GUARDIAN EXPLORATION INC.

Management's Discussion & Analysis

For the Three and Six Months

Ended June 30, 2009

GUARDIAN EXPLORATION INC.

Consolidated Financial Statements

(Unaudited)

Three and Six Months Periods Ended June 30, 2009

Notice to Reader

The consolidated financial statements of Guardian Exploration Inc. and the accompanying consolidated interim balance sheets as of June 30, 2009 and the consolidated interim statements of operations and deficit and cash flows for the three and six month period ended June 30, 2009 are the responsibility of the Company's management.

The interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and are considered by management to present fairly the financial position, operating results and cash flows of the Company.

These interim consolidated financial statements have not been reviewed by an auditor. These interim consolidated financial statements are unaudited and include all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the consolidated financial position, results of operations and cash flows.

Dated: August 31, 2009

Signed "*Graydon Kowal*"

Graydon Kowal
President and Chief Executive Officer

GUARDIAN EXPLORATION INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30 2009 $	December 31 2008 $
ASSETS		
Current assets		
Cash	472,323	693,056
Accounts receivable	273,428	404,248
Due from related company (note 4)	9,185	449,951
Prepaid expenses	29,265	50,640
	784,201	1,597,895
Deposit (note 5)	414,363	438,380
Future income taxes (note 9)	-	694,000
Property and equipment (note 6)	3,052,884	4,430,541
	4,251,448	7,160,816
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	1,795,990	2,933,038
	1,795,990	2,933,038
Asset retirement obligations (note 8)	1,209,236	1,161,783
	3,005,226	4,094,821
Going Concern, Commitments and Contingencies (notes 1, 12 & 14)		
Shareholders' equity		
Share capital (note 10)	10,349,866	11,021,365
Warrants (note 10)	1,618,440	1,618,440
Contributed surplus (note 10)	1,735,016	1,603,505
Deficit	(12,457,100)	(11,177,315)
	1,246,222	3,065,995
	4,251,448	7,160,816

See accompanying notes to the consolidated financial statements

Approved on behalf of the Board of Directors

Graydon Kowal
Director

Scott Reeves
Director

GUARDIAN EXPLORATION INC.
STATEMENTS OF INCOME (LOSS) AND DEFICIT
(UNAUDITED)

	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
	$	$	**$**	$
Revenue				
Petroleum and natural gas	**1,251,839**	2,158,798	**2,500,954**	2,827,068
Royalties	**(369,172)**	(125,812)	**(788,627)**	(172,738)
Interest income	**(2)**	2,040	**11,902**	17,602
	882,665	2,035,026	**1,724,229**	2,671,932
Expenses				
Operating	**374,534**	283,151	**892,127**	475,048
General and administrative	**512,142**	350,084	**952,275**	582,002
Bad debts expense (recovery)	**-**	(3,141)	-	(3,141)
Interest	**850**	18,923	**(286,147)**	19,367
Stock-based compensation	**14,810**	115,528	**131,511**	191,751
Depletion, depreciation and accretion	**467,491**	777,286	**1,295,349**	936,319
Foreign exchange loss (gain)	**15,692**	4,726	**18,899**	(54,722)
	1,385,520	1,546,557	**3,004,014**	2,146,624
Income (loss) from operations	**(502,855)**	488,469	**(1,279,785)**	525,308
Loss attributable to settlement of accounts payable	**-**	255,114	-	-
Income (loss) before income taxes	**(502,855)**	233,355	- **(1,279,785)**	525,308
Future income tax recovery	**-**	(833,000)	-	(833,000)
Net income (loss)	**(502,855)**	1,066,355	**(1,279,785)**	1,358,308
Deficit, beginning of period	**(11,954,245)**	(8,982,691)	**(11,177,315)**	(9,274,643)
Deficit, end of period	**(12,457,100)**	(7,916,335)	**(12,457,100)**	(7,916,335)
Income (loss) per share (note 10)				
Basic	**($0.01)**	$0.04	**($0.03)**	($0.05)
Diluted	**($0.01)**	$0.03	**($0.03)**	($0.03)

See accompanying notes to these consolidated financial statements

GUARDIAN EXPLORATION INC.
STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
	$	$	$	$
Cash and cash equivalents provided by (used in)				
Operating activities				
Net income (loss)	(502,855)	1,066,355	(1,279,785)	1,358,308
Items not effecting cash:				
Depletion, depreciation and accretion	467,491	777,286	1,295,349	936,319
Future income tax recovery	-	(833,000)	-	(833,000)
Stock-based compensation	14,810	115,528	131,511	191,751
Loss attributable to settlement of accounts payable	-	255,114	-	-
Foreign exchange loss (gain)	15,692	4,726	18,899	(54,722)
	(4,862)	1,386,009	165,974	1,598,656
Changes in non-cash working capital	(803,484)	(1,540,911)	(984,853)	(530,313)
	(808,346)	(154,902)	(818,879)	1,068,343
Financing activities				
Debentures issued	-	-	-	400,000
Debentures repaid	-	(370,000)	-	(370,000)
Advances from (repayment to) related company	435,172	(569,961)	440,766	(568,794)
Issuance of share capital, net of share issue costs and recoveries	22,501	3,304,051	22,501	5,349,768
Repayment to shareholder	-	(247,500)	-	(269,007)
	457,674	2,116,590	463,267	4,541,967
Investing activities				
Expenditures on property and equipment	269,158	(1,973,294)	134,879	(5,624,423)
	269,158	(1,973,294)	134,879	(5,624,423)
Change in cash	(81,514)	(11,606)	(220,733)	(14,113)
Cash, beginning of period	553,837	69,519	693,056	72,026
Cash, end of period	472,323	57,913	472,323	57,913
Supplemental cash flow information				
Interest paid (note 11)	850	18,923	10,203	19,367

See accompanying notes to these consolidated financial statements

GUARDIAN EXPLORATION INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008

1. GOING CONCERN

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and accordingly, have been prepared using the same principles as those for a going concern. As at June 30, 2009, the Company had a working capital deficiency of $1,011,789 and an accumulated deficit of $12,457,100. Should the Company be unsuccessful in realizing the value of its current and future projects and successfully raise financing to develop its current and future projects, it may not be able to realize its assets and discharge its liabilities in the normal course of operations.

In 2008 the global credit market crisis, volatility in the price of oil and natural gas, the recession in North America and the slowdown of economic growth in the rest of the world has created a substantially more volatile business environment. These conditions, which have continued in to 2009, will limit certain of the Company's previously planned business development activities and will continue to provide uncertainty for the Company in the future.

The Company's efforts and resources are directed at developing a portfolio of projects and realizing on the value of such projects in the future. Due to numerous risks inherent in these projects, there can be no assurance the Company will be successful. While the Company seeks to mitigate risks by working with joint venture partners and developing a stable production base, the Company's success will, largely, depend on its continued ability to finance the development of existing projects and finance the acquisition and development of new projects in the next year, including the proceeds realized from the divestiture of its petroleum and natural gas property and equipment.

The Company's recent operating losses, negative working capital, and uncertainty regarding its ability to obtain financing in a timely manner raises significant doubt as to the Company's ability to continue as a going concern. If the going concern basis is not appropriate, adjustments may be necessary to the carrying amounts and classification of the Company's assets and liabilities. The accompanying consolidated financial statements do not include any adjustments that might result if the Company is unable to continue as a going concern.

2. NATURE OF OPERATIONS

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

3. SIGNIFICANT ACCOUNTING POLICIES

a) Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, K2 America Corp. and K2 Operating Corp. They were incorporated under the General and Business Corporate Law of the State of Montana on November 16, 1995 and February 12, 1998, respectively. All inter-entity transactions and balances have been eliminated.

b) Basis of presentation

The Company's financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

c) Property and equipment – Canadian and US Cost Centres

Capitalized costs

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

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

Impairment

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

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

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

Depletion

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

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

d) Asset retirement obligations

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

e) Future income taxes

The Company uses the liability method of accounting for income taxes. Temporary differences arising from the difference between the tax basis of an asset or liability and the carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using the substantively enacted tax rates anticipated to apply in the period that the temporary differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change is substantively enacted. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

f) Joint ventures

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

g) 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.

h) Flow-through shares

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

i) Revenue recognition

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

j) 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.

k) Foreign currency translation

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

l) Use of estimates and measurement uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. The amounts recorded for depletion of petroleum and natural gas properties and equipment, the provision for asset retirement obligation costs, and the petroleum and natural gas properties and equipment impairment test calculation are based on estimates of gross proven reserves, future production rates, future petroleum and natural gas prices, future costs, and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements in future years could be significant.

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

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

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

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

m) Per share information

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

n) Financial instruments

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

At January 1, 2009 and June 30, 2009, cash is designated as “held-for-trading” and is measured at fair value. Gains and losses related to the periodic revaluation are recorded in net income. Accounts receivable, due from related company and refundable deposits, are designated as “loans and receivables” and are initially measured at fair value and subsequently accounted for at amortized cost using the effective interest rate method. Accounts payable, due to related company, due to shareholder and convertible debenture are designated as “other financial liabilities” and are initially measured at fair value and subsequently at amortized cost using the effective interest rate method.

o) Hedges

The Company currently does not utilize hedges or other derivative financial instruments in its operations, and as a result, the adoption of CICA Section 3865 had no impact on the financial statements of the Company.

Changes in Accounting Policies

CICA Section 1535, “Capital Disclosures” is effective for annual periods beginning on or after October 1, 2007 and established standards for disclosing information about the Company’s capital and how it is managed. It requires disclosures of the Company’s objectives, policies and processes for managing capital, the quantitative data about what the Company regards as capital, whether the Company has complied with any capital requirements and if it has not complied, the consequences of such non-compliance. The Company adopted this standard effective January 1, 2008.

CICA Section 1400, “General Standards of Financial Statements” is effective January 1, 2008, and requires management to make an assessment of the Company’s ability to continue as a going concern, and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern.

CICA Section 3862 – “Financial Instruments – Disclosures” describes the required disclosure for the assessment of the significance of financial instruments for an entity’s financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. This section and Section 3863, Financial Instruments – Presentation” replaced Section 3861, “Financial Instruments – Disclosure and Presentation” (see note 16).

CICA Section 3863 – “Financial Instruments – Presentation”, establishes standards for presentation of financial instruments and non-financial derivatives (see note 16).

Future Accounting Pronouncements

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets. Various changes have been made to other sections of the CICA Handbook for consistency purposes. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The new Section is applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standard for its fiscal year beginning January 1, 2009. The adoption of the new section is not expected to have a significant impact on the Company's financial statements.

In January 2009, the CICA issued new accounting standards, Section 1582 Business Combinations and Section 1601 Consolidated Financial Statements, replacing Section 1501 Business Combinations and Section 1600 Consolidated Financial Statements. The CICA also issued new Section 1602 (on-Controlling Interests. Section 1582 establishes standards for accounting for a business combination. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These new standards become effective for the Corporation's fiscal year beginning on January 1, 2011 and earlier adoption of all three Sections concurrently is permitted. The adoption of these new sections is not expected to have a significant impact on the Company's financial statements.

International Financial Reporting Standards

The Accounting Standards Board has confirmed the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") will be effective January 1, 2011. We are currently assessing the impact of the convergence of Canadian GAAP with IFRS on our results of operations, financial position and disclosure.

4. DUE FROM RELATED COMPANY

Amounts owed by and owing to a company related by common management are unsecured, bear no interest, and have no fixed terms of repayment.

5. DEPOSIT

As part of the finalization of the Third Amended Agreement with the Blackfeet Nation, the Company has placed a deposit of $414,363 (USD$ 360,000) (2008 - $306,960; USD $300,000), in favor of the Bureau of Indian Affairs-Blackfeet Agency to cover the costs of future site restoration and abandonment liabilities. This deposit is considered to be refundable, subject to application for refund, which may or may not be granted. Accordingly, the deposit is shown as a long-term asset.

6. PROPERTY AND EQUIPMENT

	June 30, 2009 $	December 31, 2008 $
Petroleum and natural gas properties and equipment	17,146,192	16,952,474
Accumulated depletion and depreciation and impairment	(14,093,308)	(12,521,933)
	3,052,884	4,430,541

Canadian cost center

For the three and six month periods ended June 30, 2009 and 2008, there were no capitalized general and administrative expenses.

Unproven property costs of $40,000 (2008 - $nil) have been excluded from capitalized costs subject to depletion.

PROPERTY AND EQUIPMENT continued

The Company performed a ceiling test calculation as at December 31, 2008 to assess the recoverable amount of the petroleum and natural gas properties. The oil and natural gas future prices were based on the December 31, 2008 commodity price forecast of the Company's independent reserve engineers, adjusted for the Company's price and quality differentials, as outlined in the following table. Based on these assumptions, the carrying value of the petroleum and natural gas properties as at December 31, 2008 exceeded the discounted value of future net revenues from the Company's estimated proved and probable reserves. The Company increased its depletion, depreciation, impairment and accretion expense for the six months ended June 30, 2009 by $100,000 in recognition of the fact that the capital expenditures incurred by the Company during this period will, based on using the same set of assumptions for the 2009 ceiling test as used for the 2008 ceiling test, result in a ceiling test impairment in an equivalent amount.

The following table outlines the benchmark prices used in the ceiling test calculation at December 31, 2008:

	Crude Oil Edmonton Ref. Price (Cdn$/bbl)	Natural Gas B.C. Spot Price (Cdn$/mmbtu)
2009	$70.18	$5.78
2010	$77.21	$6.42
2011	$83.93	$6.75
2012	$90.34	$7.06
2013	$98.65	$7.57
Escalation thereafter(1)	2%	2-4%

(1) Percentage change represents the change in each year after 2013 to the end of the reserve life

United States cost center

At June 30, 2009, the Company had unproven property costs of $Nil (2008 - $1,000,000).

For the three and six month periods ended June 30, 2009 and 2008, there were no capitalized general and administrative expenses.

7. CONVERTIBLE DEBENTURES

During the six months ended June 30, 2008 the Company closed a private placement of $400,000 principal amount of convertible secured debentures. The debentures bore interest at a rate of 8% per annum payable monthly in arrears, were due on June 30, 2008 and were convertible into certain interests in the Company properties at any time on the earlier of July 2, 2008 or in the event of default. No value was attributed to the conversion option due to the short term nature of these debentures. Of this amount, $200,000 in convertible debentures was issued to a relative of an officer and director of the Company. A $40,000 financing fee was paid on these transactions, including $20,000 to the relative of an officer and director of the Company. During 2008 these debentures were repaid.

8. ASSET RETIREMENT OBLIGATIONS

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

The total undiscounted amount of cash flows required to settle the obligations as measured at June 30, 2009 are estimated to be $1,785,651 (December 31, 2008 - $1,830,000). These obligations are expected to be settled at various times until 2016. The credit-adjusted risk free rate at which the estimated cash flows were discounted

ASSET RETIREMENT OBLIGATIONS continued

was 8% during the period ended June 30, 2009 and the estimated inflation rate used to project future costs was 2.5%.

A reconciliation of the Company's asset retirement obligation is provided below:

	Six Months Ended June 30, 2009 $	Year-ended December 31, 2008 $
Asset retirement obligation, beginning of period	1,161,783	876,947
Obligations incurred	-	37,020
Acquisitions	-	34,481
Revisions to obligations	-	136,122
Accretion expense	47,453	77,213
Asset retirement obligation, end of period	1,209,236	1,161,783

9. INCOME TAXES

In February 2009 the Company renounced $2,777,110 of eligible expenditures pursuant to a flow-through share issuance in 2008. As a result, the future income tax asset was decreased by $694,000 for the tax effect of this renouncement.

10. SHAREHOLDER'S EQUITY

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 and outstanding

Share Capital	Number of Shares	Amount $
Balance, December 31, 2007	20,079,422	6,903,838
Private placements of common shares for cash	18,901,000	4,749,616
Issuances of shares for debt	683,955	134,175
Exercise of Agent warrants	73,500	22,388
Share issue costs	-	(788,652)
Balance, December 31, 2008	39,737,877	11,021,365
Tax effect of flow-through shares	-	(694,000)
Share issue costs	-	22,501
Balance, June 30, 2009	39,737,877	10,349,866

Warrants	Number of Warrants	Amount $
Balance, December 31, 2007	-	673,600
Private placements of warrants for cash	8,871,300	944,840
Balance, December 31, 2008 and June 30, 2009	8,871,300	1,618,440

SHAREHOLDER'S EQUITY continued

On December 8, 2008, the Corporation announced that it was commencing a Normal Course Issuer Bid (the "Bid") whereby it may purchase for cancellation up to 3,009,322 common shares of the Corporation in the open market, until expiry of the Bid in December 2009. Since the Corporation's announcement of the Bid no common shares have been repurchased.

In February 2009 the Company renounced $2,777,110 of eligible expenditures pursuant to a flow-through share issuance in 2008. As a result, share capital and the future income tax asset were decreased by $694,000 for the tax effect of this renouncement.

c) Stock options

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

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2007	1,350,000	$0.54
Granted	1,800,000	$0.29
Forfeited	(200,000)	($0.31)
Balance, December 31, 2008	2,950,000	$0.40
Forfeited	(650,000)	($0.26)
Balance, June 30, 2009	2,300,000	$0.42
Exercisable, June 30, 2009	2,300,000	$0.40

	Stock options outstanding			Stock options exercisable	
Exercise Prices	**Outstanding Options**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life (Years)**	**Options Exercisable**	**Weighted Average Exercise Price**
$0.150	800,000	$0.150	1.3	800,000	$0.150
$0.220	200,000	$0.220	4.5	200,000	$0.220
$0.285	400,000	$0.285	0.8	400,000	$0.285
$0.285	100,000	$0.285	3.8	100,000	$0.285
$0.285	300,000	$0.285	0.1	300,000	$0.285
$1.100	500,000	$1.100	1.9	500,000	$1.100
	2,300,000	$0.424	2.9	2,300,000	$0.399

d) Warrants

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2007	-	-
Issued pursuant to private placement	5,500,000	$0.30
Issued pursuant to private placement	3,371,300	$0.35
Balance, December 31, 2008 and June 30, 2009	8,871,300	$0.32

SHAREHOLDER'S EQUITY continued

e) Agent Warrants

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2007	-	-
Issued to agents pursuant to private placement	550,000	$0.22
Issued to agents pursuant to private placement	1,002,970	$0.30
Issued to agents pursuant to private placement	337,130	$0.32
Exercise of warrants	(73,500)	($0.22)
Balance, December 31, 2008 and June 30, 2009	1,816,600	$0.28

f) Debenture warrants

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2007 and 2008 and June 30, 2009	783,613	$1.53

g) Contributed surplus

	2009 $	2008 $
Balance, beginning of period	1,603,505	878,990
Stock-based compensation	131,511	76,223
Balance, end of period	1,735,016	955,213

h) Earnings per share

Basic per share amounts are calculated using the weighted average number of shares outstanding of 39,737,877 (June 30, 2008 – 29,787,633).

The Company's dilutive instruments have not been included in the computation of income (loss) per share as the effect would be anti-dilutive.

11. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital	2009 $	2008 $
Change in accounts receivable	130,820	523,034
Change in prepaid expenses and deposits	21,375	(60,362)
Change in accounts payable and accrued liabilities	(1,137,048)	547,926
	(984,852)	1,010,598
Relating to:		
Operating activities	(984,852)	85,469
Investing activities	-	925,129
	(984,852)	1,010,598
Cash interest paid	10,203	444
Cash taxes paid	-	-

12. COMMITMENTS

a) Flow-through share issuance

Pursuant to a flow-through share issuance completed in 2008, the Company is committed to incur $2,777,110 of qualified expenditures by December 31, 2009. At June 30, 2009, approximately $1,000,000 of the obligation has been fulfilled. The expenditures were renounced to investors in February 2009.

b) Employment contract

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

13. RELATED PARTY TRANSACTIONS

a) The Company obtained helicopter services in conjunction with the servicing and drilling of natural gas wells in Northern B.C. from a company controlled by a major shareholder and officer of the Company, for which the Company was charged $2,295 for the six months ended June 30, 2009 (2008 - $Nil). All of these services were paid in 2009 as an offset against the Due from Related Company account.

b) The Company obtained engineering consulting services in the amount of $18,100 for the six months ended June 30, 2009 (2008 - $nil) from a company controlled by a Company director, who was appointed in 2008. A balance of $122,038 is included in accounts payable and accrued liabilities at June 30, 2009 (2008 – $Nil).

c) Legal fees in the amount of $50,523 for the six months ended June 30, 2009 (2008 - $12,714) have been incurred from a legal firm of which a Company director, who was appointed in 2006, is a partner. A balance of $50,553 is included in accounts payable and accrued liabilities at June 30, 2009 (2008 - $5,737).

These transactions are in the normal course of business and are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties.

14. CONTINGENCIES

a) Flow-through shares

Pursuant to a flow-through share issuance completed in March 2006, the Company was committed to incur $4,000,000 of qualified expenditures by December 31, 2007. The Company had originally disclosed in its 2007 and 2008 financial statements that it had failed to incur $1,850,000 of qualified expenditures. The Company, in consultation with its advisors, has now determined, based on a subsequent technical review of its 2006 drilling program, that it has met its obligations to incur $4,000,000 of qualified expenditures by December 31, 2007.

However, there can be no assurance that the tax authorities will agree with the Company's evaluation of the 2006 drilling results. If the tax authorities were to successfully challenge the Company's evaluation of the 2006 drilling results, the Company could potentially be liable for investor income taxes and penalty interest thereon of up to $950,000, as well as additional Part XII.6 tax, interest and penalties of approximately $300,000, if an arrangement could not be made to remedy this contingency.

b) Mineral Management Services

The Mineral Management Service ("MMS"), a bureau of the US Department of the Interior that manages that nation's natural gas and oil resources, alleged during the year that a subsidiary of the Company had been deficient in various administrative filing requirements in the past and that, as a result, civil penalties of approximately $578,000 (US$500,000) were being levied against the subsidiary. The subsidiary is disputing

CONTINGENCIES continued

these penalties and, along with its legal counsel, has been negotiating with MMS, its collection agencies and its counsel towards a satisfactory resolution of this matter.

A provision of $43,350 (US$37,500) has been made for these civil penalties. This provision has been based on a probationary settlement arrangement with MMS, which has yet to be finalized, but has been agreed to in principle for a portion of these penalties still within MMS's jurisdiction, representing approximately 80% of the total amounts at issue, with the balance of the penalties no longer in MMS's jurisdiction the subject of an equivalent settlement offer by the subsidiary to the collection agencies involved.

The probationary settlement arrangement with MMS involves a total repayment of $34,681 (US$30,000) in equal monthly installments over 36 months, plus interest, and requires that the subsidiary remains compliant with its payment and reporting requirements over this time frame, otherwise the full amount of the penalties, reduced on a declining basis for the period of compliance, will be owing to MMS. The Company believes that this settlement arrangement will be acceptable to all parties and further that the proportionate settlement offer made to the collection agencies will be acceptable to them.

c) Other

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

15. SEGMENTED DISCLOSURES

For the six month period ended June 30, 2009

	Canada	United States	June 30, 2009
Petroleum and natural gas revenue	$2,177,529	$323,424	$2,500,954
Interest expense (recovery)	($293,203)	$7,056	($286,147)
Depletion, depreciation and accretion	$1,232,168	$63,181	$1,295,349
Loss for the period	$1,234,007	$45,778	$1.279,785
Property and equipment	$2,674,714	$378,170	$3,052,883

For the six month period ended June 30, 2008

	Canada	United States	June 30, 2008
Petroleum and natural gas revenue	$2,232,734	$594,334	$2,827,068
Interest expense	$15,133	$4,234	$19,367
Depletion, depreciation and accretion	$859,310	$77,009	$936,319
Income for the period	$1,155,355	$202,953	$1,358,308
Property and equipment	$7,084,219	$1,374,011	$8,458,230

16. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

a) Fair value of financial assets and liabilities

The Company's carrying value of cash, accounts receivable, accounts payable, due to / from related company and convertible debenture approximates its fair value due to the immediate or short-term maturity of these instruments.

b) Interest rate risk

At June 30, 2009, the Company is not exposed to interest rate risk.

c) Commodity price risk

The nature of the Company's operations results in an exposure to fluctuations in commodity prices. At June 30, 2009, the Company had no financial derivative or physical delivery contracts in place.

d) Currency risk

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

e) Capital Management

The Company's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's objective is met by retaining adequate equity to guard against the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable growth in net income and funds flow. There have been no changes to the Company's objectives in managing capital or in management's management of capital since December 31, 2008.

The capital structure of the Company is as follows:

	June 30, 2009 $	December 31, 2008 $
Total shareholders' equity	1,246,222	3,065,995
Total shareholders' equity (deficit) as a percentage of total capital	55%	70%
Working capital deficiency	1,011,789	1,335,143
Total indebtedness	1,011,789	1,335,143
Total indebtedness as a percentage of total capital	45%	30%
Total Capital	2,258,011	4,401,138

f) Credit Risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. A majority of the

FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT continued

Company's credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. The Company is subject to credit risk on its cash and accounts receivable. The Company's cash is held at major financial institutions and as such is subject to credit risk. A majority of the Company's accounts receivable at the balance sheet date arise from crude oil, natural gas liquids and natural gas sales. Industry standard dictates that commodity sales are settled on the 25th day of the month following the month of production.

The Company assesses quarterly if there has been any impairment of the financial assets of the Company. The Company does not have any significant credit risk exposure to any single counterparty other than to the operator of its Girouxville area wells. As at June 30, 2009, the receivable from this company represented approximately 55% of the Company's total accounts receivable balance. This balance was offset subsequent to period-end against the offsetting payable to this company, which is in excess of this accounts receivable balance.

The carrying value of cash and accounts receivable approximates their fair value due to the relatively short periods to maturity on this instrument. The maximum exposure to credit risk is represented by the carrying amount on the balance sheet. There are no material financial assets that the Company considers past due.

g) Liquidity Risk

Liquidity risk includes the risk that, as a result of the Company's operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value less than what they are worth; or
- The Company may be unable to settle or recover a financial asset at all.

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

17. SUBSEQUENT EVENTS

a) Litigation

Subsequent to June 30, 2009 the Company entered into a settlement agreement with the Plaintiff regarding the litigation described in note 14 of the March 31, 2009 financial statements. The settlement agreement provides for mutual release by both parties in exchange for a $40,000 cash payment by the Company to the Plaintiff.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") of financial conditions and results of operations is as of August 31, 2009 and should be read in conjunction with the unaudited consolidated financial statements of Guardian Exploration Inc. ("Guardian" or the "Company") for the three and six months ended June 30, 2009 and the audited consolidated financial statements for the years ended December 31, 2008 and 2007. Additional information relating to the Company can be found on the SEDAR website at www.sedar.com.

Discussion with regard to Guardian's 2009 outlook is based on currently available information. The financial data presented below has been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The reporting and operating currency is the Canadian dollar.

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

CORPORATE OVERVIEW

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

CORPORATE UPDATE

The second quarter of 2009 saw a continuation of the conditions prevailing during the first quarter of 2009, including a reduced commodity price environment, and a decrease in oil production. As a result of these conditions and the continued weakness in the equity markets, in April 2009 the board of directors approved a decision by management to engage an agent to commence the sale of substantially all of the Company's property and equipment. With the sale of these assets in 2009, the Company hopes to eliminate its working capital deficiency and be able to satisfy its remaining spending obligations under the 2008 flow-through share issuance

SELECTED INFORMATION

	Three Months Ended June 30		Six Months Ended June 30	
	2009 $	2008 $	2009 $	2008 $
Petroleum and natural gas revenue, before royalties	1,251,839	2,158,798	2,500,954	2,827,068
Funds flow from (used in) operations	(4,862)	1,386,009	165,974	1,598,656
Funds flow from (used in) operations per share - basic	($0.00)	0.05	$0.00	0.05
Funds flow from (used in) operations per share - diluted	($0.00)	0.04	$0.00	0.04
Net income (loss)	(502,855)	1,066,355	(1,279,785)	1,358,308
Net income (loss) per share - basic	(0.01)	0.04	(0.03)	0.05
Net income (loss) per share - diluted	(0.01)	0.03	(0.03)	0.03
Capital expenditures	269,158	1,973,394	134,879	5,624,423

Production (boe/day)	217	237	257	155

	June 30 2008	December 31 2008
Working capital deficiency	$1,011,789	$1,335,143
Total assets	$4,251,448	$7,160,816

RESULTS OF OPERATIONS

PRODUCTION

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Production (boe/day)				
Crude oil	217	165	241	119
Natural gas	0	72	16	36
Oil equivalent production	217	237	257	155

The increase in crude oil production is attributed primarily to three wells in the Girouxville area that were completed and placed on production in 2008 under the farm-in agreement with Breaker. The three wells produced an average of 181 boe/day during the three months ended June 30, 2009 (124 boe/day – June 30, 2008) and 205 boe/day for the six months ended June 30, 2009 (87 boe/day – June 30, 2008).

Guardian's gas production was shut-in in February 2009 due to uneconomic conditions from increasing amounts of water and decreasing amounts of gas being produced. The Company's independent reserve engineers have determined that these two wells no longer have any economic proven reserves at December 31, 2008.

PRICING

Benchmark Prices

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Crude oil – WTI (US$ per Bbl)	$59.54	$123.98	$51.25	$110.94
Crude oil – Edmonton Par Price ($ per Bbl)	$66.72	$126.07	$58.85	$111.79
Natural gas – AECO Spot ($/mcf)	$3.65	$9.35	$4.63	$8.23
Exchange rate ($US/$Cdn)	$1.17	1.0104	$1.21	1.0075

West Texas Intermediate at Cushing, Oklahoma ("WTI") is the benchmark reference price for North American crude oil prices. Canadian crude oil prices are based upon the average of several postings, primarily at Edmonton Alberta, and represents the WTI price adjusted for quality and transportation differentials, the US/CDN dollars exchange rate and local demand and supply influences. For the three and six months ended June 30, 2009, crude oil prices averaged US$59.54 and $51.25 per barrel for WTI and $66.72and $58.85 respectively per barrel at Edmonton as the global recession continues to negatively impact the demand for oil.

United States natural gas prices are commonly referenced to the New York Mercantile Exchange at Henry Hub in Louisiana ("NYMEX") while Canadian natural gas prices are typically referenced to the AECO Hub in Alberta. Natural gas prices are influenced more by North American supply and demand than global fundamentals. Natural gas prices averaged $3.65/Mcf $4.63/Mcf respectively for the three and six months ended June 30, 2009, reflecting the same recessionary conditions as oil.

Realized Prices

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Average Prices				
Crude oil ($/bbl)	$63.53	$114.52	$55.74	$110.04
Natural gas ($/mcf)	-	$9.36	$4.08	$9.36
Oil equivalent ($/boe)	$63.53	$97.64	$53.81	$96.93

Guardian's averaged realized price for its crude oil was $63.53 and $55.74 per barrel for the three and six month periods ended June 30 2009 respectively compared to $114.52/barrel and $110.04 for the same periods in 2008.

For the six months ended June 30, 2008 the Company's averaged realized price for its natural gas was $4.08/mcf compared to $9.36/mcf realized for the six months ended June 30, 2008. The six months ended June 30, 2009 represented one month of production because the Kotcho field was shut-in due to third party capacity restrictions

REVENUES

	Three Months Ended June 30		Six Months Ended June 30	
	2009	**2008**	**2009**	**2008**
Production Revenue				
Crude oil	$1,251,839	$1,722,024	$2,430,652	$2,390,294
Natural gas	-	364,024	$70,302	$364,024
Other	-	$72,750	-	$72,750
Total production revenue	$1,251,839	$2,158,798	$2,500,954	$2,827,068

The decrease in crude oil revenue is largely due to the lower commodity prices of 2009 compared to 2008 and the declining state of production that the three Girouxville wells are experiencing. Pricing differentials are currently being investigated by the Company.

The decrease in natural gas revenue is attributable to the decrease in natural gas production following the Company's Kotcho property being shut-in during the first quarter of 2009. The decision to shut-in the wells, was made due to uneconomic conditions. The Company's independent reserve engineers have since determined that these two wells no longer have any economic proven reserves at December 31, 2008. The third Kotcho area well remains shut-in pending the resolution of an appropriate pipeline fee arrangement with the 67.5% joint venture partner on the well.

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

ROYALTIES

	Three Months Ended June 30		Six Months Ended June 30	
	2009	**2008**	**2009**	**2008**
Royalties	$369,172	125,812	$788,627	172,738
As a percentage of revenue	30%	6%	32%	6%

The increase in royalty percentage for the three months ended June 30, 2009 from the comparative period in 2008 is due primarily to the fact that the Company's three wells at Girouxville no longer qualify for the one year, $1 million Alberta royalty holiday. The holiday limit was reached for one well in December 2008 and for the other in January 2009. The third well was believed to qualify for the royalty holiday throughout 2008, but in April 2009 the operator informed Guardian that the well was evaluated by the regulatory authorities and that it did not qualify for the royalty holiday. This well's 2008 retroactive royalties were accrued for during the fourth quarter of 2008. The Company's royalties as a percentage of sales on its Cutbank, Montana production remained consistent with 2008 levels.

As a result of the higher royalty rates applicable under the New Royalty Framework the Company expects that the royalties as a percentage of sales in 2009 will remain at or around present levels, barring any significant changes in well productivity levels and/or commodity prices.

OPERATING EXPENSES

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Operating expenses	$374,534	$283,151	$892,127	$475,048
Operating expenses per boe	$19.01	$13.16	19.19$	$20.63
As a percentage of revenue	30%	13%	36%	17%

The increase in overall operating costs during the three and six months ended June 30, 2009 compared to the same periods in 2008 is a result of the increase in production volumes and the delay by the operator of Girouxville in recording operating costs relating to 2008. On a percent of revenue basis, the increase in operating expenses for 2009 is due to the decreased commodity price environment prevailing during the three and six months ended June 30, 2009 relative to the comparative period in 2008, which factor is partially offset by the operating costs of the Girouxville wells being significantly lower than the operating costs associated with the Company's Cutbank, Montana property.

GENERAL AND ADMINISTRATIVE EXPENSES

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
General and administrative expenses	$512,142	$350,084	$952,275	$582,002
As a percentage of revenue	41%	16%	38%	21%

The increase in overall G&A expenses in the three months ended June 30, 2009 is due to the utilization of increased staffing, compensation and consulting levels arising from the increased operational activities of the Company during the period, including increased professional fees required to deal with legal and regulatory matters and the preparation for the sale of substantially all of the Company's petroleum and natural gas assets. On a per boe and percentage of revenue basis the G&A expenses were also impacted negatively due to the lower commodity prices experienced in 2009 compared to the same periods of 2008.

STOCK-BASED COMPENSATION

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Stock-based compensation expense	14,810	115,528	131,511	191,751

Stock-based compensation expense is the amortization over the vesting period of the stock options granted to employees, directors, and key consultants of the Company. The fair value of the stock options granted is estimated at the grant date using the Black Scholes option pricing model. Stock-based compensation for the three months ended June 30, 2009 was $14,810 as compared with $115,528 for the three months ended June 30, 2008. The decrease in stock-based compensation expense is a result of the decrease in the numbers of options issued and outstanding as stock-based compensation is amortized over the vesting period of the options.

INTEREST EXPENSE

	Three Months Ended June 30		Six Months Ended June 30	
	2009	**2008**	**2009**	**2008**
Interest expense	$850	$18,923	($286,147)	$19,367

Interest expense (recovery) and financing fees for the three months ended June 30, 2009 was $850 compared to $18,923 for the three months ended June 30, 2008. The decrease is due to the fact that the 2008 figure was largely composed of interest payments on a convertible debenture that was issued. The convertible debenture was fully repaid in 2008 and as anticipated, the three months ended June 30, 2009 have a low interest expense.

Interest expense (recovery) and financing fees for the six months ended June 30, 2009 was a net recovery of ($286,147) compared to an expense of $19,367 for the six months ended June 30, 2008, with $300,000 of the recovery arising from a reversal of a substantial portion of the 2007 accrual for the Part XII.6 penalties and interest, based on the Company's current technical review of its 2006 drilling program and the fact that the accrual for this liability is no longer considered appropriate.

DEPLETION, DEPRECIATION AND ACCRETION

	Three Months Ended June 30		Six Months Ended June 30	
	2009	**2008**	**2009**	**2008**
Depletion, depreciation and accretion ("DD&A") expense	$467,491	$777,286	$1,295,349	$936,319
DD&A expense per boe	$23.73	$36.12	$27.87	$33.19

The decrease in depletion, depreciation and accretion expense for the three and six months ended June 30, 2009 over the same period in 2008 is a result of write downs of property plant and equipment recorded at the end of 2008.

The Company follows the full cost method of accounting for its operations as described in the CICA's accounting guideline 16, "Oil and Gas Accounting - Full Cost". Accordingly, the cost of all wells, both successful and unsuccessful, are added to the Company's capital base and are depleted on the unit of production method based on estimated gross proved reserves at forecast prices and costs as determined by independent engineers and the Company's internal estimates. Costs of unproven properties, seismic and undeveloped land, net of impairments, are excluded from the depletion calculation and future capital costs associated with proved undeveloped reserves are included in the depletion calculation.

In recognizing an asset retirement obligation "ARO" associated with the retirement of a tangible long-lived asset, the Company records a liability in the period in which it is incurred and becomes determinable, with an offsetting increase in the carrying amount of the associated asset. The cost of the tangible asset, including the initially recognized ARO is depleted such that the cost of the ARO is recognized over the useful life of the asset. The ARO is recorded at fair value and accretion expense is recognized over time as the discounted liability is accreted to its expected settlement value.

The provision for asset retirement obligations are determined by management in consultation with the Company's independent engineers and are based on prevailing regulations, costs, technology and industry standards. The Company estimates that the total future value of its asset retirement obligations at June 30, 2009 is $1,209,236. Current expenditures for actual abandonment and site restoration in the three and six months ended June 30, 2009 were $nil.

TAXES

During the three months ended June 30, 2009 and 2008, the Company recorded no cash or future income tax expense, except for a future income tax recovery of $833,000 recorded in the three months ended June 30, 2008, as a result of the use of unrecognized tax pools available to offset the $833,000 future tax liability recorded on the issuance of flow-through shares during the second quarter of 2008.. As of June 30, 2009, the Company has approximately $9 million in tax pools available to offset future taxable income.

NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Three Months Ended June 30		Six Months Ended June 30	
	2009	**2008**	**2009**	**2008**
Net income (loss)	(502,855)	1,066,355	(1,279,785)	1,358,308
Net income (loss) - per basic share	($0.01)	$0.04	($0.03)	$0.05
Net income (loss) - per diluted share	($0.01)	$0.03	($0.03)	$0.03
Weighted average shares outstanding:				
Basic	39,737,877	33,009,110	39,737,877	29,787,633
Diluted	39,737,877	45,317, 540	39,737,877	42,096,063

For the three months ended June 30, 2009 and 2008, all outstanding stock options and warrants are anti-dilutive and have been excluded in calculating the diluted weighted average shares outstanding.

FUNDS FLOW FROM OPERATIONS

It is management's view that funds flow from operations is a useful measure of performance and a good benchmark when comparing results from period to period. Funds flow from operations is a non-GAAP measure, reconciled with net income (loss) in the table below:

	Three Months Ended June 30		Six Months Ended June 30	
	2009	**2008**	**2009**	**2008**
Net income (loss)	($502,855)	$1,066,355	($1,279,785)	$1,358,308
Add back (subtract) items not effecting cash:				
Depletion, depreciation and accretion	467,491	777,286	1,295,349	936,319
Future income tax recovery	-	(833,000)	-	(833,000)
Stock-based compensation	14,810	115,528	131,511	191,751
Loss attributable to settlement of accounts payable	-	255,114	-	-
Foreign exchange loss (gain)	15,692	4,726	18,899	(54,722)
Funds flow from operations	(4,862)	$1,386,009	165,974	$1,598,656
Funds flow per share - basic	($0.00)	$0.05	$0.00	$0.05
Funds flow per share - diluted	($0.00)	$0.04	$0.00	$0.04

SHARE CAPITAL

	Three Months Ended June 30		Six Months Ended June 30	
	2009	**2008**	**2009**	**2008**
Outstanding common shares				
Weighted average outstanding common shares				
Basic	39,737,877	33,009,110	39,737,877	29,787,633
Diluted	39,737,877	45,317, 540	39,737,877	42,096,063

Due to the anti-dilutive effect of Guardian's net loss for the three and six months ended June 30, 2009, the diluted number of shares is equivalent to basic number of shares.

Outstanding Securities	**Outstanding at June 30**	
	2009	**2008**
Common shares	39,737,877	39,387,843
Stock options	2,300,000	2,550,000
Warrants	8,871,300	8,871,300
Agent warrants	1,816,600	1,890,100
Debenture warrants	783,613	783,613

As of the date of this MD&A, there were 39,737,877 common shares issued and outstanding.

On December 8, 2008, the Corporation announced that it was commencing a Normal Course Issuer Bid (the "Bid") whereby it may purchase for cancellation up to 3,009,322 common shares of the Corporation in the open market, until expiry of the Bid in December 2009. As of the date of this MD&A, no common shares have been repurchased.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2009, the Company had no bank credit facility and had a working capital deficit of $1,011,789. The future operations of the Company are dependent on the Company's ability to raise capital through debt, equity or through the sale of certain of its assets to support its activities and meet its obligations as outlined in the audited annual consolidated financial statements, and receiving the continuing financial support from its creditors. In April 2009 Guardian engaged an agent to commence the sale of substantially all of the property and equipment assets of the Company. With the sale of these assets, the Company endeavors to eliminate its working capital deficiency and be able to satisfy its remaining spending obligations under the 2008 flow-through share issuance.

The capital intensive nature of the Company's activities may create a negative working capital position in high levels of capital investment. The industry has a pre-arranged monthly clearing day for payment of revenues from all buyers of crude oil and natural gas. This occurs for all the Company's Canadian operations on the 25th day following the month of sale. As a result, the Company's production revenues are collected in an orderly fashion. To the extent that the Company has joint venture partners in its activities it will attempt to collect on a monthly basis the partner's share of capital and operating expenses. These are subject to collection risk. The Company has experienced a significant amount of uncollectible accounts receivable in the past.

The Company's cash flow and earnings are highly sensitive to changes in commodity prices, exchange rates and other factors that are beyond the control of the Company.

CRITICAL ACCOUNTING ESTIMATES

Oil and Gas Reserve Estimates

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

Ceiling Test

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

Unproven Properties

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

Stock-Based Compensation

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

Asset Retirement Obligations

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

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

BUSINESS RISKS

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

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

Financial risks include exposure to fluctuation in commodity prices, currency exchange rates and interest rates. To mitigate the risks, the Company may enter into physical contracts for the sale of crude oil, natural gas liquids and natural gas at fixed prices. The Company may also institute financial hedging techniques for interest rates, currency exchange rates and commodity prices. If utilized, such transactions would be subject to certain limits on term and amount as established by the Board of Directors.

Oil and Gas Risk

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

Financial and Liquidity Risks

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

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

Issuance of Debt

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

Supply of Service and Production Equipment

The supply of service and production equipment at competitive prices is critical to the ability to add reserves at a competitive cost and produce these reserves in an economic and timely fashion. In periods of increased activity, these supplies and services can be difficult to obtain. Demand for such limited equipment or access restrictions may

affect the availability of such equipment to the Company and may delay exploration and development activities. The Company attempts to mitigate this risk by developing strong long-term relationships with suppliers and contractors. There can be no assurances that these relationships will increase the availability of the supplies and services.

Regulatory Changes

On October 25, 2007, the Government of Alberta announced a new royalty framework ("NRF") which took effect on January 1, 2009. The new framework was announced in response to a report released by an independent Royalty Review Panel appointed by the Government of Alberta that recommended an increase in the overall resource charges to oil and gas producers in the Province of Alberta. Under the new royalty framework, royalty rates will be increased on conventional oil, natural gas and the oil sands. The Government of Alberta estimates that the overall royalties will be increased by approximately $1.4 billion over its previously estimated royalty revenues for 2010.

The implementation of the new royalty regime in Alberta is subject to certain risks and uncertainties. The significant changes to the royalty regime requires new legislation, changes to existing legislation and regulation and development of proprietary software to support the calculation and collection of royalties. An increase in the royalties payable by Guardian in addition to the costs of modifying the Corporation's existing infrastructure to deal with the changes to the royalty regime will result in higher costs to Guardian and therefore reduced profitability.

Related Party Transactions

The Company obtained helicopter services in conjunction with the servicing and drilling of natural gas wells in Northern B.C. from a company controlled by a major shareholder and officer of the Company, for which the Company was charged $2,295 for the six months ended June 30, 2009 (2008 - $Nil). The Company was charged $Nil for the three months ended June 30, 2009 (June 30, 2008 - $Nil). All of these services were paid in 2009 as an offset against the Due from Related Company account.

The Company obtained engineering consulting services in the amount of $18,100 for the six months ended June 30, 2009 (June 30, 2008 - $nil) from a company controlled by a Company director, who was appointed in 2008. The Company was charged $7,300 for the three months ended June 30, 2009 (June 30, 2008 - $Nil). A balance of $122,038 is included in accounts payable and accrued liabilities at June 30, 2009 (June 30, 2008 – $Nil).

Legal fees in the amount of $50,523 for the six months ended June 30, 2009 (June 30, 2008 - $12,714) have been incurred from a legal firm of which a Company director, who was appointed in 2006, is a partner. The Company was charged $44,314 for the three months ended June 30, 2009 (June 30, 2008 - $Nil). A balance of $50,553 is included in accounts payable and accrued liabilities at June 30, 2009 (June 30, 2008 - $5,737).

These transactions are in the normal course of business and are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties.

Contractual Obligations and Commitments

a) Flow-through share issuance

   Pursuant to a flow-through share issuance completed in May and June 2008, the Company is committed to incur $2,777,110 of qualified expenditures by December 31, 2009. At June 30, 2009, approximately $1,000,000 of the obligation has been fulfilled.

b) Employment contract

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

GUARANTEES, CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS

a) Flow-through shares

Pursuant to a flow-through share issuance completed in March 2006, the Company was committed to incur $4,000,000 of qualified expenditures by December 31, 2007. The Company had originally disclosed in its 2007 and 2008 financial statements that it had failed to incur $1,850,000 of qualified expenditures. The Company, in consultation with its advisors, has now determined, based on a subsequent technical review of its 2006 drilling program, that it has met its obligations to incur $4,000,000 of qualified expenditures by December 31, 2007.

However, there can be no assurance that the tax authorities will agree with the Company's evaluation of the 2006 drilling results. If the tax authorities were to successfully challenge the Company's evaluation of the 2006 drilling results, the Company could potentially be liable for investor income taxes and penalty interest thereon of up to $950,000, as well as additional Part XII.6 tax, interest and penalties of approximately $300,000, if an arrangement could not be made to remedy this contingency.

b) Litigation Settlement

Subsequent to June 30, 2009 the Company entered into a settlement agreement with the Plaintiff regarding the litigation described in note 14 of the March 31, 2009 financial statements. The settlement agreement provides for mutual release by both parties in exchange for a $40,000 cash payment by the Company to the Plaintiff.

c) Mineral Management Services

The Mineral Management Service ("MMS"), a bureau of the US Department of the Interior that manages that nation's natural gas and oil resources, alleged during the year that a subsidiary of the Company had been deficient in various administrative filing requirements in the past and that, as a result, civil penalties of approximately $578,000 (US$500,000) were being levied against the subsidiary. The subsidiary is disputing these penalties and, along with its legal counsel, has been negotiating with MMS, its collection agencies and its counsel towards a satisfactory resolution of this matter.

A provision of $43,350 (US$37,500) has been made for these civil penalties. This provision has been based on a probationary settlement arrangement with MMS, which has yet to be finalized, but has been agreed to in principle for a portion of these penalties still within MMS's jurisdiction, representing approximately 80% of the total amounts at issue, with the balance of the penalties no longer in MMS's jurisdiction the subject of an equivalent settlement offer by the subsidiary to the collection agencies involved.

The probationary settlement arrangement with MMS involves a total repayment of $34,681 (US$30,000) in equal monthly installments over 36 months, plus interest, and requires that the subsidiary remains compliant with its payment and reporting requirements over this time frame, otherwise the full amount of the penalties, reduced on a declining basis for the period of compliance, will be owing to MMS. The Company believes that this settlement arrangement will be acceptable to all parties and further that the proportionate settlement offer made to the collection agencies will be acceptable to them.

FUTURE ACCOUNTING PRONOUNCEMENTS

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets. Various changes have been made to other sections of the CICA Handbook for consistency purposes. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The new Section is applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standard for its fiscal year beginning January 1, 2009. The adoption of the new section does not have a significant impact on the Company's financial statements.

In January 2009, the CICA issued new accounting standards, Section 1582 Business Combinations and Section 1601 Consolidated Financial Statements, replacing Section 1501 Business Combinations and Section 1600 Consolidated Financial Statements. The CICA also issued new Section 1602 on Non-Controlling Interests. Section 1582 establishes standards for accounting for a business combination. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These new standards become effective for the Corporation's fiscal year beginning on January 1, 2011 and earlier adoption of all three Sections concurrently is permitted. The adoption of these new sections does not have a significant impact on the Company's financial statements.

International Financial Reporting Standards

The Accounting Standards Board has confirmed the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") will be effective January 1, 2011. We are currently assessing the impact of the convergence of Canadian GAAP with IFRS on our results of operations, financial position and disclosure.

ADDITIONAL INFORMATION

Additional information relating to the Company is filed on the SEDAR website at www.sedar.com. Also, information can also be obtained by contacting the Company at Guardian Exploration Inc., 440, 435 – 4th Avenue S.W., Calgary, Alberta, T2P 3A8.