GUARDIAN EXPLORATION INC.

Management's Discussion and Analysis

This review is management's discussion and analysis ("MD&A") of the financial condition and the results of operations for Guardian Exploration Inc. ("Guardian" or the "Company") and should be read in conjunction with the interim unaudited March 31, 2007 and the audited December 31, 2006 financial statements and accompanying notes.

Additional information on Guardian is available for review on SEDAR at www.sedar.com. The Company's shares trade on the TSX Venture Exchange under the trading symbol "GX".

This MD&A is dated May 30, 2007.

All amounts are in Canadian dollars unless otherwise stated.

Boe presentation - Production information is commonly reported in units of barrels of oil equivalent or boe. For the purposes of computing such units, natural gas is converted to equivalent barrels of oil using a conversion factor of six thousand cubic feet to one barrel of oil. The conversion ratio of 6:1 is based on an energy equivalency conversion method, which is primarily applicable at the burner tip. It does not represent equivalent wellhead value for the individual products. Such disclosure of boes may be misleading, particularly if used in isolation.

Forward Looking Statements - This disclosure contains certain forward-looking estimates that involve substantial known and unknown risks and uncertainties, certain of which are beyond Guardian's control, including the impact of general economic conditions in Canada and the United States; industry conditions; changes in laws and regulations including the adoption of new environmental laws and regulations, and changes in how they are interpreted and enforced; increased competition; the lack of availability of qualified personnel or management; fluctuations in commodity prices; foreign exchange or interest rates; stock market volatility and obtaining required approvals of regulatory authorities. Guardian's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking estimates and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking estimates will transpire or occur, or if any of them do so, what benefits, including the amounts of proceeds, that Guardian will derive there from.

Non-GAAP Measures - The term cash flow from operating activities or cash flow, which is expressed before changes in non-cash working capital, is used by the Company to analyze operating performance, leverage and liquidity. The term netback, which is calculated as the average unit sales price less royalties and operating expenses, represents the cash margin for every barrel of oil equivalent sold. These terms do not have any standardized meaning prescribed by the Canadian Generally Accepted Accounting Principles (GAAP) and therefore, might not be comparable with the calculation of a similar measure for other companies.

Certain prior period comparative figures have been reclassified to conform to the presentation used in the current period.

Production (volume per day)

	Three months ended March 31	
	2007	2006
Natural gas (mcf/d)	149	452
Oil (bbls/d)	0	0
NGL (bbls/d)	0	0
Total volume (boe/d)	25	75

Production for the first quarter of 2007, decreased to 25 boe per day compared with 75 boe per day for the same period in 2006. This was as a result of the sale of Clarke Lake properties together with difficulties with the gas processing facility in Northern British Columbia.

Petroleum and Natural Gas Sales ($)

	Three months ended March 31	
	2007	2006
Oil sales	0	0
per barrel	0	0
Natural gas sales	13,401	40,693
per mcf	$ 6.74	$ 8.02
NGL sales	0	0
per barrel	0	0
Royalty income	0	0
Total sales	13,401 mcf	40,693 mcf

Petroleum and natural gas sales for the first quarter of 2007 decreased to $ 90,277 compared with $ 326,447 for the same period in 2006 due to the sale of the Clarke Lake properties and the shut-in of the processing facility. Natural gas prices for the first quarter of 2007 declined to an average $ 6.74 per mcf compared with $ 8.02 per mcf for the same period in 2006.

Royalties & operating expenses ($)

Royalties for the first quarter of 2007 were $ 2,994 or 3.32% of sales revenue, compared with 15.38% of sales revenue for the same period in 2006. On a unit of production basis, royalties for the first quarter of 2007 were $1.34 per boe, compared with $12.43 per boe for the same period in 2006, a decrease of 89.2% as a result of the application of provincial road use credits in 2007.

Production and transportation expenses for the first quarter of 2007 decreased to $ 63,552 compared with $104,352 for the same period in 2006, resulting from lower production volumes. On a unit of production basis, production and transportation expenses for the first quarter of 2007 were $28.45 per boe, compared with $15.38 per boe for the same period in 2006, an increase of 84.5 %.

Field Netbacks ($ per boe)

	Three months ended March 31	
	2007	2006
Sales price	40.42	48.13
Royalties	1.34	12.43
Production and transportation expense	28.45	15.39
Field netback	10.62	20.31

Field netbacks for the first quarter of 2007 decreased to $10.62 per boe compared with $20.31 per boe for the same period in 2006.

General and Administrative Expense ($)

	Three months ended March 31	
	2007	2006
Net G&A expense	300,600	174,707

Net general and administrative expenses for the first quarter of 2007 were $300,600 compared with $174,707 in the first quarter of 2006, an increase of 72%.

Capital Expenditures

Capital expenditures for the first quarter of 2007 were a recovery of $869,198 compared with expenditures of $3,419,241 for the same period in 2006. The recovery during the first quarter of 2007 were as a result of negotiating significant discounts of previously expended amounts in 2006.

Working capital ($)

The Company commenced 2007 with a working capital deficit of $5,114,798. At the end of the first quarter, working capital was $800,523. This change was a result of the following:

	2007
Working capital, beginning of period	(5,114,798)
Cash flow from operating activities	(337,746)
Property Sale	6,500,000
Net capital expenditures	869,198
Payment of Loans	(1,050,000)
Other	66,131
Working capital, end of period	800,523

Liquidity and Capital Resources

The Company's working capital at March 31, 2007 was $800,523, as compared with a working capital deficiency of $5,114,798, including debenture debt of $1,000,000 at December 31, 2006.

Off-Balance Sheet Arrangements

Guardian is not a party to any arrangements which are excluded from the balance sheet.

Business Risks and Uncertainties

The Company is exposed to operational risks inherent in exploring, developing, producing and marketing crude oil and natural gas. These inherent risks include: economic risk of finding and producing reserves at a reasonable cost, financial risk of marketing reserves at an acceptable price given current market conditions, cost of capital risk associated with securing the needed capital to carry out the Company's operations, risk of environmental impact of the Company's activities, and credit risk of non-payment for sales contracts and joint venture partners.

Guardian Exploration Inc.

Interim Consolidated Financial Statements (unaudited)
For the Three Months Ended
March 31, 2007

NOTICE TO READER

The consolidated financial statements of Guardian Exploration Inc. and the accompanying consolidated interim balance sheets as at March 31, 2007 and the consolidated interim statements of operations, deficit and cash flows for the three month period then ended are the responsibility of the Company's management.

These consolidated financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company.

The consolidated interim financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these consolidated financial statements in accordance with Canadian generally accepted accounting principles.

Dated May 30, 2007
On behalf of Guardian Exploration Inc.

Signed: "Graydon Kowal"

Director, President & Chief Executive Officer

GUARDIAN EXPLORATION INC.
Interim Consolidated Balance Sheet

(In Canadian Dollars)		**March 31, 2007 (unaudited)**		**December 31, 2006 (audited)**
ASSETS				
Current Assets				
Cash and cash equivalents	$	878,875	$	101,556
Accounts receivable		2,556,668		2,672,587
Prepaid expenses and deposits		212,560		81,913
		3,648,103		2,856,056
Deposit		349,920		349,920
Property, plant and equipment (Note 3)		1,787,501		9,223,801
FUTURE INCOME TAXES		-		-
		1,787,501		9,223,801
	$	5,785,524	$	12,429,777
LIABILITIES				
Current Liabilities				
Accounts payable and accrued lial	$	2,847,580	$	7,970,854
Debenture payable		-		969,882
Due to related company		326,301		376,301
Due to shareholder		138,000		138,000
		3,311,881		9,455,037
Asset retirement obligation		1,163,093		1,207,667
		4,474,974		10,662,704
SHAREHOLDERS' EQUITY				
Share capital (Note 5)		8,103,838		8,103,838
Warrants		673,600		673,600
Equity portion of debenture		-		30,118
Contributed surplus		529,890		529,890
Retained earnings, (deficit)		(7,996,778)		(7,570,373)
		1,310,550		1,767,073
	$	5,785,524	$	12,429,777

The accompanying notes are an integral part of these financial statements

Approved on behalf of the Board:

Signed: "Scott Reeves", Director

Signed: "Graydon Kowal", Director

GUARDIAN EXPLORATION INC.
Consolidated Statements of Loss and Deficit
(unaudited)

		For the three months ended March 31, 2007	For the three months ended March 31, 2006
Revenues			
Oil and gas sales, net of royalty	$	48,065	231,892
Expenses:			
Operating expenses		80,746	97,659
Depletion, depreciation and accretion		67,102	-
General and administrative		300,600	174,707
Interest expense		4,465	17,855
Foreign exchange (gains) losses		21,558	-
		474,470	290,221
Net earnings (loss) from operations		(426,405)	(58,329)
Income Taxes:			
Future income tax expense (recovery)		-	-
		(426,405)	(58,329)
Net (loss) after taxes		(426,405)	(58,329)
Deficit, beginning of period		(7,570,373)	(1,410,301)
Deficit, end of period	$	(7,996,778)	(1,468,630)

GUARDIAN EXPLORATION INC.
Consolidated Statements of Cash Flow
(unaudited)

		For the three months ended March 31, 2007	For the three months ended March 31, 2006
Cash flows from operating activities			
Operations			
Net loss for the period	$	(426,405)	(58,329)
Item not involving cash			
Depletion, amortization and accretion		67,102	-
Foreign exchange gains (losses)		21,558	-
Cash flow from operations		(337,746)	(58,329)
Change in non-cash working capital		(5,159,559)	2,150,947
		(5,497,305)	2,092,618
Cash flows from financing activities			
Repayment of revolving loan		-	(190,000)
Repayment of debenture		(1,000,000)	-
Repayments on loan from related company		(50,000)	-
		(1,050,000)	(190,000)
Cash flows from investing activities			
Proceeds from sale of shares for cash		-	962,000
Proceeds from sale of flow through shares		-	4,000,000
Share issue costs		-	(435,070)
Proceeds on sale of property and equipment		6,500,000	-
Purchase interest in property and equipment		-	(4,000,000)
Asset retirement obligations		(44,574)	-
Expenditures on property and equipment		-	(3,419,241)
Negotiated recoveries on property and equipment		869,198	-
		7,324,624	(2,892,311)
Increase (decrease) in cash and cash equivalents		777,319	(989,693)
Cash and cash equivalents, beginning of period		101,556	1,783,875
Cash and cash equivalent, end of period	$	878,875	794,182

Note 1 - Nature of Operations

Guardian Exploration Inc. was incorporated under the Business Corporations Act (Alberta) on March 27, 2001 as Guardian Resources Inc. On May 14, 2001 the Company changed its name to Guardian Exploration Inc. The Company obtained extra provincial Registration in British Columbia on June 22, 2001.

On March 20, 2006, following a vote by the shareholders of Guardian and Resilient Resources Ltd., the two companies amalgamated securing a listing for the previously private Guardian Exploration Inc. Its common shares are now listed and posted for trading on the TXS Venture Exchange Inc. under the trading symbol "GX".

The amalgamated Company's principal business activities include the evaluation, acquisition, exploration and development of oil and gas properties in Western Canada and Montana.

Note 2 - Significant Accounting Policies

The financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles and accordingly, have been prepared using the same principles as those for a going concern. Should the Company be unsuccessful in realizing the value of its current and future projects, it may not be able to realize its assets and discharge its liabilities in the normal course of business.

a) Property and Equipment

i. Petroleum and natural gas properties and production equipment

The Company follows the Canadian accounting standards guideline on full cost accounting for its petroleum and gas operations, whereby all costs associated with the acquisition of, exploration for and the development of petroleum and natural gas reserves, including asset retirement costs, are capitalized and accumulated in a single Canadian cost centre. Such costs include lease acquisition, drilling, geological and geophysical expenditures, lease rentals on non-producing properties, equipment costs and overhead expenses directly related to exploration and development activities.

Proceeds from the disposition of petroleum and natural gas properties are accounted for as a reduction of capitalized costs, with no gain or loss recognized, unless such disposition would alter the rate of depletion and depreciation by 20% or more.

Note 2 - Significant Accounting Policies *(Continued)*

a) Property and equipment *(Continued)*

ii. Depletion and depreciation

Depletion and depreciation of petroleum and natural gas properties is calculated using the unit of production method based upon production volumes, before royalties, in relation to total proved petroleum and natural gas reserves, as estimated by independent engineers. In determining costs subject to depletion, the Company includes estimated future costs to be incurred in developing proved reserves and excludes estimated salvage values. The cost of undeveloped properties are excluded from costs subject to depletion until it is determined that proved reserves are attributable to the property or impairment has occurred. For depletion and depreciation purposes, natural gas volumes are converted to equivalent oil volumes based upon a relative energy content of six thousand cubic feet of natural gas to one barrel of oil.

iii. Mineral property interests

Direct costs relating to the acquisition, exploration and development of mineral properties, including interest on borrowings directly related to a property, are capitalized on an area of interest basis. When the Company is the operator of a project and incurs costs on behalf of joint venture partners, these costs are periodically charged back to the partners and are recorded as operator recoveries. Operator recoveries are credited to exploration costs. Cumulative expenditures will be charged against income, through unit-of-production depletion, when properties are developed to the stage of commercial production. Where the Company's exploration commitments for an area of interest are performed under option agreements with a third party, the proceeds of any option payments under such agreements are applied to the area of interest to the extent of costs incurred. The excess, if any, is credited to operations. If an area of interest is abandoned or management determines there is a permanent and significant decline in value, the related costs are charged to operations.

iv. Office equipment

Office equipment is carried at cost and depreciated over the estimated useful life of the assets at a rate of 20% to 30% per annum on a declining balance basis. Depreciation is charged at half rates in year of acquisition.

v. Ceiling test

Under the full cost method of accounting, a “ceiling test” is performed to recognize and measure impairment, if any, of the carrying amount of petroleum and natural gas properties. Impairment is recognized if the carrying amount of petroleum and natural gas properties, less the cost of undeveloped properties not subject to depletion, exceeds the estimated undiscounted future cash flows from the Company’s proved reserves. The future cash flows are based on a forecast of prices and costs, as provided by an independent third party. If recognized, the magnitude of the

Note 2 - Significant Accounting Policies *(Continued)*

impairment is then measured by comparing the adjusted carrying amount to the estimated discounted future cash flows from the Company's proved and probable reserves. The future cash flows are discounted at the Company's credit adjusted risk-free interest rate, using forecasted prices and costs, and are exclusive of indirect costs such as interest charges, general and administrative expenses and future income taxes.

b) Asset retirement obligations

The fair value of estimated asset retirement obligations ("ARO") is recognized in the financial statements in the period in which they are identified and a reasonable estimate of fair value can be made. The ARO includes the costs of abandonment of petroleum and natural gas wells, dismantling and removing tangible equipment, returning land to its original condition. The asset retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset. Asset retirement costs for petroleum and natural gas assets are amortized using the unit of production method and are included in the depletion, depreciation and amortization on the statement of operations.

Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion expense on the statement of operations. Any revisions to the original estimate of cost or the timing of the cash outflows may result in a charge to the ARO. Actual expenditures incurred to abandon petroleum and natural gas properties reduce the ARO liability.

c) Joint operations

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

d) 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.

e) Flow-through equity instruments

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to shareholders. To recognize the foregone tax benefits to the Company, the carrying value of the shares issued is reduced by the tax effect of the tax benefits renounced to subscribers. The tax effect is recorded on the date that the renouncement forms are mailed to the shareholders.

Note 2 - Significant Accounting Policies *(Continued)*

f) 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.

g) Revenue recognition

Revenue from petroleum and natural gas is recognized based on volumes delivered to customers at contractual delivery points and rates. 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.

h) Refundable deposits

The Company capitalizes refundable deposits, which are held in trust by the Alberta Energy & Utilities Board ("EUB") for the EUB Licensee Liability Rating program.

i) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings in the period in which the change becomes substantively enacted. A valuation allowance is recorded against any future income tax asset if the Company is not "more likely than not" to be able to utilize the tax deductions associated with the future income tax asset.

j) Measurement uncertainty

The timely preparation of financial statements in conformity with Canadian generally accepted accounting principles requires that management make estimates that affect the amounts of assets, liabilities, revenues and expenses as they primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results could differ from those estimated.

Note 2 - Significant Accounting Policies *(Continued)*

Specifically, the amounts recorded for depletion, depreciation and amortization of petroleum and natural gas properties, the provision for asset retirement obligation costs and the ceiling test calculation are based on estimates of proved reserves, production rates, commodity prices, future costs and other relevant assumptions. The amounts recorded relating to fair values of stock options are based on estimates of future volatility of the Company's share price, expected lives of the options, expected dividends to be paid by the Company, and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Note 3 - Property and Equipment

	March 31, 2007			December 31, 2006
	Cost	**Accumulated depletion and depreciation**	**Net book value**	**Net book value**
Petroleum and natural gas properties	$ 8,178,406	$ 6,390,905	$1,787,501	$9,223,801
Office equipment	276,347	276,347	0	0
	$8,454,753	$ 6,667,252	$1,787,501	$9,223,801

The Company performed a ceiling test calculation at March 31, 2007 to assess recoverable value of property and equipment.

Year	Natural Gas B.C. (spot sales) (CAD$/mcf)
2007	6.00
2008	6.57
2009	6.53
2010	6.49
2011	6.62
Thereafter (inflation %)	2.0% / yr

Based on these assumptions, the undiscounted value of future net revenues from the Company's proved reserves exceeded the carrying value of property and equipment as at March 31, 2007.

Note 4 - Asset Retirement Obligations

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites. The Company estimates the total undiscounted amount of the cash flows required to settle its asset retirement obligations is approximately $688,076, which has been discounted using a credit adjusted risk free rate of 6.0% (2005 - 6.0%). An inflation factor of 2.0% has been applied to estimated asset retirement costs. These obligations are to be settled based on the economic lives of the underlying assets, which currently extend up to 17 years into the future and will be funded from general corporate resources at the time of abandonment.

A reconciliation of the asset retirement obligations is provided below:

	March 31, 2007	**December 31, 2006**
Balance, beginning of period	$ 1,207,667	$ 70,056
Obligations incurred in the period	0	$ 138,018
Liabilities transferred upon amalgamation	0	312,879
Acquisitions	0	826,669
Dispositions	(26,684)	(25,388)
Expenditures made on asset retirements	0	(192,501)
Revisions to obligations	0	608
Accretion	17,890	77,326
Asset retirement obligations, end of period	$ 1,163,093	$ 1,207,667

Note 5 - Share capital

(a) Authorized

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

(b) Issued

	Number	Amount
Balance, August 31, 2004	116	$ 255,951
Effect of 70,000 to 1 stock split, December, 2004	8,119,884	-
Private placement of units for cash	722,000	902,500
Share issue costs	-	(104,488)
Tax effect of share issue costs	-	37,218
Tax effect of flow-through shares	-	(321,470)
Balance, August 31, 2005	8,842,000	769,711
Effect of 2.6 to 1 stock split, September 2005	14,147,200	-
Private placement of units for cash	5,097,996	2,294,098
Private placement of units for cash	1,429,575	929,224
Share issue costs	-	(163,202)
Tax effect of share issue costs	-	43,647
Balance, December 31, 2005	29,516,771	3,873,478
Private placement of flow through shares for cash	5,333,333	4,000,000
Private placement of common shares for cash	1,480,000	962,000
Issued for finance fee on private placement	68,853	-
Issued for financing fee on convertible debenture	650,000	422,500
Consolidation of shares on amalgamation	(18,903,934)	-
Issued to Resilient shareholders on amalgamation	1,854,977	-
Share issue costs	-	(874,988)
Tax effect of flow-through shares	-	(279,152)
	20,000,000	8,103,838
Issued under contractual right to acquire	79,422	-
Balance, December 31, 2006 and March 31, 2007	20,079,422	$ 8,103,838

(i) On December 31, 2004, the Company closed private placements of 722,000 units at $1.25 per unit for gross proceeds of $902,500. Each unit consists of one flow-through common share and one-half share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of $1.50 per share 12 months from the date of closing. The corporation issued warrants to the agents in an amount equal to 7.5% of the aggregate number of units sold under the private placement, with each warrant being issuable into one common share at a price of $1.25 per share for a period of 18 months from the date of the closing.

(ii) On October 26, October 31, November 4 and November 9, 2005, the Company closed private placements of 5,097,996 units at $0.45 per unit for gross proceeds of $2,294,098. Each unit consists of one common share and one-half share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of $0.75 per share for a period of 12 months from the date of closing.

(iii) On December 30, 2005, the Company closed private placements of 1,429,575 units at $0.65 per unit for gross proceeds of $929,224. Each unit consists of one flow-through common share and one-half share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of $1.00 per share for a period of 12 months from the date of closing. The Company issued a further 79,422 common shares to certain individuals as a result of a penalty provision whereby the Company was obliged to issue a penalty of 5% of the shares originally issued to such parties for every 30 days after March 15, 2006 that the Company remained unlisted on a recognized stock exchange. This penalty provision expired on May 11, 2006, the date of listing of the Company's common shares on the TSX Venture Exchange.

(iv) On March 30, 2006, the Company closed private placements of 5,333,333 common shares on a flow-through basis at a price of $0.75 per flow-through share for gross proceeds of $4,000,000. An additional placement of 1,480,000 common shares was completed at a price of $0.65 per common share for gross proceeds of $962,000. The Company paid a cash commission of 7% of the gross proceeds received from the private placement, reduced to 3% on sales of common shares or flow through shares to or by directors of officers of the Company on a maximum of $2,000,000 in gross proceeds. The Company issued warrants to the agents in an amount equal to 7.0% of the aggregate number of common shares and flow-through common shares sold under the private placement, with each warrant being issuable into one common share at a price of $0.65 per share for a period of 18 months from the date of the closing, reduced to 3% in respect to the reduced commission orders referred to above. The Company has also paid a finance fee of 2% of the gross proceeds raised directly by the agent under the private placement, such finance fee satisfied half by way of cash payment and half by way of issuance of 68,853 common shares at a deemed price of $0.65 per share.

(v) In accordance with the convertible debenture agreement (note 8), the Company paid a finance fee of $422,500 by the issuance of 650,000 common shares. The Company also granted the holder warrants to acquire 1,600,000 common shares, with an exercise price of $0.75 per share exercisable for a period of forty-two months from the amalgamation date.

(c) Escrowed shares

At December 31, 2006 the Company is holding 5,109,427 common shares in escrow arising from an agreement that provides for a release subject to approval by regulatory authorities. Pursuant to the terms of an escrow agreement in TSX Venture Exchange Form 5D among the Company, certain insiders of the Company and Computershare Trust Company of Canada, as escrow agent, one quarter of the escrowed shares were released on the date of closing of the Resilient/Guardian amalgamation, with all remaining escrowed shares released as to one-third every six months following the date of closing of the Resilient/Guardian amalgamation.

(d) Stock options

During 2006, the Company adopted a stock-based compensation plan for its directors, officers and consultants which provides for granting of options to purchase common shares of the Company. 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.

	Number Outstanding		Weighted Average Price Per share
Balance, August 31, 2005 and December 31, 2005	-	$	-
Granted	1,650,000		1.10
Cancelled	(425,000)		(1.10)
Exercised	-		-
Balance, December 31, 2006	1,225,000	$	1.10
Exercisable, March 31, 2007	190,000	$	1.10

Effective May 29, 2006, the Company issued 1,650,000 options to directors, officers and consultants with an exercise price of $1.10 per share and expiring May 29, 2011. The options have vesting terms as follows:

As at March 31, 2007 there were 1,225,000 options granted.

Assumptions used in the calculation of the fair value of options granted are as follows:

Risk free interest rate	4.19%
Expected life	5 years
Volatility	100 %
Dividends	NIL
Resulting fair value per option	$0.803

Note 6 - Related Party Transactions

The Company is related to several other corporations through common control and stock ownership.

All related party transactions occurred in the normal course of operations, have been measured at the agreed to exchange amounts, which is the amount of consideration established and agreed to by the related parties and which are similar to those negotiable with non-arms length parties.

During the period services were rendered to the Company in the amount of $ 0.
At March 31, 2007 loans were due to a related party for $ 326,301. No specific terms of repayment have been made as of statement date.

Note 7 - Commitments

(a) Flow-through renunciation expenditure commitments

Pursuant to the flow-through share issuance completed in December 2005 the Company was committed to incur $929,774 of qualified expenditures by December 31, 2006. At December 31, 2006 the obligation has been fulfilled. The costs were renounced to investors in February 2006. The future tax liability of $279,152 was recorded in 2006.

Pursuant to the flow-through share issuance completed in March 2006 the Company is committed to incur $4,000,000 of qualified expenditures by December 31, 2007. At December 31, 2006, $70,776 of the obligation has been fulfilled with the remaining $3,929,224 to be incurred by December 31, 2007. The costs were renounced to investors in February 2007. The estimated future tax liability of $1,200,000 will be recorded in 2007.

(b) Blackfeet Tribal agreement

The Company owns the rights to explore for petroleum and natural gas on approximately 100,000 tribal mineral acres titled the Eastern Lands on the Blackfeet Indian Reservation in northern Montana.

As at December 31, 2006 the Company's commitments to retain its exploration rights in the lands are as follows:

- payments to the Blackfeet Tribe of annual rental fees of $USD 300,000 until 2008.

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

(c) Office lease obligation

The Company's total obligations, under a property lease agreement, exclusive of occupancy costs, are as follows:

2007	$	38,943
2008		32,453
	$	71,396

(d) 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%.

Note 8 - Financial Instruments

a) Fair values

The Company's financial instruments recognized in the balance sheet consist of cash and cash equivalents and accounts receivable, accounts payable and accrued liabilities. The carrying value of these accounts approximates their fair value due to the relatively short periods to maturity of these instruments.

b) Commodity price risk

The Company's operations are at risk to commodity price fluctuations for the delivery of natural gas and crude oil. The Company has not entered into any hedging arrangements.

c) Credit risk

Substantially all the Company's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks.

Note 9 - Subsequent Events

Bonnett's Energy Services has filed a claim dated January, 2007 in the estimated amount of $ 800,000 for work done in the summer of 2006. Management of the Corporation has filed a counter lawsuit against Bonnett's for negligence and damages caused by Bonnett's on Guardians' Clarke Lake Program in the summer of 2006.