Guardian Exploration Inc.
Management Discussion and Analysis
For the period ended June 30, 2007

August 30, 2007

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim financial statements for the period ended June 30, 2007 and the audited financial statements for the year ended December 31, 2006 and the notes thereto. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are in Canadian dollars. Additional information relating to Guardian Exploration Inc. (the "Company" or "Guardian") is available on SEDAR at www.sedar.com. The Company's shares trade on the TSX Venture Exchange under the trading symbol "GX".

Certain information presented in the MD&A constitutes forward looking information that is subject to substantial risks and uncertainties. By their nature, forward-looking statements necessarily involve risks associated with oil and gas exploration, production, marketing, and transportation such as loss of market, volatility of prices, currency fluctuations, imprecision of reserves estimates, environmental risks, competition from other producers and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of forward-looking information and statements, although considered reasonable at the time may prove to be imprecise. As such, undue reliance should not be placed on forward-looking statements. A number of factors, many of which are beyond the control of Guardian may affect the actual performance of the Company and actual results may differ from those expressed or implied by such forward looking information. Accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will occur, or if they do occur, what benefit Madison will derive from them.

Natural gas volumes have been converted to barrels of oil equivalent ("boe") using a conversion ratio of 6 mcf to 1 bbl., based on an energy equivalency conversion method and does not represent a value equivalency at the wellhead. Readers are cautioned that boe's may be misleading, particularly if used in isolation.

Non-GAAP Information

Cash flow from operations represents cash generated from operating activities before changes in non-cash working capital. The term is a non-GAAP measure and may not be comparable to other companies' definition of the term. Management uses cash flow from operations to evaluate the Company's operating performance and as a key measure to assess the Company's ability to finance operating activities and capital expenditures.

Operating netback is calculated as revenues from crude oil, natural gas and natural gas liquids less royalties and operating expenses on a barrel of oil equivalent basis.

Overview

Guardian is an oil & gas exploration company exploring and producing oil & gas in Western Canada and Montana.
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 TSX Venture Exchange Inc. under the trading symbol GX. The private company “Guardian” was incorporated in Alberta as Guardian Resources Inc. on May 27, 2001. On May 14, 2001, the Company changed its name to Guardian Exploration Inc. and obtained extra-provincial registration in British Columbia on June 22, 2001. The Company is engaged in the acquisition, exploration, and development of petroleum and natural gas properties in Western Canada.

Results of Operations

Statement of Operations and Deficit ($ rounded)	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Petroleum and natural gas sales (net of Royalties)	0	253,572	48,065	485,464
Operating costs	27,096	236,900	107,842	334,559
Operating netback	(27,096)	16,672	(59,777)	150,905
Administrative expenses (includes consulting fees)	284,726	439,477	585,326	614,184
Income (loss) for the period	(591,197)	(796,726)	(1,017,602)	(855,055)
Income (loss) per share – basic	(0.03)	(0.04)	(0.05)	(0.04)

Balance Sheet ($)	June 30 2007	December 31 2006
Working capital deficit	(275,222)	(6,598,981)
Total assets	5,232,013	12,429,777

US Operations:
The Company currently is in the pre-production stage of exploration and development and thus all costs associated with the exploration and development of its properties are capitalized.

Canadian Operations:
Cash Flow from Operations
Three months ended June 30 2007 $0
Six months ended June 30 2007 $ 48,065

During the second quarter of 2007, the Company did not participate in the drilling of any new wells.

Guardian farmed out but retained operatorship of a re-completion operation on B100E 94-P3 to a private U.S. oil and gas company. The operation was successful but, due to third party plant constraints, this gas is currently not flowing. Guardian is designing and planning to build its own plant.

Oil and gas sales for the three month period ended June 30, 2007 averaged nil boe per day, a decrease of 100% from the first quarter of 2007 (25 boe per day) due to the fact that Guardian’s Canadian producing oil & gas wells were shut in for the period.

Operating expenses for the second quarter of 2007 were approximately $27,096, a decrease of 66.4% from the first quarter of 2007 ($80,746) and a decrease of 88.6% from the second quarter of 2006 ($236,900), related to the decrease in drilling and completions activity over the quarter.

Depletion decreased to $19,457 in the second quarter from $67,102 in the first quarter of 2007. In the second quarter of 2006 depletion was $1,315.

General and administrative expenses for the second quarter of 2007 were approximately $284,726, a decrease of 5.3% from the first quarter of 2007 ($300,600) and a decrease of 35.2% from the second quarter of 2006 ($439,477), related to the decrease in drilling and completions activity over the quarter and the correlated reduction of staff and expenses in order to partially offset the reduction in oil & gas sales.

Included in administrative expenses is $15,891.23 in professional fees that were paid to a law firm in which a director of the Company is a partner. At June 30, 2007, shareholders loans in the aggregate principal amount of $464,301 were due to an officer of the Company and a company controlled by such officer. No specific terms of repayment have been identified.

These related party transactions were incurred in the normal course of business and have been measured at an amount agreed to by the parties and are similar to those negotiable with third parties.

Quarterly information ($ rounded)	2007		2006		
	Q2	Q1	Q4	Q3	Q2
Oil & natural gas revenue, net of royalties	0	48,065	287,110	237,260	253,572
Lease operating expense	27,096	80,746	198,721	187,280	236,900
Administrative expenses	284,726	300,600	243,620	226,517	439,477
Depletion, depreciation and accretion	19,457	67,102	3,201,688	213,772	1,315
Net income (loss)	(591,197)	(426,405)	(5,074,402)	2,093,475	(796,726)
Net income (loss) per share	(0.03)	(0.02)	(0.25)	0.10	(0.04)
Cash flow from operations	(312,096)	(337,746)	(2,901,549)	2,311,333	(796,726)
Working capital (deficit)	(275,222)	336,222	(6,598,981)	(5,595,476)	(2,713,695)
Total assets	5,232,013	5,785,524	12,429,777	17,378,464	16,187,012

* Prior to Q2 2006 Guardian Exploration Inc. did not exist

Income Taxes

The Company is not currently liable for cash taxes.

There are sufficient tax pool deductions to offset future taxable income that the Company does not anticipate it will be liable for cash taxes in 2007. The Company's future tax assets are in excess of the future liabilities. As there is no certainty that the Company will be able to realize the benefit of these tax assets in the future, no tax asset has been recognized at June 30, 2007.

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 had 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 is recorded in 2007.

Liquidity and Capital Resources

At June 30, 2007, the Company had a working capital deficiency totaling $275,222 and had incurred a net loss of $591,197 and had generated cash flow from operations of ($312,096) during the three month period ended June 30, 2007. With the Company's current trade payables situation and the "shut-in" nature of its producing wells, the Company is currently unable to meet its obligations when they come due. It is seeking additional equity and/or debt financing in order to meet its obligations and continue its exploration and development program.

The Company does not have any operating leases at June 30, 2007.

The Company does not have any off balance sheet arrangements at June 30, 2007.

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. (Payment was made in April 2007)

- 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.

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

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%.

The Company has no other contractual obligations nor has it entered into any long term contracts or is it a party to any proposed long term transactions that would negatively impact future cash flows.

Share Capital

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.

Outstanding Share Data

	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	20,079,422		8,103,838
Convertible debenture repaid			30,118
Tax effect of flow-through shares			(1,200,000)
Balance, June 30, 2007	20,079,422		$6,933,956

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, 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, June 30, 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. As at June 30, 2007 there were 1,225,000 options granted. No options were exercised in the second quarter of 2007 and no new options were 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

Controls and Procedures

Management of Guardian is responsible for designing and maintaining internal controls over financial reporting and disclosure controls and procedures. Disclosure controls and procedures have been designed to ensure that information related to the Company is accumulated and communicated to the Company's management as appropriate to allow for timely decisions regarding required disclosure. Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

There are no significant changes in the design of the Company's internal controls over financial reporting or disclosure controls and procedures during the quarter that the Chief Executive Officer and the Chief Financial Officer consider are required to be disclosed.

Financial Instruments and Other Instruments

Guardian's financial instruments consist of cash, accounts receivable and accounts payable. Unless otherwise noted, it is management's opinion that Guardian is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity and capacity for prompt liquidation.

Subsequent Events

Bonnett's Energy Services Inc. ("Bonnet's") 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.

On February 16, 2007, the Company commenced an action in the Court of Queen's Bench of Alberta against Greyhawke Resources Ltd. ("Greyhawke"), alleging that Greyhawke, in default of its contractual obligations, refused or otherwise neglected to pay its full and proportionate share of costs incurred for the joint venture account in respect of the Clarke Lake lands (damages claimed by Guardian are approximately $1,523,251 CDN). Greyhawke filed a Statement of Defence and Counterclaim on May 16, 2007, alleging that Guardian breached duties in tort, contract, trust and fiduciary duties, in addition to making a number of misrepresentations which were relied upon by Greyhawke to its detriment (damages claimed by Greyhawke are approximately $1,940,817 CDN).

Approval

The board of directors of Guardian has approved the disclosure contained in this MD & A Report. A copy of this MD & A will be provided to anyone who requests it.

Guardian Exploration Inc.

Interim Consolidated Financial Statements (unaudited)
For the Six Months Ended
June 30, 2007

NOTICE TO READER

The consolidated financial statements of Guardian Exploration Inc. and the accompanying consolidated interim balance sheets as at June 30, 2007 and the consolidated interim statements of operations, deficit and cash flows for the six 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 August 29, 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)		**June 30, 2007 (unaudited)**		December 31, 2006 (audited)
ASSETS				
Current Assets				
Cash and cash equivalents	$	**926,260**	$	101,556
Accounts receivable		**3,197,641**		2,672,587
Prepaid expenses and deposits		**148,690**		81,913
		4,272,591		2,856,056
Deposit		**371,926**		349,920
Property, plant and equipment (Note 3)		**587,497**		9,223,801
	$	**5,232,013**	$	12,429,777
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	$	**4,083,512**	$	7,970,854
Debenture payable		**-**		969,882
Due to related company		**326,301**		376,301
Due to shareholder		**138,000**		138,000
		4,547,813		9,455,037
Asset retirement obligation		**1,164,847**		1,207,667
	$	**5,712,660**	$	10,662,704
SHAREHOLDERS' EQUITY				
Share capital (Note 5)		**6,933,956**		8,103,838
Warrants		**673,600**		673,600
Equity portion of debenture		**-**		30,118
Contributed surplus		**499,772**		529,890
Retained earnings, (deficit)		**(8,587,975)**		(7,570,373)
		(480,647)		1,767,073
	$	**5,232,013**	$	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 six months ended June 30, 2007	For the six months ended June 30, 2006	For the three months ended June 30, 2007	For the three months ended June 30, 2006
Revenues				
Oil and gas sales, net of royalty	$ **48,065**	$ 485,464	$ **-**	$ 253,572
Expenses:				
Operating expenses	**107,842**	334,559	**27,096**	236,900
Depletion, depreciation and accretion	**86,559**	1,315	**19,457**	1,315
General and administrative	**585,326**	614,184	**284,726**	439,477
Interest expense	**4,739**	390,461	**274**	372,606
Foreign exchange (gains) losses	**281,202**		**259,644**	-
	1,065,667	1,340,519	**591,197**	1,050,298
Net earnings (loss) from operations	**(1,017,602)**	(855,055)	**(591,197)**	(796,726)
Income Taxes:				
Future income tax expense (recovery)	**-**	-	**-**	-
	(1,017,602)	(855,055)	**(591,197)**	(796,726)
Net (loss) after taxes	**(1,017,602)**	(855,055)	**(591,197)**	(796,726)
Deficit, beginning of period	**(7,570,373)**	(1,410,301)	**(7,996,778)**	(1,468,630)
Deficit, end of period	$ **(8,587,975)**	$ (2,265,356)	$ **(8,587,975)**	$ (2,265,356)

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

	For the six months ended June 30, 2007	For the three months ended June 30, 2007
Cash flows from operating activities		
Operations		
Net loss for the period	$ **(1,017,602)** $	$ (591,197) $
Item not involving cash		
Depletion, amortization and accretion	**86,559**	19,457
Foreign exchange gains (losses)	**281,202**	259,644
Cash flow from operations	**(649,841)**	(312,096)
Change in non-cash working capital	**(4,501,179)**	(5,159,559)
	(5,151,020)	(5,497,305)
Cash flows from financing activities		
Repayment of revolving loan		-
Repayment of debenture	**(1,000,000)**	(1,000,000)
Repayments on loan from related company	**(50,000)**	(50,000)
	(1,050,000)	(1,050,000)
Cash flows from investing activities		
Proceeds from sale of shares for cash		-
Proceeds from sale of flow through shares		-
Share issue costs		-
Proceeds on sale of property and equipment	**6,500,000**	6,500,000
Purchase interest in property and equipment		-
Asset retirement obligations	**(42,820)**	(44,574)
Expenditures on property and equipment	**(300,654)**	-
Negotiated recoveries on property and equipment	**869,198**	869,198
	7,025,724	7,324,624
Increase (decrease) in cash and cash equivalents	**824,704**	777,319
Cash and cash equivalents, beginning of period	**101,556**	101,556
Cash and cash equivalent, end of period	$ **926,260** $	$ 878,875 $

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

	June 30, 2007			December 31, 2006
	Cost	**Accumulated depletion and depreciation**	**Net book value**	**Net book value**
Petroleum and natural gas properties	$ 3,793,743	$ 3,206,246	$ 587,497	$9,223,801
Office equipment	276,347	276,347	0	0
	$ 4,070,090	$ 3,482,593	$ 587,497	$9,223,801

The Company performed a ceiling test calculation at June 30, 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 June 30, 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:

	June 30, 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	(80,167)	(25,388)
Expenditures made on asset retirements	0	(192,501)
Revisions to obligations	0	608
Accretion	37,347	77,326
Asset retirement obligations, end of period	$ 1,164,847	$ 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	20,079,422	8,103,838
Convertible debenture repaid		30,118
Tax effect of flow-through shares		(1,200,000)
Balance, June 30, 2007	20,079,422	$ 6,933,956

(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, 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, June 30, 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. As at June 30, 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 $15,891.23 in professional fees that were paid to a law firm in which a director of the Company is a partner.

At June 30, 2007 loans were due to a related party for $464,301. 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 had 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 is 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. (Payment was made in April 2007)

- 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 Inc. ("Bonnet's") 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.

On February 16, 2007, the Company commenced an action in the Court of Queen's Bench of Alberta against Greyhawke Resources Ltd. ("Greyhawke"), alleging that Greyhawke, in default of its contractual obligations, refused or otherwise neglected to pay its full and proportionate share of costs incurred for the joint venture account in respect of the Clarke Lake lands (damages claimed by Guardian are approximately $1,523,251 CDN). Greyhawke filed a Statement of Defence and Counterclaim on May 16, 2007, alleging that Guardian breached duties in tort, contract, trust and fiduciary duties, in addition to making a number of misrepresentations which were relied upon by Greyhawke to its detriment (damages claimed by Greyhawke are approximately $1,940,817 CDN).