent evaluation may not be sufficient to overcome. Utilizing highly skilled professionals, focusing in areas where the Company has existing knowledge and expertise or access to such expertise, using the most up to date technology, and controlling costs to maximize margins, mitigate these risks. The Company maintains a comprehensive insurance program that insures liability and property consistent with good industry practices. The program is designed to mitigate risks and protect against significant loss. However, the Company is not fully insured against all these risks, nor are all such risks insurable.

The reserve and recovery information contained in the Company's independent reserve evaluation is only an estimate. The actual production and ultimate recovery of reserves from the properties may be greater or less than the estimates prepared by the independent reserve engineers. The reserve report was prepared using forecasted commodity prices as determined by independent engineers. If lower prices for crude oil, natural gas liquids and natural gas are realized by the Company, the present value of the estimated future cash flows for the reserves would be reduced and such reductions could be significant.

Financial risks include exposure to fluctuation in commodity prices, currency exchange rates and interest rates. To mitigate the risks, the Company may enter into physical contracts for the sale of crude oil, natural gas liquids and natural gas at fixed prices. The Company may also institute financial hedging techniques for interest rates, currency exchange rates and commodity prices. If utilized, such transactions would be subject to certain limits on term and amount as established by the Board of Directors. No such transactions have been entered into to date.

Oil and Gas Risk

Inherent in development of oil and gas reserves are risks, among others, of drilling dry holes, encountering production or drilling difficulties or experiencing high decline rates in producing wells. In addition, a major market risk exposure is in the pricing applicable to our oil and gas production. Realized pricing is primarily driven by the prevailing worldwide price for crude oil and spot prices applicable to our oil and natural gas production. Prices received for oil and gas production have been and remain volatile and unpredictable. If oil and gas prices decline significantly, even if only for a short period of time, it is possible that non-cash write-downs of our oil and gas properties could occur under the full-cost accounting method. Under these rules, we review the carrying value of our proved oil and gas properties each quarter to ensure that capitalized costs of proved oil and gas properties, net of accumulated depreciation, depletion and amortization do not exceed the "ceiling." This ceiling is the present value of estimated future net cash flows from proved oil and gas reserves, discounted at 10 percent, plus the lower of cost or fair value of unproved properties included in the costs being amortized, net of related tax effects. If capitalized costs exceed this limit, the excess is charged to additional depletion, depreciation and accretion expense. The calculation of estimated future net cash flows is based on forecasted prices for crude oil and natural gas except for volumes sold

under long-term contracts. Write-downs required by these rules do not impact cash flow from operating activities; however, as discussed above, sustained low prices would have a material adverse effect on future cash flows.

Financial and Liquidity Risks

The Company anticipates that it will make capital expenditures for the acquisition, exploration, development and production of oil and natural gas in the future. On an ongoing basis, the Company will typically plan to utilize three sources of funding to finance its capital expenditure program; internally generated cash flow from operations, debt where deemed appropriate and new equity issues, if available at favorable terms. In addition, the Company may contemplate the sale of assets to fund its contractual obligations.

Funds flow is influenced by many factors, which the Company cannot control, such as commodity prices, the United States versus the Canadian dollar exchange rate, interest rates and changes to existing government regulations and tax policies. Should circumstances affect cash flow in a detrimental way, the Company may have limited ability to expand the capital necessary to undertake or complete future drilling programs. In such circumstances, the Company would be required to either reduce the level of its capital expenditures or supplement its capital expenditure program with additional debt and/or equity financing. There can be no assurance that debt or equity financing will be available or sufficient to meet these requirements or, if debt or equity is available, that it will be on terms acceptable to the Company. Moreover, future activities may require the Company to alter its capitalization significantly. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations and prospects.

Issuance of Debt

From time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards. Neither the Company's articles nor its by-laws limit the amount of indebtedness that the Company may incur. The level of the Company's indebtedness from time to time could impair the Company's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Supply of Service and Production Equipment

The supply of service and production equipment at competitive prices is critical to the ability to add reserves at a competitive cost and produce these reserves in an economic and timely fashion. In periods of increased activity, these supplies and services can be difficult to obtain. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities. The Company attempts to mitigate this risk by developing strong long-term relationships with suppliers and contractors. There can be no assurances that these relationships will increase the availability of the supplies and services.

Regulatory Changes

On October 25, 2007, the Government of Alberta announced a new royalty framework ("NRF") which took effect on January 1, 2009. The new framework was announced in response to a report released by an independent Royalty Review Panel appointed by the Government of Alberta that recommended an increase in the overall resource charges to oil and gas producers in the Province of Alberta.

Recent changes were announced to the royalty framework in 2010, which will reduce overall royalty charges from that contemplated in the NRF. Changes in royalties legislation and the resultant impact on cash flows is a risk that the Company monitors.

RELATED PARTY TRANSACTIONS

a) During the nine months ended September 30, 2010, $50,000 was repaid to the Company by a company controlled by a director of the Company, clearing the amount owing by that related party to zero.

b) As described in Note 7, the Company drew an additional $140,000 on its loan facility with a company controlled by a director to fund capital expenditure, made two repayments of $72,944 and $675,019, and incurred interest of $49,525. As noted earlier, the loan was repaid in full in July 2010.

c) The Company obtained engineering consulting services in the amount of $nil for the nine months ended September 30, 2010 ($23,460 for the nine months ended September 30, 2009) from a company controlled by a Company director, who resigned in March 2010. A balance of $nil is included in accounts payable and accrued liabilities at September 30, 2010 (December 31, 2009: $123,888).

d) Legal fees in the amount of $43,882 were incurred in the nine months ended September 30, 2010 ($43,057 for the nine months ended September 30, 2009) from a legal firm of which a Company director is a partner. A balance of $16,144 is included in accounts payable and accrued liabilities at September 30, 2010 (December 31, 2009: $50,911).

These transactions are in the normal course of business and are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

a) Flow-through share issuance

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 September 30, 2010, approximately $2.3 million of the obligation had been fulfilled.

b) Employment contract

Under the terms of an employment contract with the Chief Executive Officer, the Company is committed to pay severance under certain circumstances equal to 2 years salary plus 15%.

c) Office sub-lease

The Company is committed to sub-lease payments of approximately $3,400 per month until March 2012.

CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS

d) 2006 Flow-through capital raise – qualifying expenditures

Pursuant to a flow-through share issuance completed in March 2006, the Company was committed to incur $4,000,000 of qualified expenditures by December 31, 2007. By December 31, 2007 the Company had incurred only $2.2 million of qualifying expenditure. The remaining $1.8 million was incurred in 2008.

As the Company did not make the necessary qualifying expenditures by December 31, 2007 as required under the income tax rules, the unexpended flow-through amount (approximately $1.8 million) could be reassessed by the tax authorities and the Company could potentially be liable for investor income taxes and penalty interest thereon of up to $700,000 if an arrangement cannot be made to remedy this contingency.

Notwithstanding this, management is of the opinion that the matter can be resolved through negotiation with the tax authorities, however such reassessment is uncertain. No provision has been made in these consolidated financial statements other than an amount for estimated Part XII.6 interest and penalties.

e) Minerals Management Services

The Office of Natural Resources Revenue "ONRR" (previously known as the Minerals Management Service), a bureau of the US Department of the Interior that manages that nation's natural gas and oil resource revenues, alleged in the prior year that a subsidiary of the Company had been deficient in various administrative filing and payment requirements in the past and that, as a result, civil penalties of approximately $578,000 (US$500,000) were levied against the subsidiary. The subsidiary is disputing these penalties and, along with its legal counsel, has negotiated with ONRR, the US Department of Treasury, and their respective counsel/agents.

During the nine months ended September 30, 2010, settlement was reached with the US Department of Treasury covering approximately US$98,000 in asserted penalties, and a payment of US$49,000 was made (US$50,000 had previously been accrued).

A provision of $30,900 (US$30,000) is carried in relation to the remaining penalties with ONRR based on a proposed settlement agreement ("Proposed Agreement"). In the event that no settlement is reached, the maximum exposure of the subsidiary is US$400,000. However, given the subsidiary's challenge to these penalties, the final penalty amount would likely be reduced substantially.

The Proposed Agreement with ONRR included a probationary period that required the subsidiary to remain compliant with its reporting and payment requirements over a 24 month time frame; otherwise the full amount of the penalties, reduced on a declining basis for the period of compliance, would be due immediately to ONRR. The subsidiary met this requirement in August 2010 as it has been compliant with its reporting requirements since August 2008.

f) Other

The Company is also involved in various other claims arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in the Company's favor, the Company does not currently believe that the outcome of adverse decisions in any proceedings related to these matters 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.

d) Off Balance Sheet Arrangements

Disclosure is required regarding all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect the liquidity of or the availability of, or requirements for, capital resources. The Company had no such off-balance sheet arrangements as at September 30, 2010.

FUTURE CHANGES IN ACCOUNTING STANDARDS

In January 2009, the CICA issued Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. Management is currently assessing the potential impact of the adoption of this section on the results of operations, financial position and disclosures.

In January 2009, the CICA issued Sections 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests, which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling

interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. Management is currently assessing the impact of the adoption on the results of operations and financial position.

IFRS Adoption

In February 2008, the Canadian Accounting Standards Board confirmed that all Canadian publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. The first reporting period under IFRS will be the three months ended March 31, 2011.

While the first year of reporting under IFRS is 2011, comparative financial statements for each interim period in 2010 as well as 2010 in its entirety will be required, implying that Canadian reporting issuers will need to prepare an IFRS-compliant balance sheet dated January 1, 2010.

Management has performed an assessment of the impact of the convergence of Canadian GAAP with IFRS on the January 1, 2010 balance sheet. The IFRS assessment process has been lead by a consultant, who has five years experience reporting under IFRS, and oversight from the Audit Committee. Two transition adjustments of significance have been identified, as follows:

- impairment of property and equipment of approximately $0.2 million. This will be taken to retained earnings/deficit at January 1, 2010.

- Increase of $0.2 million in the asset retirement/site decommissioning provision, reflecting a reduction in the discount rate applied. A risk-free rate of 3% will be used to discount the expected future cashflows under IFRS, whereas a rate of 7.5% was used under GAAP.

Regarding the accounting for property and equipment at the transition date, the Company made use of the optional exemption available under IFRS 1 *First Time Adoption of International Financial Reporting Standards* to reflect property and equipment at its carrying amount at January 1, 2010 ('deemed cost'). In performing the required impairment assessment at the transition date, the Company separated its property and equipment into 'exploration and evaluation' and 'development and production' assets – all was in the latter class. Development and production assets were further segregated into cash generating units ('CGUs); a CGU is defined under IFRS as *'the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of asset"*. The Company has defined its CGUs as group of wells in the same geographical area sharing common infrastructure and the same marketing function.

The Company has also utilized the optional exemptions under IFRS 1 regarding Business Combinations and Share-Based Payments, and no adjustments regarding these items were therefore required.

Management will report the impact of conversion to IFRS on its January 1, 2010 balance sheet as part of its March 31, 2011 interim financial reporting.

ADDITIONAL INFORMATION

Additional information relating to the Company is filed on the SEDAR website at www.sedar.com. Also, information can also be obtained by contacting the Company at Guardian Exploration Inc., 620, 510 – 5th Avenue S.W., Calgary, Alberta, T2P 3S2.