

GUARDIAN EXPLORATION INC.

Management's Discussion & Analysis

For the 3 months ended

March 31, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") of financial conditions and results of operations is as of May 28, 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 months ended March 31, 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 May 28, 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

The first quarter of 2010 saw consistent production from the Company’s three main producing wells at Girouxville, and continued strong oil prices. The Company’s natural gas wells in north-eastern British Columbia remain shut-in due to depressed gas prices. The Company recorded a loss for the first quarter of \$268,803 on revenue of \$890,209 and average daily oil production of 129 barrels.

As at March 31, 2010 the Company had a working capital deficiency of \$1.9 million and capital expenditure commitments of approximately \$0.4 million in relation to flow-through funds raised in 2008.

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. In 2010, the Company finalized a secured loan facility with a company controlled by a director of the Company in the amount of \$1 million. At March 31, 2010, and at the date of this report, \$617,056 had been drawn. While the facility has been approved by the Company’s Board of Directors, it is subject to TSX Venture Exchange approval, which has not yet been received. The loan is due June 30, 2010 (the original maturity date of May 31, 2010 has been extended one month).

The Company is continuing to seek and evaluate offers for the assets of the Company, as well as debt or equity financings.

SELECTED INFORMATION

	Three months ended March 31	
	2010 \$	2009 \$
Petroleum and natural gas revenue, before royalties	890,209	1,249,115
Funds flow from (used in) operations	(96,890)	170,836
Funds flow from (used in) operations per share - basic	(\$0.00)	\$0.00
Funds flow from (used in) operations per share - diluted	(\$0.00)	\$0.00
Net income (loss)	(268,803)	(776,930)
Net income (loss) per share - basic	(\$0.01)	(\$0.02)
Net income (loss) per share - diluted	(\$0.01)	(\$0.02)
Capital expenditures	209,335	134,281
Production (boe/day)	129	297

	March 31 2010	December 31 2009
Working capital deficiency	\$1,905,147	\$1,812,194
Total assets	\$3,279,082	\$3,973,897

RESULTS OF OPERATIONS

PRODUCTION

	Three months ended March 31	
	2010	2009
Production (boe/day)		
Crude oil	129	266
Natural gas	-	191
Oil equivalent production	129	297

The decrease in crude oil production for the three months ended March 31, 2010 in comparison to the 2009 is due to lower production from the Company's three wells in the Girouxville area. Production of 94 bbl/day is consistent with the fourth quarter of 2009, as is production from the Company's Montana wells at 35 bbl/day.

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 March 31	
	2010	2009
Crude oil – WTI (US\$ per Bbl)	\$78.71	\$42.96
Crude oil – Edmonton Par Price (\$ per Bbl)	\$80.07	\$50.98
Natural gas – AECO Spot (\$/mcf)	\$5.36	\$5.62
Exchange rate (\$US/\$Cdn)	1.04	1.24

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 months ended March 31, 2010, WTI crude oil prices averaged US\$78.71 and \$80.07 per barrel at Edmonton. The recovery in oil prices over the latter half of 2009 is evident in these 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 \$5.36/Mcf for the three months ended March 31, 2010, reflecting the recessionary conditions and excess supply in the gas market. Natural gas prices are expected to remain at low levels for the duration of 2010.

Realized Prices

	Three months ended March 31	
	2010	2009
Average Prices		
Crude oil (\$/bbl)	\$76.49	\$49.31
Natural gas (\$/mcf)	-	\$4.08
Oil equivalent (\$/boe)	\$76.49	\$46.65

Guardian's averaged realized price for its crude oil was \$76.49 per barrel for the three months ended March 31, 2010, reflecting the Edmonton benchmark prices described above. Realized prices are significantly higher than in the first three months of 2009, reflecting higher benchmark prices.

As noted previously, no natural gas was produced in the three months ended March 31, 2010.

REVENUE

	Three months ended March 31	
	2010	2009
Production Revenue		
Crude oil	\$890,209	\$1,178,813
Natural gas	-	\$70,302
Total production revenue	\$890,209	\$1,249,115

The overall decrease in oil revenue is due to significantly lower volumes, which have been offset to a large degree by much higher realized prices.

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 March 31	
	2010	2009
Royalties	\$337,840	\$419,455
As a percentage of revenue	32%	34%

The decrease in royalties reflects lower overall revenue. As a percentage of revenue, royalties are generally consistent with 2009, both in Alberta and Montana.

The Company expects that the 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 March 31	
	2010	2009
Operating expenses	\$317,105	\$517,593
Operating expenses per boe	\$27.25	\$19.33
As a percentage of revenue	36%	41%

Operating costs on a per boe basis were higher in 2010 as compared to 2009, although lower on as a percentage of revenue. The increase in cost per barrel is due to the impact of fixed operating costs on lower volumes, while the decrease as a percent of revenue is due to the much higher realized prices in the first quarter of 2010.

GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended March 31	
	2010	2009
General and administrative expenses	\$238,469	\$440,133
As a percentage of revenue	26%	35%

The decrease in overall G&A expenses during the first quarter of 2010 is due primarily to significant consulting and professional fees incurred in the prior period 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 have declined due to the higher commodity prices experienced in 2010.

STOCK-BASED COMPENSATION

	Three months ended March 31	
	2010	2009
Stock-based compensation expense	-	\$116,700

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.

Stock-based compensation for the three months ended March 31, 2010 was \$nil as all options were fully vested prior to the start of the quarter and no further options were granted.

INTEREST AND FINANCING EXPENSES

	Three months ended March 31	
	2010	2009
Financing fees	75,000	-
Interest expense/(recovery)	\$24,658	(\$286,988)

Financing fees of \$75,000 were paid during the first quarter of 2010 in relation to the loan from a related party. Interest expense for the three months ended March 31, 2010 relates to Guardian's secured loan facility. In the prior

period, 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. The first quarter 2009 interest recovery was subsequently reversed in the fourth quarter of 2009.

DEPLETION, DEPRECIATION AND ACCRETION

	Three months ended March 31	
	2010	2009
Depletion and depreciation	\$162,927	\$803,885
Accretion	\$20,400	\$23,973
Total DD&A	\$183,327	\$827,858
Depletion and depreciation per boe	\$15.75	\$30.97

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 months ended March 31, 2010 as compared to the same period in 2009 primarily reflects significantly lower production levels. On a per boe basis, DD&A is lower than in 2009, reflecting increased oil reserves at December 31, 2009, primarily associated with the Company's 2-29 well in the Girouxville area.

Accretion of the asset retirement obligation was largely consistent with 2009. This cost reflects the unwinding of the discounted cash flows which form the basis for the asset retirement obligation.

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 present value of its asset retirement obligations at March 31, 2010 is \$1,078,000. Current expenditures for actual abandonment and site restoration in the three months ended March 31, 2010 were \$nil.

TAXES

During the three months ended March 31, 2010, consistent with the same period in 2009, the Company recorded no current or future income tax expense or recovery, as the benefit of losses incurred is not considered probable of realization.

As of March 31, 2010, the Company has approximately \$5.0 million in resource tax pools available to offset future taxable income, and estimated carried forward non-capital losses of \$1.9 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 INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Three months ended March 31	
	2010	2009
Net income (loss)	(\$268,803)	(\$776,930)
Net income (loss) - per basic share	(\$0.01)	(\$0.02)
Net income (loss) - per diluted share	(\$0.01)	(\$0.02)
Weighted average shares outstanding:		
Basic	39,737,877	39,737,877
Diluted	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 March 31	
	2010	2009
Net income (loss)	(\$268,803)	(\$776,930)
Add back (subtract) items not affecting cash:		
Depletion, depreciation, impairment and accretion	\$183,327	\$827,858
Future income tax expense (recovery)	-	-
Stock-based compensation	-	\$116,700
Settlement of accounts payable	(\$18,583)	-
Foreign exchange loss (gain)	\$7,169	\$3,208
Funds flow from (used in) operations	(\$96,890)	\$170,836
Funds flow per share - basic	(\$0.00)	\$0.00
Funds flow per share - diluted	(\$0.00)	\$0.00

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

SHARE CAPITAL

	As at March 31	
	2010	2009
Outstanding common shares		
Basic	39,737,877	39,737,877
Diluted	42,440,847	53,559,390

Due to the anti-dilutive effect of Guardian's net loss for the three months ended March 31, 2010, the diluted number of shares is considered equivalent to the basic number of shares for the purposes of all per share calculations.

Detail of Outstanding Securities	Outstanding at March 31	
	2010	2009
Common shares	39,737,877	39,737,877
Stock options	1,700,000	2,350,000
Warrants	-	8,871,300
Agent warrants	1,002,920	1,816,600
Debenture warrants	-	783,613

As of the date of this MD&A, there were 39,737,877 common shares, 624,420 warrants, and 1,300,000 options outstanding. The reduction since March 31, 2010 is due to the expiry of 378,550 warrants and 400,000 options.

CAPITAL EXPENDITURES

	Three months ended March 31	
	2010	2009
Canada	\$208,804	\$134,281
United States	\$531	-
Total	\$209,335	\$134,281

Capital expenditure incurred in the first quarter of 2010 related to the Procyon farm-in arrangement. A total of approximately \$400,000 has been spent to date on this farm-in, on which the Company is earning a 50% working interest.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2010, the Company has a \$1 million debt facility (of which \$617,056 has been drawn), a working capital deficit of \$1.9 million, and capital expenditure commitments of approximately \$0.4 million. The future operations of the Company are dependent on the Company's ability to raise capital through debt, equity or through the sale of certain of its assets to support its activities and meet its obligations, as outlined in Note 1 to the consolidated financial statements.

The loan facility is due June 30, 2010, as noted previously. In order to repay the facility, the Company is presently seeking debt and/or equity alternatives. If Guardian is unable to obtain such alternative financing on a timely basis, it will seek an extension of the maturity date from the lender. Failing the aforementioned options, the Company will seek to sell certain non-core assets with the proceeds to be used to repay the lender.

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. The Company has experienced a significant amount of uncollectible accounts receivable in the past, although with the exception of \$5,000 of receivables on which an impairment provision has been recorded, no receivables at March 31, 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

SELECTED QUARTERLY HIGHLIGHTS (unaudited)	2010		2009			2008		
	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008
(\$000's)								
P&NG net revenue	552	923	598	883	830	1,542	2,170	2,033
Production expense	317	332	312	375	518	987	347	283
DDA/impairment	183	262	319	467	828	4,315	468	777
G&A	238	362	334	512	440	530	350	350
Financing fees/interest	99	467	31	1	(287)	(13)	6	19
Income tax expense (recovery)	-	-	-	-		133	-	(833)
Net Income (loss) for the period	(269)	(845)	(175)	(503)	(777)	(4,209)	947	1,066
Net Income (loss) per share	(0.01)	(0.02)	(0.00)	(0.01)	(0.02)	(0.12)	0.02	0.04
Working Capital/(Deficiency)	(1,905)	(1,812)	(958)	(1,012)	(1,299)	(1,335)	(825)	(2,610)

The impact of higher oil and natural gas prices is evident during the first two quarters of 2008, the only recent quarters where the Company has recorded an after-tax profit. The impairment charge of \$2.7 million recorded at December 31, 2008 also stands out.

The Company's working capital position has fluctuated over the past eight quarters, dependent primarily on the timing of equity raisings and extent of exploration and development activities.

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 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. 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 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 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 three months ended March 31, 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, and also repaid \$72,944, leaving a balance owing of \$617,056 at March 31, 2010. Interest incurred on the total drawn amount for the three months ended March 31, 2010 was \$24,658.
- c) The Company obtained engineering consulting services in the amount of \$nil for the three months ended March 31, 2010 (3 months ended March 31, 2009: \$10,800) 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 March 31, 2010 (December 31, 2009: \$123,888).
- d) Legal fees in the amount of \$18,175 for the three months ended March 31, 2010 (3 months ended March 31, 2009: \$6,209) have been incurred from a legal firm of which a Company director is a partner. A balance of \$1,347 is included in accounts payable and accrued liabilities at March 31, 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 March 31, 2010, approximately \$2.3 million of the obligation had been fulfilled, with the remainder to be incurred by June 30, 2010.

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 Minerals Management Service (“MMS”), 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 MMS, the US Department of Treasury, and their respective counsel/agents.

During the three months ended March 31, 2010 settlement was reached with the US Department of Treasury, and a payment of US\$49,000 was made (US\$50,000 had previously been accrued).

A provision of \$30,500 (US\$30,000) is carried in relation to the remaining disputed matters with MMS. At present, MMS disputes that a binding settlement agreement (“Settlement Agreement”) exists. In the event the Settlement Agreement with MMS is not enforced, the maximum exposure of the subsidiary is US\$400,000. However in that scenario, the likely settlement amount would be much less.

The Settlement Agreement with MMS includes a probationary period that requires 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, will be due immediately to MMS. The subsidiary has been compliant with its reporting requirements since August 2008, and the months of compliance will serve to reduce and eventually eliminate the penalties if the Settlement Agreement is enforced.

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 March 31, 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 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. Management has performed a high-level assessment of the impact of the convergence of Canadian GAAP with IFRS on the results of operations, financial position and disclosures. The most significant impact relates to the accounting for property, plant and equipment, in particular the impairment assessment process and depletion calculations.

The Company has not yet quantified the impact of transitioning to IFRS. The impact may be material.

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.

GUARDIAN EXPLORATION INC.

Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2010 and 2009

Notice to Reader

The consolidated financial statements of Guardian Exploration Inc. and the accompanying consolidated interim balance sheet as of March 31, 2010 and the consolidated interim statement of operations and deficit and cash flows for the three months ended March 31, 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: May 28, 2010

Signed "*Graydon Kowal*"

Graydon Kowal
President and Chief Executive Officer

**GUARDIAN EXPLORATION INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)**

	March 31 2010 \$	December 31 2009 \$
ASSETS		
Current assets		
Cash	54,202	264,214
Accounts receivable	316,814	598,869
Due from related company (Note 4)	-	50,000
Prepaid expenses	23,734	21,032
	<u>394,750</u>	<u>934,115</u>
Deposit (Note 5)	364,110	376,010
Future income taxes (Note 9)	-	-
Property and equipment (Note 6)	2,520,222	2,663,772
	<u>3,279,082</u>	<u>3,973,897</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	1,682,841	2,196,309
Loan from related party (Note 7)	617,056	550,000
	<u>2,299,897</u>	<u>2,746,309</u>
Asset retirement obligations (Note 8)	1,077,721	1,057,321
	<u>3,377,618</u>	<u>3,803,630</u>
Shareholders' equity		
Share capital (Note 10a,b)	10,349,866	10,349,866
Warrants (Note 10c)	88,815	944,840
Contributed surplus (Note 10e)	3,208,733	2,352,708
Deficit	(13,745,950)	(13,477,147)
	<u>(98,536)</u>	<u>170,267</u>
	<u>3,279,082</u>	<u>3,973,897</u>

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.
CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT
FOR THE 3 MONTHS ENDED MARCH 31, 2010 AND 2009
(UNAUDITED)

	2010	2009
	\$	\$
<hr/>		
Revenue		
Petroleum and natural gas	890,209	1,249,115
Royalties	(337,840)	(419,455)
	<hr/> 552,369	<hr/> 829,660
<hr/>		
Expenses		
Operating	317,105	517,593
General and administrative	238,469	440,133
Stock-based compensation	-	116,700
Depletion, depreciation, and accretion (Note 6)	183,327	827,858
Financing fees	75,000	-
Foreign exchange loss	7,169	3,208
	<hr/> 821,070	<hr/> 1,905,492
Loss before other items	(268,701)	(1,075,832)
<hr/>		
Other items		
Interest expense/(recovery)	24,658	(286,998)
Interest income	(5,973)	(11,904)
Settlement of accounts payable	(18,583)	-
	<hr/> (268,803)	<hr/> (776,930)
Loss before income taxes	(268,803)	(776,930)
<hr/>		
Future income tax recovery	-	-
	<hr/> (268,803)	<hr/> (776,930)
Net loss and comprehensive loss	(268,803)	(776,930)
<hr/>		
Deficit, beginning of period	(13,477,147)	(11,177,315)
	<hr/> (13,745,950)	<hr/> (11,954,245)
<hr/>		
Net loss per share (Note 9f)		
Basic	(\$0.01)	(\$0.02)
Diluted	(\$0.01)	(\$0.02)
<hr/>		

See accompanying notes to the consolidated interim financial statements

**GUARDIAN EXPLORATION INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE 3 MONTHS ENDED MARCH 31, 2010 AND 2009
(UNAUDITED)**

	2010	2009
	\$	\$
Cash and cash equivalents provided by (used in)		
Operating activities		
Net loss for the period	(268,803)	(776,930)
Items not affecting cash:		
Depletion, depreciation, and accretion	183,327	827,858
Future income tax recovery	-	-
Stock-based compensation	-	116,700
Income attributable to settlement of accounts payable	(18,583)	-
Foreign exchange loss	7,169	3,208
	(96,890)	170,836
Changes in non-cash working capital	(306,109)	(181,368)
	(402,999)	(10,352)
Financing activities		
Repayment from related party	50,000	5,594
Loan from related party	67,056	-
	117,056	5,594
Investing activities		
Disposition of property and equipment	189,960	-
Expenditures on property and equipment	(209,335)	(134,281)
Change in non-cash investing working capital	56,556	-
	75,931	(134,281)
Change in cash	(210,012)	(139,219)
Cash, beginning of period	264,214	693,056
Cash, end of period	54,202	553,837
Supplemental cash flow information		
Interest paid	147,646	-
Taxes paid	-	-

See accompanying notes to the consolidated interim financial statements

**GUARDIAN EXPLORATION INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE 3 MONTHS ENDED MARCH 31, 2010 AND 2009
(UNAUDITED)**

1. BASIS OF PREPARATION AND GOING CONCERN

The consolidated interim financial statements of Guardian Exploration Inc. (the “Company”) as at and for the three months ended March 31, 2010 are comprised of the Company and its controlled entities. The consolidated 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 three months ended March 31, 2010, the Company reported an after-tax loss of \$0.3 million and negative operating cash flows of \$0.4 million. As at March 31, 2010, the Company had a working capital deficiency of \$1.9 million, an accumulated deficit of \$13.7 million, and capital expenditure commitments of approximately \$0.4 million. In 2010, continuing volatility in the price of oil and natural gas, and a difficult capital raising environment have limited certain of the Company’s previously planned business development activities and will continue to provide uncertainty for the Company in the future.

Management’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 largely depends on its ability to finance the development of existing projects and finance the acquisition and development of new projects. Financing sources may include proceeds realized from the divestiture of its petroleum and natural gas assets.

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

GUARDIAN EXPLORATION INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE 3 MONTHS ENDED MARCH 31, 2010 AND 2009
(UNAUDITED)

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. Management has performed a high-level assessment of the impact of the convergence of Canadian GAAP with IFRS on the results of operations, financial position and disclosures. The most significant impact relates to the accounting for property, plant and equipment, in particular the impairment assessment process and depletion calculations.

The Company has not yet quantified the impact of transitioning to IFRS.

4. DUE FROM RELATED PARTY

Amounts owed to the Company by a director and a company controlled by that director of the Company of \$nil (December 31, 2009: \$50,000) are unsecured, bear no interest, and have no fixed terms of repayment.

5. DEPOSIT

As part of the finalization of the Third Amended Agreement with the Blackfeet Nation, the Company has placed a deposit of \$364,110 (USD\$ 360,000) (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.

GUARDIAN EXPLORATION INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE 3 MONTHS ENDED MARCH 31, 2010 AND 2009
(UNAUDITED)

6. PROPERTY AND EQUIPMENT

	March 31, 2010	December 31, 2009
	\$	\$
Petroleum and natural gas properties and equipment	16,987,512	16,969,136
Accumulated depletion, depreciation and impairment	(14,467,290)	(14,305,364)
	2,520,222	2,663,772

Canadian and US cost centers

For the three months March 31, 2010 and 2009, there were no capitalized general and administrative expenses in either the Canadian or US cost center.

Unproven property costs of \$440,000 (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.

At March 31, 2010, the Company performed a ceiling test calculation for both the Canadian and US cost centers using reserve data effective December 31, 2009 (Canadian cost center) to assess the recoverable amount of petroleum and natural gas properties. Assumptions regarding future operating and capital costs were based on historical data and management's estimates. Future oil and natural gas future prices were based on the December 31, 2009 commodity prices forecast of the Company's independent reserve engineers, adjusted for the Company's price and quality differentials, as outlined in the following table:

Price Estimates Used for the Ceiling Test

	Exchange Rate (US\$/Cdn\$)	BC Natural Gas Stn 2 (\$Cdn/Mcf)	Edmonton Ref. Price (\$Cdn/Bbl)
2010	0.95	5.62	82.43
2011	0.95	6.09	85.02
2012	0.95	6.57	87.62
2013	0.95	7.08	92.84
2014	0.95	7.60	98.07
>2014	0.95	2%	2%

Based on these assumptions, undiscounted net cash flows from proven reserves exceeded the carrying value of petroleum and natural gas properties in both the Canadian and US cost centers. Therefore, petroleum and natural gas properties are considered recoverable and no impairment was recorded (\$nil in 2009).

7. LOAN FROM RELATED PARTY

During the three months ended March 31, 2010, the Company drew a further \$140,000 on its 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 also repaid \$72,944 during the quarter, and as a result, at March 31, 2010, total outstanding debt on the facility was \$617,056. The maximum amount of the loan facility remains at \$1 million. The loan bears interest at 15% and is due June 30, 2010 (the original maturity date of May 31, 2010 has been extended one month). The loan is secured by a fixed and floating charge over all present and future personal and real property of the Company. The loan has been approved by the Company's Board of Directors, however TSX Venture Exchange approval is still pending.

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

GUARDIAN EXPLORATION INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE 3 MONTHS ENDED MARCH 31, 2010 AND 2009
(UNAUDITED)

future timing of the costs to be incurred.

The total undiscounted amount of cash flows required to settle the obligations as measured at March 31, 2010 are estimated to be \$1,400,000 (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 March 31, 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:

	Three months ended March 31, 2010	Year ended December 31, 2009
	\$	\$
Asset retirement obligation, beginning of period	1,057,321	1,161,783
Obligations incurred	-	-
Acquisitions	-	-
Revisions to obligations	-	(197,547)
Accretion expense	20,400	93,085
Asset retirement obligation, end of period	1,077,721	1,057,321

9. INCOME TAX

A recovery of future income tax has not been recorded on the operating loss for the three months ended March 31, 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 March 31, 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	(9,684,930)	(856,025)
Balance, March 31, 2010	1,002,970	88,815

GUARDIAN EXPLORATION INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE 3 MONTHS ENDED MARCH 31, 2010 AND 2009
(UNAUDITED)

As at March 31, 2010, the Company had 1,002,970 warrants on hand of which 378,550 expired subsequent to period end, with the remainder expiring in June 2010. The remaining warrants have a weighted average exercise price of \$0.30.

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	(200,000)	(\$0.15)
Balance, March 31, 2010	1,700,000	\$0.47
Exercisable, March 31, 2010	1,700,000	\$0.47

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	600,000	\$0.150	2.5	600,000	\$0.150
\$0.220	200,000	\$0.220	0.3	200,000	\$0.220
\$0.285	400,000	\$0.285	0.0	400,000	\$0.285
\$1.100	500,000	\$1.100	1.2	500,000	\$1.100
	1,700,000	\$0.47	1.3	1,700,000	\$0.47

e) Contributed surplus

	2010 \$	2009 \$
Balance, beginning of period	2,352,708	1,603,505
Expiry of warrants	856,025	673,600
Stock-based compensation	-	75,603
Balance, end of period	3,208,733	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 months ended March 31, 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.

**GUARDIAN EXPLORATION INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE 3 MONTHS ENDED MARCH 31, 2010 AND 2009
(UNAUDITED)**

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 March 31, 2010, approximately \$2.3 million of the obligation had been fulfilled, with the remainder to be incurred by June 30, 2010.

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 three months ended March 31, 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, and also repaid \$72,944, leaving a balance owing of \$617,056 at March 31, 2010. Interest incurred on the total drawn amount for the three months ended March 31, 2010 was \$24,658.
- c)** The Company obtained engineering consulting services in the amount of \$nil for the three months ended March 31, 2010 (3 months ended March 31, 2009: \$10,800) 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 March 31, 2010 (December 31, 2009: \$123,888).
- d)** Legal fees in the amount of \$18,175 for the three months ended March 31, 2010 (3 months ended March 31, 2009: \$6,209) have been incurred from a legal firm of which a Company director is a partner. A balance of \$1,347 is included in accounts payable and accrued liabilities at March 31, 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.

GUARDIAN EXPLORATION INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE 3 MONTHS ENDED MARCH 31, 2010 AND 2009
(UNAUDITED)

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 financial statements other than an amount for estimated Part XII.6 interest and penalties.

b) Minerals Management Services

The Minerals Management Service (“MMS”), 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 MMS, the US Department of Treasury, and their respective counsel/agents.

During the three months ended March 31, 2010 settlement was reached with the US Department of Treasury, and a payment of US\$49,000 was made (US\$50,000 had previously been accrued).

A provision of \$30,500 (US\$30,000) is carried in relation to the remaining disputed matters with MMS. At present, MMS disputes that a binding settlement agreement (“Settlement Agreement”) exists. In the event the Settlement Agreement with MMS is not enforced, the maximum exposure of the subsidiary is US\$400,000. However in that scenario, the likely settlement amount would be much less.

The Settlement Agreement with MMS includes a probationary period that requires 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, will be due immediately to MMS. The subsidiary has been compliant with its reporting requirements since August 2008, and the months of compliance will serve to reduce and eventually eliminate the penalties if the Settlement Agreement is enforced.

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.

GUARDIAN EXPLORATION INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE 3 MONTHS ENDED MARCH 31, 2010 AND 2009
(UNAUDITED)

14. SEGMENTED DISCLOSURES

For the three months ended March 31, 2010:

	Canada	United States	March 31, 2010
Petroleum and natural gas revenue	\$669,796	\$220,413	\$890,209
Interest expense	\$24,658	\$ -	\$24,658
Depletion, depreciation and accretion	\$150,341	\$32,986	\$183,327
Loss for the period	\$244,522	\$24,281	\$268,803
Property and equipment	\$2,223,516	\$296,706	\$2,520,222
Capital expenditures	\$208,804	\$531	\$209,335

For the three months ended March 31, 2009:

	Canada	United States	March 31, 2009
Petroleum and natural gas revenue	\$1,117,772	\$131,343	\$1,249,115
Interest expense/(recovery)	(\$293,085)	\$6,088	(\$286,998)
Depletion, depreciation and accretion	\$792,084	\$35,774	\$827,858
Loss for the period	\$701,892	\$75,038	\$776,930
Property and equipment	\$3,350,872	\$397,180	\$3,748,052
Capital expenditures	\$134,281	\$ -	\$134,281

15. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

a) Fair value of financial assets and liabilities

The Company's carrying value of cash, accounts receivable, accounts payable, loan payable, and amounts due to a related company 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 March 31, 2010, the Company is only significantly exposed to interest rate risk in relation to its loan from a related party, which is at a fixed rate of interest. There would be no significant impact on the financial statements at March 31, 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 March 31, 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.

GUARDIAN EXPLORATION INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE 3 MONTHS ENDED MARCH 31, 2010 AND 2009
(UNAUDITED)

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 capital structure of the Company is as follows:

	March 31, 2010	December 31, 2009
	\$	\$
Total shareholders' equity	(98,536)	170,267
Total shareholders' equity as a percentage of total capital	0%	9%
Working capital deficiency	1,905,147	1,812,194
Total working capital deficiency as a percentage of total capital	100%	91%
Total Capital	1,806,611	1,982,461

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 its accounts receivable other than to the operator of its Girouxville area wells. As at March 31, 2010, the receivable from this company represented approximately 47% of the Company's total accounts receivable balance. This balance was collected subsequent to period-end. Accounts receivable greater than 90 days at March 31, 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.

**GUARDIAN EXPLORATION INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE 3 MONTHS ENDED MARCH 31, 2010 AND 2009
(UNAUDITED)**

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). The loan from a related party is due June 30, 2010.

16. SUBSEQUENT EVENTS

a) Warrant and Option Expiry

Subsequent to March 31, 2010, 378,550 warrants expired unexercised, as did 400,000 options.