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

November 28th, 2007
This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim financial statements for the period ended September 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 Guardian 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 Extraprovincial 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 September 30		Nine months ended September 30	
	2007	2006	2007	2006
Petroleum and natural gas sales (net of Royalties)	98,666	237,260	146,731	722,724
Operating costs	157,273	187,279	265,116	525,790
Operating netback	(58,607)	49,981	(118,385)	196,934
Administrative expenses (includes consulting fees)	176,665	226,517	761,991	743,344
Income (loss) for the period	1,225,663	2,093,476	208,060	1,008,106
Income (loss) per share - basic	0.06	0.10	0.01	0.05

Balance Sheet ($)	September 30 2007	December 31 2006
Working capital deficit	273,194	(6,598,981)
Total assets	4,780,380	12,429,777

During the third 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 US 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.

Operating expenses for the third quarter of 2007 were approximately $157,273, an increase of 580% from the second quarter of 2007 ($27,096). This was partly related to the fact that many of the second quarter's expenses were actually settled in the third quarter. Compared to the third quarter of 2006 there was a decrease of 16% ($187,279), related to the decrease in drilling and completions activity over the quarter.

Depletion increased to $43,278 in the third quarter from $19,457 in the second quarter of 2007. In the third quarter of 2006 depletion was $213,772.

General and administrative expenses for the third quarter of 2007 were approximately $176,665, a decrease of 38% from the second quarter of 2007 ($284,726) and a decrease of 22% from the third quarter of 2006 ($226,517), related to the decrease in drilling and completions activity over the quarter and the correlated reduction of staff expenses in order to partially offset the reduction in oil & gas sales.

As at September 30, 2007, shareholders loans in the aggregate principal amount of $285,887 were due to an officer of the Company and a company controlled by such an 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		
	Q3	Q2	Q1	Q4	Q3	Q2
Oil & natural gas revenue, net of royalties	98,666	0	48,065	287,110	237,260	253,572
Lease operating expense	157,273	27,096	80,746	198,721	187,279	236,900
Administrative expenses	176,665	284,726	300,600	243,620	226,517	439,477
Depletion, depreciation and accretion	43,278	19,457	67,102	3,201,688	213,772	1,315
Net income (loss)	1,225,663	(591,197)	(426,405)	(5,074,402)	2,093,476	(796,726)
Net income (loss) per share	0.06	(0.03)	(0.02)	(0.25)	0.10	(0.04)
Cash flow from operations	(363,044)	(312,096)	(337,746)	(2,901,549)	2,311,333	(796,726)
Working capital (deficit)	273,194	(275,222)	336,222	(6,598,981)	(5,595,476)	(2,713,695)
Total assets	4,780,380	5,232,013	5,785,524	12,429,777	17,378,464	16,187,012

*Prior to Q2 2006 Guardian Exploration Inc. was not a reporting issuer

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 September 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. Notwithstanding the foregoing, management estimates that an additional $925,000 of qualifying expenditures was incurred in the requisite renunciation period, however, management is currently reviewing its associated filings with CRA.

Liquidity and Capital Resources

At September 30, 2007, the Company had a working capital surplus totaling $273,194 and had a net income of $1,225,663 and had generated cash flow from operations of ($363,044) during the three month period ended September 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 off balance sheet arrangements at September 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. An extension to January 15, 2008 has been granted for the September 1, 2007 deadline for 2 wells.

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 of Shares		Amount
Issued:			
Balance, December 31, 2004	116	$	255,951
Effect of 70,000 to 1 stock split at 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 at 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		-
	20,079,422		8,103,838
Convertible debenture repaid	-		30,118
Tax effect of flow-through shares	-		(1,200,000)
Balance, September 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.

	Sept 30, 2007		
	Stock Options (000's)		Weighted Average Exercise Price
Balance, December 31, 2005	-	$	-
Granted	1,650		1.10
Cancelled	(425)		(1.10)
Exercised	-		-
Balance, December 31, 2006	1,225	$	1.10
Granted	-		1.10
Cancelled	(675)		(1.10)
Exercised	-		-
Balance, September 30, 2007	550	$	1.10
Exercisable, end of period	255	$	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 September 30, 2007 there were 550,000 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

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

The Company continues to pursue its previously disclosed action against Greyhawke Resources Ltd. in the Court of Queen's Bench of Albera.

On August 17, 2007 the Court of Queen's Bench of Alberta awarded to Pimm's Production Equipment Ltd. ("Pimm's") the sum of $59,288.62 in settlement of outstanding debts owed by the Company to Pimm's. The Company is currently negotiating the final details of this settlement with Pimm's.

Effective October 30, 2007 the Company issued 800,000 options to directors, officers, and employees with an exercise price of $0.15 per share expiring October 30, 2012. Effective October 21, 2007 55,506 agent's warrants expired.

On November 12, 2007 the Company has been released from any obligations it held with Mahalo Energy Ltd. ("Mahalo") in relation to the Company's Peregrine properties. The Company has returned ownership of the said properties back to Mahalo in exchange for the payment for Mahalo's legal expenses respecting this matter.

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 Nine Months Ended
September 30, 2007

NOTICE TO READER

The consolidated financial statements of Guardian Exploration Inc. and the accompanying consolidated interim balance sheets as at September 30, 2007 and the consolidated interim statements of loss and deficit and cash flows for the nine 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 November 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)	**Sept. 30, 2007 (unaudited)**	December 31, 2006 (audited)
	$	$
ASSETS		
Current Assets		
Cash and cash equivalents	**287,880**	101,556
Accounts receivable	**2,621,441**	2,672,587
Prepaid expenses and deposits	**224,790**	81,913
	3,134,111	2,856,056
Deposit	**316,050**	349,920
Property, plant and equipment (Note 3)	**1,330,219**	9,223,801
	4,780,380	12,429,777
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	**2,575,031**	7,970,854
Debenture payable	**-**	969,882
Due to related company (Note 6)	**147,887**	376,301
Due to shareholder (Note 6)	**138,000**	138,000
	2,860,918	9,455,037
Asset retirement obligation	**1,164,847**	1,207,667
	4,025,765	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	**509,372**	529,890
Retained earnings, (deficit)	**(7,362,313)**	(7,570,373)
	754,615	1,767,073
	4,780,380	12,429,777

The accompanying notes are an integral part of these financial statements

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

For The Periods Ended September 30,		Three Months 2007	Three Months 2006	Nine Months 2007	Nine Months 2006
Revenues					
Oil and gas sales, net of royalty	$	**98,666**	237,260	**146,731**	722,724
Expenses:					
Operating expenses		**157,273**	187,279	**265,116**	525,790
Depletion, depreciation and accretion		**43,278**	213,772	**129,836**	423,852
General and administrative		**176,665**	226,517	**761,991**	743,344
Stock based compensation		**9,600**	-	**9,600**	97,357
Interest expense		**(1,608)**	52,766	**3,131**	443,226
Foreign exchange (gains) losses		**(213,948)**	4,086	**67,254**	21,685
		171,260	684,420	**1,236,928**	2,255,254
Net earnings (loss) from operations		**(72,594)**	(447,160)	**(1,090,197)**	(1,532,530)
Gain on settlements and sale of assets		**1,298,257**	2,540,636	**1,298,257**	2,540,636
Income Taxes:					
Future income tax expense (recovery)		**-**	-	**-**	-
		1,225,663	2,093,476	**208,060**	1,008,106
Net (loss) after taxes		**1,225,663**	2,093,476	**208,060**	1,008,106
Deficit, beginning of period		**(8,587,976)**	(1,697,511)	**(7,570,373)**	(612,141)
Deficit, end of period	$	**(7,362,313)**	395,965	**(7,362,313)**	395,965

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

For the periods Ended September 30,		Three Months 2007	Three Months 2006	Nine Months 2007	Nine Months 2006
Cash flows from operating activities					
Operations					
Net Income (loss) for the period	$	**1,225,662**	2,093,475	**208,060**	1,008,105
Item not involving cash					
Depletion, amortization and accretion		**(86,101)**	213,772	**458**	423,852
Gain on vendors settlements		**(1,298,257)**	-	**(1,298,257)**	-
Stock based compensation		**9,600**	-	**9,600**	97,357
Foreign exchange gains (losses)		**(213,948)**	4,086	**67,254**	21,685
Cash flow from operations		**(363,044)**	2,311,333	**(1,012,885)**	1,550,999
Change in non-cash working capital		**278,498**	(837,532)	**(4,222,681)**	2,360,141
		(84,546)	1,473,801	**(5,235,566)**	3,911,140
Cash flows from financing activities					
Repayment of demand revolving loan		**-**	385,000	**-**	(1,090,000)
Debenture issue		**-**	(3,500,000)		1,000,000
Issue of share capital		**-**	-	**-**	4,085,534
Contribution surplus adjustment		**(30,118)**	-	**(30,118)**	-
Repayment of debenture		**-**	-	**(1,000,000)**	-
Repayments on loan from related company		**(178,414)**	(7,400)	**(228,414)**	139,946
		(208,532)	(3,122,400)	**(1,258,532)**	4,135,480
Cash flows from investing activities					
Proceeds on sale of property and equipment		**(388,122)**	-	**6,111,878**	-
Asset retirement obligations		**42,820**	644,390	**-**	644,390
Expenditures on property and equipment		**-**	761,275	**(300,654)**	(10,184,186)
Negotiated recoveries on property and equipment		**-**	-	**869,198**	-
		(345,302)	1,405,665	**6,680,422**	(9,539,796)
Increase (decrease) in cash and cash equivalents		**(638,380)**	(242,934)	**186,324**	(1,493,176)
Cash and cash equivalents, beginning of period		**926,260**	533,633	**101,556**	1,783,875
Cash and cash equivalent, end of period	$	**287,880**	290,699	**287,880**	290,699

Note 1 - Nature of Operations

Guardian Exploration Inc. ("Guardian" or the "Company") 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

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.

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.

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.

Significant Accounting Policies – continued

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.

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 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.

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.

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

September 30, 2007		Cost		Accumulated Depletion and Depreciation		Net Book Value
Petroleum and natural gas properties	$	4,579,743	$	3,249,524	$	1,330,219
Office equipment		276,347		276,347		-
	$	4,856,090		3,525,871	$	1,330,219

December 31, 2006						
Petroleum and natural gas properties	$	15,547,604	$	6,323,803	$	9,223,801
Office equipment		-		-		-
	$	15,547,604	$	6,323,803	$	9,223,801

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%. 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:

		Sept. 30, 2007	December 31, 2006
Balance, beginning of year:	$	1,207,667	70,056
Obligation incurred in the period		-	138,018
Liabilities transferred upon amalgamation		-	312,879
Asquisitions		-	826,669
Dispositions		(80,167)	(25,388)
Expenditures made on asset retirements		-	(192,501)
Revisions to obligations		-	608
Accretion		37,347	77,326
Balance, 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 of Shares		Amount
Issued:			
Balance, December 31, 2004	116	$	255,951
Effect of 70,000 to 1 stock split at 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 at 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		-
	20,079,422		8,103,838
Convertible debenture repaid	-		30,118
Tax effect of flow-through shares	-		(1,200,000)
Balance, September 30, 2007	20,079,422	$	6,933,956

Share Capital - continued

c) Escrowed shares

As at September 30, 2007 the Company held 2,553,752 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. The final escrow release was completed on November 12, 2007.

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.

	Sept 30, 2007		
	Stock Options (000's)		**Weighted Average Exercise Price**
Balance, December 31, 2005	-	$	-
Granted	1,650		1.10
Cancelled	(425)		(1.10)
Exercised	-		-
Balance, December 31, 2006	1,225	$	1.10
Granted	-		1.10
Cancelled	(675)		(1.10)
Exercised	-		-
Balance, September 30, 2007	550	$	1.10
Exercisable, end of period	255	$	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 September 30, 2007 there were 550,000 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

Share capital – continued

e) Contributed Surplus

Balance, December 31, 2006	**$**	**532**
Stock based compensation		192,792
Conversion right of debenture repaid		336,566
		529,890
Repaid of Debenture		(30,118)
Stock based compensation		9,600
Balance, end of period	**$**	**509,372**

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.

As at September 30, 2007, shareholders loans in the aggregate principal amount of $285,887 were due to an officer of the Company and a company controlled by such an officer. No specific terms of repayment have been identified.

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. Notwithstanding the foregoing, management estimates that an additional $925,000 of qualifying expenditures was incurred in the requisite renunciation period, however, management is currently reviewing its associated filings with CRA.

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:

Commitments – continued

- A payment was made to the Blackfeet Tribe for annual lease rental fees of $USD 300,000 continuing the leases 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. An extension to January 15, 2008 has been granted for the September 1, 2007 deadline for 2 wells.

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

The Company continues to pursue its previously disclosed action against Greyhawke Resources Ltd. in the Court of Queen's Bench of Alberta.

Subsequent Events – continued

On August 17, 2007 the Court of Queen's Bench of Alberta awarded to Pimm's Production Equipment Ltd. ("Pimm's") the sum of $59,288.62 in settlement of outstanding debts owed by the Company to Pimm's. The Company is currently negotiating the final details of this settlement with Pimm's.

Effective October 30, 2007 the Company issued 800,000 options to directors, officers, and employees with an exercise price of $0.15 per share expiring October 30, 2012. Effective October 21, 2007 55,506 agent's warrants expired.

On November 12, 2007 the Company has been released from any obligations it held with Mahalo Energy Ltd. ("Mahalo") in relation to the Company's Peregrine properties. The Company has returned ownership of the said properties back to Mahalo in exchange for the payment for Mahalo's legal expenses respecting this matter.