

GUARDIAN EXPLORATION INC.

Consolidated Financial Statements

December 31, 2010 and 2009

Independent Auditor's Report

To the Shareholders of Guardian Exploration Inc.:

We have audited the accompanying consolidated financial statements of Guardian Exploration Inc., which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009, and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended, and the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Guardian Exploration Inc. as at December 31, 2010 and December 31, 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which indicates that the Company had an accumulated deficit of \$15.3 million and a working capital deficiency of \$1.3 million as at December 31, 2010 and negative cash flow from operating activities of \$1.0 million and a net loss of \$1.8 million for the year ended December 31, 2010. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Signed "*Deloitte & Touche LLP*"

Chartered Accountants
May 2, 2011
Calgary, Canada

**GUARDIAN EXPLORATION INC.
CONSOLIDATED BALANCE SHEETS**

	December 31 2010	December 31 2009
	\$	\$
ASSETS		
Current assets		
Cash	71	264,214
Accounts receivable	56,551	598,869
Due from related company (Note 12a)	-	50,000
Prepaid expenses	15,737	21,032
	72,359	934,115
Investment (Note 4)	33,000	-
Deposit (Note 5)	356,654	376,010
Property and equipment (Note 6)	372,921	2,663,772
	834,934	3,973,897
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	1,163,917	2,196,309
Loan from related party (Note 7)	200,000	550,000
	1,363,917	2,746,309
Asset retirement obligations (Note 8)	1,077,211	1,057,321
	2,441,128	3,803,630
Shareholders' equity		
Share capital (Note 10a,b)	10,349,866	10,349,866
Warrants (Note 10c)	-	944,840
Contributed surplus (Note 10e)	3,297,548	2,352,708
Deficit	(15,253,608)	(13,477,147)
	(1,606,194)	170,267
	834,934	3,973,897

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

See accompanying notes to the consolidated financial statements

Approved on behalf of the Board of Directors

"Graydon Kowal"

Graydon Kowal
Director

"Scott Reeves"

Scott Reeves
Director

GUARDIAN EXPLORATION INC.
STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
	\$	\$
Revenue		
Petroleum and natural gas	2,048,461	4,391,264
Royalties	(681,482)	(1,487,625)
	1,366,979	2,903,639
Expenses		
Operating	1,157,571	1,536,360
General and administrative	855,091	1,648,174
Bad debts recovery	-	(8,000)
Stock-based compensation	-	75,603
Financing fees	75,000	-
Depletion, depreciation and accretion	440,783	1,876,519
Impairment of property and equipment	585,119	-
Foreign exchange loss	7,693	42,422
	3,119,624	5,171,078
Loss before other items	(1,754,278)	(2,267,441)
Loss on disposal of property and equipment	(580,882)	-
Interest recovery (expense)	(52,809)	(212,244)
Gain on held for trading investments	3,000	-
Interest income	6,546	11,959
Settlement of accounts payable	601,962	167,894
Loss before income taxes	(1,776,461)	(2,299,832)
Future income tax recovery	-	-
Net loss and comprehensive loss	(1,776,461)	(2,299,832)
Deficit, beginning of year	(13,477,147)	(11,177,315)
Deficit, end of year	(15,253,608)	(13,447,147)
Loss per share (note 10f)		
Basic & Diluted	(\$0.05)	(\$0.06)

See accompanying notes to these consolidated financial statements

GUARDIAN EXPLORATION INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
	\$	\$
Cash provided by (used in)		
Operating activities		
Net loss for the period	(1,776,461)	(2,299,832)
Items not affecting cash:		
Depletion, depreciation and accretion	440,783	1,876,519
Impairment of property and equipment	585,119	-
Loss on disposal of property and equipment	580,882	-
Stock-based compensation	-	75,603
Settlement of accounts payable	(601,962)	(167,894)
Gain on held for trading investments	(3,000)	-
Foreign exchange loss	7,693	42,422
	(766,946)	(473,182)
Changes in non-cash working capital	(206,344)	(471,720)
	(973,290)	(944,902)
Financing activities		
Repayment of loan from related party	(300,000)	399,951
Loan from related party		550,000
Issuance of share capital, net of costs	-	-
	(300,000)	949,951
Investing activities		
Expenditures on property and equipment	(111,809)	115,874
Disposition of property and equipment	787,400	(281,379)
Change in non-cash working capital	333,557	(268,386)
	1,009,148	(433,891)
Change in cash	(264,142)	(428,842)
Cash, beginning of year	264,214	693,056
Cash, end of year	72	264,214
Supplemental cash flow information		
Taxes paid	-	-
Interest paid (note 12)	149,619	6,890

See accompanying notes to these consolidated financial statements

**GUARDIAN EXPLORATION INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

1. BASIS OF PREPARATION AND GOING CONCERN

The consolidated financial statements of Guardian Exploration Inc. (the “Company”) as at and for the year ended December 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 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 are discussed in Note 3(k).

Going Concern

These consolidated 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 year ended December 31, 2010, the Company reported an after-tax loss of \$1.8 million and negative operating cash flows of \$1.0 million. As at December 31, 2010, the Company had a working capital deficiency of \$1.3 million, an accumulated deficit of \$15.2 million.

The Company will need further financing, in the form of either equity or debt, in order to proceed with oil and gas development projects to achieve profitable operations and to fund ongoing corporate administrative activities. There can be no assurance that further financing will be available when required. 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 financial statements do not include any adjustments that might result if the Company is unable to continue as a going concern, and such adjustments could be material.

2. NATURE OF OPERATIONS

Guardian Exploration Inc. (“Guardian”) was incorporated in Alberta as Guardian Resources Inc. on March 27, 2001. On May 14, 2001, Guardian changed its name to Guardian Exploration Inc. and obtained extra-provincial registration in British Columbia on September 22, 2001. On April 21, 2006, Guardian amalgamated with Resilient Resources Ltd. (“Resilient”), a public company listed on the TSX Exchange. The amalgamated company continued under the name Guardian Exploration Inc. (the “Company”). The Company is engaged in the acquisition, exploration, and development of petroleum and natural gas properties in western Canada and the State of Montana.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, K2 America Corp. and K2 Operating Corp. These subsidiaries 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.

**GUARDIAN EXPLORATION INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

b) Property and equipment – Canadian and US Cost Centres

Capitalized costs

The Company follows the full cost method of accounting for its petroleum and natural gas properties. Under this method, all costs related to the acquisition of, exploration for, and development of petroleum and natural gas reserves are capitalized. Costs include lease acquisition costs, geological and geophysical expenses, overhead directly related to exploration and development activities and costs of drilling both productive and non-productive wells.

Proceeds from the sales of properties are applied against capitalized costs, without any gain or loss being realized, unless such sale would alter the rate of depletion and depreciation by 20% or more.

Impairment

The impairment calculation, or “ceiling test”, is calculated by comparing the carrying value of property and equipment to the sum of undiscounted cash flows expected to result from the future production of proved reserves and the carrying value of unproved properties, net of any impairments. Estimates of future net revenues are based on expected future commodity prices and costs rather than those existing at the measurement date.

Should the ceiling test result in an excess of carrying value, the Company would then measure the amount of impairment by comparing the carrying value of property and equipment to an amount equal to the estimated discounted net present value of future cash flows from proved plus probable reserves and the carrying value of unproved properties, net of any impairments. Any excess is recorded as a permanent impairment and charged as additional depletion and depreciation.

Undeveloped and unproved properties are assessed periodically to determine whether impairment has occurred.

Depletion

Depletion of petroleum and natural gas properties and depreciation of production equipment is calculated using the unit-of-production method based upon estimated proven petroleum and natural gas reserves, before royalties. In determining its depletion base, the Company includes estimated future costs to be incurred in developing proven reserves and excludes the costs of the unproved properties.

Relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

c) Asset retirement obligations

The fair value of the liability for the Company’s asset retirement obligations is recorded in the period it is incurred with a corresponding increase in the carrying value of the related long-lived asset. Fair value is estimated using the present value of the estimated future cash outflows to reclaim and abandon wells and facilities, using the Company’s credit-adjusted risk-free interest rate. The liability is subsequently adjusted due to the passage of time and the increase is recorded as an accretion expense. The liability is also adjusted for revisions in either the timing or the amount of the original estimated cash flows associated with the liability. Actual asset retirement obligations paid are deducted from the liability in the year incurred.

d) Future income taxes

The Company uses the liability method of accounting for income taxes. Temporary differences arising from the difference between the tax basis of an asset or liability and the carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using the substantively enacted tax rates anticipated to apply in the period that the temporary differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized

GUARDIAN EXPLORATION INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

in net income in the period in which the change is substantively enacted. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

e) Joint ventures

Significantly all of the exploration, development and production activities is conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

f) Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with original maturities of less than three months.

g) Flow-through shares

Resource expenditure deductions funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. To recognize the foregone tax benefits to the Company, the future income tax liability and the carrying value of the shares issued are adjusted by the effect of the tax benefits renounced to subscribers when the corresponding exploration and development expenditures are renounced.

h) Revenue recognition

Revenue from petroleum and natural gas is recognized based on volumes delivered to customers at contractual delivery points and rates and when collection is reasonably assured. The costs associated with the delivery, including operating, transportation, and production based royalties are recognized in the same period in which the related revenue is earned.

i) Stock-based compensation

The Company follows the fair value method of accounting for stock options granted to directors, officers, employees and consultants. Fair value is determined at the grant date using the Black-Scholes option-pricing model. The value attributed to options is recognized over the vesting period as stock-based compensation expense with a corresponding credit to contributed surplus. The contributed surplus balance is reduced as the options are exercised with the amount initially recorded being credited to share capital.

Warrants to acquire shares are similarly valued at fair value at the grant date using an asset pricing model such as Black-Scholes. Warrants which are issued as part of an equity or debt raising process are accounted for as a reduction in the cost assigned to the equity or debt instrument with a corresponding amount recorded in shareholders' equity.

j) Foreign currency translation

Operations of the Company's subsidiary are considered to be integrated and therefore the financial statements of the subsidiary are included in these consolidated financial statements on the basis that monetary assets and liabilities are translated at the exchange rate in effect at year end, non-monetary assets and liabilities are translated at historical rates and revenues and expenses are translated at the average rate for the period.

k) Use of estimates and measurement uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. The amounts recorded for depletion of petroleum and natural gas properties and equipment, the provision for asset retirement obligation costs, and the petroleum and natural gas properties and equipment impairment test calculation are based on estimates

GUARDIAN EXPLORATION INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

of gross proven reserves, future production rates, future petroleum and natural gas prices, future costs, and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements in future years could be significant.

The Company is subject to various regulatory and statutory requirements relating to the protection of the environment. These requirements, in addition to contractual agreements and management decisions, result in the accrual of estimated asset retirement obligation costs. Any changes in these estimates will affect future earnings.

The financial statements include accruals based on the terms of existing joint venture agreements. Due to varying interpretations of the definition of terms in these agreements, the accruals made by management in this regard may be significantly different from those determined by the Company's joint venture partners. The effect on the financial statements resulting from such adjustments, if any, will be reflected prospectively.

The Black-Scholes option valuation method was developed for use in estimating the fair value of traded options that were fully tradable with no vesting restrictions. This option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options and warrants have characteristics different from those of traded options and because changes in the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

The capital expenditures classification made with respect to the renouncement of flow through shares is based on estimates from geological and geophysical information obtained and the classification of the expenditures may also be challenged by the taxation authorities and in this regard the assessments may be different from that of management. By their nature, these estimates are subject to measurement uncertainty and as such, the effect on the financial statements of changes of estimates in future periods could be significant.

l) Per share information

Per share information is calculated on the basis of the weighted average number of common shares outstanding during the fiscal year. Diluted per share information reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. Diluted per share information is calculated using the treasury stock method that assumes any proceeds received by the Company upon the exercise of in-the-money stock options would be used to buy back common shares at the average market price for the period.

m) Financial instruments

All financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading," "available-for-sale," "held-to-maturity," "loans and receivables" or "other financial liabilities" as defined by CICA Section 3855: Financial Instruments – Recognition and Measurement.

Cash and investments are designated as "held-for-trading" and is measured at fair value. Gains and losses related to the periodic revaluation are recorded in net income. Accounts receivable, due from related company and refundable deposits, are designated as "loans and receivables" and are initially measured at fair value and subsequently accounted for at amortized cost using the effective interest rate method. Accounts payable and amounts due to a related company are designated as "other financial liabilities" and are initially measured at fair value and subsequently at amortized cost using the effective interest rate method.

**GUARDIAN EXPLORATION INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

n) Changes in Accounting Policies

Future Changes in Accounting Standards

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

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

IFRS Adoption

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

4. INVESTMENT

Part of the consideration received from the sale of the Company's Girouxville properties in July 2010 was 100,000 shares in Blackdog Resources Inc. ("Blackdog"), at a deemed value of \$0.30 per share. The investment is classified as 'held for trading' and is carried at its fair value at December 31, 2010 of \$33,000.

5. DEPOSIT

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

6. PROPERTY AND EQUIPMENT

	December 31, 2010	December 31, 2009
	\$	\$
Petroleum and natural gas properties and equipment	16,272,140	16,969,136
Accumulated depletion, depreciation and impairment	(15,944,219)	(14,305,364)
	<u>372,921</u>	<u>2,663,772</u>

Sale of Girouxville Properties

On July 14, 2010, the Company closed the sale of its working interest in the Girouxville, Alberta oil properties to Blackdog Resources Inc. for gross proceeds of \$740,000 (\$711,405 net of transaction costs and a post-closing

GUARDIAN EXPLORATION INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

payment discussed below), consisting of \$710,000 in cash and 100,000 shares in Blackdog at a deemed price of \$0.30 per share.

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

A loss of \$580,882 was recorded on the Girouxville disposition, being the difference between net proceeds received and the carrying value of the Girouxville property, net of its asset retirement obligation of \$59,100. The recognition of the gain was required under GAAP as the disposal had a greater than 20% impact on the depletion rate in the Canadian cost center.

Canadian and US cost centers

For the years ended December 31, 2010 and 2009, there were no capitalized general and administrative expenses in either the Canadian or US cost center.

At December 31, 2010, the Company performed a ceiling test calculation for both the Canadian and US cost centers using reserve data effective December 31, 2010 (Canadian cost center) to assess the recoverable amount of petroleum and natural gas properties. The Company determined that there was an impairment of \$585,119 (200 - nil). 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, 2010 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:

GUARDIAN EXPLORATION INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Price Estimates Used for the Ceiling Test

	Exchange Rate (US\$/Cdn\$)	BC Natural Gas Stn 2 (\$Cdn/Mcf)	Edmonton Ref. Price (\$Cdn/Bbl)
2011	0.98	0.00	85.02
2012	0.98	0.00	87.62
2013	0.98	3.78	92.84
2014	0.98	2.22	98.07
2015	0.98	5.18	
>2015	0.98	2%	2%

7. LOAN FROM RELATED PARTY

In January 2010, the Company drew a further \$140,000 on its \$1 million secured loan facility with a company controlled by a director of the Company, for the purpose of funding the Company's participating interest in an oil and gas development project. The loan is due on demand with interest at 15% payable monthly. The Company repaid \$72,944 in March 2010, and then repaid the balance owing (\$675,019) in July 2010. Total interest incurred and paid on the loan during 2010 was \$49,525. The loan is secured by a fixed and floating charge over all present and future personal real property of the Company.

During the fourth quarter of 2010, the Company drew a further \$200,000 under this facility. At December 31, 2010, the loan balance of \$200,000 and \$4,192 in accrued interest was payable to this related party.

8. ASSET RETIREMENT OBLIGATIONS

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

The total undiscounted amount of cash flows required to settle the obligations as measured at December 31, 2010 are estimated to be \$1,305,496 (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 December 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:

	Year Ended December 31, 2010 \$	Year ended December 31, 2009 \$
Asset retirement obligation, beginning of period	1,057,321	1,161,783
Obligations incurred	-	-
Disposals	(59,100)	-
Revisions to obligations	-	(197,547)
Accretion expense	78,990	93,085
Asset retirement obligation, end of period	1,077,211	1,057,321

GUARDIAN EXPLORATION INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

9. INCOME TAX

Income tax recorded in the income statement is reconciled to the amount that would be obtained by applying the statutory tax rate to the loss before tax as follows:

	2010	2009
	\$	\$
Loss before income taxes	(1,776,461)	(2,299,832)
Statutory income tax rate	28%	29%
Expected income tax recovery	(497,409)	(666,951)
Tax effect of non-deductible amounts related to:		
Stock-based compensation	-	21,925
Unrealized foreign exchange losses	947	12,302
Valuation allowance movement	450,631	782,000
Prior year/rate adjustments	45,831	(149,276)
Future income tax recovery	-	-

The components of the Company's net future income tax asset (liability) are as follows:

	2010	2009
	\$	\$
(Guardian Exploration only)		
Petroleum and natural gas properties	900,255	715,000
Share issue costs	196,312	332,000
Asset retirement obligations	154,377	160,000
Non-capital losses	866,687	460,000
Valuation allowance	(2,117,631)	(1,667,000)
Future income tax asset/(liability)	-	-

In February 2009, the Company renounced \$2,777,110 of eligible expenditures pursuant to a flow-through share issuance in 2008. As a result, the future income tax asset was decreased by \$694,000, with a corresponding reduction in share capital, for the tax effect of this renouncement. A full valuation allowance continues to be taken on the Company's net future income tax asset in Canada and the United States.

The Company is in the process of completing its income tax filings for its wholly owned subsidiaries K2 America Corp. and K2 Operating Corp. Due to the uncertainty associated with certain tax positions taken by the Company, which remain subject to confirmation from the taxation authorities, a full valuation allowance is being taken. The components of 2010 net future income tax as disclosed above do not include the tax pools related to its wholly owned subsidiaries.

For income tax purposes, the Company's losses carried forward in Canada of \$3.5 million can be applied to reduce future years' taxable income and expires between 2026 and 2030.

GUARDIAN EXPLORATION INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

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 December 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	(10,687,900)	(944,840)
Balance, December 31, 2010	-	-

d) **Stock options**

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

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2008	2,950,000	\$0.40
Forfeited	(1,050,000)	(\$0.27)
Balance, December 31, 2009	1,900,000	\$0.44
Forfeited	(400,000)	(\$0.19)
Expired	(400,000)	(\$0.29)
Granted (i)	250,000	\$0.10
Balance, December 31, 2010	1,350,000	\$0.49
Exercisable, December 31, 2010	1,225,000	\$0.53

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

GUARDIAN EXPLORATION INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Exercise Prices	Stock options outstanding			Stock options exercisable	
	Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Options Exercisable	Weighted Average Exercise Price
\$0.15	600,000	\$0.15	1.8	600,000	\$0.15
\$1.10	500,000	\$1.10	0.4	500,000	\$1.10
\$0.10	250,000	\$0.10	4.4	125,000	\$0.10
	1,350,000	\$0.49	1.8	1,225,000	\$0.53

e) Contributed surplus

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

f) Loss per share

Basic per share amounts are calculated using the weighted average number of shares outstanding of 39,737,877 for the year ended December 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.

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 December 31, 2010, approximately \$2.3 million of the obligation had been fulfilled. The Company has recorded \$332,000 of Part XII.6 tax with respect to this issuance.

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 year ended December 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, made two repayments of \$72,944 and \$675,019, and incurred interest of \$49,525. As noted earlier, the loan was repaid in full in July 2010.

GUARDIAN EXPLORATION INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

- c) The Company obtained engineering consulting services in the amount of \$nil for the nine months ended December 31, 2010 (\$23,460 for the nine months ended December 31, 2009) from a company controlled by a Company director, who resigned in March 2010. A balance of \$nil is included in accounts payable and accrued liabilities at December 31, 2010 (December 31, 2009: \$123,888).
- d) Legal fees in the amount of \$43,882 were incurred in the nine months ended December 31, 2010 (\$43,057 for the nine months ended December 31, 2009) from a legal firm of which a Company director is a partner. A balance of \$16,144 is included in accounts payable and accrued liabilities at December 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.

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

During the year ended December 31, 2010, settlement was reached with the US Department of Treasury covering approximately US\$98,000 in asserted penalties, and a payment of US\$49,000 was made (US\$50,000 had previously been accrued).

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

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

GUARDIAN EXPLORATION INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

c) Other

The Company is also involved in various other claims arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in the Company's favour, the Company does not currently believe that the outcome of adverse decisions in any proceedings related to these matters or any amount which it may be required to pay would have a material adverse impact on its financial position, results of operations or liquidity.

14. SEGMENTED DISCLOSURES

For the year ended December 31, 2010:

	Canada	United States	December 31, 2010
Petroleum and natural gas revenue	\$1,250,670	\$797,791	\$2,048,461
Interest expense	\$52,809	\$ -	\$52,809
Depletion, depreciation, impairment and accretion	\$902,203	\$123,699	\$1,025,902
Loss for the period	\$1,831,045	(\$54,584)	\$1,776,461
Property and equipment	\$150,542	\$222,379	\$372,921
Capital expenditures	\$287,859	\$528	\$288,387

For the year ended December 31, 2009:

	Canada	United States	December 31, 2009
Petroleum and natural gas revenue	\$3,647,774	\$743,490	\$4,391,264
Interest expense	\$205,519	\$6,725	\$212,244
Depletion, depreciation and accretion	\$1,742,336	\$134,183	\$1,876,519
Loss for the year	\$2,216,006	\$83,826	\$2,299,832
Property and equipment	\$2,487,140	\$321,632	\$2,808,772
Capital expenditures	\$281,379	-	\$281,379

15. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

a) Fair value of financial assets and liabilities

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

b) Interest rate risk

At December 31, 2010, the Company is not significantly exposed to interest rate risk. There would be no significant impact on the financial statements at December 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 December 31, 2010, the Company had no financial derivative or physical delivery contracts in place.

**GUARDIAN EXPLORATION INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

d) Currency risk

Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is exposed to currency risk on the translation of its U.S. dollar denominated subsidiary. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

e) Capital Management

The Company's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders. The Company defines capital as shareholder equity, working capital and credit facilities when available. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's objective is met by retaining adequate equity to guard against the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable growth in net income and funds flow. There have been no changes to the Company's objectives in managing capital or in management's management of capital since December 31, 2009.

The capital structure of the Company is as follows:

	December 31, 2009	December 31, 2009
	\$	\$
Total shareholders' equity	(1,606,194)	170,267
Working capital deficiency	1,291,558	1,812,194

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 Montana area wells. As at December 31, 2010, the receivable from this company represented approximately 100% of the Company's total accounts receivable balance. This balance was collected subsequent to period-end.

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

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 FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

The Company's operating cash requirements, including amounts projected to complete the Company's existing capital expenditure program, are continuously monitored and adjusted as input variables change. These variables include but are not limited to oil and natural gas production from existing wells, results from new wells drilled, commodity prices, cost overruns on capital projects and regulations relating to prices, taxes, royalties, land tenure, allowable production and availability of markets. As these variables change, liquidity risks may necessitate the Company to conduct equity issues, obtain project debt financing, enter into joint venture arrangements or conduct asset divestitures. There is no assurance that adequate funds will be available to the Company in a timely manner (refer Note 1 Going Concern).

16. SUBSEQUENT EVENTS

On March 18, 2011, the Company placed 7,000,000 units for gross proceeds of \$700,000 representing the first closing under its brokered private placement. On April 7, 2011, the Company placed 19,488,000 units for gross proceeds of \$1,948,800 representing the second closing under its brokered private placement. The total funds raised under the offering was \$2,648,800.

Each unit consists of one common share in the capital of the Company and one-half purchase warrant. Each whole warrant is exercisable for one common share of the Company at a price of \$0.25 per share for a period of 18 months following closing based on certain conditions.

Under the terms of an agency agreement with D&D Securities Inc (D&D), the agent and subagents received an aggregate cash commission of \$127,666, equal to 7% of the aggregate gross proceeds of the offering raised by the agent. D&D also received warrants representing 10% of the aggregate number of units sold. Each Agent's Warrant entitles the holder to acquire one Unit at a price of \$0.10 per Unit for a period of 18 months from the date of closing of the Offering.

The Company entered into a convertible promissory note in the aggregate amount of \$250,000 with a private company owned by the President of Guardian Exploration Inc. The loan matures on June 30, 2011 and will accrue interest at the rate of 15% per year, payable monthly and is secured against the assets of the Company. In addition, the loan is convertible into common shares of the Company at a deemed price of \$0.07 per share.

The Company also announced, subject to the stock option plan, the grant of 1,400,000 stock options to certain directors, officers, employees and consultants. The options vest over a 2 year period, are exercisable at a price of \$0.10 per share and expire in March 2016. The shares issuable upon exercise of the options may not be traded for 4 months and one day from the date of grant. The Company has also amended 500,000 options previously issued to directors, officers, employees and consultants of the Company in May 2006 with an original exercise price of \$1.10 per share and 600,000 options issued in October 2007 with an exercise price of \$0.15 per share, by reducing the exercise price of the options and extending the expiry date. By virtue of the amendment, the previously issued options will have an expiry date of February 2016 and an exercise price of \$0.10 per share. The amendment is subject to disinterested shareholder approval, to be sought at the next annual general meeting of the shareholders of the Company, and the approval of the TSX Venture Exchange.

GUARDIAN EXPLORATION INC.

Management's Discussion & Analysis

For the Year Ended

December 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 2, 2011 and should be read in conjunction with the audited consolidated financial statements of Guardian Exploration Inc. ("Guardian" or the "Company") for the year ended December 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 April 28, 2011.

This MD&A contains the terms "funds flow from operations", "funds flow per share" and "operating netback" which do not have standardized meanings prescribed by Canadian GAAP and therefore may not be comparable to performance measures presented by others. Funds flow from operations, as used by the Company, is comprised of cash flow from operating activities before changes in non-cash operating working capital. Operating netback represents revenue less royalties, operating expenses and transportations expenses. These non-GAAP measures may not be comparable to the calculation of similar measures for other entities. The Company believes that operating netback and funds flow from (used by) operations represent indicators of the Company's performance and a key measure of the Company's ability to generate the necessary cash to fund future capital expenditures. Funds from (used by) operations and operating netback as presented is not intended to represent operating cash flow or operating profits for the period nor should they be viewed as an alternative to cash flow from operating activities, net earnings (loss) or other measures of financial performance calculated in accordance with Canadian GAAP. See "Funds Flow from Operations" and "Netbacks".

The term barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. A boe conversion ratio of 6 thousand cubic feet (mcf) equals 1 barrel (bbl) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All boe conversions in this report are derived by converting gas to oil in the ratio of six thousand cubic feet of gas to one barrel of oil.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information regarding the Company set forth in this report includes forward looking statements. All statements other than statements of historical facts contained in this MD&A, including statements regarding our future financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "should," "plan," "expect" and similar expressions, as they relate to us, are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions described elsewhere in this report.

Other sections of this report may include additional factors, which could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

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

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

CORPORATE OVERVIEW

Guardian Exploration Inc. (“Guardian”) was incorporated in Alberta as Guardian Resources Inc. on March 27, 2001. On May 14, 2001, Guardian changed its name to Guardian Exploration Inc. and obtained extra-provincial registration in British Columbia on September 22, 2001. On April 21, 2006, Guardian amalgamated with Resilient Resources Ltd. (“Resilient”), a public company listed on the TSX Exchange. The amalgamated company continued under the name Guardian Exploration Inc. (the “Company”). The Company is engaged in the acquisition, exploration, and development of petroleum and natural gas properties in western Canada and the State of Montana. The Company’s shares trade on the TSX Venture Exchange under the symbol “GX”.

CORPORATE UPDATE

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

The fourth quarter of 2010 saw consistent production from the Company’s oil-producing wells in Montana at 29 barrels/day, and consistent oil prices in the \$82-\$89/bbl range. The Company’s natural gas wells in north-eastern British Columbia remain shut-in due to depressed gas prices. The Company recorded a fourth quarter loss of \$527,521. For the year ended December 31, 2010 the Company recorded a loss of \$1,776,461 on revenue of \$2,048,461. At December 31, 2010, the Company had a working capital deficiency of approximately \$1.3 million and capital expenditure commitments of approximately \$0.4 million in relation to flow-through funds raised in 2008.

On March 18, 2011, the Company placed 7,000,000 units for gross proceeds of \$700,000 representing the first closing under its brokered private placement. On April 7, 2011, the Company placed 19,488,000 units for gross proceeds of \$1,948,800 representing the second closing under its brokered private placement. The total funds raised under the offering was \$2,648,800.

Each unit consists of one common share in the capital of the Company and one-half purchase warrant. Each whole warrant is exercisable for one common share of the Company at a price of \$0.25 per share for a period of 18 months following closing based on certain conditions.

Under the terms of an agency agreement with D&D Securities Inc (D&D), the agent and subagents received an aggregate cash commission of \$127,666, equal to 7% of the aggregate gross proceeds of the offering raised by the agent. D&D also received warrants representing 10% of the aggregate number of units sold. Each Agent’s Warrant entitles the holder to acquire one Unit at a price of \$0.10 per Unit for a period of 18 months from the date of closing of the Offering.

The Company entered into a convertible promissory note in the aggregate amount of \$250,000 with a private company owned by the President of Guardian Exploration Inc. The loan matures on June 30, 2011 and will accrue interest at the rate of 15% per year, payable monthly and is secured against the assets of the Company. In addition, the loan is convertible into common shares of the Company at a deemed price of \$0.07 per share.

The Company also announced, subject to the stock option plan, the grant of 1,400,000 stock options to certain directors, officers, employees and consultants. The options vest over a 2 year period, are exercisable at a price of \$0.10 per share and expire in March 2016. The shares issuable upon exercise of the options may not be traded for 4 months and one day from the date of grant. The Company has also amended 500,000 options previously issued to directors, officers, employees and consultants of the Company in May 2006 with an original exercise price of \$1.10 per share and 600,000 options issued in October 2007 with an exercise price of \$0.15 per share, by reducing the exercise price of the options and extending the expiry date. By virtue of the amendment, the previously issued options will have an expiry date of February 2016 and an exercise price of \$0.10 per share. The amendment is subject to disinterested shareholder approval, to be sought at the next annual general meeting of the shareholders of the Company, and the approval of the TSX Venture Exchange.

SELECTED INFORMATION

	Three Months Ended		Year Ended	
	December 31		December 31	
	2010	2009	2010	2009
	\$	\$	\$	\$
Petroleum and natural gas revenue, before royalties	198,641	923,042	2,048,461	4,39,264
Funds flow from (used in) operations	(990,727)	(559,708)	(766,946)	(473,182)
Funds flow from (used in) operations per share - basic	(\$0.02)	(\$0.01)	(\$0.02)	(\$0.01)
Funds flow from (used in) operations per share - diluted	(\$0.02)	(\$0.01)	(\$0.02)	(\$0.01)
Net income (loss)	(527,521)	(844,946)	(1,776,461)	(2,299,832)
Net income (loss) per share - basic	(\$0.01)	(\$0.02)	(0.05)	(0.06)
Net income (loss) per share - diluted	(\$0.01)	(\$0.02)	(0.05)	(0.06)
Capital expenditures (proceeds on disposition and settlement gains)	29,060	251,349	81,809	281,379
Production U.S. Operations (boe/day)	29	35	32	35
Production Canadian Operations (boe/day) Until Disposition at June 30, 2010	-	98	89	163
		December 31	December 31	
		2010	2009	
Working capital deficiency		\$1,291,558	\$1,812,194	
Total assets		\$834,934	\$3,973,897	

RESULTS OF OPERATIONS

PRODUCTION

	Three Months Ended		Year Ended	
	December 31		December 31	
	2010	2009	2010	2009
Production (boe/day)				
Crude oil	29	133	121	190
Natural gas	0	0	0	8
Oil equivalent production	29	133	121	198

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

Guardian's gas production was shut-in in February 2009 due to uneconomic conditions from increasing amounts of water and decreasing amounts of gas being produced. The Company's independent reserve engineers have attributed reserves to only one of the Company's natural gas wells as at December 31, 2010.

PRICING

Benchmark Prices

	Three Months Ended		Year Ended	
	December 31		December 31	
	2010	2009	2010	2009
Crude oil – WTI (US\$ per Bbl)	\$85.03	\$76.07	\$79.43	\$61.69
Crude oil – Edmonton Par Price (\$ per Bbl)	\$80.79	\$77.01	\$78.04	\$66.59
Natural gas – AECO Spot (\$/mcf)	\$3.58	\$4.36	\$4.13	\$4.19
Exchange rate (\$US/\$Cdn)	1.01	1.06	1.03	1.14

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

For the three and twelve months ended December 31, 2010, WTI crude oil prices averaged US\$81.9 and US\$89.04, while prices at Edmonton averaged \$75.24 and \$86.02 respectively.

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 are expected to remain at low levels into 2011.

Realized Prices

	Three Months Ended		Year Ended	
	December 31		December 31	
	2010	2009	2010	2009
Average Prices				
Crude oil (\$/bbl)	\$71.51	\$75.17	\$73.54	\$62.28
Natural gas (\$/mcf)	-	-	-	\$4.08
Oil equivalent (\$/boe)	\$75.17	\$75.17	\$73.54	\$60.78

Guardian’s averaged realized price for its crude oil for the three months ended and the year ended December 31, 2010 reflects a slight discount to, but are consistent with, the benchmark prices described above. Realized prices at year end are higher than in 2009, reflecting higher benchmark prices.

As noted previously, no natural gas was produced in the year ended December 31, 2010.

REVENUE

	Three Months Ended		Year Ended	
	December 31		December 31	
	2010	2009	2010	2009
Production Revenue				
Crude oil	\$198,641	\$923,042	\$2,048,461	\$4,320,962
Natural gas	-	-	-	\$70,302
Total production revenue	\$198,641	\$923,042	\$2,048,461	\$4,391,264

Fourth quarter revenue in 2010 reflects Montana production only with the sale of the Girouxville assets in July 2010.

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

ROYALTIES

	Three Months Ended December 31		Year Ended December 31	
	2010	2009	2010	2009
	Royalties	\$36,989	\$330,165	\$681,482
As a percentage of revenue	18.6%	36%	33.3%	34%

Fourth quarter royalties represents those paid in Montana, which are at a lower rate than Alberta.

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

OPERATING EXPENSES

	Three Months Ended December 31		Year Ended December 31	
	2010	2009	2010	2009
	Operating expenses	\$90,963	\$331,787	\$1,157,571
Operating expenses per boe	\$32.75	\$27.02	\$41.56	\$21.26
As a percentage of revenue	46%	36%	57%	35%

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

GENERAL AND ADMINISTRATIVE EXPENSES

	Three Months Ended December 31		Year Ended December 31	
	2010	2009	2010	2009
	General and administrative expenses	\$162,929	\$361,633	\$855,091
As a percentage of revenue	82%	39%	42%	38%

The decrease in overall G&A expenses during the three months and year ended December 31, 2010 is due primarily to significant consulting and professional fees incurred in the prior periods in relation to the legal and regulatory matters involved in the potential sale of substantially all of the Company's petroleum and natural gas assets. As a percentage of revenue, G&A expenses are significantly higher in the fourth quarter of 2010 due to fixed overheads on lower production volumes.

STOCK-BASED COMPENSATION

	Three Months Ended		Year Ended	
	December 31		December 31	
	2010	2009	2010	2009
Stock-based compensation expense (recovery)	\$ -	\$ -	-	\$75,603

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

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

Stock-based compensation otherwise for the three months and year ended December 31, 2010 was \$nil as all other options were fully vested prior to the start of 2010.

INTEREST EXPENSE

	Three Months Ended		Year Ended	
	December 31		December 31	
	2010	2009	2010	2009
Financing fees	-	-	\$75,000	-
Interest expense/(recovery)	\$4,192	\$467,195	\$52,809	\$212,244

Financing fees of \$75,000 were paid during the first quarter of 2010 in relation to the secured loan from a related party. Interest expense for the three months and year ended December 31, 2010 relates primarily to the same loan.

DEPLETION, DEPRECIATION, IMPAIRMENT AND ACCRETION

	Three Months Ended		Year Ended	
	December 31		December 31	
	2010	2009	2010	2009
Depletion and depreciation	\$22,095	\$239,082	\$361,793	\$1,783,432
Accretion	\$19,180	\$22,671	\$78,990	\$93,087
Impairment of PP&E	-	-	\$585,119	-
DD&A (excluding impairment) per boe	\$14.86	\$19.47	\$36.83	\$24.68

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 and year ended December 31, 2010 as compared to the same periods in 2009 reflects the sale of the Girouxville assets in July 2010 combined with significantly lower production levels. On a per boe basis, DD&A is lower than in 2009, reflecting an overall lower depletable base in 2010.

As disclosed in Note 6 to the consolidated financial statements, an impairment charge of \$580,882 was recorded in relation to the Company's Girouxville properties, which were sold in July 2010.

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

The provision for asset retirement obligations is determined by management in consultation with the Company's independent engineers and are based on prevailing regulations, costs, technology and industry standards. The Company estimates that the present value of its asset retirement obligations at December 31, 2010 is \$1,077,211. Current expenditures for actual abandonment and site restoration in the three and twelve months ended December 31, 2010 were \$nil.

TAXES

During the three and year ended December 31, 2010, consistent with the same periods in 2009, the Company recorded no current or future income tax expense or recovery, as the benefit of losses incurred is not considered more likely than not of realization.

As of December 31, 2010, the Company has approximately \$3.6 million in resource tax pools available to offset future taxable income, and estimated carried forward non-capital losses of \$3.6 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 December 31		Year Ended December 31	
	2010	2009	2010	2009
Net income (loss)	(\$527,521)	(\$844,946)	(\$1,776,461)	(\$2,299,832)
Net income (loss) - per basic share	\$0.01	(\$0.02)	(\$0.05)	(\$0.06)
Net income (loss) - per diluted share	\$0.01	(\$0.02)	(\$0.05)	(\$0.06)
Weighted average shares outstanding:				
Basic	39,737,877	39,737,877	39,737,877	39,737,877
Diluted	39,737,877	39,737,877	39,737,877	39,737,877

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 December 31		Year Ended December 31	
	2010	2009	2010	2009
Net income (loss)	(\$527,521)	(\$844,946)	(\$1,776,461)	(\$2,299,832)
Add back (subtract) items not affecting cash:				
Depletion, depreciation, impairment and accretion	\$41,697	\$261,753	\$440,783	\$1,876,519
Future income tax expense (recovery)	-	-	-	-
Gain on held for trading investments	(\$3,000)	-	(\$3,000)	-
Loss on disposal of property and equipment	-	-	\$580,882	-
Impairment of property and equipment	-	-	\$585,119	-
Stock-based compensation	-	-	-	\$75,603
Gain attributable to settlement of accounts payable	(\$505,284)	-	(\$601,962)	(\$167,894)
Foreign exchange loss (gain)	\$3,381	\$23,485	\$7,693	\$42,422
Funds flow from (used in) operations	(\$990,727)	(\$559,708)	(\$766,946)	(\$473,182)

Funds flow per share - basic	(\$0.02)	(\$0.01)	(\$0.02)	(\$0.01)
Funds flow per share - diluted	(\$0.02)	(\$0.01)	(\$0.02)	(\$0.01)

SHARE CAPITAL

	Three Months Ended December 31		Year Ended December 31	
	2010	2009	2010	2009
Outstanding common shares				
Weighted average outstanding common shares				
Basic	39,737,877	39,737,877	39,737,877	39,737,877
Diluted	39,737,877	39,737,877	39,737,877	39,737,877

Due to the anti-dilutive effect of Guardian's net loss for the three and year ended December 31, 2010 (consistent with 2009), the diluted number of shares is considered equivalent to the basic number of shares for the purposes of all per share calculations.

Outstanding Securities	Outstanding at December 31	
	2010	2009
Common shares	39,737,877	39,737,877
Stock options	1,350,000	1,900,000
Warrants	-	8,871,300
Agent warrants	-	1,816,600
Debenture warrants	-	783,613

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

CAPITAL EXPENDITURES

	Year Ended December 31	
	2010	2009
Canada	\$81,809	\$281,379
Total	\$81,809	\$281,379

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

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2010, the Company had a working capital deficit of approximately \$1.3 million, and capital expenditure commitments of approximately \$0.4 million. Subsequent to the year end, the Company entered into a convertible promissory note in the aggregate amount of \$250,000 with a private company owned by the President of Guardian Exploration Inc. The loan matures on June 30, 2011 and will accrue interest at the rate of 15% per year, payable monthly and is secured against the assets of the Company.

The future operations of the Company are dependent on the Company's ability to raise capital to support its activities and meet its obligations, as outlined in Note 1 to the consolidated financial statements.

The capital intensive nature of the Company's activities may create a negative working capital position during times of high levels of capital investment. The industry has a pre-arranged monthly clearing day for payment of revenues from all buyers of crude oil and natural gas. This occurs for all the Company's Canadian operations on the 25th day following the month of sale. As a result, the Company's production revenues are collected in an orderly fashion. To the extent that the Company has joint venture partners in its activities it will attempt to collect on a monthly basis the partner's share of capital and operating expenses. These are subject to collection risk. No receivables at December 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			
	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009
(\$000's)								
P&NG net revenue	199	156	497	552	923	598	883	830
Production expense	91	195	223	317	332	312	375	518
DDA/impairment	41	43	838	183	262	319	467	828
G&A	163	184	269	238	362	334	512	440
Financing fees/interest	4	4	26	99	467	31	1	(287)
Income tax expense	-	-	-	-	-	-	-	-
Net income (loss) for the period	(528)	(185)	(795)	(269)	(845)	(175)	(503)	(777)
Net income (loss) per share	-	(0.01)	(0.02)	(0.01)	(0.02)	(0.00)	(0.01)	(0.02)
Working Capital/(Deficiency)	(1,292)	(1,475)	(1,944)	(1,905)	(1,812)	(958)	(1,012)	(1,299)

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

CRITICAL ACCOUNTING ESTIMATES

Oil and Gas Reserve Estimates

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

Ceiling Test

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

Unproven Properties

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

Stock-Based Compensation

The Company has a stock-based compensation plan which reserves shares of common stock for issuance to key employees, consultants and directors. The Company accounts for grants issued under this plan using the fair value recognition provisions whereby the cost of options granted to employees is charged to income with a corresponding increase in contributed surplus, based on an estimate of the fair value determined using the Black-Scholes option pricing model and amortized over the vesting period of the options issued.

Asset Retirement Obligations

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

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

BUSINESS RISKS

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

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

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

Oil and Gas Risk

Inherent in development of oil and gas reserves are risks, among others, of drilling dry holes, encountering production or drilling difficulties or experiencing high decline rates in producing wells. In addition, a major market risk exposure is in the pricing applicable to our oil and gas production. Realized pricing is primarily driven by the

prevailing worldwide price for crude oil and spot prices applicable to our oil and natural gas production. Prices received for oil and gas production have been and remain volatile and unpredictable. If oil and gas prices decline significantly, even if only for a short period of time, it is possible that non-cash write-downs of our oil and gas properties could occur under the full-cost accounting method. Under these rules, we review the carrying value of our proved oil and gas properties each quarter to ensure that capitalized costs of proved oil and gas properties, net of accumulated depreciation, depletion and amortization do not exceed the "ceiling." This ceiling is the present value of estimated future net cash flows from proved oil and gas reserves, discounted at 10 percent, plus the lower of cost or fair value of unproved properties included in the costs being amortized, net of related tax effects. If capitalized costs exceed this limit, the excess is charged to additional depletion, depreciation and accretion expense. The calculation of estimated future net cash flows is based on forecasted prices for crude oil and natural gas except for volumes sold under long-term contracts. Write-downs required by these rules do not impact cash flow from operating activities; however, as discussed above, sustained low prices would have a material adverse effect on future cash flows.

Financial and Liquidity Risks

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

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

Issuance of Debt

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

Supply of Service and Production Equipment

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

Regulatory Changes

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

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

RELATED PARTY TRANSACTIONS

- a) During the year ended December 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, made two repayments of \$72,944 and \$675,019, and incurred interest of \$49,525. As noted earlier, the loan was repaid in full in July 2010. During the fourth quarter of 2010, the Company drew a further \$200,000 under this facility. At December 31, 2010, the loan balance of \$200,000 and \$4,192 in accrued interest was payable to this related party.
- c) The Company obtained engineering consulting services in the amount of \$nil for the year ended December 31, 2010 (\$23,460 for the year ended December 31, 2009) from a company controlled by a Company director, who resigned in March 2010. A balance of \$nil is included in accounts payable and accrued liabilities at December 31, 2010 (December 31, 2009: \$123,888).
- d) Legal fees in the amount of \$43,882 were incurred in the year ended December 31, 2010 (\$88,948 for the year ended December 31, 2009) from a legal firm of which a Company director is a partner. A balance of \$16,144 is included in accounts payable and accrued liabilities at December 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 December 31, 2010, approximately \$2.3 million of the obligation had been fulfilled.

b) Employment contract

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

c) Office sub-lease

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

CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS

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

During the year ended December 31, 2010, settlement was reached with the US Department of Treasury covering approximately US\$98,000 in asserted penalties, and a payment of US\$49,000 was made (US\$50,000 had previously been accrued).

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

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

c) Other

The Company is also involved in various other claims arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in the Company's 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 December 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 Canadian Accounting Standards Board confirmed that all Canadian publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. The first reporting period under IFRS will be the three months ended March 31, 2011.

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

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

- impairment of property and equipment of approximately \$0.2 million. This will be taken to retained earnings/deficit at January 1, 2010.
- Increase of \$0.2 million in the asset retirement/site decommissioning provision, reflecting a reduction in the discount rate applied. A risk-free rate of 3% will be used to discount the expected future cash flows under IFRS, whereas a rate of 7.5% was used under GAAP.

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

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

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

ADDITIONAL INFORMATION

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