GUARDIAN EXPLORATION INC.

Condensed Consolidated Financial Statements

(Unaudited)

For the Six Months Ended

June 30, 2012

Notice to Reader

The condensed consolidated financial statements of Guardian Exploration Inc. and the accompanying condensed consolidated statement of financial position as of June 30, 2012 and condensed consolidated statements of operations and comprehensive loss, changes in equity and cash flow for the six months ended June 30, 2012 are the responsibility of the Company's management.

The condensed 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.

The condensed consolidated financial statements have not been reviewed by an auditor. The condensed 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 28, 2012

Signed "*Graydon Kowal*"

Graydon Kowal
President and Chief Executive Officer

GUARDIAN EXPLORATION INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
*(**Unaudited,** All amounts in Canadian dollars unless indicated otherwise)*

	Notes	30 June 2012	31 December 2011
ASSETS			
Current assets			
Cash		**204**	396
Accounts receivable		**53,625**	84,288
Prepaid expenses		**16,145**	20,088
		69,973	104,772
Deposit	4	**464,934**	364,540
Investment	3	**24,000**	40,000
Property, plant and equipment	6	**314,691**	338,982
Exploration and evaluation	5	**2,881,788**	2,881,096
		3,755,387	3,729,390
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**2,147,178**	1,789,850
Loan from related party	7	**574,450**	436,000
		2,721,629	2,225,850
Decommissioning liabilities	8	**1,366,948**	1,353,428
		4,088,577	3,579,278
Shareholders' equity			
Share capital	10a,b	**12,630,220**	12,630,220
Warrants	10c,d,e,f	**1,566,834**	1,566,834
Contributed surplus		**3,511,728**	3,458,886
Deficit		**(18,415,751)**	(17,881,280)
Accumulated other comprehensive income		**373,779**	375,452
		(333,190)	150,112
		3,755,387	3,729,390

Going Concern (Note 1)
Commitments (Note 12)
Contingencies (Note 14)

See accompanying notes to the condensed consolidated financial statements.

GUARDIAN EXPLORATION INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
*(**Unaudited,** All amounts in Canadian dollars unless indicated otherwise)*

	Notes	Three Months Ended 30 June 2012	Three Months Ended 30 June 2011	Six Months Ended 30 June 2012	Six Months Ended 30 June 2011
Revenue					
Petroleum and natural gas	14	**194,649**	229,999	**454,982**	444,363
Royalties		**(34,869)**	(39,816)	**(80,020)**	(77,503)
		159,780	190,183	**374,962**	366,860
Expenses					
Operating expenses		**91,424**	167,360	**316,967**	240,398
Depreciation and depletion	6	**39,317**	25,889	**63,260**	52,533
Impairment	6	**-**	-	**-**	-
Share-based payments	10g	**26,421**	14,175	**52,842**	28,350
General and administrative		**240,834**	338,050	**411,186**	598,897
Finance costs	8	**3,556**	13,863	**12,705**	28,964
Bad debts		**-**	-	**-**	5,038
Foreign exchange loss		**(376)**	7,499	**240**	28,440
		401,176	566,836	**857,201**	982,620
Net loss before other items and tax		**(241,396)**	(376,653)	**(482,238)**	(615,760)
Other items					
Interest expense	7	**(21,570)**	(8,534)	**(38,870)**	(16,561)
Interest income		**38**	543	**2,637**	4,943
Gain on held for trading investments	3	**(16,000)**	1,080	**(16,000)**	7,080
Income on settlement of accounts Payable		**-**	-	**-**	55,573
		(37,532)	(6,911)	**(52,233)**	51,035
Net loss before tax		**(278,929)**	(383,564)	**(534,471)**	(564,725)
Income tax expense		**-**	-	**-**	-
Net loss after tax		**(278,929)**	(383,564)	**(534,471)**	(564,725)
Other comprehensive income					
Foreign currency translation adjustment		**3,310**	-	**(1,673)**	-
Total comprehensive loss		**(275,619)**	(383,564)	**(536,144)**	(564,725)
Net loss per share					
Basic	11h	**(0.2)**	(0.00)	**(0.2)**	(0.00)
Diluted	11h	**(0.2)**	(0.00)	**(0.2)**	(0.00)

See accompanying notes to the condensed consolidated financial statements.

GUARDIAN EXPLORATION INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011
*(**Unaudited,** All amounts in Canadian dollars unless indicated otherwise)*

	Notes	30 June 2012	30 June 2011
Share Capital			
Balance, beginning of quarter		12,630,220	11,181,852
Issued for cash		-	3,080,392
Share issue costs		-	(559,857)
Balance, end of quarter	10b	12,630,220	13,702,387
Warrants			
Balance, beginning of quarter		1,566,834	-
Expiry of warrants		-	-
Issue warrants		-	393,408
Issue finders warrants		-	11,074
Issue agent warrants		-	284,238
Balance, end of quarter	10f	1,566,834	688,720
Contributed surplus			
Balance, beginning of quarter		3,458,886	3,297,548
Expiry of warrants		-	-
Share-based payments		52,842	28,350
Balance, end of quarter		3,511,728	3,325,898
Accumulated other comprehensive income			
Balance, beginning of quarter		375,452	-
Foreign currency translation adjustment		(1,673)	-
Balance, end of quarter		373,779	-
Deficit			
Balance, beginning of quarter		(17,881,280)	(16,430,272)
Net loss		(534,471)	(564,725)
Balance, end of quarter		(18,415,751)	(16,994,997)
Total shareholders' equity		(333,190)	722,008

See accompanying notes to the condensed consolidated financial statements.

GUARDIAN EXPLORATION INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW
*(***Unaudited,** *All amounts in Canadian dollars unless indicated otherwise)*

	Notes	30 June 2012	30 June 2011
Cash flows from (used in):			
Operating activities			
Net loss		**(534,471)**	(564,724)
Items not affecting cash:			
Depreciation, depletion and accretion	**6, 8**	**75,965**	81,497
Impairment		**-**	-
Gain on settlement of accounts payable		**-**	(55,573)
Gain on held for trading investments	**3**	**16,000**	(7,080)
Share-based payments	**10g**	**52,842**	28,350
Bad debts		**-**	-
Foreign exchange loss		**240**	28,440
		(389,424)	(489,090)
Changes in non-cash working capital		**293,112**	73,700
		(96,312)	(415,390)
Financing activities			
Repayment from related party		**-**	-
Loan from related party	**7**	**138,450**	52,000
Contributed surplus adjustment		**-**	28,350
Issuance of equity private placements for cash		**-**	3,788,048
Share issue costs		**-**	(548,783)
		138,450	3,319,615
Investing activities			
Disposition of property, plant and equipment		**-**	-
Expenditures on property and equipment		**(42,331)**	(2,904,296)
Expenditures on exploration and evaluation assets		-	-
Change in non-cash investing working capital		-	-
		(42,331)	(2,904,296)
Change in cash		**(192)**	(71)
Cash, beginning of quarter		**396**	71
Cash, end of quarter		**204**	-
Supplemental cash flow information			
Interest paid		**-**	16,559

See accompanying notes to the condensed consolidated 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 properties in Western Canada and the State of Montana. The registered office and principal place of business of the Company is Suite 620, 510 - 5th Street S.W., Calgary, Alberta, Canada, T2P 3S2.

The condensed consolidated financial statements are comprised of the Company and its controlled entities ("Group"). The condensed consolidated financial statements have been prepared on a historical cost basis and are stated in Canadian dollars, which is the Group's presentation and functional currency. The condensed consolidated financial statements have been prepared using policies consistent with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standard Board (IASB). Refer to Note 2 for a description of the Group's accounting policies.

The condensed consolidated financial statements were authorized by the Board of Directors on August 28, 2012.

Going Concern

The condensed consolidated financial statements have been prepared by management in accordance with IFRS on a going concern basis. The going concern basis contemplates the realization of assets and the settlement of liabilities in the ordinary course of business. If the Company is unable to successfully finance its current and future oil and natural gas properties and projects, it may not be able to realize its assets and discharge its liabilities in the normal course of operations.

For the quarter ended June 30, 2012, the Company reported an after-tax loss of $279 thousand and negative operating cash flows of $84 thousand. As at June 30, 2012, the Company had a working capital deficiency of $2.7 million and an accumulated deficit of $18.4 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 and administrative activities. The Company's 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 assumption is not appropriate, adjustments may be necessary to the carrying amounts and classification of the Company's assets and liabilities. The accompanying condensed consolidated financial statements do not include any adjustments that may result if the Company is unable to continue as a going concern, and, such adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

The condensed 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 for any of the periods presented.

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.

b) Jointly controlled operations and assets

Most of the Group's oil and gas exploration activities 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 directly under joint venture arrangements, the Group's share of jointly controlled assets and jointly incurred liabilities are recognized proportionately 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.

c) Property, plant and equipment and intangible exploration assets

(i) Recognition and measurement

Pre-license expenditures are expensed in the statement of operations as incurred. 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 statement of operations 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 petroleum resource is considered to be determined. The technical feasibility and commercial viability of extracting a petroleum resource is 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 assess 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 to '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 the statement of operations

(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 (i.e. producing) assets is depleted using the unit of production method by reference to the ratio of production in the quarter 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. The 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 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 to 5 years
- Fixtures and Fittings - 2 to 5 years
- Computer Software - 2 to 3 years

(iv) Impairment

E&E assets are assessed for impairment when they are reclassified as oil and natural gas interests to property and equipment, and when 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 generate independent cash inflows from continuing use, and they typically consist of oil and natural gas fields in close geographic proximity that share common infrastructure and have independent cash inflows. Where a reasonable and consistent basis of allocation can be identified, corporate assets are allocated to individual CGUs, 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 the conditions that give rise to 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.

d) Decommissioning liabilities

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 timing or change in discount rates. 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.

e) 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 are 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, and royalties that are taken 'in-kind' (e.g. oil royalties due to the Alberta Minister of Finance).

f) Financial instruments

Financial instruments include cash, accounts receivable, deposits, investments, accounts payable and accrued liabilities and amounts due to and from parties. All financial instruments are recognized initially 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' financial assets.

(i) Financial assets at FVTPL

A financial asset is classified as FVTPL when the financial asset is either held-for-trading or it is designated as FVTPL. Cash, cash equivalents and investments are designated as held-for-trading and are measured at fair value.

(ii) Loans and receivables

Accounts receivable are classified as 'loans and receivables' and are measured at amortized cost using the effective interest method, less any impairment.

(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.

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 accounts payables and accrued liabilities and loan from related party, 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) Derecognition of financial liabilities

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

g) 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 quarter. 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 quarters 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.

h) Flow-through shares

The Company, from time to time, issues flow-through shares to finance a portion of its capital expenditure program. Pursuant to the terms of the flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. The difference between the value ascribed to flow-through shares issued and the value that would have been received for common shares at the date of issuance of the flow-through shares is initially recognized as a liability on the consolidated statement of financial position. When the expenditures are renounced and incurred, the liability is drawn down, a deferred income tax liability is recorded equal to the estimated amount of deferred income tax payable by the Company as a result of the renunciation, and the difference is recognized as income tax expense in comprehensive income (loss).

i) 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 using 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 graded 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 assesses 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.

j) Foreign currency

Transactions in foreign currencies are translated to the entities' functional currency. Monetary assets and liabilities denominated in foreign currencies are translated at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the time of the prevailing transaction. Foreign currency translation amounts are recognized in net income/loss.

In the consolidated financial statements, all assets, liabilities and transactions of Guardian's subsidiaries with a functional currency other than the Canadian dollars (the Company's presentation currency) are translated into Canadian dollars. These assets and liabilities have been translated into Canadian dollars at the closing rate at the reporting date. Income and expenses have been translated into the Company's presentation currency at the average rate over the reporting period. Exchange differences are recorded to other comprehensive income/loss and recognized in the accumulated other comprehensive income balance in equity. On disposal of a foreign operation, the cumulative translation differences recognized in equity are reclassified to profit or loss and recognized as part of the gain or loss on disposal. The functional currency of these subsidiaries has remained unchanged during the reporting period.

k) 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.

3. INVESTMENT

Part of the consideration received from the sale of the Company's Girouxville properties in July 2010 was 100,000 shares in Blackdog Resources Inc. ("Blackdog"), at a deemed value of $0.24 per share. The investment is classified as held for trading and is carried at its fair value at June 30, 2012 of $24,000, (December 31, 2011 - $40,000)

4. DEPOSIT

As part of the finalization of the Third Amended Agreement with the Blackfeet Nation, the Company has deposited of $364,934 (USD$ 360,000; December 31, 2011 – CDN $364,540) in favor of the Bureau of Indian Affairs-Blackfeet Agency, in order 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. The deposit balance also includes $100,000 related to the BC Oil and Gas Commission obligation (see note 12 – Commitments).

5. EXPLORATION AND EVALUATION ASSETS

($)	**E&E assets**
Cost and carrying amount	
Balance at December 31, 2010	**-**
Additions	2,881,096
Transfers to property, plant and equipment	-
Balance at December 31, 2011	2,881,096
Additions	-
Transfers to property, plant and equipment	-
Impairment	-
Change in valuation due to foreign exchange	692
Balance at June 30, 2012	2,881,788

6. PROPERTY, PLANT AND EQUIPMENT

Cost ($)	**Oil and gas properties**	**Furniture, fixtures & other equipment**	**Total property, plant & equipment**
Cost			
Balance at January 1, 2010	2,464,105	10,861	2,474,966
Additions	102,015	9,794	111,809
Disposals	(787,400)	-	(787,400)
Balance at December 31, 2010	**1,778,720**	**20,655**	**1,799,375**
Additions	210,136	24,631	234,767
Balance at December 31, 2011	**1,988,856**	**45,286**	**2,034,142**
Change due to foreign exchange	(2,086)	-	(2,086)
Additions	42,331	-	42,331
Balance at June 30, 2012	**2,029,101**	**45,286**	**2,074,387**

Accumulated Depletion and Depreciation ($)	**Oil and gas properties**	**Furniture, fixtures & other equipment**	**Total property, plant & equipment**
Balance at January 1, 2010	-	-	-
Depletion and depreciation	(468,755)	-	(468,755)
Impairment	(585,119)	-	(585,119)
Disposals and other	(421,356)	-	(421,356)
Balance at December 31, 2010	**(1,475,230)**	**-**	**(1,475,230)**
Depletion and depreciation	(100,901)	(9,029)	(109,930)
Impairment	(110,000)	-	(110,000)
Balance at December 31, 2011	**(1,686,131)**	**(9,029)**	**(1,695,160)**
Depletion and depreciation	(45,202)	(18,058)	(63,260)
Disposals and other	(1,276)	-	(3,362)
Balance at June 30, 2012	**(1,732,609)**	**(27,087)**	**(1,759,696)**
Net Carrying amounts as at:			
($ 000s)			
January 1, 2010	2,464,105	10,861	2,474,966
December 31, 2010	303,490	20,655	324,145
December 31, 2011	302,725	36,257	338,982
June 30, 2012	296,492	18,199	314,691

For the quarters ended June 30, 2012 and 2010, there were no capitalized general and administrative amounts.

7. LOAN FROM RELATED PARTY

During the quarter ended June 30, 2012, the Company drew an additional $126,450 on its secured convertible loan facility, which is 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. The loan was amended on March 1, 2011 whereas $225,000 is convertible into common shares of the Company at a deemed price of $0.07 per share. The value of the conversion option was determined to be immaterial.

	2012 $	2011 $
Balance, January 1	436,000	200,000
2012 Additions	138,450	52,000
Payments	-	-
Loan balance, end of quarter	574,450	252,000
Accrued interest payable, January 1	49,110	4,192
Accrued interest payable, end of quarter	87,692	20,751

8. DECOMMISSIONING LIABILITIES

The Company's decommissioning liabilities 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 and 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, 2012 are estimated to be $1,450,107 (December 31, 2011 - $1,440,714 and December 31, 2010 - $1,305,496). The obligations are expected to be settled at various times until 2017. The risk free rate at which the estimated cash flows were discounted was 2.5% as at June 30, 2012, and the estimated inflation rate used to project future costs was 2.5%. A reconciliation of the Company's decommissioning liabilities is provided below:

	2012 $	2011 $
Balance January 1	1,353,428	1,208,106
Obligations incurred	-	-
Disposals	-	-
Changes in estimates and foreign exchange	815	25,010
Accretion (Finance cost)	12,705	28,962
Decommissioning liabilities, end of quarter	1,366,948	1,262,078

9. INCOME TAXES

The Company has not recognized any temporary differences on its tax pools as management, at this time, does not believe that it is probable that the company will generate sufficient taxable income in the future to use any of its Canadian tax pools and loss carryforwards. The Company has tax pools of $1,430,000 at March 31, 2012 (December 31, 2011 - $1,430,000) and non-capital loss carryforwards of $4,830,000 at March 31, 2012 (December 31, 2011 - $4,830,000)

10. SHAREHOLDERS' EQUITY

a) Authorized shares

- Unlimited number of no par value common voting shares.
- Unlimited number of no par value preferred shares, issuable in series.

b) Shares issued and outstanding

Share Capital	Number of Shares	Amount $
Balance, 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	1,460,278
Private placements of common shares for cash - June 2011 (vi)(vii)	8,250,000	337,840
Share issue costs	-	(52,932)
Flow through share obligation (vi)	-	(206,250)
Share issue cost - Agent Commissions & Finders Fees	-	(199,416)
Share issue cost - Agent Warrants & Finders Warrants	-	(295,312)
Balance, December 31, 2011	74,475,877	12,630,220
Balance, June 30, 2012	74,475,877	12,630,220

c) Warrants

	Number of Warrants	Amount $
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)	9,744,000	488,522
Private placements of warrants for cash - June 2011 (vi)(vii)	8,250,000	487,160
Balance, December 31, 2011	21,494,000	1,271,522
Balance, June 30, 2012	21,494,000	1,271,522

d) Agent Warrants

	Number of Warrants	Amount $
Balance, 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, December 31, 2011	2,648,800	284,238
Balance, June 30, 2012	2,648,800	284,238

e) Finders Warrants

	Number of Warrants	Amount $
Balance, December, 31, 2010	-	-
Private placements of warrants for cash - June 2011 (vi)(vii)	227,500	11,074
Balance, December 31, 2011	227,500	11,074
Balance, June 30, 2012	227,500	11,074

f) Total Warrants

	Number of Warrants	Amount $
Balance, December, 31, 2010	-	-
Warrants	21,494,000	1,271,522
Agent Warrants	2,648,800	284,238
Finders Warrants	227,500	11,074
Balance, December 31, 2011	24,370,300	1,566,834
Balance, June 30, 2012	24,370,300	1,566,834

(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 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"), D&D received a cash commission of $49,000, equal to 7% of the aggregate gross proceeds of the Offering, and 700,000 Agent Warrants, representing 10% of the aggregate number of Units sold. Each Agent 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.

(iii) The total gross proceeds from the issuance have been allocated between share capital and share purchase warrants by estimating the fair value of $0.08 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 – based on historical share price volatility	153%
Expected dividend	Nil

The fair value of the 700,000 Agent Warrants was estimated using the same methodology, and $105,469 has been recorded as a share issue cost with an offsetting increase to Agent Warrants.

(iv) On April 7, 2011 the Company sold 19,488,000 units through a brokered private placement for gross proceeds of $1,948,800. Each unit consists of one Common Share in the capital of the Company and one-half (1/2) common share purchase warrant , with 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 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. Warrants have been valued using similar assumptions as described in (iii) resulting in a value of $488,522.

(v) Under the terms of an agency agreement with D&D, D&D and its subagents received an aggregate cash commission of $127,666, being equal to 7% of the aggregate gross proceeds of the Offering raised by the Agent, and Agent Warrants and representing 10% of the aggregate number of Units sold. Each Agent 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. Warrants have been valued using similar assumptions as described in (iii) resulting in a value of $178,769.

(vi) On June 15, 2011, the Company issued 8,250,000 units at a purchase price of $0.10 per unit for gross proceeds of $825,000, with each unit consisting of one Common Share of the Company, to be issued on a "flow through" tax basis, and one Warrant, exercisable into one Common Share upon payment of $0.15 per share for a period of 24 months from the date of issuance. Warrants have been valued using similar assumptions as described in (iii) resulting in a value of $478,160. 4,000,000 of the units were purchased by directors and officers of the Company. An amount $206,250 was recorded in accounts payable related to the flow through share obligation.

(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.

g) 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, January 1, 2010	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)	1,600,000	$0.10
1,100,000 options re-priced to $0.10 (iii)	-	-
Total Options after re-pricing	2,950,000	$0.10
Balance, December 31, 2011	2,950,000	$0.10
Expired	(275,000)	($0.10)
Balance, June 30, 2012	2,675,000	$0.10

(i) On June 4, 2010, 250,000 options were granted to a director. Options have a five-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 using the Black-Scholes option pricing model.

(ii) On March 2, 2011, 1,400,000 and in October 2011, 200,000 stock options were granted to certain directors, officers, employees and consultants. After one year, 50% of options vest, the remaining options vest after two years. The options 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 four months and one day from the date of grant. 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 $48,375 (December 31, 2010 - $nil) was recorded in net earnings.

(iii) On March 2, 2011, 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 these amendments, the previously issued options will have an expiry date of February 2016 and an exercise price of $0.10 per share. The fair value of the options re-priced was determined using the Black-Scholes option pricing model. The compensation cost associated with the option re-pricing, is $89,099 (December 31, 2010 - $nil).

(iv) The weighted average assumptions used to determine the estimated fair value for 2011 awards are as follows:

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

Stock options outstanding				Stock options exercisable	
Exercise Prices	**Outstanding Options**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life (Years)**	**Options Exercisable**	**Weighted Average Exercise Price**
$0.10	600,000	$0.10	4.20	600,000	$0.10
$0.10	500,000	$0.10	4.20	500,000	$0.10
$0.10	250,000	$0.10	3.20	250,000	$0.10
$0.10	1,325,000	$0.10	4.20	843,750	$0.10
	2,675,000	$0.10	4.11	2,193,750	$0.10

h) Loss per share

Basic per share amounts are calculated using the weighted average number of shares outstanding of 74,475,877 at June 30, 2012 (June 30, 2011 – 74,475,877).

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 2012 and 2011.

11. COMMITMENTS

Flow Through

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, 2012, 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 the Canada Revenue Agency ("CRA") cannot be made to remedy this matter. The Company has been in contact with the CRA regarding this matter, and it 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 matter.

Contractual

The Company is obligated in 2012 to pay Encana $356,400 relating to a deposit made on Guardian's behalf to the BC Oil and Gas Commission (OGC) to secure its British Columbia abandonment and reclamation liabilities. The Company signed an agreement on February 21, 2012 to pay monthly installments of $20,000 commencing on March 21, 2012 until paid in full. In November, 2011, the BC Oil and Gas Commission (OGC) requested that Guardian make an additional deposit in the amount of $122,450. As of August 20, 2012 two payments of $30,613 have been paid. The other half of the amount owed to the OGC will be paid in 2013.

The United States Office of Natural Resource Revenue ("ONRR" and formerly known as the Minerals Management Service or MMS), a bureau of the U.S. Department of the Interior that manages that nation's natural gas and oil resource revenues, alleged, in a 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 disputed these penalties and has successfully negotiated a settlement agreement with ONRR, the U.S. Department of Treasury and their respective counsel/agents. Under the terms of the agreement, the subsidiary has paid ONRR a $30,000 penalty and has committed to drill one well on a Blackfeet Tribe lease within six months of receiving a drilling permit from the Bureau of Land Management. Failure to comply with the terms of the agreement will result in the subsidiary paying an additional residual penalty amount of $371,931 and surrendering all of its Blackfeet Tribe leases. The Company has chosen a drill location and submitted the appropriate applications. It now is awaiting receipt of a drill permit from the Bureau of Land Management.

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

The Company is committed to sub-lease payments of $5,042 per month until March 2014.

12. RELATED PARTY TRANSACTIONS

a) As described in Note 7, during the quarter the Company drew an additional $126,450 on its loan facility with a company controlled by a director, leaving a balance owing of $574,450 at June 30, 2012 (December 31, 2011 – $436,000, June 30, 2011 – $252,000). Interest balance owing at June 30, 2012 was $87,692 (December 31, 2011 – $49,110, June 30, 2011 – $20,751). During 2011 and under the same terms, another director advanced to the Company $10,000. The full amount of this loan remains outstanding at June 30, 2012.

b) Legal fees in the amount of $Nil for the quarter ended June 30, 2012 (June 30, 2011 – $32,730) have been incurred with a legal firm of which a Company director is a partner. $24,085.80 is payable to this company at June 30, 2012 (December 31, 2011 - $21,080, June 30 2011 - $32,730).

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 qualifying expenditures by December 31, 2007. By December 31, 2007, the Company had incurred only $2.2 million of qualifying expenditures. The remaining $1.8 million of qualifying expenditures was incurred in 2008.

Since the Company did not make the necessary qualifying expenditures by December 31, 2007, as required by 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 if an arrangement cannot be made to remedy this matter.

Notwithstanding this however, management has received a tax filing position from a national law firm that $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. Based on this position, management is confident that the necessary expenditures have properly been incurred. Alternatively, the matter can be resolved through negotiation with the tax authorities. No provision has been made in the condensed consolidated financial statements other than an amount for estimated Part XII.6 interest and penalties

c) Other

The Company is involved in various other claims arising in the normal course of business. While the outcome of these claims is uncertain, and there can be no assurance that such claims will be resolved in the Company's favour, the Company does not believe that the outcome of adverse decisions in any proceedings related to these claims, 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. SUBSEQUENT EVENTS

On July 31 the Company was to have spent $2 million as part of its farm-in agreement with Compton Petroleum, announced October 13, 2011. The Company did not spend this amount and therefore the agreement was terminated.

At the Annual Special Shareholder Meeting held on August 2, 2012, the shareholders authorized the directors to consolidate the common shares of the Corporation if and when the consolidation would be in the best interest of the Corporation and its shareholders.

At the Annual Special Shareholder Meeting held on August 2, 2012, the shareholders voted in favour of the sale of the Jenner Leases, as fully described in the Management Information Circular dated July 4, 2012, to Deckland Inc., a related party. The Corporation is currently finalizing the documentation on this transaction and will issue a news release when the transaction has closed.

15. SEGMENT DISCLOSURES

For the six months ended June 30, 2012:

	Canada $	United States $	30 June 2012 $
Petroleum and natural gas revenue	4,638	450,344	454,982
Interest expense	38,870	-	38,870
Depletion, depreciation and accretion	23,652	52,313	75,965
Income (loss)	(569,798)	35,326	(534,471)
Property and equipment	1,649,578	424,809	2,074,387
Exploration and evaluation	641,142	2,240,646	2,881,788

For the six months ended June 30, 2011:

	Canada $	United States $	30 June 2011 $
Petroleum and natural gas revenue	443,994	369	$444,363
Interest expense	$8,534	-	$8,534
Depletion, depreciation and accretion	$49,700	$31,797	$81,497
Income (loss) for the year	($616,043)	$69,331	($564,725)
Property and equipment	$2,286,675	$784,788	$3,071,463
Exploration and evaluation	-	-	-

16. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

a) Fair value of financial assets and liabilities

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

Financial instruments consisting of accounts receivable, accounts payable and accrued liabilities, due to related party, and loan from related party on the statement of financial position are carried at amortized cost. Investments and investments in related party are carried at fair value. All of the fair value items are transacted in active markets. The Company classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Company's financial assets carried at fair value are considered Level 1.

b) Interest rate risk

At June 30, 2012, the Company is not significantly exposed to interest rate cash flow risk in relation to its loan from a related party, which is at a fixed rate of interest.

c) Commodity price risk

The nature of the Company's operations results in an exposure to fluctuations in commodity prices. At June 30, 2012, 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 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, including making adjustments to its capital structure 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.

The capital structure of the Company is as follows:

	June 30, 2011 $	December 31, 2011 $	June 30, 2011 $
Total shareholders' equity (deficiency)	(333,190)	150,112	722,008
Working capital deficiency	2,651,655	2,121,078	1,473,098

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 arises 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. Account receivables outstanding for greater than 90 days are considered overdue. For the quarter ended 2011 and 2010, no amounts were considered overdue.

The Company assesses if there has been any impairment of its financial assets on a quarterly basis.

g) Liquidity Risk

Liquidity risk includes the following, 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. The 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 risk may necessitate the Company to conduct equity issues, obtain project debt financing, enter into joint venture arrangements or carry out asset divestitures. There is no assurance that adequate funds will be available to the Company in a timely manner (refer to Note 1 Going Concern). The loan from a related party is due upon demand.

GUARDIAN EXPLORATION INC.

Management's Discussion & Analysis

For the Quarter Ended

June 30, 2012

Management’s Discussion & Analysis

The following management discussion and analysis (“MD&A”) of financial conditions and results of operations as of June 30, 2012 should be read in conjunction with the unaudited condensed consolidated financial statements of Guardian Exploration Inc. (”Guardian” or the “Company”) for the quarter ended June 30, 2012. 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 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 28, 2012.

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, it 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 six thousand cubic feet (mcf) equal to one barrel (bbl) is based on an energy equivalency conversion method primarily applicable at the burner tip, and it does not represent a value equivalency at the wellhead. In this report, all boe conversions are derived by converting gas to oil using 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 it 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

During the second quarter of 2012, the Company's oil-producing wells in Montana produced 39 barrels/day with consistent oil prices in the $60-$81/bbl range. The Company's natural gas well in north-eastern British Columbia was shut-in. The Company recorded a quarter end loss of $278,929 on revenue of $194,649. As at June 30, 2012, the Company had a working capital deficiency of approximately $2.7 million.

In March 2011, the Company closed a private placement of 7,000,000 units for gross proceeds of $700,000. 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 is 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"), D&D received a cash commission of $49,000, equal to 7% of the aggregate gross proceeds of the Offering, and 700,000 Agent Warrants, representing 10% of the aggregate number of Units sold. Each Agent 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. 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.

In April, 2011, the Company sold 19,488,000 units through a brokered private placement 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 is 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"), D&D and its subagents received an aggregate cash commission of $127,666, being equal to 7% of the aggregate gross proceeds of the Offering raised by the Agent and Agent's Warrants and 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 2011, the Company issued 8,250,000 units at a purchase price of $0.10 per unit for gross proceeds of $825,000, with each unit consisting of one common share of the Company, to be issued on a "flow through" tax basis, and one purchase warrant, with 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 2011, the Company announced the successful lease acquisitions of 3,360 acres from the Alberta Crown. The acquired leases, which are located in the Jenner area of Southern Alberta, target the Pekisko Formation. The Company acquired the leases based on a geological evaluation of the area and on the production from an offsetting well, which, at the time of the press release, produced over 35,000 barrels of oil since coming on stream in November 2010.

SELECTED INFORMATION

	Three months ended June 30		Six months ended June 30	
	2012 $	2011 $	2012 $	2011 $
Petroleum and natural gas revenue, before royalties	194,649	229,999	454,982	444,363
Funds flow from (used in) operations	(84,116)	(266,268)	(96,312)	(415,390)
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) ($)	(278,929)	(383,564)	(534,471)	(564,725)
Net income (loss) per share - basic	($0.02)	($0.00)	($0.02)	($0.00)
Net income (loss) per share - diluted	($0.02)	($0.00)	($0.02)	($0.00)

	As at June 30 2012	As at June 30 2011
Working capital deficiency ($)	2,651,655	1,473,098
Total assets ($)	3,755,387	3,686,729

RESULTS OF OPERATIONS

PRODUCTION

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Production (boe/day)				
Crude oil	39	30	32	30
Natural gas	-	-	-	-
Oil equivalent production	39	30	32	30

Production in the second quarter reflects the Company's interests in oil-producing wells in Montana and gas production in North East British Columbia.

PRICING

Benchmark Prices

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Crude oil - WTI (US$ per Bbl)	93.48	102.55	98.19	98.27
Crude oil - Edmonton Par Price ($/Bbl)	84.59	103.75	88.75	96.14
Exchange rate ($US/$Cdn)	0.99	0.97	0.99	0.98

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 represent the WTI price adjusted for quality and transportation differentials, the US/CDN dollar exchange rate and local demand and supply influences. For the quarter ended June 30, 2012, and 2011 WTI crude oil prices averaged $84.59 and $103.75 per barrel at Edmonton.

Realized Prices

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Average Prices				
Crude oil ($/bbl)	71.03	84.82	73.38	82.29
Natural gas ($/mcf)	-	-		
Oil equivalent ($/boe)	71.03	84.82	73.38	82.29

Guardian's averaged realized price for its crude oil was $71.03 per barrel for the quarter ended June 30, 2012, reflecting a discount to the Edmonton benchmark prices described above.

REVENUE

	Three Months Ended June 30		Six Months Ended June 30	
	2012	**2011**	**2012**	**2011**
Production Revenue ($)				
Crude oil	195,572	229,734	450,344	443,994
Natural gas	(923)	265	4,638	369
Total production revenue	194,649	229,999	454,982	444,363

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

ROYALTIES

	Three Months Ended June 30		Six Months Ended June 30	
	2012	**2011**	**2012**	**2011**
Royalties ($)	34,869	39,816	80,020	77,503
As a percentage of revenue	17.9%	17.3%	17.6%	17.4%

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		Six Months Ended June 30	
	2012	**2011**	**2012**	**2011**
Operating expenses ($)	91,424	167,360	316,967	240,398
Operating expenses per boe ($/boe)	26.00	61.72	51.12	44.52
As a percentage of revenue	47.0%	72.8%	69.7%	54.1%

Operating expenses during the second quarter of 2012 as a percentage of revenue improved in comparison to the second quarter of 2011. On a year over year basis, operating expenses per boe is significantly less in 2012.

GENERAL AND ADMINISTRATIVE EXPENSES

	Three Months Ended June 30		Six Months Ended June 30	
	2012	**2011**	**2012**	**2011**
General and administrative expenses ($)	240,834	338,050	411,186	598,897
G&A expenses per boe ($/boe)	68.49	124.67	66.32	110.91
As a percentage of revenue	123.7%	147.0%	90.4%	135%

G&A expenses during the second quarter of 2012 as a percentage of revenue improved in comparison to the second quarter of 2011. On a year over year basis, G&A per boe is significantly less in 2012.

STOCK-BASED COMPENSATION

	Three Months Ended June 30		Six Months Ended June 30	
	2012	**2011**	**2012**	**2011**
Stock-based compensation expense ($)	26,421	14,175	52,842	28,440

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.

INTEREST AND FINANCING EXPENSES

	Three Months Ended June 30		Six Months Ended June 30	
	2012	**2011**	**2012**	**2011**
Financing fees ($)	3,556	13,863	12,705	28,964
Interest expense/(recovery) ($)	21,570	8,534	38,870	16,559

Financing fees relate primarily to the treatment of maturing asset retirement obligations under IFRS. The provision for asset retirement obligations is determined by management in consultation with the Company's independent engineers, and it is based on prevailing regulations, costs, technology and industry standards. The Company estimates that the undiscounted value of its asset retirement obligations at June 30, 2012 is $1,450,107. Current expenditures for actual abandonment and site restoration in the quarter ended June 30, 2012 were $nil.

Interest expense for the six months and quarter ended June 30, 2012 and 2011 relates primarily to the same loan.

DEPRECIATION AND DEPLETION AND ACCRETION

	Three Months Ended June 30		Six Months Ended June 30	
	2012	**2011**	**2012**	**2011**
Depreciation, depletion and accretion ($)	39,317	25,889	63,260	52,533

Depletion of the Company's oil and gas assets is calculated on a unit of production basis, using estimated proven reserves.

TAXES

During the quarter ended June 30, 2012, consistent with the same period in 2011, the Company recorded no current or future income tax expense or recovery, as the benefit of losses incurred is not considered probable of realization.

The company has taken a full valuation allowance on its tax pools as management does not feel that it is probable that the company will generate sufficient taxable income in the future to use any of its tax pools and loss carryforwards. The company has tax pools of $791,368 at June 30, 2012 (December 31, 2011 - $791,368) and non capital loss carryforwards of $4,831,678 at June 30, 2012 (December 31, 2011 - $4,831,678)

NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Three Months Ended June 30		Six Months Ended June 30	
	2012	**2011**	**2012**	**2011**
Comprehensive loss ($)	(275,619)	(383,564)	(536,144)	(564,725)
Net income (loss) - per basic share ($/share)	(0.2)	(0.00)	(0.2)	(0.00)
Net income (loss) - per diluted share ($/share)	(0.2)	(0.00)	(0.2)	(0.00)
Weighted average shares outstanding:				
Basic	74,475,877	74,475,877	74,475,877	74,475,877
Diluted	74,475,877	74,475,877	74,475,877	74,475,877

In 2012 and 2011, 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:

	Six Months Ended June 30	
($ Canadian)	**2012**	**2011**
Cash flows from (used in):		
Operating activities		
Net loss	(534,471)	(564,724)
Items not affecting cash:		
Depreciation, depletion and accretion	75,965	81,497
Impairment	-	-
Income on settlement of accounts payable	-	(55,573)
Gain on held for trading investments	16,000	(7,080)
Share-based payments	52,842	28,440
Foreign exchange (gain) loss	240	28,440
	(389,424)	(489,090)

SHARE CAPITAL

	As at June 30	
	2012	**2011**
Outstanding common shares		
Basic	74,475,877	74,475,877
Diluted	101,796,177	101,796,177

Due to the anti-dilutive effect of Guardian's net loss for the quarter ended June 30, 2012, the diluted number of shares is considered equivalent to the basic number of shares for the purposes of all per share calculations.

	As at June 30	
	2012	2011
Detail of Outstanding Securities		
Common shares	74,475,877	74,475,877
Stock options	2,675,000	2,750,000
Warrants	21,494,000	5,299,400
Agent warrants	2,648,800	2,648,800
Finders Warrants	227,500	227,500

As of the date of this MD&A, there were 74,475,877 common shares, 21,494,000 warrants, 2,648,800 agent warrants, 227,500 finders warrants, and 2,675,000 options outstanding.

CAPITAL EXPENDITURES AND SEGMENTED DISCLOSURES

For the six months ended June 30, 2012:

	Canada $	United States $	June 30 2012 $
Petroleum and natural gas revenue	4,638	450,344	454,982
Interest expense	38,870	-	38,870
Depletion and depreciation	18,058	45,202	63,260
Accretion	5,594	7,111	12,705
Income (loss)	(569,798)	35,326	(534,471)
Property, plant and equipment	115,517	199,173	314,691
Exploration and evaluation	641,142	2,240,646	2,881,788
Capital expenditures	-	42,331	-

For the six months ended June 30, 2011:

	Canada $	United States $	June 30 2011 $
Petroleum and natural gas revenue	369	443,994	444,363
Interest expense	16,559	-	16,559
Depletion and depreciation	10,899	41,634	52,533
Accretion	20,898	8,066	28,964
Income (loss)	(634,056)	69,331	(564,725)
Property and equipment	125,547	784,788	910,335
Exploration and evaluation	-	214,364	890,209
Capital expenditures	-	-	-

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2012, the Company had a working capital deficit of approximately $2.7 million. The convertible promissory note owned to related parties increased to a balance of $574,450. 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, 2012 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

SELECTED QUARTERLY HIGHLIGHTS (unaudited)	2012		2011				2010	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
($000's)								
P&NG net revenue	160	215	239	194	230	214	199	156
Production expense	91	226	160	184	167	73	91	195
DDA	43	24	26	27	27	27	41	43
G&A	241	170	201	193	338	261	163	184
Financing fees/interest	22	26	15	14	9	8	4	4
Income tax expense	-	-	-	-	-	-	-	-
Net income (loss) for the period	(279)	(256)	(280)	(427)	(384)	(181)	(528)	(185)
Net income (loss) per share	(0.2)	(0.2)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Working Capital/(Deficiency)	(2,652)	(2,330)	(2,121)	(2,030)	(1,473)	(1,367)	(1,292)	(1,475)

The Company's working capital position has ranged been a deficiency of $1.2 - 2.7 million over the past eight quarters.

RELATED PARTY TRANSACTIONS

a) As described in Note 12, the Company drew an additional $126,450 on its loan facility with a company controlled by a director, leaving a balance owing of $574,450 at June 30, 2012 (December 31, 2011 - $436,000, June 30, 2011 $242,000). Interest incurred on the total drawn amount at June 30, 2012 was $86,192 (December 31, 2011 - $49,110, June 30, 2011 - $20,751). During 2011, and under the same terms, another director advanced to the Company $10,000. The full amount of this loan remains outstanding at June 30, 2012.

b) Legal fees in the amount of $Nil for the quarter ended June 30, 2012 (June 30, 2011 - $32,730**)** have been incurred with a legal firm of which a Company director is a partner. $24,085.80 is payable to this company at June 30, 2012 (December 31, 2011 - $21,080, June 30, 2011 - $32,730**)**.

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.

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, 2012, 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 the Canada Revenue Agency ("CRA") cannot be made to remedy this matter. The Company has been in contact with the CRA regarding this matter, and it 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 matter.

b) Contractual

The Company is obligated in 2012 to pay Encana $356,400 relating to a deposit made on Guardian's behalf to the BC Oil and Gas Commission (OGC) to secure its British Columbia abandonment and reclamation liabilities. The Company signed an agreement on February 21, 2012 to pay monthly installments of $20,000 commencing on March 21, 2012 until paid in full. In November, 2011, the BC Oil and Gas Commission (OGC) requested that Guardian make an additional deposit in the amount of $122,450. As of August 20, 2012 two payments of $30,613 have been paid. The other half of the amount owed to the OGC will be paid in 2013.

The United States Office of Natural Resource Revenue ("ONRR" and formerly known as the Minerals Management Service or MMS), a bureau of the U.S. Department of the Interior that manages that nation's natural gas and oil resource revenues, alleged, in a 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 disputed these penalties and has successfully negotiated a settlement agreement with ONRR, the U.S. Department of Treasury and their respective counsel/agents. Under the terms of the agreement, the subsidiary has paid ONRR a $30,000 penalty and has committed to drill one well on a Blackfeet Tribe lease within six months of receiving a drilling permit from the Bureau of Land Management. Failure to comply with the terms of the agreement will result in the subsidiary paying an additional residual penalty amount of $371,931 and surrendering all of its Blackfeet Tribe leases.
The Company has chosen a drill location and submitted the appropriate applications. It now is awaiting receipt of a drill permit from the Bureau of Land Management.

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 $5,042 per month until March 2014.

CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS

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 qualifying expenditures by December 31, 2007. By December 31, 2007, the Company had incurred only $2.2 million of qualifying expenditures. The remaining $1.8 million of qualifying expenditures was incurred in 2008.

Since 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 if an arrangement cannot be made to remedy this contingency.

Notwithstanding this however, management has receive a tax filing position from Calgary counsel that $2.4 million in eligible expenditures incurred by the Company less that 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 thus position, management is confident that the matter can be resolved through negotiation with the tax authorities. No provision has been made in the condensed consolidated financial statements other than an amount for estimated Part XII.6 interest and penalties.

b) 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 March 31, 2012.

SUBSEQUENT EVENTS

On July 31 the Company was to have spent $2 million as part of its farm-in agreement with Compton Petroleum, announced October 13, 2011. The Company did not spend this amount and therefore the agreement was terminated.

At the Annual Special Shareholder Meeting held on August 2, 2012, the shareholders authorized the directors to consolidate the common shares of the Corporation if and when the consolidation would be in the best interest of the Corporation and its shareholders.

At the Annual Special Shareholder Meeting held on August 2, 2012, the shareholders voted in favour of the sale of the Jenner Leases, as fully described in the Management Information Circular dated July 4, 2012, to Deckland Inc., a related party. The Corporation is currently finalizing the documentation on this transaction and will issue a news release when the transaction has closed.

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 March 31, 2012, nor any of the comparative periods presented.

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.

b) Jointly controlled operations and assets

Most of the Group's oil and gas exploration activities 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 directly under joint venture arrangements, the Group's share of jointly controlled assets and jointly incurred liabilities are recognized proportionately 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.

c) Property and equipment and intangible exploration assets

(i) Recognition and Measurement

Pre-license expenditures are expensed in the Statement of Operations as incurred. 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 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 to ‘Impairment’ below), and then reclassified from intangible exploration assets to oil and natural gas interests, a separate category within property and equipment.

Items of property and equipment are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. When significant parts of an item of property 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 and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property 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 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 and equipment are recognized in profit or loss as incurred.

(iii) Depletion and depreciation

The net carrying value of development or production (i.e. 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. The 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 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 to 5 years
- Fixtures and Fittings - 2 to 5 years
- Computer Software - 2 to 3 years

(iv) Impairment

E&E assets are assessed for impairment when they are reclassified as oil and natural gas interests to property and equipment, and when 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 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 generate independent cash inflows from continuing use, and they 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 allocated to individual CGUs, 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.

d) 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.

e) 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 are 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).

f) Financial instruments

Financial instruments include cash, accounts receivable, deposits, accounts payable and accrued liabilities and loan from related party. All financial instruments are recognized initially 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

A financial asset is 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 are measured at fair value, or its face value.

(ii) Loans and receivables

Accounts receivable are classified as 'loans and receivables' and are measured at amortized cost using the effective interest method, less any impairment.

(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.

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 accounts payables and accrued liabilities and loan from related party, 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) Derecognition of financial liabilities

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

g) 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.

h) Flow-through shares

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

i) 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 re-measured, with any changes in fair value recognized in profit or loss.

j) Foreign currency

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the Company 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 translated from U.S. dollars to Canadian dollars using the end of period exchange rate. Exchange differences are recognized in profit or loss in the period in which they arise.

k) 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 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. Information can also be obtained by contacting the Company at Guardian Exploration Inc., 620, 510 - 5th Avenue S.W., Calgary, Alberta, T2P 3S2.