GUARDIAN EXPLORATION INC.

Consolidated Interim Financial Statements

(Unaudited)

For the six months ended June 30, 2011 and 2010

Notice to Reader

The consolidated financial statements of Guardian Exploration Inc. and the accompanying consolidated interim statement of financial position as of March 31, 2011 and consolidated interim statements of comprehensive income, changes in equity and cash flows for the three months ended June 30, 2011 are the responsibility of the Company's management.

The interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards 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 26, 2011

Signed "*Graydon Kowal*"

Graydon Kowal
President and Chief Executive Officer

GUARDIAN EXPLORATION INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)

	June 30 2011 $	December 31, 2010 $	January 1, 2010 $
ASSETS			
Current assets			
Cash	-	71	264,214
Accounts receivable	212,637	56,551	598,869
Due from related company (Note 4)	--	-	50,000
Prepaid expenses	16,908	15,737	21,032
	229,545	72,359	934,115
Deposit (Note 5)	345,721	356,654	376,010
Investment	40,000	33,000	-
Property and equipment (Note 6)	3,071,463	184,145	2,474,996
	3,686,729	646,158	3,785,121
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	1,450,643	1,163,917	2,196,309
Loan from related party (Note 7)	252,000	200,000	550,000
	1,702,643	1,363,917	2,746,309
Asset retirement obligations (Note 8)	1,262,078	1,233,113	1,289,321
	2,964,721	2,597,030	4,035,630
Shareholders' equity			
Share capital (Note 10a,b)	13,702,387	11,181,852	11,181,852
Warrants (Note 10c,d,e)	688,720	-	944,840
Contributed surplus (Note 10g)	3,325,898	3,297,548	2,352,708
Deficit	(16,994,997)	(16,430,272)	(14,729,909)
	722,008	(1,950,872)	250,509
	3,686,729	646,158	3,785,121

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

See accompanying notes to the consolidated interim financial statements

Approved on behalf of the Board of Directors

signed "*Graydon Kowal*" signed "*Scott Reeves*"

Graydon Kowal
Director

Scott Reeves
Director

GUARDIAN EXPLORATION INC.
CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE 3 AND 6 MONTHS ENDED JUNE 30, 2011 AND 2010
(UNAUDITED)

	Three Months Ended June		Six Months Ended June	
	2011	**2010**	**2011**	**2010**
	$	**$**	**$**	**$**
Revenue				
Petroleum and natural gas	229,999	531,911	444,363	1,128,596
Royalties	(39,816)	(34,525)	(77,503)	(78,840)
	190,183	497,386	366,860	1,049,756
Expenses				
Operating	167,360	222,801	240,398	539,906
General and administrative	338,050	269,220	598,897	507,689
Stock-based compensation	14,175	-	28,350	-
Depletion, depreciation, and accretion (Note 6)	39,752	200,990	81,497	384,317
Impairment of PP&E	-	665,000	-	665,000
Financing fees	-	8,924	-	83,924
Bad debts	-	-	5,038	-
Foreign exchange loss (gain)	7,499	(4,585)	28,440	2,587
	566,836	1,362,350	982,620	2,183,423
Loss before other items	(376,653)	(864,964)	(615,760)	(1,133,667)
Other items				
Interest recovery (expense)	(8,534)	(26,139)	(16,561)	(50,796)
Interest income	543	191	4,943	6,164
Gain on held for trading investments	1,080	-	7,080	-
Settlement of accounts payable	-	59,299	55,573	77,883
Loss before income taxes	(383,564)	(831,613)	(564,725)	(1,100,416)
Future income tax recovery	-	-	-	-
Net loss and comprehensive loss	(383,564)	(831,613)	(564,725)	(1,100,416)
Deficit, beginning of period	(16,611,433)	(14,998,712)	(16,430,272)	(14,729,909)
Deficit, end of period	(16,994,997)	(15,830,325)	(16,994,997)	(15,830,325)
Net loss per share (Note 10)				
Basic	(0.00)	($0.01)	(0.00)	($0.01)
Diluted	(0.00)	($0.01)	(0.00)	($0.01)

See accompanying notes to the consolidated interim financial statements

GUARDIAN EXPLORATION INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE 6 MONTHS ENDED JUNE 30, 2011 AND 2010
(UNAUDITED)

	2011 $	2010 $
Share Capital		
Balance, beginning of period	11,181,852	11,181,852
Issued for cash	3,080,392	-
Share issue cost	(559,857)	-
Balance, end of period	13,702,387	11,181,852
Warrants		
Balance, beginning of period	-	944,840
Expiry of warrants	-	(944,840)
Issue warrants	393,408	-
Issue finders warrants	11,074	-
Issue agent warrants	284,238	-
Balance, end of period	688,720	-
Contributed surplus		
Balance, beginning of period	3,297,548	2,352,708
Expiry of warrants	-	944,840
Share-based compensation	28,350	-
Balance, end of period	3,325,898	3,297,548
Retained earnings		
Balance, beginning of period	(16,430,272)	(14,729,909)
Net earnings (loss)	(564,725)	(1,100,416)
Balance, end of period	(16,994,997)	(15,830,325)
Total shareholders' equity	722,008	(1,303,833)

See accompanying notes to the consolidated interim financial statements

GUARDIAN EXPLORATION INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE 3 AND 6 MONTHS ENDED JUNE 30, 2011 AND 2010
(UNAUDITED)

	Three Months Ended June		Six Months Ended June	
	2011	**2010**	**2011**	**2010**
	$	**$**	**$**	**$**
Cash and cash equivalents provided by (used in)				
Operating activities				
Net loss for the period	(383,564)	(794,716)	(564,724)	(1,063,519)
Items not affecting cash:				
Depletion, depreciation, and accretion	39,752	173,018	81,497	356,345
Impairment of property and equipment	-	665,000	-	665,000
Future income tax recovery	-	-	-	-
Stock-based compensation	14,175	-	28,350	-
Income attributable to settlement of accounts payable	-	(59,300)	(55,573)	(77,884)
Gain on held for trading investments	(1,080)	-	(7,080)	-
Foreign exchange loss (gain)	7,499	(4,585)	28,440	2,587
	(323,218)	(20,583)	(489,090)	(117,471)
Changes in non-cash working capital	56,950	111,154	73,700	(301,207)
	(266,268)	90,571	(415,390)	(418,678)
Financing activities				
Repayment from related party	-	-	-	50,000
Loan from related party	27,000	-	52,000	67,056
Contributed surplus adjustment	14,175	-	28,350	-
Issuance of share capital	2,695,168	-	3,099,328	-
Share issue cost	(374,313)	-	(548,783)	-
Issue of warrants	287,411	-	688,720	-
	2,649,441	117,056	3,319,615	117,056
Investing activities				
Disposition of property and equipment	-	64,776	-	189,960
Expenditures on property and equipment	(2,349,904)	(64,776)	(2,904,296)	(274,111)
Change in non-cash investing working capital	-	-	-	266,332
	(2,349,904)	-	(2,904,296)	182,181
Change in cash	33,269	90,571	(71)	(119,441)
Cash, beginning of period	(33,269)	54,202	71	264,214
Cash, end of period	-	144,773	-	144,773
Supplemental cash flow information				
Interest paid	8,535	-	16,559	147,646
Taxes paid			-	-

See accompanying notes to the consolidated interim financial statements

1. BASIS OF PREPARATION AND GOING CONCERN

Guardian Exploration Inc. (the "Company") is engaged in the exploration, development and production of oil and natural gas in Western Canada and Montana in the United States. The registered office and principal place of business of the Company is Suite 620, 510 - 5th Street SW, Calgary, AB, CA, T2P 3S2.

The consolidated interim financial statements are comprised of the Company and its controlled entities ("Group"). The consolidated interim financial statements have been prepared on a historical cost basis and are stated in Canadian dollars, which is the Group's functional currency. The consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), in particular International Accounting Standard (IAS) 34 *Interim Financial Reporting*. Refer to Note 3 for a description of the impact of adopting IFRS on the Group's accounting policies, and Note 17 for a reconciliation of equity and income between IFRS and previously reported Canadian generally accepted accounting principles (GAAP) regarding the comparative periods presented in this report.

The interim consolidated financial statements were authorized by the Board of Directors on August 26, 2011.

Going Concern

These consolidated interim financial statements have been prepared by management in accordance with GAAP on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the ordinary course of business. Should the Company not realize the value of its current and future projects and successfully raise financing to develop its current and future projects, it may not be able to realize its assets and discharge its liabilities in the normal course of operations.

For the three months ended June 30, 2011, the Company reported an after-tax loss of $384 thousand and negative operating cash flows of $266 thousand. As at June 30, 2011, the Company had a working capital deficiency of $1.5 million, an accumulated deficit of $17 million.

The Company will need further financing, in the form of either equity or debt, in order to proceed with oil and gas development projects and to fund ongoing corporate administrative activities. 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 interim financial statements do not include any adjustments that might result if the Company is unable to continue as a going concern, and such adjustments could be material.

2. NATURE OF OPERATIONS

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

3. CHANGE IN ACCOUNTING POLICIES – ADOPTION OF IFRS

This is the second set of financial statements issued by the Group under IFRS. The date of transition to IFRS was January 1, 2010 and therefore the comparative statement of financial position (January 1, June 30 and December 31, 2010), statement of comprehensive income (three and six months ended June 30, 2010 and 2011) and statement of changes in equity (six months ended June 30, 2010 and 2011) presented in these interim financial statements have been re-stated to IFRS from the previously reported Canadian GAAP. Note 17 outlines the impact of transitioning to IFRS on these comparative statements.

The Group's significant accounting polices under IFRS, and the policy applied in transitioning to IFRS are described below.

IFRS 1 First-time Adoption of International Financial Reporting Standards

The Group has adopted IFRS 1 *First-time Adoption of International Financial Reporting Standards* effective January 1, 2010, which is the transition date to IFRS. Under IFRS 1, IFRSs are to be applied retrospectively at the date of transition, with the exception of certain standards on which retrospective application is prohibited ('mandatory exceptions') and for certain standards on which management has the option of not applying respectively ('optional exemptions'). None of the mandatory exceptions are relevant to the Group. The exemptions relevant to the Group are discussed below.

Optional Exemptions

Business Combinations – the Group has applied IFRS 3 *Business Combinations* prospectively from the date of transition with respect to its prior business combinations. No adjustments to the carrying values of assets or liabilities of its subsidiaries were required at transition.

Deemed cost for oil and gas assets – the Group previously accounted for oil and gas exploration and development assets under the full-cost method allowed by GAAP. The Group has applied the exemption afforded by IFRS 1 to:

- measure exploration and evaluation assets at their carrying value under GAAP at the transition date; and
- measure development and production phase assets by allocating their carrying amount under GAAP at the transition date to individual assets based on proved and probable reserve values (discounted) applicable at the transition date.

Refer to Note 17 for the impact of applying this exemption.

Decommissioning liabilities – the Group has applied the exemption available in IFRS 1 such that its decommissioning/site restoration obligations have not been retrospectively recalculated. Rather, the carrying value of the decommissioning liability under GAAP at transition has been measured under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the difference taken to retained earnings at January 1, 2010.

Refer to Note 17 for the impact of applying this exemption.

Share-based payment transactions – the Group has applied the exemption available under IFRS 1 and not made any adjustments to share-based payments that were granted prior to November 7, 2002, or those granted after November 7, 2002 that had fully vested prior to the date of transition to IFRS.

SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

The consolidated financial statements of the Group include the following controlled entities (wholly owned subsidiaries):

- K2 America Corp. - incorporated November 16, 1995 under the General and Business Corporate Law of the State of Montana
- K2 Operating Corp. - incorporated February 12, 1998 under the General and Business Corporate Law of the State of Montana

Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

K2 Operating Corp had no assets or liabilities at June 30, 2011 nor any of the comparative periods

presented.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Company's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Company loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognized in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

b) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognized.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3(2008) *Business Combinations* are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based

payment awards are measured in accordance with IFRS 2 *Share-based* Payment; and

- assets (or disposal Groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

c) Interests in joint ventures

Most of the Group's oil and gas exploration activity and operations are conducted through unincorporated joint ventures. A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic, financial and operating policy decisions relating to the activities of the joint venture are made jointly).

When the Group undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognized in the financial statements of the Group and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using proportionate consolidation, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities is combined with the equivalent items in the consolidated financial statements on a line-by-line basis. When the Group transacts with a jointly controlled entity of the Group, unrealized profits and losses are eliminated to the extent of the Group's interest in the joint venture.

d) Property, plant and equipment and intangible exploration assets

(i) Recognition and Measurement

The Group accounts for exploration and evaluation ("E&E") costs, having regard to the requirement of IFRS 6 *Exploration for and Evaluation of Mineral Resources*. Costs of exploring for and evaluating oil and natural gas properties are capitalized. Such E&E costs may include costs of license acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, directly attributable overhead and administration expenses, and the projected costs of retiring the assets (if any), but do not include general prospecting or evaluation costs incurred prior to having obtained the legal rights to explore an area, which are expensed directly to the comprehensive statement of income as they are incurred.

Tangible assets acquired for use in E&E activities are classified as property, plant and equipment; however, to the extent that such a tangible asset is consumed in developing an intangible exploration asset, the amount reflecting that consumption is recorded as part of the cost of the intangible exploration asset.

Intangible exploration assets are not depleted and are carried forward until technical feasibility and commercial viability of extracting a mineral (petroleum) resource is considered to be determined. The technical feasibility and commercial viability of extracting a petroleum resource is considered to be determined when proven and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proven and/or probable reserves have been discovered. Upon determination of proven and probable reserves, E&E assets attributable to those reserves are first tested for impairment using cash generating units (CGUs – refer 'Impairment' below), and then reclassified from intangible exploration assets to oil and natural gas interests, a separate category within property, plant and equipment.

Items of property, plant and equipment are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within "other income" or "other expense" within profit or loss.

(ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depletion and depreciation

The net carrying value of development or production (ie producing) assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proven reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proven reserves are estimated using independent reserve engineer reports which represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 90 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven.

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and/or
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil.

Tangible equipment, such as drilling, production or well equipment available for use in exploration and evaluation activities is also depreciated on a units of production basis unless the estimated useful life of the asset is shorter than that implied by the unit of production rate, in which case the asset is depreciated on a straight-line basis over its estimated useful life.

For other assets (e.g. office furniture and equipment), depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for other assets are as follows:

- Office Equipment 2 - 5 years
- Fixtures and Fittings 2 - 5 years
- Computer software 2 - 3 years

(iv) Impairment

E&E assets are assessed for impairment when they are reclassified as oil and natural gas interests to property, plant and equipment, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. CGUs represent the smallest Group of assets that generates independent cash inflows from continuing use, and typically consist of oil and natural gas fields in close geographic proximity that share common infrastructure and have independent cash inflows. Such CGUs are not larger than a segment. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows from proven and probable reserves are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

e) Decommissioning/site restoration provisions

The Group's core activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset

category unless it arises from the normal course of production activities, in which case it is recognized in profit or loss.

Provisions are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each year to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized (unless the obligating event was related to production activities). Actual costs incurred upon settlement of the site restoration obligation are charged against the provision to the extent the provision was established.

The interest rate used to discount future costs is a risk-free rate, being the nominal rate reduced for the expected impact of inflation over the period to when the costs are expected to be incurred.

f) Revenue recognition

Revenue from the sale of crude oil, natural gas and natural gas liquids is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer. This is usually when legal title passes to the external party, generally at the time product enters the pipeline. Revenue is measured net of discounts, custom duties, and royalties that are taken 'in-kind' (e.g. oil royalties due to the Alberta Minister of Finance).

g) Financial instruments

Financial instruments include cash, cash equivalents (money market instruments that carry terms less than 91 days at the date of investment), accounts and other receivables, borrowings, and accounts payable. All financial instruments are recognized and derecognized on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Group has no 'held to maturity' investments or 'available for sale' (e.g listed or unlisted shares in other entities) financial assets.

(i) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. Cash and cash equivalents are designated as "held-for-trading" and is measured at fair value, being its face value.

(ii) Loans and receivables

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected

life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(iii) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(iv) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. The Group has no financial liabilities 'at FVTPL'.

(i) Other financial liabilities

Other financial liabilities, including trade payables and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

(ii) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Common shares issued by the Group are classified as equity and are recognized at the proceeds received, net of direct issue costs and any tax effects.

(iii) Compound instruments

The component parts of compound instruments (convertible bonds) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured.

(iv) Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

h) Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(ii) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(iii) Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

i) 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.

j) Share-based payments

Equity-settled share-based payments to employees, directors and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value of equity instruments is determined utilizing the Black-Scholes option pricing model.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. The vesting period is the period over which the recipient becomes unconditionally entitled to the share-based award.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled items reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which

case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

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

For cash-settled share-based payments, a liability is recognized for the goods or services received, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in profit or loss.

k) Foreign currency

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Canadian dollars which is the functional currency of the Group, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise.

l) Future changes in IFRS

None of the IFRSs available for early adoption have been adopted by the Group, and at this time none are expected to have a significant financial statement impact in future years when the standards are adopted.

m) Use of estimates and measurement uncertainty

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Such estimates primarily relate to unsettled transactions and events at the reporting date and are based on information available to management at the reporting date. Actual results could differ from those estimated. Key sources of estimation uncertainty and judgment are discussed below.

The amounts recorded for depletion and depreciation of property, plant and equipment, the provision for decommissioning/site restoration, and the amounts used for the impairment test calculations are based on estimates of reserves, future commodity prices, royalties, operating costs, development costs, abandonment costs, and the fair value of E&E assets, all of which are inherently uncertain. The Group's reserve estimates are evaluated at least annually by an independent engineering firm.

The determination of share-based payment expense requires a calculation of the fair value of the equity instrument at grant date, which involves a number of estimates, in particular the volatility of the Group's future share price.

The recognition of deferred income tax assets requires judgment as to the existence of future taxable income or reversal of temporary differences to which the tax assets can be applied and benefit realized.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. By their nature, estimates are subject to measurement uncertainty and the effect of changes in such estimates on the financial statements for current and future periods could be significant.

4. DUE FROM RELATED PARTY

Amounts owed to the Company by a director and/or a company controlled by that director of the Company of $117,797 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 $347,693 (USD$ 360,000) (2009 - $376,010; USD $360,000) in favor of the Bureau of Indian Affairs-Blackfeet Agency to cover the costs of future site restoration and abandonment liabilities. This deposit is considered to be refundable, subject to application for refund, which may or may not be granted. Accordingly, the deposit is shown as a long-term asset.

6. PROPERTY AND EQUIPMENT

	March 31, 2011 $
Petroleum and natural gas properties and equipment	19,191,259
Accumulated depletion, depreciation and impairment	(16,119,796)
	3,071,463

Canadian and US cost centers

For the three months June 30, 2011 and 2010, there were no capitalized general and administrative expenses in either the Canadian or US cost center.

7. LOAN FROM RELATED PARTY

During the three months ended June 30, 2011, the Company drew a further $27,000 on its secured convertible loan facility with a company controlled by a director of the Company. The loan accrues interest at the rate of 15% per year, payable monthly and is secured against the assets of the Company. In addition, the loan is convertible into common shares of the Company at a deemed price of $0.07 per share. At June 30, 2011, the loan balance of $252,000 and $20,751 in accrued interest was payable to this related party. In July, 2011 the Company drew a further $100,000 on the same convertible loan facility.

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, 2011 are estimated to be $1,251,152 (December 31, 2010 - $1,233,113). These obligations are expected to be settled at various times until 2017. The credit-adjusted risk free rate at which the estimated cash flows were discounted was 3% as at June 30, 2011 and the estimated inflation rate used to project future costs was 2.5%.

9. INCOME TAX

A recovery of future income tax has not been recorded on the operating loss for the three months ended June 30, 2011, as the likelihood of utilizing the loss against future taxable income is not considered probable at this time.

10. SHAREHOLDERS' EQUITY

a) Authorized

Unlimited number of common voting shares
Unlimited number of preferred shares, issuable in series

b) Issued and outstanding

Share Capital	Number of Shares	Amount $
Balance, December 31, 2009 and December 31, 2010	39,737,877	11,181,852
Private placements of common shares for cash March 2011 (i)(ii)(iii)	7,000,000	404,160
Private placements of common shares for cash April 2011 (iv)(v)	19,488,000	1,899,948
Private placements of common shares for cash June 2011 (vi)(vii)	8,250,000	776,284
Share issue costs – Legal	-	(65,129)
Share issue cost – Agent & Finders Fee		(199,416)
Share issue cost – Agent & Finders Warrants		(295,312)
Balance June 30, 2011	74,475,877	13,702,387

c) Warrants

	Number of Warrants	Amount $
Balance, December 31, 2009	10,687,900	944,840
Expiry of debenture warrants	10,687,900	944,840
Balance, December 31, 2010	-	-
Private placements of warrants for cash March 2011 (i)(ii)(iii)	3,500,000	295,840
Private placements of warrants for cash April 2011 (iv)(v)	974,400	48,852
Private placements of warrants for cash June 2011 (vi)(vii)	825,000	48,716
Balance June 30, 2011	5,299,400	393,408

d) Agent Warrants

	Number of Warrants	Amount $
Balance, December 31, 2019 and December, 31, 2010	-	-
Private placements of warrants for cash March 2011 (i)(ii)(iii)	700,000	105,469
Private placements of warrants for cash April 2011 (iv)(v)	1,948,800	178,769
Balance, June 30, 2011	2,648,800	284,238

e) Finders Warrants

	Number of Warrants	Amount $
Balance, December 31, 2019 and December, 31, 2010	-	-
Private placements of warrants for cash June 2011 (vi)(vii)	227,500	11,074
Balance, June 30, 2011	227,500	11,074

(i) On March 18, 2011, the Company closed a private placement of 7,000,000 units for gross proceeds of $700,000. Each Unit consisting of one common share ("Common Share") in the capital of the Company and one-half (1/2) Common Share purchase warrant ("Warrant"), each whole Warrant being exercisable for one (1) Common Share of the Company at a price of $0.25 per share (the "Warrant Price") for a period of 18 months following closing, provided that if after four months and one day following the Closing Date, the closing price of the common shares of the Corporation on the principal market on which such shares trade is equal to or exceeds $0.375 for 10 days (the "Eligible Acceleration Date") the Warrant Expiry Date shall accelerate to the date which is 30 calendar days following the date a formal notice is issued by the Company announcing the reduced warrant term, provided such notice is sent to all warrant holders no more than five business days following the Eligible Acceleration Date.

(ii) Under the terms of an agency agreement with D&D Securities Inc., D&D received a cash commission of $49,000, equal to 7% of the aggregate gross proceeds of the Offering and 700,000 Agent's Warrants representing 10% of the aggregate number of Units sold. Each entitles the holder to acquire one Unit at a price of $0.10 per Unit for a period of 18 months from the date of closing of the Offering.

(iii) The total gross proceeds from the issuance have been allocated between share capital and share purchase warrants by estimating the fair value of $0.15 per warrant using the Black Scholes option pricing model under the following assumptions:

Risk-free interest rate	1.26%
Expected life	1.5 years
Expected volatility	153%
Expected dividend	Nil

The 700,000 agent warrants issued have been valued using the same methodology and $105,469 has been recorded as a share issue cost with an offsetting increase to agent warrants.

(iv) In April, the Company sold through a brokered private placement 19,488,000 units for gross proceeds of $1,948,800. Each Unit consists of one common share ("Common Share") in the capital of the Company and one-half (1/2) Common Share purchase warrant ("Warrant"), each whole Warrant being exercisable for one (1) Common Share of the Company at a price of $0.25 per share (the "Warrant Price") for a period of 18 months following closing, provided that if after four months and one day following the Closing Date, the closing price of the common shares of the Corporation on the principal market on which such shares trade is equal to or exceeds $0.375 for 10 days (the "Eligible Acceleration Date") the Warrant Expiry Date shall accelerate to the date which is 30 calendar days following the date a formal notice is issued by the Company announcing the reduced warrant term, provided such notice is sent to all warrant holders no more than five business days following the Eligible Acceleration Date.

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

(vi) In June, the Company issued 8,250,000 units at a purchase price of $0.10 per unit for gross proceeds of $825,000, each unit consisting of one common share of the Company to be issued on a "flow through" tax basis and one purchase warrant, each whole warrant exercisable into one Common Share upon payment of $0.15 per share for a period of 24 months from the date of issuance. 4,000,000 of the units were purchased by directors and officers of the Company.

(vii) The Company paid a finders' fee to eligible persons in the aggregate amount of 7% of the proceeds of the Offering raised by such persons ($22,750) and 7% of the number of securities placed by such persons in finders warrants (227,500 warrants). Each finders warrant is exercisable into one Common Share upon payment of $0.10 per share for a period of one year from the date of issuance.

f) 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, 2009	1,900,000	$0.44
Forfeited	(400,000)	($0.19)
Expired	(400,000)	($0.29)
Granted (i)	250,000	$0.10
Balance, December 31, 2010	1,350,000	$0.49
Granted (ii)	1,400,000	$0.10
Exercisable, June 30, 2011	1,287,500	$0.51

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

(ii) The Company also granted 1,400,000 stock options to certain directors, officers, employees and consultants. The options vest over a 2 year period, are exercisable at a price of $0.10 per share and expire in March 2016. The shares issuable upon exercise of the options may not be traded for 4 months and one day from the date of grant. The Company uses the fair value based method for the determination of the share-based compensation costs. The fair value of each option granted during the period was estimated on the date of grant using the Black-Scholes option pricing model. Share-based compensation cost of $14,175 (March 31, 2010 - $nil) was recorded in net earnings.

The weighted average assumptions and the results used to fair value 2011 awards are as follows:

Risk-free interest rate	1.40%
Expected life	5 years
Expected volatility	146%
Fair value at grant date ($ per option)	.09
Forfeiture rate (%)	10
Expected dividend	Nil

The Company amended 500,000 options previously issued to directors, officers, employees and consultants of the Company in May 2006 with an original exercise price of $1.10 per share and 600,000 options issued in October 2007 with an exercise price of $0.15 per share, by reducing the exercise price of the options and extending the expiry date. By virtue of the amendment, the previously issued options will have an expiry date of February 2016 and an exercise price of $0.10 per share. As this amendment is subject to disinterested shareholder approval, the impact of this change has not been reflected in these financial statements or in the following table.

	Stock options outstanding			Stock options exercisable	
Exercise Prices	**Outstanding**	**Weighted**	**Weighted Average**	**Options**	**Weighted**

	Options	Average Exercise Price	Remaining Contractual Life (Years)	Exercisable	Average Exercise Price
$0.15	600,000	$0.15	1.4	600,000	$0.15
$1.10	500,000	$1.10	0.1	500,000	$1.10
$0.10	250,000	$0.10	4.0	187,500	$0.10
$0.10	1,400,000	$0.10	5.0	-	$0.10
	2,750,000	$0.29	1.8	1,287,500	$0.51

g) Contributed surplus

	2011 $	2010 $
Balance, beginning of period	3,311,723	2,352,708
Expiry of warrants	-	944,840
Stock-based compensation	14,175	-
Balance, end of period	3,325,898	3,297,548

h) Loss per share

Basic per share amounts are calculated using the weighted average number of shares outstanding of 74,475,877 for the three months ended June 30, 2011 (2010: 39,737,877).

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.

The Company's dilutive instruments have not been included in the computation of loss per share as the effect would be anti-dilutive in 2011 and 2010.

11. COMMITMENTS

a) Flow-through share issuance

Pursuant to a flow-through share issuance completed in 2008, the Company was committed to incur $2,777,110 of qualifying expenditures by December 31, 2009. At March 31, 2011, approximately $2.3 million of the obligation had been fulfilled. As the Company did not make the necessary qualifying expenditures by the aforementioned deadline as required under the income tax rules, the unexpended flow-through amount (approximately $450,000) could be reassessed by the tax authorities and the Company could potentially be liable for investor income taxes and penalty interest thereon if an arrangement with CRA cannot be made to remedy this contingency. The Company has been in contact with the CRA regarding this matter and is optimistic that the matter will be resolved through negotiation with the tax authorities. The Company has recorded $332,000 of Part XII.6 tax with respect to this issuance.

b) BC Oil & Gas Commission Letter of Credit

The BC Oil and Gas Commission (OGC) requires that company secure its British Columbia abandonment and reclamation liabilities with a letter of credit. The letter of credit currently filed with the OGC has been provided by another company. Guardian is liable to provide the OGC with a deposit or a letter of credit valued at $365,400.

c) 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%.

d) Office sub-lease

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

12. RELATED PARTY TRANSACTIONS

a) As described in Note 7, the Company drew an additional $27,000 on its loan facility with a company controlled by a director, leaving a balance owing of $252,000 at June 30, 2011. Interest incurred on the total drawn amount for the three months ended June 30, 2011 was $8,534.

b) Legal fees in the amount of $32,730 for the three months ended June 30, 2011 have been incurred from a legal firm of which a Company director is a partner.

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

13. CONTINGENCIES

a) 2006 Flow-through capital raise – qualifying expenditures

Pursuant to a flow-through share issuance completed in March 2006, the Company was committed to incur $4,000,000 of qualified expenditures by December 31, 2007. By December 31, 2007 the Company had incurred only $2.2 million of qualifying expenditure. The remaining $1.8 million was incurred in 2008.

As the Company did not make the necessary qualifying expenditures by December 31, 2007, by the strict interpretation of the income tax rules, the unexpended flow-through amount (approximately $1.8 million) could be reassessed by the tax authorities, making the Company potentially liable for investor income taxes and penalty interest thereon of up to $700,000 in an arrangement cannot be made to remedy this contingency.

Notwithstanding this however, management has received a tax opinion from Calgary counsel that the over $2.4 million in eligible expenditures incurred by the Company less than 30 days prior to the closing of the Company's 2006 flow through financing could be applied to the necessary expenditures, extinguishing the remaining commitment. Using this position, management is confident that the matter can be resolved through negotiation with the tax authorities. No provision has been made in these consolidated financial statements other than an amount for estimated Part XII.6 interest and penalties.

b) Minerals Management Services

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

During the three months ended March 31, 2010 settlement was reached with the US Department of Treasury, and a payment of US$49,000 was made (US$50,000 had previously been accrued).

A provision of $30,500 (US$30,000) is carried in relation to the remaining disputed matters with MMS. At present, MMS disputes that a binding settlement agreement ("Settlement Agreement") exists. In the event the

Settlement Agreement with MMS is not enforced, the maximum exposure of the subsidiary is US$400,000. However in that scenario, the likely settlement amount would be much less.

The Settlement Agreement with MMS includes a probationary period that requires the subsidiary to remain compliant with its reporting and payment requirements over a 24 month time frame; otherwise the full amount of the penalties, reduced on a declining basis for the period of compliance, will be due immediately to MMS. The subsidiary has been compliant with its reporting requirements since August 2008, and the months of compliance will serve to reduce and eventually eliminate the penalties if the Settlement Agreement is enforced.

c) Other

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

14. SEGMENTED DISCLOSURES

For the three months ended June 30, 2011:

	Canada	United States	June 30, 2011
Petroleum and natural gas revenue	$ -	$229,999	$229,999
Interest expense	$8,534	$ -	$8,534
Depletion, depreciation and accretion	$15,064	$24,688	$39,752
Gain (Loss) for the period	($390,832)	$7,268	($383,564)
Property and equipment	$2,286,675	$784,788	$3,071,463
Capital expenditures	-	-	-

For the three months ended June 30, 2010:

	Canada	United States	June 30, 2010
Petroleum and natural gas revenue	$1,245,331	$415,505	$1,660,836
Interest expense/(recovery)	$50,796	$ -	$50,796
Depletion, depreciation and accretion	$728,667	$292,678	$1,021,345
Loss for the period	$1,055,918	$7,601	$1,063,519
Property and equipment	$1,493,291	$274,031	$1,767,322
Capital expenditures	$273,581	$530	$274,111

15. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

a) Fair value of financial assets and liabilities

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

b) Interest rate risk

At June 30, 2011, the Company is only significantly exposed to interest rate risk in relation to its loan from

a related party, which is at a fixed rate of interest. There would be no significant impact on the financial statements at June 30, 2011 if interest rates were higher or lower by one percent.

c) Commodity price risk

The nature of the Company's operations results in an exposure to fluctuations in commodity prices. At June 30, 2011, 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 defines capital as shareholder equity, working capital and credit facilities when available. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's objective is met by retaining adequate equity to guard against the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable growth in net income and funds flow. There have been no changes to the Company's objectives in managing capital or in management's management of capital since December 31, 2010.

f) Credit Risk

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

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

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 (refer Note 1 Going Concern). The loan from a related party is due June 30, 2010.

16. SUBSEQUENT EVENTS

In July, the Company announced the successful acquisition of 3,360 acres from the Alberta Crown in the Jenner area of Southern Alberta targeting Pekisko oil. The Company acquired these leases based on a geological evaluation of the area and production from an offsetting well that has already produced over 35,000 barrels of oil since coming on stream in November 2010. Some of the acquired land was drilled in the 1980’s and early 1990’s with vertical wells that economically produced for several years and have since been abandoned. Guardian intends to use horizontal drilling technology to increase both initial production rates and recoverable reserves from these Pekisko pools. An average of 8.0 meters of oil pay and porosities ranging from 10.0 to 15.0% are present on Guardian land. Unlike many of the resource plays being developed around North America, this formation would not require any Hydraulic fracturing. This translates to a simpler completion process that involves less risk, and is less expensive.

The Company intends to drill at least one well before year-end and from its current evaluation has identified a minimum of 4 well locations. A 3D seismic program is currently being planned to help identify additional step out locations but the initial locations can be drilled with the existing downhole and 2D seismic data.

The Company has also recently added 1,276 acres around its existing Alberta Bakken position, bringing its total holdings in the play to just over 10,000 acres. Wells continue to be drilled and completed next to Guardian lands, primarily by Newfield Exploration and Rosetta Resources. Although no production numbers have yet become publicly available, it is known that Newfield’s Sheriff 1-11H is a producing horizontal well and is only 7 miles north-west of Guardian’s Montana lands.

17. TRANSITION TO IFRS – EQUITY AND INCOME RECONCILIATIONS

As required under IFRS, the below tables summarize the impact of transitioning from GAAP to IFRS on the comparative statements of financial position and statement of comprehensive income presented in these interim financial statements.

Statement of Financial Position	January 1, 2010 GAAP	IFRS Adjustments		January 1, 2010 IFRS
Assets				
Current Assets				
Cash	264,214	-		264,214
Accounts receivable	598,869	-		598,869
Prepaid expenses	21,032	-		21,032
Due from related party	50,000	-		50,000
	934,115	-		934,115
Property, plant and equipment	2,663,772	(188,776)	1	2,474,996
Deposit	376,010	-		376,010
Total Assets	**3,973,897**	**(188,776)**		**3,785,121**
Liabilities and Shareholders' Equity				
Current Liabilities				
Accounts payable and accrued liabilities	(2,196,309)	-		(2,196,309)
Loan from related party	(550,000)	-		(550,000)
	(2,746,309)	-		(2,746,309)
Deferred tax liabilities	-	-		-
Decommissioning/Site restoration provision	(1,057,321)	(232,000)	2	(1,289,321)
Total Liabilities	**(3,803,630)**	**(232,000)**		**(4,035,630)**
Shareholders' Equity				
Share capital	(10,349,866)	(831,986)	3	(11,181,852)
Warrants	(944,840)	-		(944,840)
OCI - FX Translations	-	-		-
Contributed Surplus	(2,352,708)	-		(2,352,708)
Deficit	13,477,147	1,252,762		14,729,909
Total Shareholders' Equity	**(170,267)**	**420,776**		**250,509**
Total Liabilities and Shareholders' Equity	**(3,973,897)**	**188,776**		**(3,785,121)**

[1] Impairment of PP&E (development and producing assets) under IAS 36

[2] Revision to ARO to reflect discount rate of 3% instead of 8%. No deferred tax benefit as does not meet IAS 12 recognition criteria.

[3] Reclassification from retained earnings to share capital, to reflect difference between DTL booked on flow-through capital raised in 2006 and 2008, and the “premium” on issuing the share capital at a price higher than market

GUARDIAN EXPLORATION INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE 3 MONTHS ENDED JUNE 30, 2011 AND 2010
(UNAUDITED)

Statement of Financial Position	June 30, 2010 GAAP	IFRS Adjustments		June 30, 2010 IFRS
Assets				
Current Assets				
Cash	144,773	-		144,773
Accounts receivable	149,516	-		149,516
Prepaid expenses	21,010	-		21,010
Due from related party	-	-		-
	315,299	-		315,299
Property, plant and equipment	1,767,322	(198,973)	1	1,568,349
Deposit	381,602	-		381,602
Total Assets	**2,464,223**	**(198,973)**		**2,265,250**
Liabilities and Shareholders' Equity				
Current Liabilities				
Accounts payable and accrued liabilities	(1,584,391)	-		(1,584,391)
Loan from related party	(675,019)	-		(675,019)
	(2,259,410)	-		(2,259,410)
Deferred tax liabilities	-	-		-
Decommissioning/Site restoration provision	(1,098,065)	(135,255)	2	(1,233,320)
Total Liabilities	**(3,357,475)**	**(135,255)**		**(3,492,730)**
Shareholders' Equity				
Share capital	(10,349,866)	(831,986)	3	(11,181,852)
Warrants	-	-		-
OCI - FX Translations	-	(47,092)	4	
Contributed Surplus	(3,297,548)	-		(3,297,548)
Deficit	14,540,666	1,289,659		15,830,325
Total Shareholders' Equity	**893,252**	**410,581**		**1,303,833**
Total Liabilities and Shareholders' Equity	**(2,464,223)**	**275,325**		**(2,188,898)**

[1] Impairment of PP&E at transition under IAS 36 ($199k) and increased PP&E depreciation under IAS 16 ($48k)
[2] Revision to ARO to reflect discount rate of 3% instead of 8%, net of $12k lower ARO interest in Q1 2011, and a $47k reduction to ARO in K2 reflecting IAS 21 translation at June 30, 2010 rate (US Functional adjustment)
[3] Reclassification from retained earnings to share capital, to reflect difference between DTL booked on flow-through capital raised in 2006 and 2008, and the "premium" on issuing the share capital at a price higher than market
[4] Adjustment to K2's balance sheet to reflect US Functional – exchange differences on translation of foreign subsidiary posted to other comprehensive income

Statement of Financial Position	December 31, 2010 GAAP	IFRS Adjustments		December 31, 2010 IFRS
Assets				
Current Assets				
Cash	71	-		71
Accounts receivable	56,551	-		56,551
Prepaid expenses	15,737	-		15,737
Due from related party	-	-		-
	72,359	-		72,359
Property, plant and equipment	372,921	(188,776)	1	184,145
Investment	33,000			
Deposit	356,654	-		356,654
Total Assets	**834,934**	**(188,776)**		**646,158**
Liabilities and Shareholders' Equity				
Current Liabilities				
Accounts payable and accrued liabilities	(1,163,917)	-		(1,163,917)
Loan from related party	(200,000)	-		(200,000)
	(1,363,917)	-		(1,363,917)
Deferred tax liabilities	-	-		-
Decommissioning/Site restoration provision	(1,077,211)	(155,902)	2	(1,233,113)
Total Liabilities	**(2,441,128)**	**(155,902)**		**(2,597,030)**
Shareholders' Equity				
Share capital	(10,349,866)	(831,986)	3	(11,181,852)
Warrants	-	-		-
OCI - FX Translations	-	-		-
Contributed Surplus	(3,297,548)	-		(3,297,548)
Deficit	15,253,608	1,176,664		16,430,272
Total Shareholders' Equity	**1,606,194**	**344,678**		**1,950,872**
Total Liabilities and Shareholders' Equity	**(834,934)**	**188,776**		**(646,158)**

[1] Impairment of PP&E at transition under IAS 36 ($189k).
[2] Revision to ARO to reflect discount rate of 3% instead of 8%.adjustment.
[3] Reclassification from retained earnings to share capital, to reflect difference between DTL booked on flow-through capital raised in 2006 and 2008, and the "premium" on issuing the share capital at a price higher than market

Statement of Comprehensive Income	**3 Months Ended June 30, 2010 GAAP**	**IFRS Adjustments**		**3 Months Ended June 30, 2010 IFRS**
Revenue				
Oil and Gas	770,626	-238,715	1	531,911
Expenses				
Royalties	-273,240	238,715	1	-34,525
Operating costs	(222,801)	-		(222,801)
Depletion and depreciation	(173,018)	(27,972)	2	(200,990)
Impairment of PP&E	(665,000)			(665,000)
General and administrative	(269,220)	-		(269,220)
Financing costs	-	(8,924)	3	(8,924)
Foreign Exchange loss	4,585	-		4,585
	(1,598,694)	201,818		(1,396,876)
Interest income	191	-		191
Interest expense	(26,139)	-		(26,139)
Settlement of accounts payable	59,300	-		59,300
	33,352	-		33,352
Net income (loss) before taxes	**(794,716)**	**(36,897)**		**(831,613)**
Deferred income tax recovery (expense)	-	-		-
Net Income and comprehensive income (loss)	**$ (794,716)**	**$ (36,897)**		**$ (831,613)**

[1] Reclassification of ‘in-kind’ royalties from royalty expense to a reduction in oil and gas revenue (IAS 18 *Revenue*)
[2] Reclassification of accretion of interest on the decommissioning/site restoration provision to finance costs offset by increased PP&E depreciation under IAS 16
[3] Reclassification of accretion of interest on the decommissioning/site restoration provision to finance costs offset by lower ARO interest in Q2 2011.

Statement of Comprehensive Income	**6 Months Ended June 30, 2010 GAAP**	**IFRS Adjustments**		**3 Months Ended June 30, 2010 IFRS**
Revenue				
Oil and Gas	1,660,836	-532,240	1	1,128,596
Expenses				
Royalties	-611,080	532,240	1	-78,840
Operating costs	(539,906)	-		(539,906)
Depletion and depreciation	(356,345)	(27,972)	2	(384,317)
Impairment of PP&E	(665,000)			(665,000)
General and administrative	(507,689)	-		(507,689)
Financing costs	(75,000)	(8,924)	3	(83,924)
Foreign Exchange loss	(2,587)	-		(2,587)
	(2,757,607)	495,343		(2,262,264)
Interest income	6,164	-		6,164
Interest expense	(50,796)	-		(50,796)
Settlement of accounts payable	77,884	-		77,884
	33,252	-		33,252
Net income (loss) before taxes	**(1,063,519)**	**(36,897)**		**(1,100,416)**
Deferred income tax recovery (expense)	-	-		-
Net Income and comprehensive income (loss)	**$ (1,063,519)**	**$ (36,897)**		**$ (1,100,416)**

[1] Reclassification of 'in-kind' royalties from royalty expense to a reduction in oil and gas revenue (IAS 18 *Revenue*)
[2] Reclassification of accretion of interest on the decommissioning/site restoration provision to finance costs offset by increased PP&E depreciation under IAS 16
[3] Reclassification of accretion of interest on the decommissioning/site restoration provision to finance costs offset by lower ARO interest in Q2 2011.

Statement of Comprehensive Income		Year ended December 31, 2010 GAAP		IFRS Adjustments			Year ended 31-Dec-10 IFRS
Revenue							
Oil and Gas		2,048,461		-535,281	[1]		1,513,180
Expenses							
Royalties		-681,482		535,281	[1]		-146,201
Operating costs		(1,157,571)		-			(1,157,571)
Depletion and depreciation		(440,783)		(27,972)	[2]		(468,755)
Impairment of PP&E		(585,119)					
General and administrative		(855,091)		-			(855,091)
Financing costs		(75,000)		(8,924)	[3]		(83,924)
Foreign Exchange loss		(7,693)		-			(7,693)
		(3,802,739)		498,384			(2,719,236)
Interest income		6,546		-			6,546
Interest expense		(52,809)		-			(52,809)
Gain on held for trading investments		3,000					
Loss on disposal of PP&E		(580,882)					
Settlement of accounts payable		601,962		-			601,962
		(22,183)		-			(22,183)
Net income (loss) before taxes		**(1,776,461)**		**(36,897)**			**(1,228,239)**
Deferred income tax recovery (expense)		-		-			-
Net Income and comprehensive income (loss)	**$**	**(1,776,461)**	**$**	**(36,897)**		**$**	**(1,228,239)**

[1] Reclassification of 'in-kind' royalties from royalty expense to a reduction in oil and gas revenue (IAS 18 *Revenue*)
[2] Reclassification of accretion of interest on the decommissioning/site restoration provision to finance costs $20k, offset by increased PP&E depreciation under IAS 16 of $61k
[3] Reclassification of accretion of interest on the decommissioning/site restoration provision to finance costs

GUARDIAN EXPLORATION INC.

Management's Discussion & Analysis

For the 6 months ended

June 30, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") of financial conditions and results of operations as of August 26, 2011 and should be read in conjunction with the unaudited consolidated interim financial statements of Guardian Exploration Inc. ("Guardian" or the "Company") for the three months ended June 30, 2011. Additional information relating to the Company can be found on the SEDAR website at www.sedar.com.

Discussion with regard to Guardian's current financial position and outlook for the remainder of 2011 is based on currently available information. The financial data presented below has been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The reporting and operating currency is the Canadian dollar. The information in this MD&A was approved by the Company's Board of Directors on August 26, 2011.

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

CORPORATE OVERVIEW

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

CORPORATE UPDATE

The second quarter of 2011 saw consistent production from the Company's oil-producing wells in Montana at 30 barrels/day, and consistent oil prices in the $82-$97/bbl range. The Company's natural gas wells in north-eastern British Columbia remain shut-in due to depressed gas prices. The Company recorded a second quarter loss of $383,564 on revenue of $229,999. At June 30, 2011, the Company had a working capital deficiency of approximately $1.5 million.

In April, the Company sold through a brokered private placement 19,488,000 units for gross proceeds of $1,948,800. Each Unit consists of one common share ("Common Share") in the capital of the Company and one-half (1/2) Common Share purchase warrant ("Warrant"), each whole Warrant being exercisable for one (1) Common Share of the Company at a price of $0.25 per share (the "Warrant Price") for a period of 18 months following closing, provided that if after four months and one day following the Closing Date, the closing price of the common shares of the Corporation on the principal market on which such shares trade is equal to or exceeds $0.375 for 10 days (the "Eligible Acceleration Date") the Warrant Expiry Date shall accelerate to the date which is 30 calendar days following the date a formal notice is issued by the Company announcing the reduced warrant term, provided such notice is sent to all warrant holders no more than five business days following the Eligible Acceleration Date.

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

In June, the Company issued 8,250,000 units at a purchase price of $0.10 per unit for gross proceeds of $825,000, each unit consisting of one common share of the Company to be issued on a "flow through" tax basis and one purchase warrant, each whole warrant exercisable into one Common Share upon payment of $0.15 per share for a period of 24 months from the date of issuance. 4,000,000 of the units were purchased by directors and officers of the Company.

The Company paid a finders' fee to eligible persons in the aggregate amount of 7% of the proceeds of the Offering raised by such persons ($22,750) and 7% of the number of securities placed by such persons in finders warrants (227,500 warrants). Each finders warrant is exercisable into one Common Share upon payment of $0.10 per share for a period of one year from the date of issuance.

In July, the Company announced the successful acquisition of 3,360 acres from the Alberta Crown in the Jenner area of Southern Alberta targeting Pekisko oil. The Company acquired these leases based on a geological evaluation of the area and production from an offsetting well that has already produced over 35,000 barrels of oil since coming on stream in November 2010. Some of the acquired land was drilled in the 1980's and early 1990's with vertical wells that economically produced for several years and have since been abandoned. Guardian intends to use horizontal drilling technology to increase both initial production rates and recoverable reserves from these Pekisko pools. An average of 8.0 meters of oil pay and porosities ranging from 10.0 to 15.0% are present on Guardian land. Unlike many of the resource plays being developed around North America, this formation would not require any Hydraulic fracturing. This translates to a simpler completion process that involves less risk, and is less expensive.

The Company intends to drill at least one well before year-end and from its current evaluation has identified a minimum of 4 well locations. A 3D seismic program is currently being planned to help identify additional step out locations but the initial locations can be drilled with the existing downhole and 2D seismic data.

The Company has also recently added 1,276 acres around its existing Alberta Bakken position, bringing its total holdings in the play to just over 10,000 acres. Wells continue to be drilled and completed next to Guardian lands, primarily by Newfield Exploration and Rosetta Resources. Although no production numbers have yet become publicly available, it is known that Newfield's Sheriff 1-11H is a producing horizontal well and is only 7 miles north-west of Guardian's Montana lands.

SELECTED INFORMATION

	Three months ended June 30		Six months ended June 30	
	2011	**2010**	**2011**	**2010**
	$	**$**	**$**	**$**
Petroleum and natural gas revenue, before royalties	229,999	770,626	444,363	1,660,836
Funds flow from (used in) operations	(266,268)	(20,583)	(415,390)	(117,471)
Funds flow from (used in) operations per share - basic	($0.00)	(0.00)	($0.00)	(0.00)
Funds flow from (used in) operations per share - diluted	($0.00)	($0.00)	($0.00)	($0.00)
Net income (loss)	(383,564)	(794,716)	(564,724)	(1,063,519)
Net income (loss) per share - basic	($0.00)	($0.02)	($0.00)	($0.03)
Net income (loss) per share - diluted	($0.00)	($0.02)	($0.00)	($0.03)
Capital expenditures	-	64,776	-	274,111
Production (boe/day)	30	116	30	123

	June 30 2011	December 31 2010
Working capital deficiency	$1,473,098	$1,812,194
Total assets	$3,686,279	$3,973,897

RESULTS OF OPERATIONS

PRODUCTION

	Three months ended June 30	
	2011	**2010**
Production (boe/day)		
Crude oil	30	116
Natural gas	-	-
Oil equivalent production	30	116

Production in the second quarter reflects the Company's interests in oil-producing wells in Montana, which is consistent with prior quarters and the prior year. 2010 production includes the Company's Girouxville wells (disposed in July) of approximately 89 bbls/day.

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

PRICING

Benchmark Prices

	Three months ended June 30	
	2011	2010
Crude oil – WTI (US$ per Bbl)	$103.75	$77.89
Crude oil – Edmonton Par Price ($ per Bbl)	$103.75	75.58
Exchange rate ($US/$Cdn)	0.97	1.03

West Texas Intermediate at Cushing, Oklahoma ("WTI") is the benchmark reference price for North American crude oil prices. Canadian crude oil prices are based upon the average of several postings, primarily at Edmonton Alberta, and represents the WTI price adjusted for quality and transportation differentials, the US/CDN dollar exchange rate and local demand and supply influences. For the three months ended June 30, 2011, WTI crude oil prices averaged US$94 and $89 per barrel at Edmonton.

Realized Prices

	Three months ended March 31	
	2011	2010
Average Prices		
Crude oil ($/bbl)	$84.82	$75.58
Natural gas ($/mcf)	-	-
Oil equivalent ($/boe)	$84.82	$75.58

Guardian's averaged realized price for its crude oil was $89 per barrel for the three months ended June 30, 2011, reflecting the Edmonton benchmark prices described above. As noted previously, no natural gas was produced in the three months ended June 30, 2010 and 2011.

REVENUE

	Three months ended June 30	
	2011	2010
Production Revenue		
Crude oil	$229,999	$531,911
Natural gas	-	-
Total production revenue	$229,999	$531,911

The overall decrease in oil revenue is due to significantly lower volumes, 2010 production includes the Company's Girouxville wells (disposed in July) of approximately 89 bbls/day.

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	
	2011	**2010**
Royalties	$39,816	$34,525
As a percentage of revenue	17%	7%

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

OPERATING EXPENSES

	Three months ended June 30	
	2011	**2010**
Operating expenses	$167,360	$222,801
Operating expenses per boe	$61.72	$21.05
As a percentage of revenue	72.8%	29%

Operating costs on a per boe basis were similar in 2011 as compared to 2010, although lower on as a percentage of revenue.

GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended June 30	
	2011	**2010**
General and administrative expenses	$338,050	$269,220
As a percentage of revenue	147%	35%

G&A expenses during the second quarter of 2011 remained similar to that realized in the second quarter of 2011. As a percentage of revenue, G&A expenses are significantly higher in 2011 due to fixed overheads on lower production volumes.

STOCK-BASED COMPENSATION

	Three months ended June 30	
	2011	**2010**
Stock-based compensation expense	14,175	-

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

In March 2011, 1,400,000 options were granted to certain directors, officers, employees and consultants. The options have a 5 year term, two-year vesting period, and an exercise price of $0.10. The fair value of the options at the grant date was determined under the Black-Scholes model. Stock-based compensation for the three months ended June 30, 2011 was $14,175.

INTEREST AND FINANCING EXPENSES

	Three months ended June 30	
	2011	**2010**
Financing fees	-	8,924
Interest expense/(recovery)	$8,534	$26,139

Financing fees of $75,000 were paid during the first quarter of 2010 in relation to the secured loan from a related party. Interest expense for the three months and year ended June 30, 2011 relates primarily to the same loan.

DEPLETION, DEPRECIATION AND ACCRETION

	Three months ended June 30	
	2011	**2010**
Depletion and depreciation	$34,383	$180,646
Accretion	$15,313	$20,344
Total DD&A	$39,752	$200,990

Depletion of the Company's oil and gas assets is calculated on a unit of production basis, using estimated proven reserves. The significant decrease in depletion and depreciation expense for the three months ended June 30, 2011 as compared to the same period in 2010 primarily reflects significantly lower production levels.

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 present value of its asset retirement obligations at June 30, 2011 is $1,248,426. Current expenditures for actual abandonment and site restoration in the three months ended June 30, 2011 were $nil.

TAXES

During the three months ended June 30, 2011, consistent with the same period in 2010, the Company recorded no current or future income tax expense or recovery, as the benefit of losses incurred is not considered probable of realization.

As of June 30, 2011, the Company has approximately $3.6 million in resource tax pools available to offset future taxable income, and estimated carried forward non-capital losses of $3.6 million. Further, there are approximately US$36 million of resource and tax loss pools related to the Company's US subsidiary (none of which have been recognized for accounting purposes as not considered recoverable at this time).

NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Three months ended June 30	
	2011	**2010**
Net income (loss)	($383,564)	($831,613)
Net income (loss) - per basic share	($0.00)	($0.01)
Net income (loss) - per diluted share	($0.00)	($0.01)
Weighted average shares outstanding:		
Basic	74,475,877	39,737,877
Diluted	74,475,877	39,737,877

In both 2011 and 2010, 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	
	2011	**2010**
Net income (loss)	($383,564)	($794,716)
Add back (subtract) items not affecting cash:		
Depletion, depreciation, impairment and accretion	$39,752	$173,018
Future income tax expense (recovery)	-	-
Stock-based compensation	14,175	-
Gain on held for trading investments	(1,080)	-
Settlement of accounts payable	($55,573)	($18,583)
Foreign exchange loss (gain)	$7,499	($4,585)
Funds flow from (used in) operations	($323,218)	($20,583)
Funds flow per share - basic	($0.00)	$0.00
Funds flow per share - diluted	($0.00)	$0.00

Funds from operations were lower in 2011 as a result of lower revenue from lower oil and natural gas production volumes.

SHARE CAPITAL

	As at June 30	
	2011	**2010**
Outstanding common shares		
Basic	74,475,877	39,737,877
Diluted	74,475,877	42,440,847

Due to the anti-dilutive effect of Guardian's net loss for the three months ended June 30, 2011, the diluted number of shares is considered equivalent to the basic number of shares for the purposes of all per share calculations.

Detail of Outstanding Securities	**Outstanding at**

	June 30	
	2011	2010
Common shares	74,475,877	39,737,877
Stock options	2,750,000	1,700,000
Warrants	5,299,400	-
Agent warrants	2,648,800	1,002,920
Finders Warrants	227,500	-

As of the date of this MD&A, there were 74,475,877 common shares, 5,299,400 warrants, 2,648,800 agent warrants, 227,500 finders warrants, and 2,750,000 options outstanding.

CAPITAL EXPENDITURES

	Three months ended June 30	
	2011	2010
Canada	-	$64,776
United States	-	-
Total	-	$64,776

Capital expenditure incurred in the first quarter of 2010 related to the Procyon farm-in arrangement.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2011, the Company had a working capital deficit of approximately $1.5 million. The convertible promissory note owned by the President of Guardian Exploration Inc. increased to a balance of $252,000. The loan accrues interest at the rate of 15% per year, payable monthly and is secured against the assets of the Company.

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

The capital intensive nature of the Company's activities may create a negative working capital position during times of high levels of capital investment. The industry has a pre-arranged monthly clearing day for payment of revenues from all buyers of crude oil and natural gas. This occurs for all the Company's Canadian operations on the 25th day following the month of sale. As a result, the Company's production revenues are collected in an orderly fashion. To the extent that the Company has joint venture partners in its activities it will attempt to collect on a monthly basis the partner's share of capital and operating expenses. These are subject to collection risk. No receivables at June 30, 2011 are past due.

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

SUMMARIZED QUARTERLY INFORMATION

	2011		2010				2009	
SELECTED QUARTERLY HIGHLIGHTS (unaudited)	**Q2 2011**	**Q1 2011**	**Q4 2010**	**Q3 2010**	**Q2 2010**	**Q1 2010**	**Q4 2009**	**Q3 2009**
($000's)								
P&NG net revenue	230	214	199	156	497	552	923	598
Production expense	167	73	91	195	223	317	332	312
DDA/impairment	40	42	41	43	838	183	262	319
G&A	338	261	163	184	269	238	362	334
Financing fees/interest	9	8	4	4	26	99	467	31
Income tax expense	-	-	-	-	-	-	-	-
Net income (loss) for the period	(384)	(181)	(528)	(185)	(795)	(269)	(845)	(175)
Net income (loss) per share	-	-	-	(0.01)	(0.02)	(0.01)	(0.02)	(0.00)
Working Capital/(Deficiency)	(1,473)	(1,367)	(1,292)	(1,475)	(1,944)	(1,905)	(1,812)	(958)

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

RELATED PARTY TRANSACTIONS

a) The Company drew an additional $27,000 on its loan facility with a company controlled by a director, leaving a balance owing of $252,000 at June 30, 2011. Interest incurred on the total drawn amount for the three months ended June 30, 2011 was $8,534.

b) Legal fees in the amount of $32,730 for the three months ended June 30, 2011 have been incurred from a legal firm of which a Company director is a partner.

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

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

a) Flow-through share issuance

Pursuant to a flow-through share issuance completed in 2008, the Company was committed to incur $2,777,110 of qualifying expenditures by December 31, 2009. At March 31, 2011, approximately $2.3 million of the obligation had been fulfilled. As the Company did not make the necessary qualifying expenditures by the aforementioned deadline as required under the income tax rules, the unexpended flow-through amount (approximately $450,000) could be reassessed by the tax authorities and the Company could potentially be liable for investor income taxes and penalty interest thereon if an arrangement with CRA cannot be made to remedy this contingency. The Company has been in contact with the CRA regarding this matter and is optimistic that the matter will be resolved through negotiation with the tax authorities. The Company has recorded $332,000 of Part XII.6 tax with respect to this issuance.

b) BC Oil & Gas Commission Letter of Credit

The BC Oil and Gas Commission (OGC) requires that company secure its British Columbia abandonment and reclamation liabilities with a letter of credit. The letter of credit currently filed with the OGC has been provided by another company. Guardian is liable to provide the OGC with a deposit or a letter of credit valued at $365,400.

c) 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%.

d) Office sub-lease

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

CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS

e) 2006 Flow-through capital raise – qualifying expenditures

Pursuant to a flow-through share issuance completed in March 2006, the Company was committed to incur $4,000,000 of qualified expenditures by December 31, 2007. By December 31, 2007 the Company had incurred only $2.2 million of qualifying expenditure. The remaining $1.8 million was incurred in 2008.

As the Company did not make the necessary qualifying expenditures by December 31, 2007, by the strict interpretation of the income tax rules, the unexpended flow-through amount (approximately $1.8 million) could be reassessed by the tax authorities, making the Company potentially liable for investor income taxes and penalty interest thereon of up to $700,000 in an arrangement cannot be made to remedy this contingency.

Notwithstanding this however, management has received a tax opinion from Calgary counsel that the over $2.4 million in eligible expenditures incurred by the Company less than 30 days prior to the closing of the Company's 2006 flow through financing could be applied to the necessary expenditures, extinguishing the remaining commitment. Using this position, management is confident that the matter can be resolved through negotiation with the tax authorities. No provision has been made in these consolidated financial statements other than an amount for estimated Part XII.6 interest and penalties.

f) Minerals Management Services

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

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

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

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

g) Other

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

d) Off Balance Sheet Arrangements

Disclosure is required regarding all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect the liquidity of or the availability of, or requirements for, capital resources. The Company had no such off-balance sheet arrangements as at June 30, 2011.

SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements of the Group include the following controlled entities (wholly owned subsidiaries):

K2 America Corp. - incorporated November 16, 1995 under the General and Business Corporate Law of the State of Montana
K2 Operating Corp. - incorporated February 12, 1998 under the General and Business Corporate Law of the State of Montana

Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

K2 Operating Corp had no assets or liabilities at March 31, 2011 nor any of the comparative periods presented.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Company's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Company loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognized in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for

each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognized.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3(2008) *Business Combinations* are recognized at their fair value at the acquisition date, except that:

deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;

liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 *Share-based* Payment; and

assets (or disposal Groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

Interests in joint ventures

Most of the Group's oil and gas exploration activity and operations are conducted through unincorporated joint ventures. A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic, financial and operating policy decisions relating to the activities of the joint venture are made jointly).

When the Group undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognized in the financial statements of the Group and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using proportionate consolidation, except when the investment is classified as held for sale, in which case it is accounted

for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities is combined with the equivalent items in the consolidated financial statements on a line-by-line basis. When the Group transacts with a jointly controlled entity of the Group, unrealized profits and losses are eliminated to the extent of the Group's interest in the joint venture.

Property, plant and equipment and intangible exploration assets

(i) Recognition and Measurement

The Group accounts for exploration and evaluation ("E&E") costs, having regard to the requirement of IFRS 6 *Exploration for and Evaluation of Mineral Resources*. Costs of exploring for and evaluating oil and natural gas properties are capitalized. Such E&E costs may include costs of license acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, directly attributable overhead and administration expenses, and the projected costs of retiring the assets (if any), but do not include general prospecting or evaluation costs incurred prior to having obtained the legal rights to explore an area, which are expensed directly to the comprehensive statement of income as they are incurred.

Tangible assets acquired for use in E&E activities are classified as property, plant and equipment; however, to the extent that such a tangible asset is consumed in developing an intangible exploration asset, the amount reflecting that consumption is recorded as part of the cost of the intangible exploration asset.

Intangible exploration assets are not depleted and are carried forward until technical feasibility and commercial viability of extracting a mineral (petroleum) resource is considered to be determined. The technical feasibility and commercial viability of extracting a petroleum resource is considered to be determined when proven and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proven and/or probable reserves have been discovered. Upon determination of proven and probable reserves, E&E assets attributable to those reserves are first tested for impairment using cash generating units (CGUs – refer 'Impairment' below), and then reclassified from intangible exploration assets to oil and natural gas interests, a separate category within property, plant and equipment.

Items of property, plant and equipment are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within "other income" or "other expense" within profit or loss.

(ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depletion and depreciation

The net carrying value of development or production (ie producing) assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proven reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proven reserves are estimated using independent reserve engineer reports which represent the estimated quantities of

crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 90 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven.

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

a reasonable assessment of the future economics of such production;
a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and/or
evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil.

Tangible equipment, such as drilling, production or well equipment available for use in exploration and evaluation activities is also depreciated on a units of production basis unless the estimated useful life of the asset is shorter than that implied by the unit of production rate, in which case the asset is depreciated on a straight-line basis over its estimated useful life.

For other assets (e.g. office furniture and equipment), depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for other assets are as follows:

Office Equipment	2 - 5 years
Fixtures and Fittings	2 - 5 years
Computer software	2 - 3 years

(iv) Impairment

E&E assets are assessed for impairment when they are reclassified as oil and natural gas interests to property, plant and equipment, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. CGUs represent the smallest Group of assets that generates independent cash inflows from continuing use, and typically consist of oil and natural gas fields in close geographic proximity that share common infrastructure and have interpendent cash inflows. Such CGUs are not larger than a segment. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows from proven and probable reserves are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount

of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Decommissioning/site restoration provisions

The Group's core activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category unless it arises from the normal course of production activities, in which case it is recognized in profit or loss.

Provisions are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each year to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized (unless the obligating event was related to production activities). Actual costs incurred upon settlement of the site restoration obligation are charged against the provision to the extent the provision was established.

The interest rate used to discount future costs is a risk-free rate, being the nominal rate reduced for the expected impact of inflation over the period to when the costs are expected to be incurred.

Revenue recognition

Revenue from the sale of crude oil, natural gas and natural gas liquids is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer. This is usually when legal title passes to the external party, generally at the time product enters the pipeline. Revenue is measured net of discounts, custom duties, and royalties that are taken 'in-kind' (e.g. oil royalties due to the Alberta Minister of Finance).

Financial instruments

Financial instruments include cash, cash equivalents (money market instruments that carry terms less than 91 days at the date of investment), accounts and other receivables, borrowings, and accounts payable. All financial instruments are recognized and derecognized on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Group has no 'held to maturity' investments or 'available for sale' (e.g listed or unlisted shares in other entities) financial assets.

(i) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. Cash and cash equivalents are designated as "held-for-trading" and is measured at fair value, being its face value.

(ii) Loans and receivables

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(iii) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

significant financial difficulty of the issuer or counterparty; or

default or delinquency in interest or principal payments; or

it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(iv) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred

financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. The Group has no financial liabilities 'at FVTPL'.

(i) Other financial liabilities

Other financial liabilities, including trade payables and borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

(ii) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Common shares issued by the Group are classified as equity and are recognized at the proceeds received, net of direct issue costs and any tax effects.

(iii) Compound instruments

The component parts of compound instruments (convertible bonds) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured.

(iv) Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(ii) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other

than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(iii) Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

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.

Share-based payments

Equity-settled share-based payments to employees, directors and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value of equity instruments is determined utilizing the Black-Scholes option pricing model.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. The vesting period is the period over which the recipient becomes unconditionally entitled to the share-based award.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled items reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the

counterparty renders the service.

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

For cash-settled share-based payments, a liability is recognized for the goods or services received, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in profit or loss.

Foreign currency

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Canadian dollars which is the functional currency of the Group, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise.

Future changes in IFRS

None of the IFRSs available for early adoption have been adopted by the Group, and at this time none are expected to have a significant financial statement impact in future years when the standards are adopted.

Use of estimates and measurement uncertainty

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Such estimates primarily relate to unsettled transactions and events at the reporting date and are based on information available to management at the reporting date. Actual results could differ from those estimated. Key sources of estimation uncertainty and judgment are discussed below.

The amounts recorded for depletion and depreciation of property, plant and equipment, the provision for decommissioning/site restoration, and the amounts used for the impairment test calculations are based on estimates of reserves, future commodity prices, royalties, operating costs, development costs, abandonment costs, and the fair value of E&E assets, all of which are inherently uncertain. The Group's reserve estimates are evaluated at least annually by an independent engineering firm.

The determination of share-based payment expense requires a calculation of the fair value of the equity instrument at grant date, which involves a number of estimates, in particular the volatility of the Group's future share price.

The recognition of deferred income tax assets requires judgment as to the existence of future taxable income or reversal of temporary differences to which the tax assets can be applied and benefit realized.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. By their nature, estimates are subject to measurement uncertainty and the effect of changes in such estimates on the financial statements for current and future periods could be significant.

ADDITIONAL INFORMATION

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