GUARDIAN EXPLORATION INC.

Management's Discussion & Analysis

As at September 30, 2008 for the Nine Months
Ended September 30, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") of financial conditions and results of operations is as of November 24, 2008 and should be read in conjunction with the unaudited consolidated financial statements of Guardian Exploration Inc. ("Guardian" or the "Company") for the nine months ended September 30, 2008 and the audited consolidated financial statements for the years ended December 31, 2007 and 2006. Additional information relating to the Company can be found on the SEDAR website at www.sedar.com.

Discussion with regard to Guardian's 2008 outlook is based on currently available information. The financial data presented below has been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The reporting and operating currency is the Canadian dollar.

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. Furthermore, the forward-looking statements contained in this report are made as of the date of this report, and we undertake no obligation to update publicly or to revise any of the included forward-looking statements unless required by applicable securities laws, whether as a result of new information, future events or otherwise. 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 June 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

The board of directors and management of the Company are very encouraged by the significant progress the Company has made in the past several months. Entering 2008, the Company had nominal production or revenue and a significant working capital deficit. During the nine months ended September 30, 2008, the Company has closed four equity financings, has drilled three successful wells under the Breaker Energy Inc. ("Breaker") farm-in agreement and has successfully and efficiently constructed a 100% owned natural gas pipeline to transport natural gas production to a new third party processing facility. This is a significant event in the Company's history as the Company now has two processing facilities to process natural gas production from the Company's Kotcho field, thereby, significantly reducing the chance that the production will be shut-in in the future. The Company now believes it has turned the corner and is beginning a substantial growth phase. The board of directors and management would like to thank all its stakeholders for the patience and understanding during the last year.

SELECTED INFORMATION

	Three Months Ended September 30		Nine Months Ended September 30	
	2008 $	2007 $	2008 $	2007 $
Petroleum and natural gas revenue, before royalties	2,220,965	-	4,979,033	90,277
Funds flow from (used in) operations	1,542,499	(363,044)	3,141,155	(1,012,885)
Funds flow from (used in) operations per share - basic	0.04	(0.02)	0.09	(0.05)
Funds flow from (used in) operations per share - diluted	0.04	(0.02)	0.09	(0.05)
Net income	947,256	1,225,663	2,305,563	208,060
Net income per share - basic	0.02	0.06	0.07	0.01
Net income per share - diluted	0.02	0.06	0.07	0.01
Capital expenditures (settlement gains)	(226,704)	-	5,397,719	(568,544)
Production (boe/day)	232	-	180	9

	September 30 2008	December 31 2007
Working capital deficiency	$824,811	$3,934,186
Total assets	$10,224,404	$5,496,057

RESULTS OF OPERATIONS

PRODUCTION

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Production (boe/day)				
Crude oil	179	-	139	-
Natural gas	53	-	41	8
Oil equivalent production	232	-	180	8

The increase in crude oil production is attributed primarily to three wells in the Girouxville area that were completed and placed on production under the farm-in agreement with Breaker. The three wells produced an average of 147 and 107 boe/day for the three and nine month periods ended September 30, 2008 respectively. Aside from this, production from the Company's Montana Cutbank field contributed 32 boe/day for the three and nine months ended September 30, 2008, prior to which in 2007 this area was accounted for on a pre-production basis as a reduction in the Company's investment in Property and Equipment rather than as revenue.

Guardian's gas production was significantly impacted for most of 2007 and the first quarter of 2008 when the producing Kotcho field was shut-in during January 2007 due to third party processing capacity restrictions and the well remained shut-in until April 2008 when a 100% owned natural gas pipeline was constructed and put into service to transport the Kotcho wells' production to a third party processing facility.

PRICING

Benchmark Prices

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Crude oil – WTI (US$ per Bbl)	117.98	75.50	113.30	66.20
Crude oil – Edmonton Par Price ($ per Bbl)	122.91	82.02	116.28	74.53
Natural gas – AECO Index ($/mcf)	9.21	5.59	8.54	6.79
Natural gas – Station 2 Index ($/mcf)	8.59	5.15	8.52	6.43
Exchange rate ($US/$Cdn)	1.04	1.05	1.02	1.11

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 dollars exchange rate and local demand and supply influences. Crude oil prices averaged US$113.30 per barrel for WTI and $116.28 per barrel for Edmonton par price for the first nine months of 2008 as tight supply/demand fundamentals and global political instability continued to keep global oil prices unstable and at historical highs. The increase in the Canadian dollar relative to the U.S. dollar in the first nine months of 2008 partially offset the increase in oil price during the same period, in Canadian dollar terms.

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. The Company sells its northeast BC gas into the BC market, for which the reference price is the Station 2 index price at Fort St. John, BC. Natural gas prices are influenced more by North American supply and demand than global fundamentals with prices therefore remaining very volatile due to fluctuating supply and demand forecasts and unstable weather patterns. Natural gas index prices averaged $9.21 per mcf at AECO and $8.59 per mcf at Station 2 in Fort St. John, BC for the third quarter of 2008 compared to $5.59 per mcf at AECO and $5.15 per mcf at Station 2 for the third quarter of 2007. For the first nine months of 2008 natural gas index prices averaged $8.54 per mcf at AECO and $8.52 per mcf at Station 2 in Fort St. John, BC compared to $6.79 per mcf at AECO and $6.43 per mcf at Station 2 for the first nine months of 2007.

Realized Prices

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Average Prices				
Crude oil ($/bbl)	$125.74	-	$116.76	-
Natural gas ($/mcf)	6.12	-	8.03	$6.74
Oil equivalent ($/boe)	$105.29	-	$100.99	$40.42

Guardian's averaged realized price for its crude oil was $125.74 and $116.76 per barrel for the three and nine month periods ended September 30 2008 respectively with no corresponding oil production for the same periods in 2007. For the nine months ended September 30, 2008 the Company's averaged realized price for its natural gas was $8.03/mcf compared to $6.74/mcf realized for same period in 2007, which latter period represented only production during the first month of 2007 until the Kotcho field was shut-in due to third party capacity restrictions.

REVENUES

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Petroleum and Natural Gas Revenue				
Crude oil	$2,042,862	-	$4,433,156	-
Natural gas	178,103	-	545,877	$90,277
Total petroleum and natural gas revenue	$2,220,965	-	$4,979,033	$90,277

The increase in crude oil revenue is a result of new oil production from the Company's three Girouxville area wells drilled under the Breaker farm-in agreement and brought on production in 2008 and crude oil production from the Company's Montana Cutbank property previously accounted for in 2007 on a pre-production basis as a reduction in Property and Equipment.

The increase in natural gas revenue is attributable to the increase in natural gas production following the Company's Kotcho property being shut-in from February 2007 to April 2008 as a result of third party processing restrictions until the construction of a 100% Company operated pipeline to another third party processing facility allowed the Kotcho property to begin producing again.

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	
	2008	2007	2008	2007
Royalties	$51,223	-	$223,972	$42,212
As a percentage of petroleum and natural gas revenue	2%	-	4%	47%

The increase in absolute royalties in 2008 is due to the increased oil and natural gas production revenue. On a percentage of revenue basis the decrease from 47% in the first nine months of 2007 to 4% of gross revenue in the same period in 2008 is attributable primarily to the recently drilled wells in Girouxville qualifying for a royalty holiday thereby reducing the overall royalty rate as a percentage of gross oil and natural gas revenue.

On October 25, 2007, the Alberta government announced the New Royalty Framework that will come into effect on January 1, 2009, which was in response to the Alberta Royalty Review Panel's recommendations announced on September 18, 2007. During the nine months ended September 30, 2008, the Company drilled and completed three

wells in the province of Alberta under the Breaker farm-in agreement and currently those wells are the only production in the province of Alberta. On April 10, 2008, the Alberta provincial government announced certain changes to it new Alberta Royalty Framework as a result of certain unintended consequences with respect to Deep Oil and Deep Gas drilling. It is expected that numerous changes will be made to the current royalty structure effective January 1, 2009. Although details have not yet been released, Guardian expects that the revised royalty program will generally have a negative impact on the Alberta conventional oil and gas production.

OPERATING EXPENSES

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	**2007**	**2008**	**2007**
Operating expenses	$347,124	$157,273	$822,172	$265,116
Operating expenses per boe	$16.46	N/A	$16.68	$118.69
As a percentage of petroleum and natural gas revenue	16%	N/A	17%	294%

The increase in operating costs during the three and nine month periods ended September 30, 2008 is a result of the increase in production volumes for the applicable periods compared with the same periods in 2007. On both a per boe and percentage of revenue basis, the operating costs have decreased significantly in 2008 as compared to 2007 as a number of the operating costs are fixed in nature and as a result the large increase in production and revenue in 2008 relative to 2007 has had a beneficial effect on both a per boe and percentage basis.

GENERAL AND ADMINISTRATIVE EXPENSES

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	**2007**	**2008**	**2007**
General and administrative (“G&A”) expenses	$349,766	$176,665	$931,768	$761,991
G&A per boe	$16.58	N/A	$18.90	$341.13
As a percentage of petroleum and natural gas revenue	16%	N/A	19%	844%

The increase in overall G&A expenses in the three and nine month periods ended September 30, 2008 is due to the increased operations and overall staffing levels of the Company, as compared with the similar periods ended in 2007, when the Company had nominal revenues. On a percentage of revenue and per boe basis, G&A costs have decreased significantly in 2008 as compared to 2007 as a number of the G&A expenses are fixed in nature and as a result the large increase in revenue in 2008 relative to 2007 has had a beneficial effect on a the percentage of revenue and per boe basis.

STOCK-BASED COMPENSATION

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	**2007**	**2008**	**2007**
Stock-based compensation	$132,342	$9,600	$324,094	$9,600

Stock-based compensation expense is the amortization over the vesting period of the 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. During the nine months ended September 30, 2008, the Company issued 1,800,000 stock options to various parties. The increase in stock-based compensation expense from 2007 to 2008 is a result of the increase in the numbers of options issued and outstanding as stock-based compensation is amortized over the vesting period of the options.

INTEREST EXPENSE

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	**2007**	**2008**	**2007**
Interest expense (recovery)	$5,830	$(1,608)	$25,197	$3,131

Interest expense for the three and nine month periods ended September 30, 2008 reflects primarily the interest expense on the $400,000 of convertible debentures issued in 2008, along with interest on overdue accounts applicable for periods in both 2007 and 2008. The convertible debenture was fully repaid in July 2008.

DEPLETION, DEPRECIATION AND ACCRETION

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	**2007**	**2008**	**2007**
Depletion, depreciation and accretion ("DD&A") expense	$468,306	$19,458	$1,404,624	$129,836
DD&A expense per boe	$22.20	N/A	$28.49	$58.12

The increase in depletion is a result of significantly increased production volumes in 2008 compared to 2007 combined with the additional capital costs associated with the two Girouxville area wells completed under the Breaker farm-in arrangement and the capital costs associated with the 100% Company operated pipeline in the Kotcho area that was constructed in 2008 to allow the Kotcho properties to be tied into another processing facility. The Company has increased the amount of reserves from those applicable at December 31, 2007 for the additional reserves associated with the 2008 drilling program, including the two Girouxville area wells completed in 2008, based on information obtained from the Company's independent reservoir engineers.

The Company follows the full cost method of accounting for its operations as described in the CICA's accounting guideline 16, "Oil and Gas Accounting - Full Cost". Accordingly, the cost of all wells, both successful and unsuccessful, are added to the Company's capital base and are depleted on the unit of production method based on estimated gross proved reserves at forecast prices and costs as determined by independent engineers and the Company's internal estimates. Costs of unproven properties, seismic and undeveloped land, net of impairments, are excluded from the depletion calculation and future capital costs associated with proved undeveloped reserves are included in the depletion calculation.

In recognizing an asset retirement obligation ("ARO") associated with the retirement of a tangible long-lived asset, the Company records a liability in the period in which it is incurred and becomes determinable, with an offsetting increase in the carrying amount of the associated asset. The cost of the tangible asset, including the initially recognized ARO is depleted such that the cost of the ARO is recognized over the useful life of the asset. The ARO is recorded at fair value and accretion expense is recognized over time as the discounted liability is accreted to its expected settlement value.

The provision for asset retirement obligations are 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 total future value of its asset retirement obligations at September 30, 2008 is $1,476,388. Current expenditures for actual abandonment and site restoration in the nine months ended September 30, 2008 were $nil.

TAXES

During the nine months ended September 30, 2008 and 2007, the Company recorded no cash or future income tax expense, except for a future income tax recovery of $833,000 recorded in the three months ended June 30, 2008 as a

result of the use of unrecognized tax pools available to offset the $833,000 future tax liability recorded on the issuance of flow-through shares during the second quarter of 2008.

NET INCOME AND COMPREHENSIVE INCOME

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	**2007**	**2008**	**2007**
Net income	$947,256	$1,225,663	$2,305,563	$208,060
Net income - per basic share	$0.02	$0.06	$0.07	$0.01
Net income - per diluted share	$0.02	$0.06	$0.07	$0.01
Weighted average shares outstanding:				
Basic	39,438,175	20,079,422	33,004,480	20,079,422
Diluted	39,748,985	20,079,422	33,505,243	20,079,422

Diluted per share amounts are calculated using the weighted average number of shares outstanding for the three and nine month periods ended September 30, 2008 of 39,748,985 and 33,505,243 shares respectively under the assumption of the exercise of dilutive stock options, warrants and agents warrants using the treasury stock method. For the three and nine month periods ended September 30, 2007, the Company's dilutive instruments have not been included in the computation of earnings per share as the effect would be anti-dilutive.

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 in the table below:

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	**2007**	**2008**	**2007**
Net income	$947,256	$1,225,662	$2,305,563	$208,060
Add back (subtract) items not affecting cash:				
Depletion, depreciation and accretion	468,306	(86,601)	1,404,624	458
Future income tax recovery	-	-	(833,000)	-
Stock-based compensation	132,342	9,600	324,094	9,600
Gain on settlements and sales of assets	-	(1,298,257)	-	(1,298,257)
Foreign exchange loss (gain)	(5,404)	(213,948)	(60,126)	67,254
Funds flow from (used in) operations	$1,542,499	$(363,044)	$3,141,155	$(1,012,885)
Funds flow per share - basic	$0.04	$(0.02)	$0.09	$(0.05)
Funds flow per share - diluted	$0.04	$(0.02)	$0.09	$(0.05)

SHARE CAPITAL

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	**2007**	**2008**	**2007**
Outstanding common shares at period end				
Basic	39,461,343	20,079,422	39,461,343	20,079,422
Diluted	54,082,855	20,829,422	54,082,855	20,829,422
Weighted average outstanding common shares				
Basic	39,438,175	20,079,422	33,004,480	20,079,422
Diluted	39,748,985	20,079,422	33,505,243	20,079,422

On January 18, 2008, the Company closed a private placement of 5,500,000 units at $0.22 per unit for total gross proceeds of $1,210,000, to an officer and director of the Company. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant is exercisable into one common share at a price of $0.30 for two years from the date of closing. The units issued pursuant to the financing are subject to a four month hold period. In connection with the financing, the company issued 550,000 agent warrants to the agent, exercisable for a period of two years from the date of closing into common shares of the Company at exercise price of $0.22. Concurrently with this transaction, the officer and director sold 5,500,000 common shares of the Company from his personal holdings to clients of the agent.

On February 4, 2008, the Company closed a private placement of 3,371,300 units at $0.32 per unit for total gross proceeds of $1,078,816, to an officer and director of the Company. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant is exercisable into one common share at a price of $0.35 for two years from the date of closing. The units issued pursuant to the financing are subject to a four month hold period. In connection with the financing, the company issued 337,130 agent warrants to the agent, exercisable for a period of two years from the date of closing into common shares of the Company at exercise price of $0.22. Concurrently with this transaction, the officer and director sold 3,371,300 common shares of the Company from his personal holdings to clients of the agent.

On April 29, 2008, the Company issued a total of 407,421 common shares at a price of $0.55 per share to various creditors of the Company in exchange for their outstanding debts of $224,082. The shares are subject to a four month hold period.

On May 13, 2008, the Company closed the first tranche of a brokered private placement consisting of 600,000 common shares of the Company at a price of $0.30 per common share and 3,185,500 flow-through shares at a price of $0.35 per flow-through share for gross proceeds of $1,294,925. In connection with the financing, the company issued 378,550 agent warrants to the agents, exercisable for a period of two years from the date of closing into common shares of the Company at exercise price of $0.30.

On June 4, 2008, the Company closed the second and final tranche of a brokered private placement consisting of 1,449,100 common shares of the Company at a price of $0.30 per common share and 4,749,100 flow-through shares at a price of $0.35 per flow-through share for gross proceeds of $2,110,715. In connection with the financing, the company issued 624,420 agent warrants to the agents, exercisable for a period of two years from the date of closing into common shares of the Company at exercise price of $0.30.

On July 29, 2008, 73,500 Agent warrants were exercised at an exercise price of $0.22 per share.

Subsequent to September 30, 2008, the Company issued 276,534 common shares at a deemed price of $0.55 per share to various creditors of the Company in exchange for their outstanding debts of $152,094. The common shares issued are subject to a four-month hold period from the date of issuance.

Outstanding Securities	**Outstanding at September 30**	
	2008	**2007**
Common shares	39,461,343	20,079,422
Stock options	3,150,000	1,275,000
Warrants	8,871,300	237,502
Agent warrants	1,816,600	289,088
Debenture warrants	783,613	783,613

As of the date of this MD&A, there were 39,737,877 common shares issued and outstanding.

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, 2007	1,350,000	$0.54
Granted	1,800,000	$0.29
Balance, September 30, 2008	3,150,000	$0.40
Exercisable, September 30, 2008	1,700,000	$0.45

	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
$0.150	800,000	$0.150	4.1	600,000	$0.150
$0.220	200,000	$0.220	4.3	100,000	$0.220
$0.230	250,000	$0.230	4.9	-	-
$0.285	800,000	$0.285	3.0	500,000	$0.285
$0.295	350,000	$0.295	4.8	-	-
$0.310	200,000	$0.310	4.7	50,000	$0.310
$1.100	550,000	$1.100	2.7	450,000	$1.100
	3,150,000	$0.395	3.8	1,700,000	$0.450

During the nine months ended September 30, 2008, 1,800,000 stock options were granted with a fair value of $0.214 per option as determined using the Black-Scholes model. The stock options granted vest over a period of 12 months and expire between 2009 and 2013.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2008, the Company had no bank credit facility and a working capital deficit of $824,811. The future operations of the Company are dependent on its ability to successfully explore, develop and produce economically viable reserves and market petroleum products from its properties and raise capital (through debt, equity or through the sale of certain of its assets) to support its activities and meet its current and future obligations. The Company has recently closed several equity financings and the board of directors and management believe that the Company has made significant progress in securing adequate financing, which when combined with the positive cash flow that the Company is currently generating, will provide the necessary capital to develop its current and future projects.

The capital intensive nature of the Company's activities may create a negative working capital position in 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. The Company has experienced a significant amount of uncollectible accounts receivable in the past. During the year ended December 31, 2007, the Company experienced bad debts of $1,629,695 due to joint venture partner's inability to pay the outstanding amounts due to the Company.

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.

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 therefrom are based upon a number of variable factors and assumptions, such as commodity prices, projected production from the properties, the assumed affects 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 therefrom, 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 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 involves 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.

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 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 favourable terms. In addition, the Company may contemplate the sale of producing properties or the sale of other 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 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 is scheduled to take 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. Under the new royalty framework, royalty rates will be increased on conventional oil, natural gas and the oil sands. The Government of Alberta estimates that the overall royalties will be increased by approximately $1.4 billion over its previously estimated royalty revenues for 2010. Substantial legislative, regulatory and systems updates will be introduced before the changes become fully effective in January 2009.

The implementation of the proposed changes to the royalty regime in Alberta is subject to certain risks and uncertainties. The significant changes to the royalty regime requires new legislation, changes to existing legislation and regulation and development of proprietary software to support the calculation and collection of royalties. Additionally, certain proposed changes contemplate further public and/or industry consultation. There may be modifications introduced to the proposed royalty structure prior to the implementation thereof. An increase in the royalties payable by Guardian in addition to the costs of modifying the Corporations existing infrastructure to deal with the changes to the royalty regime will result in higher costs to Guardian and therefore reduced profitability. At this time the Company is unable to determine the effect the New Royalty Framework will have on these wells.

On April 10, 2008, the Alberta provincial government announced certain changes to it new Alberta Royalty Framework as a result of certain unintended consequences with respect to Deep Oil and Deep Gas drilling. It is expected that numerous changes will be made to the current royalty structure effective January 1, 2009. Although details have not yet been released, Guardian expects that the revised royalty program will generally have a negative impact on the Alberta conventional oil and gas production.

Related Party Transactions

The Company recorded legal fees payable in the amount of $62,804 for the nine months ended September 30, 2008 to a legal firm of which a director of the Company is a partner. 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. Blackfeet Tribal agreement

The Company owns the rights to explore for petroleum and natural gas on approximately 100,000 tribal mineral acres titled the Eastern Lands on the Blackfeet Indian Reservation in northern Montana. Under the terms of the Third Amended Oil and Gas Exploration Agreement ("Agreement") with the Blackfeet Indian Reservation the Company had commitments to retain its exploration rights in the lands as follows:

i. payments to the Blackfeet Tribe of annual rental fees of US$300,000 until April 2008; and

ii. an obligation to drill a total of 4 wells; 2 wells by September 1, 2007 and the remaining 2 wells by April 18, 2008, when the exploration agreement with the Blackfeet Nation expires.

During 2007, the Company was granted an extension by the Blackfeet Nation to drill the first 2 wells of the remaining 4 wells from September 1, 2007 to January 15, 2008. Subsequent to December 31, 2007, due to the Company's failure to drill 2 wells prior to the January 15, 2008 deadline, the Company received notification from the Blackfeet Nation that the Agreement was terminated on January 15, 2008. The Company believes it has legal remedies in this matter and is currently pursuing all legal means to protect its interests.

b. Office lease obligation

The Company had a five year office lease agreement which expired on October 31, 2008. The Company has extended this lease agreement for an additional period of six months. The following table outlines the Company's estimated lease commitments over the life of the agreement:

	$
2008	55,450
2009	46,834

GUARANTEES, CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS

a. Blackfeet Tribal agreement

During the nine months ended September 30, 2008, the Company was notified that the agreement with the Blackfeet Nation was terminated due to the Company's failure to fulfill its drilling obligations under the agreement. The Company believes that it has legal remedies in this matter and intends to pursue all available means to protect its interest. In the event the Company is not successful in protecting its interest, the Company would forfeit approximately 100,000 acres of undeveloped land which would result in a potential $1,000,000 charge to income for impairment. The outcome is not determinable, and no amount of impairment has been recorded in these financial statements.

b. Flow-through shares

As at December 31, 2007, the Company had a shortfall of eligible expenditures required under flow-through agreements in the amount of $1,850,000. It is the position of the Company that cheques in the amount of $1,530,685 in payment of eligible expenditures on December 31, 2007 were invoiced, issued and receipted and that the unexpended flow-through amount that could be reassessed by the tax authorities and result in the Company potentially being responsible for investor taxes of approximately $750,000, is inappropriate.

Notwithstanding this position, if the expenditures are deemed to have been made subsequent to December 31, 2007, management is of the opinion that the matter can be resolved through negotiation with the tax authorities and therefore, such reassessment is unlikely. No provision has been made in these financial statements other than for estimated interest and penalties in the amount of $382,500.

c. Litigation

The Company is named as a defendant in a lawsuit where a participant in one of its operated wells in Northern BC is claiming, amongst other things, that it still possesses a 100% before pay out ("BPO") working interest in this well for the approximate $1.9 million in advances it has made against the drilling costs of this well, notwithstanding the fact that it ceased its funding of this well. This company is claiming that the Company's subsequent funding of the $789,000 in costs required to complete this well was the result of the Company's negligence and is seeking, amongst other things, the recovery of its 100% BPO interest prior to the Company recovering these additional costs from its 50% after pay out ("APO") interest. This company, by virtue of their purported payment to the Company of $175,000, is also claiming a partial interest in the pipeline constructed by the Company in 2008 in order to allow the Kotcho area wells to begin production.

The Company is vigorously defending this lawsuit and will be seeking in its statement of defence and counter-claim to have the Court determine that this company has forfeited any interest in this well by virtue of its lack of funding of this well's completion by the Company, or alternatively that this company must repay the Company the $789,000 in funds it has spent to complete this well, plus a penalty of 300% of this amount in accordance with Canadian Association of Petroleum Landmen (CAPL) industry standards, before it obtains its 100% BPO interest in this well. The Company denies that it has ever received any funding from this company for the pipeline or that this company has any interest in the pipeline.

At September 30, 2008, the Company has recorded the $789,000 in costs incurred to complete this well as an accounts receivable due from this company and has recorded the $313,000 in net revenues that it has received from this well, after royalties and operating costs, as a reduction of this accounts receivable.

d. Mineral Management Services

The Mineral Management Service ("MMS"), a bureau of the US Department of the Interior that manages that nation's natural gas and oil resources, has alleged that the Company has been deficient in various administrative filing requirements in the past and that, as a result, civil penalties of approximately US$630,000 are being levied against the Company. The Company is disputing these penalties, which bear no relation to either the revenue or royalties involved in this matter, and along with its legal counsel are attempting to work with the bureau towards a satisfactory resolution of this matter. No provision has been made in these financial statements for these civil penalties.

The Company has not entered into any off-balance sheet arrangements or guarantees.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008, the Company adopted Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Disclosures and Presentation. These disclosure standards were adopted prospectively and require entities to provide information enabling users of the financial statements to evaluate the significance of the Company's financial instruments and the nature and the extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and how the Company manages those risks.

Effective January 1, 2008, the Company adopted Section 1535, Capital Disclosures, which requires companies to disclose their objectives, policies and processes for managing capital as well as compliance with any externally imposed capital requirements.

International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the mandatory changeover date to International Financial Reporting Standards ("IFRS") for Canadian profit-oriented publicly accountable entities ("PAE's") such as Guardian.

The AcB requires that FRS compliant financial statements be prepared for annual and interim financial statements commencing on or after January 1, 2011. For PAE's with a December 31 year-end, the first unaudited interim financial statements under IFRS will be the quarter ending March 31, 2011, with comparative financial information for the quarter ended March 2010. The first audited annual financial statements will be for the year ending December 31, 2011, with comparative financial information for the year ended December 31, 2010. This also means that all the opening balance sheet adjustments relating to the adoption of IFRS must be reflected in the January 1, 2010 opening balance sheet which will be issued as part of the comparative financial information in the March 31, 2011 unaudited interim financial statements.

Guardian intends to adopt these requirements as set out by the AcSB and other regulatory bodies. At this time, the impact of adopting IFRS cannot be reasonably quantified. During 2008, Guardian will continue to evaluate the impact of IFRS on the Company and develop and put in place a plan for the conversion to IFRS. The actual conversion work will occur in 2009 and 2010, in anticipation of the preparation of the January 1, 2010 balance sheet that will be required for comparative purposes for all periods ending in 2011.

MAINTENANCE OF DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. In accordance with the continuous disclosure requirements under the securities commission rules and TSX Venture Exchange policies, the Company has adopted a Corporate Disclosure and Media Policy and has procedures in place to ensure that any sensitive information is identified, reviewed by management and disclosed in a timely manner to the regulatory authorities, shareholders and the public.

However, in contrast to the requirements under Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (MI 52-109), the Company has opted out under the rules afforded to TSX Venture issuers and Management and the Board do not make any representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in MI 52-109. In particular, Management and the Board are not making any representations relating to the establishment and maintenance of:

a) Controls and other procedures designed to provide reasonable assurance that the information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

b) A process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

In addition, Management and the Board would also like to highlight that the Company has identified certain weaknesses in ICFR specific to the Company which are:

a. Due to the limited number of staff at Guardian, it is not feasible to achieve the complete segregation of incompatible duties;

b. Due to the limited number of staff, the Company has a risk of material misstatement related to non-routine complex accounting matters that may arise.

The Company believes these weaknesses are mitigated by: the active involvement of senior management and oversight by the board of directors in all the affairs of the Company; open lines of communication within the Company; present levels of activities and transactions within the Company being readily transparent and the thorough review of the Company's financial statements by management and the board of directors. However, these mitigating factors will not necessarily prevent the likelihood that a material misstatement will not occur as a result of the aforementioned weaknesses in the Company's internal controls over financial reporting. A system of internal controls over financial reporting, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

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., 550, 435 – 4th Avenue S.W., Calgary, Alberta, T2P 3A8.

GUARDIAN EXPLORATION INC.

Consolidated Financial Statements

(Unaudited)

September 30, 2008

Notice to Reader

The consolidated financial statements of Guardian Exploration Inc. and the accompanying consolidated interim balance sheets as of September 30, 2008 and the consolidated interim statements of operations and deficit and cash flows for the nine month period ended September 30, 2008 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 24, 2008

Signed "*Graydon Kowal*"

Graydon Kowal
President and Chief Executive Officer

GUARDIAN EXPLORATION INC.
BALANCE SHEETS
(UNAUDITED)

	September 30 2008 $	December 31 2007 $
ASSETS		
Current assets		
Cash	254,085	72,026
Accounts receivable (note 5)	1,592,049	1,376,500
Due from related company (note 9)	128,887	-
Due from shareholder (note 10)	40,531	-
Prepaid expenses	72,278	54,615
	2,087,830	1,503,141
Deposit (note 6)	346,784	345,825
Property and equipment (note 7)	7,789,790	3,647,091
	10,224,404	5,496,057
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	2,912,641	4,739,267
Due to related company (note 9)	-	451,967
Due to shareholder (note 10)	-	246,092
Convertible debentures (note 8)	-	-
	2,912,641	5,437,326
Asset retirement obligations (note 11)	967,383	876,947
	3,880,025	6,314,273
Going Concern and Commitments (notes 1 & 13)		
Shareholders' equity		
Share capital (note 12)	11,436,776	6,903,838
Warrants (note 12)	673,600	673,600
Contributed surplus (note 12)	1,203,083	878,990
Deficit	(6,969,080)	(9,274,643)
	6,344,379	(818,215)
	10,224,404	5,496,057

See accompanying notes to these consolidated financial statements

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

	Three months ended September 30		Nine months ended September 30	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Revenue				
Petroleum and natural gas	2,220,965	-	4,979,033	90,277
Other income	74,727	98,666	143,727	98,666
Royalties	(51,223)	-	(223,972)	(42,212)
Interest income	762	-	18,363	-
	2,245,220	98,666	4,917,151	146,731
Expenses				
Operating	347,124	157,273	822,172	265,116
General and administrative	349,766	176,665	931,768	761,991
Bad debts expense (recovery)	-	-	(3,141)	-
Interest expense (recovery)	5,830	(1,608)	25,197	3,131
Stock-based compensation	132,342	9,600	324,093	9,600
Depletion, depreciation and accretion	468,306	19,458	1,404,624	129,836
Foreign exchange loss (gain)	(5,404)	(213,948)	(60,126)	67,254
	1,297,964	171,260	3,444,588	1,236,928
Income (loss) from operations	947,256	(72,594)	1,472,563	(1,090,197)
Gain on settlements and sales of assets	-	1,298,257	-	1,298,257
Income before income taxes	947,256	1,225,663	1,472,563	208,060
Future income tax recovery	-	-	(833,000)	-
Net income	947,256	1,225,663	2,305,563	208,060
Deficit, beginning of period	(7,916,335)	(8,587,976)	(9,274,643)	(7,570,373)
Deficit, end of period	(6,969,080)	(7,362,313)	(6,969,080)	(7,362,313)
Income per share (note 12)				
Basic	$0.02	$0.06	$0.07	$0.01
Diluted	$0.02	$0.06	$0.07	$0.01

See accompanying notes to these consolidated financial statements

GUARDIAN EXPLORATION INC.
STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three months ended September 30		Nine months ended September 30	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Cash and cash equivalents provided by (used in)				
Operating activities				
Net income	947,256	1,225,662	2,305,563	208,060
Items not effecting cash:				
Depletion, depreciation and accretion	468,306	(86,601)	1,404,624	458
Future income tax recovery	-	-	(833,000)	-
Stock-based compensation	132,342	9,600	324,094	9,600
Gain on settlements and sales of assets	-	(1,298,257)	-	(1,298,257)
Foreign exchange loss (gain)	(5,404)	(213,948)	(60,126)	67,254
	1,542,499	(363,044)	3,141,155	(1,012,885)
Changes in non-cash working capital	(1,529,525)	278,498	(2,059,838)	(4,222,681)
	12,974	(84,546)	1,081,317	(5,235,566)
Financing activities				
Debentures issued	-	-	400,000	-
Debentures repaid	(30,000)	-	(400,000)	(1,000,000)
Contributed surplus adjustment	-	(30,118)	-	(30,118)
Advances from (repayment to) related company	(12,060)	(178,414)	(580,854)	(228,414)
Issuance of share capital, net of share issue costs	16,170	-	5,365,938	-
Advances from (repayment to) shareholder	(17,616)	-	(286,623)	-
	(43,506)	(208,532)	4,498,461	(1,258,532)
Investing activities				
Settlement recoveries (expenditures) on property and equipment	226,704	-	(5,397,719)	568,544
Proceeds on sale of property and equipment	-	(388,122)	-	6,111,878
Asset retirement obligations	-	42,820	-	-
	226,704	(345,302)	(5,397,719)	6,680,422
Change in cash	196,172	(638,380)	182,059	186,324
Cash, beginning of period	57,913	926,260	72,026	101,556
Cash, end of period	254,085	287,880	254,085	287,880
Supplemental cash flow information				
Interest paid (refunded)	5,830	(1,608)	25,197	3,131

See accompanying notes to these consolidated financial statements

GUARDIAN EXPLORATION INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(UNAUDITED)

1. GOING CONCERN

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and accordingly, have been prepared using the same principles as those for a going concern. As at September 30, 2008 the Company had a working capital deficiency of $824,811 (December 31, 2007 – $3,934,186). Should the Company be unsuccessful in realizing the value of its current and future projects it may not be able to realize its assets and discharge its liabilities in the normal course of business.

The Company's efforts and resources are directed at developing a portfolio of projects and realizing on the value of such projects in the future. Due to numerous risks inherent in these projects, there can be no assurance the Company will be successful. While the Company seeks to mitigate risks by working with joint venture partners and developing a stable production base, the Company's success will, largely, depend on its continued ability to finance the development of existing projects and the acquisition and development of new projects.

Management believes that the going concern assumption is appropriate for these financial statements. If this assumption were not appropriate, adjustments to the carrying amounts of the assets and liabilities, revenues and expenses and the balance sheet classification used may be necessary, and such adjustments may 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 June 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. SIGNIFICANT ACCOUNTING POLICIES

a) Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, K2 America Corp. and K2 Operating Corp. They were incorporated under the General and Business Corporate Law of the State of Montana on November 16, 1995 and February 12, 1998, respectively. All inter-entity transactions and balances have been eliminated.

b) Basis of presentation

The Company's financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

4. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008, the Company adopted Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Disclosures and Presentation. These disclosure standards were adopted retrospectively without restatement and require entities to provide disclosures to evaluate the significance of the Company's financial instruments and the nature and the extent of risks arising from financial instruments

to which the Company is exposed during the period and at the balance sheet date, and how the Company manages those risks.

Effective January 1, 2008, the Company adopted Section 1535, Capital Disclosures, which requires companies to disclose their objectives, policies and processes for managing capital as well as compliance with any externally imposed capital requirements.

International Financial Reporting Standards

The Accounting Standards Board has confirmed the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") will be effective January 1, 2011. The Company will continue to monitor the transition process but due to the extended period of time until implementation, the Company has not assessed the impact of the adoption of IFRS at this time.

5. ACCOUNTS RECEIVABLE

During the nine months ended September 30, 2008, the Company entered into a settlement agreement with a joint venture partner that owed the Company $1,487,255 for joint venture operations. The settlement agreement included a cash payment of $150,000 and an undivided working interest in an unproven property with no identifiable value. The Company had previously written-off the remaining outstanding balance of $1,337,255 during the year-ended December 31, 2007.

6. DEPOSIT

As part of the finalization of the Third Amended Agreement with the Blackfeet Nation, the Company has placed a deposit of $312,000 (USD$ 300,000), 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.

7. PROPERTY AND EQUIPMENT

	September 30 2008 $	December 31 2007 $
Petroleum and natural gas properties and equipment	16,073,833	10,526,510
Accumulated depletion and depreciation	(8,284,043)	(6,879,419)
	7,789,790	3,647,091

There were no capitalized general and administrative expenses for the nine months ended September 30, 2008 and 2007.

Unproven property costs of $1,000,000 (December 31, 2007 - $1,000,000) have been excluded from capitalized costs subject to depletion.

At September 30, 2008, no future development costs (December 31, 2007 - $1,479,000) relating to Canadian proved undeveloped reserves were included in the depletion calculation as these costs were incurred by the Company during the nine months ended September 30, 2008.

8. CONVERTIBLE DEBENTURES

During the nine months ended September 30, 2008, the Company issued $400,000 principal amount of convertible secured debentures. The debentures bear interest at a rate of 8% per annum payable monthly in arrears, are due on June 30, 2008 and are convertible into certain interests in the Company properties at any time on the earlier of July 2, 2008 or in the event of default. Of this amount, $200,000 in convertible debentures was issued to relative of an officer and director of the Company. A $20,000 financing fee was paid on this transaction. During the nine months ended September 30, 2008 the debentures were repaid.

9. DUE FROM / TO RELATED COMPANY

Amounts owed from / to a company, related by common management, are unsecured, bear no interest and have no fixed terms of repayment.

10. DUE FROM / TO SHAREHOLDER

Amounts owed by / to a major shareholder of the Company are unsecured, bear no interest and have no fixed terms of repayment.

11. 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, 2008 are estimated to be $1,476,388 (December 31, 2007 - $1,418,029). These obligations are expected to be settled at various times over the next 16 years. The timing of the settlements of the obligations for the Ronalane, Cherry, Antole and Alderson areas could have a significant range due to the status of the wells. Management has used an estimate of 5 years for purposes of this calculation. The credit-adjusted risk free rate at which the estimated cash flows were discounted was 8% during the nine months ended September 30, 2008 (December 31, 2007 – 8%) and the estimated inflation rate used to project future costs was 2.5% (December 31, 2007 – 2.5 %).

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

	Nine Months Ended September 30, 2008	**Year Ended December 31, 2007**
	$	**$**
Asset retirement obligation, beginning of period	876,947	1,207,667
Obligations incurred	37,022	-
Dispositions	-	(427,972)
Accretion expense	53,414	97,252
Asset retirement obligation, end of period	967,383	876,947

12. SHARE CAPITAL

a) Authorized

Unlimited number of Class A common voting shares
Unlimited number of Class B non-voting common shares
Unlimited number of Class A voting preferred shares, 7% non-cumulative, redeemable by the Company.

b) Issued and outstanding – Class A common voting shares

	Number of Shares	Amount $
Balance, December 31, 2007	20,079,422	6,903,838
Private placements of common shares for cash	19,308,421	5,918,538
Exercise of Agent warrants	73,500	16,170
Share issue costs	-	(568,770)
Tax effect of flow-through shares	-	(833,000)
Balance, September 30, 2008	39,461,343	11,436,776

i) On January 18, 2008, the Company closed a private placement of 5,500,000 units at $0.22 per unit for total gross proceeds of $1,210,000, to an officer and director of the Company. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant is exercisable into one common share at a price of $0.30 for two years from the date of closing. The units issued pursuant to the financing are subject to a four month hold period. In connection with the financing, the company issued 550,000 agent warrants to the agent, exercisable for a period of two years from the date of closing into common shares of the Company at exercise price of $0.22. Concurrently with this transaction, the officer and director sold 5,500,000 common shares of the Company from his personal holdings to clients of the agent.

ii) On February 4, 2008, the Company closed a private placement of 3,371,300 units at $0.32 per unit for total gross proceeds of $1,078,816, to an officer and director of the Company. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant is exercisable into one common share at a price of $0.35 for two years from the date of closing. The units issued pursuant to the financing are subject to a four month hold period. In connection with the financing, the company issued 337,130 agent warrants to the agent, exercisable for a period of two years from the date of closing into common shares of the Company at exercise price of $0.22. Concurrently with this transaction, the officer and director sold 3,371,300 common shares of the Company from his personal holdings to clients of the agent.

iii) On April 29, 2008, the Company issued a total of 407,421 common shares at a price of $0.55 per share to various creditors of the Company in exchange for their outstanding debts of $224,082. The shares are subject to a four month hold period.

iv) On May 13, 2008, the Company closed the first tranche of a brokered private placement consisting of 600,000 common shares of the Company at a price of $0.30 per common share and 3,185,500 flow-through shares at a price of $0.35 per flow-through share for gross proceeds of $1,294,925. In connection with the financing, the company issued 378,550 agent warrants to the agents, exercisable for a period of two years from the date of closing into common shares of the Company at exercise price of $0.30.

v) On June 4, 2008, the Company closed the second and final tranche of a brokered private placement consisting of 1,449,100 common shares of the Company at a price of $0.30 per common share and 4,749,100 flow-through shares at a price of $0.35 per flow-through share for gross proceeds of $2,110,715. In connection with the financing, the company issued 624,420 agent warrants to the agents, exercisable for a period of two years from the date of closing into common shares of the Company at exercise price of $0.30.

vi) On July 29, 2008, 73,500 Agent warrants were exercised at an exercise price of $0.22 per share.

c) Stock options

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

The following table outlines the stock option plan activity:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2007	1,350,000	$0.54
Granted	1,800,000	$0.29
Balance, September 30, 2008	3,150,000	$0.40
Exercisable, September 30, 2008	1,700,000	$0.45

	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**
$0.150	800,000	$0.150	4.1	600,000	$0.150
$0.220	200,000	$0.220	4.3	100,000	$0.220
$0.230	250,000	$0.230	4.9	-	-
$0.285	800,000	$0.285	3.0	500,000	$0.285
$0.295	350,000	$0.295	4.8	-	-
$0.310	200,000	$0.310	4.7	50,000	$0.310
$1.100	550,000	$1.100	2.7	450,000	$1.100
	3,150,000	$0.395	3.8	1,700,000	$0.450

During the nine months ended September 30, 2008, 1,800,000 stock options were granted (2007 – Nil) with a fair value of $0.214 (2007 - $nil) per option as determined using the Black-Scholes model. The stock options granted vest over a period of 12 months and expire between 2009 and 2013. The fair value of each stock option granted was estimated on the date of grant using the Black Scholes option pricing model with the following assumptions:

	September 30, 2008	September 30, 2007
Risk-free interest rate	4.5-5.0%	-
Expected life	5 years	-
Expected volatility range	84%-112%	-
Expected dividend	Nil	-

d) Warrants

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2007	-	-
Issued pursuant to private placements	5,500,000	$0.30
Issued pursuant to private placements	3,371,300	$0.35
Balance, September 30, 2008	8,871,300	$0.32

e) Agent Warrants

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2007	-	-
Issued to agents pursuant to private placement	550,000	$0.22
Issued to agents pursuant to private placement	1,002,970	$0.30
Issued to agents pursuant to private placement	337,130	$0.32
Exercise of warrants	(73,500)	($0.22)
Balance, September 30, 2008	1,816,600	$0.28

f) Debenture warrants

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2006	-	-
Granted	1,600,000	$0.75
Amalgamated adjustment	(816,387)	-
Balance, December 31, 2007 and September 30, 2008	783,613	$1.53

g) Contributed surplus

	Nine Months September 30, 2008 $	Year Ended December 31, 2007 $
Balance, beginning of period	878,990	529,890
Stock-based compensation	324,093	318,982
Equity portion of debenture repaid	-	30,118
Balance, end of period	1,203,083	878,990

h) Earnings per share

Basic per share amounts are calculated using the weighted average number of shares outstanding for the three and nine month periods ended September 30, 2008 of 39,438,175 and 33,004,480 respectively (three and nine month periods ended June 30, 2007 - 20,079,422).

Diluted per share amounts are calculated using the weighted average number of shares outstanding for the three and nine month periods ended September 30, 2008 of 39,748,985 and 33,505,243 shares respectively under the assumption of the exercise of dilutive stock options, warrants and agents warrants using the treasury stock method. For the three and nine month periods ended September 30, 2007, the Company's dilutive instruments have not been included in the computation of earnings per share as the effect would be anti-dilutive.

13. COMMITMENTS

a) Blackfeet Tribal agreement

The Company owns the rights to explore for petroleum and natural gas on approximately 100,000 tribal mineral acres titled the Eastern Lands on the Blackfeet Indian Reservation in northern Montana. Under the terms of the Third Amended Oil and Gas Exploration Agreement ("Agreement") with the Blackfeet Indian Reservation the Company had commitments to retain its exploration rights in the lands as follows:

i) payments to the Blackfeet Tribe of annual rental fees of US$300,000 until April 2008; and
ii) an obligation to drill a total of 4 wells; 2 wells by September 1, 2007 and the remaining 2 wells by April 18, 2008, when the exploration agreement with the Blackfeet Nation expires.

During 2007, the Company was granted an extension by the Blackfeet Nation to drill the first 2 wells of the remaining 4 wells from September 1, 2007 to January 15, 2008. Subsequent to December 31, 2007, due to the Company's failure to drill 2 wells prior to the January 15, 2008 deadline, the Company received notification from the Blackfeet Nation that the Agreement was terminated on January 15, 2008. The Company believes it has legal remedies in this matter and is currently pursuing all legal means to protect its interests.

b) Office lease obligation

The Company had a five year office lease agreement which expired on October 31, 2008. The Company extended this lease agreement for an additional period of six months to April 30, 2009. The following table outlines the Company's estimated lease commitments over the life of the agreement:

Periods ended December 31	$
2008	31,425
2009	46,834

14. RELATED PARTY TRANSACTIONS

The Company recorded legal fees payable in the amount of $62,804 for the nine months ended September 30, 2008 to a legal firm of which a director of the Company is a partner. 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.

15. CONTINGENCIES

a. Blackfeet Tribal agreement

During the nine months ended September 30, 2008, the Company was notified that the agreement with the Blackfeet Nation was terminated due to the Company's failure to fulfill its drilling obligations under the agreement. The Company believes that it has legal remedies in this matter and intends to pursue these to protect its interests. In the event the Company is not successful in protecting its interest, the Company would forfeit approximately 100,000 acres of undeveloped land which would result in a potential $1,000,000 charge to income for impairment. The outcome is not determinable, and no amount of impairment has been recorded in these financial statements.

b. Flow-through shares

As at December 31, 2007, the Company had a shortfall of eligible expenditures required under flow-through agreements in the amount of $1,850,000. It is the position of the Company that cheques in the amount of $1,530,685 in payment of eligible expenditures on December 31, 2007 were invoiced, issued and receipted and that the unexpended flow-through amount that could be reassessed by the tax authorities and result in the Company potentially being responsible for investor taxes of approximately $750,000, is inappropriate.

Notwithstanding this position, if the expenditures are deemed to have been made subsequent to December 31, 2007, management is of the opinion that the matter can be resolved through negotiation with the tax authorities and therefore, such reassessment is unlikely. No provision has been made in these financial statements other than for estimated interest and penalties in the amount of $382,500.

c. Litigation

The Company is named as a defendant in a lawsuit where a participant in one of its operated wells in Northern BC is claiming, amongst other things, that it still possesses a 100% before pay out ("BPO") working interest in this well for the approximate $1.9 million in advances it has made against the drilling costs of this well, notwithstanding the fact that it ceased its funding of this well. This company is claiming that the Company's subsequent funding of the $789,000 in costs required to complete this well was the result of the Company's negligence and is seeking, amongst other things, the recovery of its 100% BPO interest prior to the Company recovering these additional costs from its 50% after pay out ("APO") interest. This company, by virtue of their purported payment to the Company of $175,000, is also claiming a partial interest in the pipeline constructed by the Company in 2008 in order to allow the Kotcho area wells to begin production.

The Company is vigorously defending this lawsuit and is seeking in its statement of defence to have the Court determine that this company has forfeited any interest in this well by virtue of its lack of funding of this well's completion by the Company, or alternatively that this company must repay the Company the $789,000 in funds it has spent to complete this well, plus a penalty of 300% of this amount in accordance with Canadian Association of Petroleum Landmen (CAPL) industry standards, before it obtains its 100% BPO interest in this well. The Company denies that it has ever received any funding from this company for the pipeline or that this company has any interest in the pipeline.

At September 30, 2008, the Company has recorded the $789,000 in costs incurred to complete this well as an accounts receivable due from this company and has recorded the $313,000 in net revenues that it has received from this well, after royalties and operating costs, as a reduction of this accounts receivable.

d. Mineral Management Services

The Mineral Management Service ("MMS"), a bureau of the US Department of the Interior that manages that nation's natural gas and oil resources, has alleged that the Company has been deficient in various administrative filing requirements in the past and that, as a result, civil penalties of approximately US$630,000 are being levied against the Company. The Company is disputing these penalties, which bear no relation to either the revenue or royalties involved in this matter, and along with its legal counsel are attempting to work with the bureau towards a satisfactory resolution of this matter. No provision has been made in these financial statements for these civil penalties.

16. SEGMENTED DISCLOSURES

The Company conducts its business in Canada and the United States.

For the nine months ended September 30, 2008:

	Canada	United States	Total
Petroleum and natural gas revenue	4,073,286	905,747	4,979,033
Interest expense	17,097	8,100	25,197
Depletion, depreciation and accretion	1,288,154	116,470	1,404,624
Income for the period	2,017,084	288,479	2,305,563
Property and equipment	6,492,407	1,292,067	7,784,474

17. FINANCIAL INSTRUMENTS

The Company is exposed to financial risk on its financial instruments including accounts receivable, accounts payable and accrued liabilities, bank debt and convertible debentures. The Company manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical. The main financial risks affecting the Company are as follows:

Credit Risk

Credit risk is primarily related to the Company's receivables from petroleum and natural gas marketers and joint venture partners and the risk of financial loss if a customer, partner or counterparty to a financial instrument fails to meet its contractual obligations. Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Company sells its production to several petroleum and natural gas marketers so that the exposure to any one entity is minimized. The Company historically has not experienced any collection issues with its petroleum and natural gas marketers. Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to expenditure. The Company does not typically obtain collateral from joint venture partners; however in certain circumstances, it may cash call a partner in advance of the work being performed. The Company establishes an allowance for doubtful accounts as determined by management based on their assessment of collection therefore the carrying amount of accounts receivable generally represents the maximum credit exposure. During the nine months ended September 30, 2008 there were no receivables written off.

Market Risk

Market risk consists of commodity price, foreign currency and interest rate risks.

a) **Commodity Price Risk**
Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world demand and supply, and economic events that dictate the levels of supply and demand. The Company has no financial derivative sales contracts in place as at or during the nine months ended September 30, 2008.

b) **Foreign Currency Exchange Risk**
Foreign currency exchange rate risk is the risk that future cash flows will fluctuate as a result of changes in foreign exchange rates. Although all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company had no forward exchange rate contracts in place as at or during the nine months ended September 30, 2008.

c) **Interest Rate Risk**
Interest rate cash flow risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is not exposed to interest rate fluctuations.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking harm to the Company's reputation. As well, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures.

Fair Value of Financial Instruments

The carrying values and fair values of these financial instruments at September 30, 2008 are disclosed below by financial instrument category as follows:

Financial Instrument	Carrying Value	Fair Value
Accounts receivable (loans and receivables)	1,592,049	1,592,049
Accounts payable (other liabilities)	2,912,641	2,912,641
Due from related company (loans and receivables)	128,887	128,887
Due from shareholder (loans and receivables)	40,531	40,531

Capital Management

The Company's policy is to maintain a strong capital base for the objectives of maintaining financial flexibility, creditor and market confidence and to sustain the future development of the business. 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 petroleum and natural gas assets. The Company considers its capital structure to include shareholders' equity, bank debt and working capital. In order to maintain or adjust the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels. The Company's going concern (see note 1) has limited the Company's flexibility in regards to managing its capital structure and has placed additional pressure on the Company to raise additional capital through the raising of equity, additional debt or the selling of certain assets to remain a going concern. The Company is not subject to any externally imposed capital requirements.

18. SUBSEQUENT EVENTS

Subsequent to September 30, 2008, the Company issued 276,534 common shares at a deemed price of $0.55 per share to various creditors of the Company in exchange for their outstanding debts of $152,094. The common shares issued are subject to a four-month hold period from the date of issuance.