



THUNDERBIRD ENERGY

Thunderbird Energy Corp.
847 Hamilton Street
Vancouver, BC V6B 2R7
Ph: 604-707-0373
Fax: 604-707-0378

Consolidated Financial Statements of

THUNDERBIRD ENERGY CORP.

January 31, 2010

May 28, 2010

PricewaterhouseCoopers LLP
Chartered Accountants
111 5 Avenue SW, Suite 3100
Calgary, Alberta
Canada T2P 5L3
Telephone +1 403 509 7500
Facsimile +1 403 781 1825

AUDITORS' REPORT

To the Shareholders of Thunderbird Energy Corp.

We have audited the consolidated balance sheet of Thunderbird Energy Corp. (the "Company") as at January 31, 2010 and January 31, 2009 and the consolidated statement of loss and deficit, comprehensive loss and accumulated other comprehensive loss, and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the company as at January 31, 2010 and January 31, 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

THUNDERBIRD ENERGY CORP.

Consolidated Balance Sheets

As at January 31, 2010 and 2009

	2010	2009
ASSETS		
CURRENT		
Cash	\$ 24,783	\$ 257,553
Accounts receivable	548,256	255,188
Prepaid expenses and deposits	35,897	149,171
	608,936	661,912
RESTRICTED CASH [note 4]	128,508	147,696
PROPERTY AND EQUIPMENT [note 5]	10,042,377	11,759,934
	\$ 10,779,821	\$ 12,569,542
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 1,053,652	\$ 661,464
Due to related parties [note 13]	849,060	477,680
Convertible debentures [note 7]	1,924,392	-
Short-term debt [note 8 and note 9]	4,759,716	5,303,757
	8,586,820	6,442,901
ASSET RETIREMENT OBLIGATION [note 6]	212,394	217,961
CONVERTIBLE DEBENTURES [note 7]	-	1,601,843
	8,799,214	8,262,705
SHAREHOLDERS' EQUITY		
Common shares [note 10]	18,575,047	18,575,047
Equity portion of convertible debentures [note 7]	164,241	144,729
Contributed surplus [note 10]	3,425,973	2,888,561
	22,165,261	21,608,337
Accumulated other comprehensive gain (loss)	(158,755)	694,882
Deficit	(20,025,899)	(17,996,382)
	(20,184,654)	(17,301,500)
	1,980,607	4,306,837
	\$ 10,779,821	\$ 12,569,542

NATURE OF OPERATIONS AND GOING CONCERN [note 1]

COMMITMENTS [note 15]

Approved on Behalf of the Board:

"Cameron White"

Cameron White, Director

"Stephen Cheikes"

Stephen Cheikes, Director

See accompanying notes to the consolidated financial statements

THUNDERBIRD ENERGY CORP.
Consolidated Statements of Loss and Deficit
Years Ended January 31, 2010 and 2009

	2010	2009
REVENUES		
Oil and gas	\$ 1,358,878	\$ 1,565,474
Royalties	(173,972)	(261,762)
	1,184,906	1,303,712
EXPENSES		
Operating costs	706,176	1,017,124
General and administrative	781,594	1,170,030
Interest, accretion and debt service costs	982,837	921,937
Depletion, depreciation and accretion	607,627	633,157
Stock-based compensation [note 10]	206,774	175,807
Unrealized foreign exchange (gain) loss	(60,709)	83,802
Interest income	(9,876)	(4,445)
	3,214,423	3,997,412
NET LOSS	(2,029,517)	(2,693,700)
DEFICIT, BEGINNING OF YEAR	(17,996,382)	(15,302,682)
DEFICIT, END OF YEAR	\$ (20,025,899)	\$ (17,996,382)
BASIC AND DILUTED LOSS PER SHARE	(0.03)	(0.06)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	67,079,000	48,718,000

See accompanying notes to the consolidated financial statements

THUNDERBIRD ENERGY CORP.
Consolidated Statements of Comprehensive Loss and Accumulated Other
Comprehensive Loss
Years Ended January 31, 2010 and 2009

	2010	2009
COMPREHENSIVE LOSS		
Net Loss	\$ (2,029,517)	\$ (2,693,700)
Other comprehensive loss:		
Unrealized gain (loss) on translation of self-sustaining foreign operations	(853,637)	1,223,211
Comprehensive Loss	\$ (2,883,154)	\$ (1,470,489)
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Accumulated other comprehensive gain (loss), beginning of year	\$ 694,882	\$ (528,329)
Other comprehensive gain (loss)	(853,637)	1,223,211
Accumulated other comprehensive gain (loss), end of year	\$ (158,755)	\$ 694,882

See accompanying notes to the consolidated financial statements

THUNDERBIRD ENERGY CORP.
Consolidated Statements of Cash Flows
Years Ended January 31, 2010 and 2009

	2010	2009
OPERATING ACTIVITIES		
Net loss	\$ (2,029,517)	\$ (2,693,700)
Items not involving cash		
Stock-based compensation	206,774	175,807
Interest, accretion and debt service costs	410,200	443,260
Depletion, depreciation and accretion	607,627	633,157
Foreign exchange (gain) loss	(60,709)	83,802
	(865,625)	(1,357,674)
Changes in non-cash working capital	61,615	(310,721)
	(804,010)	(1,668,395)
FINANCING ACTIVITIES		
Issuance of shares, net of costs	-	3,175,725
Increase in amounts due to related parties	432,468	104,018
Proceeds from short-term debt	120,000	-
Proceeds from long-term debt	-	603,508
Proceeds from convertible debentures	162,500	702,500
Repayment of convertible debentures	-	(430,000)
Change in non-cash working capital	179,153	8,848
	894,121	4,164,599
INVESTING ACTIVITIES		
Oil and gas property exploration and acquisition costs	(333,943)	(1,233,788)
Acquisition of property and equipment	(28,595)	(71,747)
Change in non-cash working capital	(5,123)	(1,237,065)
	(367,661)	(2,542,600)
FOREIGN CURRENCY EFFECT OF FOREIGN CURRENCY DENOMINATED CASH		
	44,780	229,799
CHANGE IN CASH FOR THE YEAR	(232,770)	183,403
CASH , BEGINNING OF YEAR	257,553	74,150
CASH , END OF YEAR	\$ 24,783	\$ 257,553
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	356,972	397,457

See accompanying notes to the consolidated financial statements

THUNDERBIRD ENERGY CORP.

Notes to the Consolidated Financial Statements

Years Ended January 31, 2010 and 2009

1. NATURE OF OPERATIONS AND GOING CONCERN

Thunderbird Energy Corp. (“the Company”) is primarily engaged in the acquisition and development of oil and gas properties and the production of oil and gas through participation agreements.

The Company has interests in oil and gas in production and exploration in the United States of America. The realization of the Company’s investment in oil and gas properties is dependent upon various factors, including the existence of economically recoverable oil and gas reserves, the ability to obtain the necessary financing to complete the exploration and development of the properties, future profitable operations, or, alternatively, upon disposal of the investment on an advantageous basis.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern which assume that the Company will realize its assets and discharge its liabilities in the normal course of business. As at January 31, 2010, the Company had a working capital deficiency of \$7,977,884 (2009 - \$5,780,989) and an accumulated deficit of \$20,025,899 (2009 - \$17,996,382). Cash flow from operations was (\$804,010) (2009 – (\$1,668,395)).

The Company has been affected by the following factors, which will impact the future results of its operations:

- The decline in petroleum and natural gas prices has affected the ability of the Company to generate cash flows from its operations at satisfactory levels
- The current recession and resulting equity market decline has hampered the Company’s ability to raise funds for its planned capital expenditures.
- At year-end the Company is in default on bank covenants and has not subsequently received a waiver.

These factors raise significant doubt about the Company’s ability to continue as a going concern.

Management’s plans for addressing the above factors are as follows:

- To mitigate the risk of operating cash flows, the Company has entered into a fixed price gas contract to deliver 10,000 MMBtu per month at a price of \$4.25 per Mcf from November 1, 2009 through October 31, 2010.
- The Company has initiated steps to complete a new debenture issue and a new equity issue in order to address the current working capital deficiency.
- The Company has also entered into separate letters of intent with two different parties which provide for the development of the Gordon Creek natural gas field at minimal cost to the Company. Both letters of intent are subject to various conditions precedent that have not yet been fulfilled.

There is no assurance that the steps above management plans to take will be successful.

The ability of the Company to continue as a going concern is uncertain and dependent upon obtaining the financing necessary to meet its future exploration commitments and to complete the development of its properties and/or realizing proceeds from the sale of one or more of the properties. These financial statements do not reflect any adjustments related to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern. Any adjustments necessary to the financial statements if the Company ceases to be a going concern could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of presentation and consolidation*

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and its wholly-owned subsidiaries Thunderbird Energy Inc. (“TEI”) and Horse Bench Gathering, incorporated in the state of Nevada, Gordon Creek LLC, incorporated in the State of Utah, and MBA Energy Corp. (“MBA”), incorporated in Canada. All intercompany transactions and balances have been eliminated upon consolidation.

THUNDERBIRD ENERGY CORP.

Notes to the Consolidated Financial Statements

Years Ended January 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the financial statements and for the periods presented. Such estimates primarily relate to stock-based compensation, future income tax assets, financial liabilities and unsettled transactions and events as of the date of the consolidated financial statements. Accordingly, actual results may differ from those estimates.

Amounts recorded for depreciation and depletion and amounts used for ceiling test calculations are based on estimates of oil and natural gas reserves and future costs required to develop those reserves. The Company's reserves estimates are evaluated annually by an independent engineering firm. By their nature, these estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact on the consolidated financial statements of future periods could be material.

The amounts recorded for asset retirement obligations were estimated based on the future costs to settle the asset retirement obligation, the timing of the cash flows to settle the obligation, and the future inflation rates. The impact of differences between actual and estimated costs, timing and inflation on the consolidated financial statements of future periods could be material.

(c) Property and equipment

The Company follows the full-cost method of accounting for oil and gas properties whereby all costs relating to the acquisition, exploration and development activities are capitalized. These costs include land acquisition costs, geological and geophysical expenses, the cost of drilling both productive and non-productive wells, asset retirement costs and directly related overhead. Proceeds from the disposal of properties are deducted from the full cost pool without recognition of a gain or loss unless such a sale would significantly alter the rate of depletion and depreciation. Upon commercial production, the related accumulated costs are amortized using the unit-of-production method based on production volumes before royalties in relation to total estimated proved reserves as determined by independent engineers.

The costs of acquiring and evaluating unproved properties are excluded from depletion calculations. Properties are assessed periodically to ascertain whether impairment has occurred. When a property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion.

The Company calculates a ceiling test whereby the net capitalized costs of properties cannot exceed the sum of the undiscounted cash flows expected to result from the properties using proved reserves. Cash flows are calculated based on third-party quoted forward prices. If there is impairment, the magnitude of it would be calculated by comparing the carrying amount of property, and equipment to estimated net present value of future cash flows from proved plus risked probable reserves. A risk-free interest rate is used to arrive at the net present value of the future cash flows. Any excess carrying value above the net present value of future cash flows would be recorded as a permanent impairment and charged as additional depletion expense in the consolidated statements of operations and deficit.

Computer hardware, vehicles, furniture and equipment are recorded at cost and are amortized using the declining balance method at 30% per annum. Leasehold improvements are amortized on a straight-line basis over five years. Computer software is amortized at 50% per annum.

(d) Income taxes

The Company follows the liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities, and are measured using the tax rates expected to apply when these differences reverse. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized.

THUNDERBIRD ENERGY CORP.
Notes to the Consolidated Financial Statements
Years Ended January 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Stock-based compensation

The Company recognizes stock-based compensation expense based on the fair value of stock options. Upon exercise of stock options, the consideration paid by the option holder, together with the related amount previously recognized in contributed surplus, is recorded as an increase to share capital.

The fair values of all share purchase options and warrants granted are expensed when issued with a corresponding increase to contributed surplus. Upon exercise of share purchase options and warrants, the consideration paid by the option or warrant holder, together with the related amount previously recognized in contributed surplus, is recorded as an increase to share capital.

The Company uses the Black-Scholes option pricing model to calculate the fair value of share purchase options and warrants at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

(f) Convertible Debentures

In accordance with CICA 3861, the Company has separately valued the conversion option on each issuance from the convertible debentures. The liability component represents the present value of the principal payment of the debentures and the future interest payments and the equity component represents the fair value of the holder's conversion feature. The convertible debenture discount is accreted to interest expense over the term of the loan using the effective interest rate method.

(g) Share and debt issue costs

Direct costs relating to the issuance of shares are charged directly to share capital. Direct costs relating to debt financing are charged directly to operations.

(h) Foreign currency translation

The accounts of the Company are expressed in Canadian dollars. Foreign currency monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Other balance sheet items are translated into Canadian dollars at the exchange rate in effect on the respective transaction dates. Translation gains and losses relating to monetary items are included in operations.

The Company translates foreign currency denominated assets and liabilities of its self-sustaining U.S. subsidiary using the current rate method. Under this method, assets and liabilities are translated at the exchange rates prevailing at the balance sheet date, while revenues and expenses are translated using the average rate during the period. Shareholders equity is translated at historical cost. The unrealized transaction gains and losses on the Company's net investment, including long-term intercompany advances, are accumulated in a separate component of shareholders' equity, reported in the balance sheet as part of other accumulated comprehensive loss.

(i) Revenue recognition

Revenues from the sale of oil and gas production are recognized when title passes, gross of royalties. The Company may have interests with other producers in certain properties, in which case the Company uses the sales method to account for gas imbalances. Under this method, revenue is recorded on the basis of gas actually sold by the Company.

THUNDERBIRD ENERGY CORP.
Notes to the Consolidated Financial Statements
Years Ended January 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Income (loss) per share

Income (loss) per share is calculated using the weighted-average number of common shares outstanding during the year. The treasury stock method is used in the calculation of diluted earnings per share. Diluted earnings per share are computed using the weighted-average number of common and common equivalent shares outstanding during the year. Common equivalent shares consist of the incremental common shares exercisable upon the exercise of stock options and are excluded from the computation if their effect is anti-dilutive.

(k) Asset retirement obligations

The Company recognizes liabilities for statutory, contractual or legal obligations associated with the retirement of the Company's oil and gas properties, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement cost is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using the unit-of-production method. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is accreted for the passage of time and adjusted for changes to the amount or timing of the underlying cash flows needed to settle the obligation. Actual costs to retire oil and gas properties are deducted from the accrued liability as these costs are incurred.

(l) Joint interests

Substantially all of the Company's exploration, development and production related to oil and gas activities are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

(m) Comparative figures

Comparative figures have been reclassified, where applicable, to conform to the current period's presentation.

3. CHANGES IN ACCOUNTING POLICIES

The following accounting pronouncements have been adopted for the current year.

Section 3064, "Goodwill and Intangible Assets", establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The standard also harmonizes Canadian standards with IFRS and applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2008. Adoption of this standard has been applied retroactively and has had no impact on the Company's financial statements.

Section 3862, "Financial Instruments – Disclosures", establishes enhanced disclosures on liquidity risk and requires disclosures on fair value measurements of financial instruments. These requirements harmonize Canadian standards with IFRS and apply to annual financial statements for the fiscal years ending after September 30, 2009.

THUNDERBIRD ENERGY CORP.
Notes to the Consolidated Financial Statements
Years Ended January 31, 2010 and 2009

3. CHANGES IN ACCOUNTING POLICIES (continued)

Recent accounting pronouncements

Section 1601, "Consolidated Financial Statements" in combination with Section 1602 "Non-Controlling Interest", replace Section 1600 "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements and specifically addresses consolidation accounting following a business combination that involves the purchase of an equity interest in one company by another. CICA 1602 establishes standards for accounting for noncontrolling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These sections apply to all financial statements for fiscal years beginning on or after January 1, 2011, with early adoption permitted. There is no impact on the Company's financial statements at this time.

Section 1582, "Business Combinations", establishes principles for the measurement of assets, liabilities and contingencies acquired at fair value, and recognizing acquisition-related and reorganization costs separately from business combination within the statement of operations. These recommendations are effective for business combinations occurring after January 1, 2011, with early adoption permitted. There is no impact on the Company's financial statements at this time.

The CICA's Accounting Standards Board confirmed that the International Financial Reporting Standards ("IFRS") will replace Canadian generally accepted accounting principles in 2011 for profit oriented Canadian publicly accountable enterprises. The Company will be required to report according to IFRS standards for the year ended January 31, 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS. As IFRS is expected to change prior to 2011, the impact of IFRS on the Company's consolidated financial statements is not reasonably determinable at this time.

4. RESTRICTED CASH

In connection with the Utah State bonding requirements, the Company posted a letter of credit in the amount of U.S. \$120,000 (Cdn \$128,508) for which a short-term investment in the same amount is held as collateral.

5. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depreciation/ Depletion	Net Carrying Value
2010			
Oil and gas properties	\$ 11,714,760	\$ (1,736,560)	\$ 9,978,200
Property and equipment	133,475	(69,298)	64,177
	\$ 11,848,235	\$ (1,805,858)	\$ 10,042,377
2009			
Oil and gas properties	\$ 13,072,563	\$ (1,387,754)	\$ 11,684,809
Property and equipment	167,036	(91,911)	75,125
	\$ 13,239,599	\$ (1,479,665)	\$ 11,759,934

At January 31, 2010 costs capitalized and associated with unproven properties excluded from costs subject to depletion for 2010 totalled \$1,070,876 (2009 - \$1,222,165). Future development costs for proved reserves of \$7,172,460 (2009 - \$10,786,731) have been included in the depletion calculation. During the year, the Company capitalized \$1,125 (2009 - \$296,443) in administrative expenses relating to exploration and development activities.

THUNDERBIRD ENERGY CORP.
Notes to the Consolidated Financial Statements
Years Ended January 31, 2010 and 2009

5. PROPERTY AND EQUIPMENT (continued)

The following table summarizes the prices used in the ceiling test calculation.

	Natural Gas (\$U.S./mmbtu)
2011	5.45
2012	6.14
2013	6.37
2014	6.53
2015	6.73
Average Thereafter	6.93

Based on these assumptions, the undiscounted value of future net revenues from the Company's proved reserves exceeded the carrying value of oil and gas properties at January 31, 2010.

6. ASSET RETIREMENT OBLIGATIONS

The asset retirement obligation relates to the restoration and closure of the Company's oil and gas properties. The total undiscounted amounts of the estimated obligations are approximately \$388,201 (U.S. \$362,500) and are expected to be incurred in fifteen years. The asset retirement obligations have been recorded as liabilities at fair value, using a credit adjusted discount rate of 8% and a 3% inflation rate. The amounts of the liabilities are subject to re-measurement during each reporting period.

	2010	2009
Balance, beginning of year	\$ 217,961	\$ 41,578
Revision in estimates	6,583	158,169
Accretion expense	17,006	7,952
Foreign exchange translation adjustment	(29,156)	10,262
Balance, end of year	\$ 212,394	\$ 217,961

7. CONVERTIBLE DEBENTURES

In fiscal 2009 the Company issued a private placement of two year, 12% convertible debentures in the principal amount of \$1,737,500. In fiscal 2010 the Company completed this private placement of two year, 12% convertible debentures with additional principal amount of \$262,500, bringing the total convertible debenture issued to \$2,000,000. The debentures are convertible into common shares at a price of \$0.25 per share until December 15, 2010. Issuance costs of \$3,750 were charged to operations during the current fiscal year.

	2010	2009
Balance, beginning of year	\$ 1,601,843	\$ 1,284,416
Face value of convertible debentures issued during the year	262,500	1,737,500
Equity component	(19,512)	(144,729)
Liability portion	1,844,831	2,877,187
Accretion	79,561	49,656
Liability portion of convertible debentures	1,924,392	2,926,843
Redemption of convertible debentures	-	(1,325,000)
Balance, end of year	\$ 1,924,392	\$ 1,601,843

8. SHORT-TERM DEBT

As of January 31, 2010, the Company owes U.S. \$215,462 (Cdn \$230,738) and Cdn\$145,000 pursuant to unsecured shareholder loans that bears interest at 10% per annum and are repayable on demand.

THUNDERBIRD ENERGY CORP.

Notes to the Consolidated Financial Statements

Years Ended January 31, 2010 and 2009

9. REVOLVING CREDIT FACILITY

The Company has a credit facility agreement with an Australian bank that provides up to a maximum commitment of U.S. \$50 million, subject to an availability limit, for the development of the Company's existing oil and natural gas projects and future acquisitions. The facility operates as a revolving credit line with no principal repayments until 2010. Accrued interest is due and payable monthly, and at the Company's option, is based on the U.S. Prime Rate plus 0.5% or LIBOR plus 3.5%.

On December 14, 2010, the credit facility converts to a term loan payable over twenty-four months. The term loan will be fully repaid on December 14, 2012. The facility is secured through a first mortgage and security interests in the Company's oil and gas mineral interests. At January 31, 2010, U.S. \$4,093,733 (Cdn \$4,383,978) is owed under this facility.

At year-end the Company is not in compliance with all covenants, as a result the loan is in default. Since the loan is in default, and the Company has not subsequently received a waiver, it may be called by the lenders at anytime and therefore the entire amount of the loan is considered current. As a result of the non compliance with loan covenants, the Company is currently being charged an interest premium of 3% over the original contract rates.

10. SHARE CAPITAL

Authorized: Unlimited common shares without par value

Issued:

	Number of Shares	Amount
Balance, January 31, 2008	49,768,682	16,696,368
Shares issued for cash, net of issue costs	16,500,000	1,726,061
Warrants exercised	810,810	152,618
Balance, January 31, 2009 and 2010	67,079,492	\$ 18,575,047

Private placement

On June 26, 2008, the Company completed a brokered private placement of 16,500,000 units at a price of \$0.20 per unit. Each unit consists of one common share and one-half of one non-transferable share purchase warrant. Each whole warrant is exercisable to purchase one common share of the Company at a price of \$0.25 per share until June 26, 2009. The selling brokers received a cash commission of \$174,650 and broker's warrants exercisable to purchase 1,247,500 additional units at a price of \$0.20 per unit until June 26, 2009. A value of \$254,592 was assigned to the brokers units, based on their fair value, and was computed using the Black-Scholes option pricing model. Other issuance costs related to legal and filing fees totaled \$99,625.

Warrants exercised

During fiscal 2009, 810,810 shares were issued pursuant to warrants exercised at a price of \$0.185 per share for proceeds totalling \$150,000. The warrants were issued as part of the fiscal 2007 convertible debentures. The warrants' fair value of \$2,618, previously recorded in contributed surplus, was transferred to share capital.

Stock-based compensation plan:

The Company has established a Share Option Plan (the "option plan") which provides for options to purchase common shares to be granted by the Company to directors, officers, employees and consultants of the Company. Options vest over a period of 18 months. The maximum number of common shares issuable under the option plan is 6,000,000.

THUNDERBIRD ENERGY CORP.
Notes to the Consolidated Financial Statements
Years Ended January 31, 2010 and 2009

10. SHARE CAPITAL (continued)

The fair value of each option granted is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2010	2009
Weighted average fair value per share	\$ 0.20	\$ 0.21
Dividend yield	0%	0%
Interest rate	2.28%	3.19% - 3.37%
Expected life	4.45 years	4.51 years
Volatility	144%	104%

For the year ended January 31, 2010, the Company recorded stock-based compensation of \$206,774 (2009 - \$175,807) relating to the fair value of vested share options, and a corresponding increase to contributed surplus.

A summary of the status of the Company's stock options as of January 31, 2010 is presented below.

	Number of Options	Weighted Average Exercise Price
Balance, January 31, 2008	3,660,000	\$ 0.32
Issued	1,365,000	0.21
Forfeited and expired	(605,000)	0.41
Balance, January 31, 2009	4,420,000	\$ 0.27
Issued	2,425,000	0.20
Forfeited and expired	(1,430,000)	0.30
Balance, January 31, 2010	5,415,000	\$ 0.23

The following table summarizes the stock options outstanding at January 31, 2010:

Exercise price	Options outstanding			Options exercisable		
	Number of shares	Expiry Date	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$ 0.20	3,625,000	Jun 2013- Dec 2014	4.38	\$ 0.20	1,506,250	\$ 0.20
\$ 0.22 - \$0.25	1,100,000	Apr 2011	1.18	\$ 0.25	1,100,000	\$ 0.25
\$ 0.30	390,000	Jul 2011-Feb 2013	2.04	\$ 0.30	390,000	\$ 0.30
\$ 0.40	300,000	May 2012	2.30	\$ 0.40	300,000	\$ 0.40
	5,415,000		3.49	\$ 0.23	3,296,250	\$ 0.25

THUNDERBIRD ENERGY CORP.
Notes to the Consolidated Financial Statements
Years Ended January 31, 2010 and 2009

10. SHARE CAPITAL (continued)

Share purchase warrants:

The following table summarizes the warrants outstanding at January 31, 2010:

	Exercise Price	Number of warrants	Weighted average exercise price
Balance, January 31, 2008		16,085,703	\$ 0.581
Issued	\$ 0.200 – 0.250	10,121,250	\$ 0.244
Expired	\$ 0.300 - 0.500	(524,975)	\$ 0.367
Exercised	\$ 0.185	(810,810)	\$ 0.185
Balance, January 31, 2009		24,871,168	\$ 0.557
Expired	\$ 0.200 - \$ 0.500	(11,871,168)	\$ 0.282
Balance, January 31, 2010		13,000,000	\$ 0.808

Pursuant to a private placement completed in March 2007, the Company issued warrants to purchase 1,749,918 common shares at a price of \$0.50 per share until March 16, 2009. These warrants expired March 16, 2009.

Pursuant to a private placement completed in June 2008, the Company issued units which included warrants to purchase 8,250,000 common shares at a price of \$0.25 per share until June 26, 2009. The selling brokers received warrants to purchase 1,247,500 of these units at a price of \$0.20 per unit until June 26, 2009. These broker's units included warrants to purchase 623,750 common shares at a price of \$0.25 per share. These warrants expired June 26, 2009.

During fiscal 2009, 810,810 warrants were exercised at a price of \$0.185 for proceeds totalling \$150,000. The warrants were issued as part of the March 2006 convertible debentures.

Concurrent to the closing of the long-term debt financing (note 9), a first and second tranche of warrants was granted to the lender in the amount of 9,000,000 and 4,000,000, respectively. Each warrant entitles the lender to acquire one common share at price of \$0.50 per share and \$1.00 per share, respectively, expiring October 17, 2012. From the first tranche of warrants, 4,872,857 warrants vest over a 24 month period commencing December 14, 2007. The remaining first tranche of warrants will begin to vest over a 24 month period as the Company continues to draw down on the facility up to \$10,500,000. The second tranche of warrants does not begin to vest until the Company has drawn down more than U.S. \$15 million from the facility. As of January 31, 2009, 2,740,982 warrants relating to the first tranche had vested. These warrants were fair valued at \$528,452 (2008 - \$66,056) and charged to interest, accretion and debt service costs. The fair value of these warrants was computed using an interest rate of 4.31%, volatility of 102% and an expected life of three years.

Pursuant to the issuance of convertible debentures completed in March 2006 (note 7), the Company issued warrants to purchase 9,999,994 common shares at a price of \$0.185 per share until March 13, 2008. During fiscal 2008, 8,109,184 of these warrants were exercised. The remaining warrants were exercised in fiscal 2009 as above.

<i>Contributed surplus:</i>	2010	2009
Balance, beginning of year	\$ 2,888,561	\$ 957,167
Convertible debentures - equity portion (note 7)	-	64,937
Stock-based compensation expense	206,774	175,807
Fair value of warrants	-	1,045,072
Fair value of lender's warrants	330,638	393,604
Fair value of broker's warrants	-	254,592
Fair value of exercised options	-	-
Fair value of exercised warrants	-	(2,618)
	537,412	1,931,394
Balance, end of year	\$ 3,425,973	\$ 2,888,561

THUNDERBIRD ENERGY CORP.

Notes to the Consolidated Financial Statements

Years Ended January 31, 2010 and 2009

11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as “held-for-trading,” “available-for-sale,” “held-to-maturity” “loans and receivables” or “other financial liabilities” as defined by the standard.

The Company’s financial instruments recognized in the balance sheet consist of cash, restricted cash, accounts receivable, accounts payable and accrued liabilities, due to related parties, short term debt and convertible debentures. Cash and restricted cash are classified as held-for-trading and is measured at fair value which equals the carrying value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, due to related parties, short term debt and convertible debentures are classified as other financial liabilities, which are measured at amortized cost.

The carrying value of the financial instruments approximates fair value due to their short term to maturity with the exception of other financial liabilities, which is may be significantly less than carrying value due to credit risk of the Company.

All of the Company’s cash and risk management contracts are transacted in active markets. The Company classifies the fair value of these transactions according to a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data

The Company’s cash and risk management contracts have been assessed on the fair value hierarchy described above as Level 1.

The Company is exposed to credit risk, liquidity risks and market risks resulting from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations. The Company does not use derivative instruments to reduce its exposure.

The Board of Directors has overall responsibility for the establishment and oversight of the Company’s financial risk management framework and monitors risk management activities. The Company identifies and analyzes the risks faced by the Company and may utilize financial instruments to mitigate these risks.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation’s joint venture partners and oil and natural gas marketers.

The carrying amount of the accounts receivable represents the maximum credit exposure. The Company does not have an allowance for doubtful accounts as at January 31, 2010. As at January 31, 2010 and 2009, the Company’s receivables were aged as follows:

Ageing	January 31, 2010	January 31, 2009
Not past due (less than 120 days)	\$ 457,943	\$ 255,187
Past due (120 days to one year)	90,313	-
	\$ 548,256	\$ 255,187

THUNDERBIRD ENERGY CORP.
Notes to the Consolidated Financial Statements
Years Ended January 31, 2010 and 2009

11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company expects to satisfy obligations under accounts payable, amounts due to related parties, and short-term debt in less than one year through cash flows from operations and new financing. The timing of cash outflows relating to the financial liabilities is outlined below:

	Within 1 Year	After 1 Year	Total
Accounts payable and accrued liabilities	\$ 1,053,652	\$ -	\$ 1,053,652
Due to related parties [note 13]	849,060	-	849,060
Convertible debentures [note 7]	1,924,392	-	1,924,392
Short-term debt [note 8 and note 9]	4,759,716	-	4,759,716
Total	\$ 8,586,820	\$ -	\$ 8,586,820

The Company's capital programs are primarily funded by cash obtained through operations, equity issuances, convertible debentures, and a revolving reserve based credit facility as outlined in note 9, that is at least reviewed annually by the lender. The Company requires sufficient cash to fund capital programs necessary to maintain or increase production and develop reserves and to potentially acquire strategic assets. As there is uncertainty as to the ability of the Company to meet its obligations as they come due, there is significant doubt as to the appropriateness of the use of accounting principles applicable to a going concern. See note 1 – Nature of Operations and Going Concern.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices and interest rates will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange risks. The Company is exposed to foreign currency fluctuations on transactions conducted in foreign currencies and in the carrying value of its self-sustaining foreign subsidiary. As of January 31, 2010, if the Canadian dollar had depreciated five percent against the United States dollar with all other variables held constant, net income would and other comprehensive income would have been insignificant.

The Company had no forward exchange rate contracts in place as at or during the year ended January 31, 2010.

Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar, as outlined above, but also world economic events that dictate the levels of supply and demand. The Company may enter into oil and natural gas contracts to protect its cash flow on future sales. The contracts reduce the volatility in sales revenue by locking in prices with respect to future deliveries of oil and natural gas. As at January 31, 2010 the Company has fixed price contract to sell 10,000 Mcf/month at a fixed price of \$4.25 per Mcf from November 1, 2009 until October 31, 2010. The forward sales contract meets the qualifications of an expected use contract and therefore is not accounted for under the financial instruments standards.

THUNDERBIRD ENERGY CORP.
Notes to the Consolidated Financial Statements
Years Ended January 31, 2010 and 2009

11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk on its long-term loan which bears a floating interest rate. The short-term debt and convertible debentures do not bear interest rate risk as they are at a fixed rate. The Company estimates that a one percent decrease in the interest rates would decrease the net loss and increase cash flows from operations for the year by approximately \$45,000 based on the average amount of debt outstanding during the year. An opposite impact would have occurred to loss and cash flows had interest rates increased one percent. The Company has no interest rate hedges or swaps outstanding at January 31, 2010.

12. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to ensure that the Company and its subsidiaries' will be able to continue as a going concern in order to pursue the exploration and development of its oil and gas properties and acquisitions while attempting to maximize the return to shareholders through the optimization of a reasonable debt and equity balance commensurate with current operating requirements.

The capital structure consists of the following:

	January 31 2010	January 31 2009
Revolving credit facility ⁽¹⁾	\$ 4,383,978	\$ 5,038,566
Convertible Debentures	1,924,392	1,601,843
Short Term Debt	375,738	265,191
Less: Cash	(24,783)	(257,553)
Net Debt ⁽²⁾	6,659,325	6,648,047
Total Shareholder's Equity	1,980,607	4,306,837
	\$ 8,639,932	\$ 10,954,884

⁽¹⁾ The Company's revolving credit facility imposes financial covenants which the company is not in compliance with at year-end. See note 9.

⁽²⁾ Net debt as calculated above are not standard terms/measures used by others.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares and adjust its capital spending to manage current and projected debt levels.

13. RELATED PARTY TRANSACTIONS

Related party transactions not disclosed elsewhere in these financial statements include the following:

	2010	2009
Consulting fees paid or accrued to companies controlled by directors	\$ 262,050	\$ 200,600
Consulting fees paid to an individual related to a director	-	17,316
General and administrative expenses reimbursed to companies with common directors	160,479	165,844

Amounts due to related parties include an unsecured short-term loan payable and accrued interest to directors of the Company for U.S. \$150,675 (Cdn \$161,358) (2009- U.S. \$334,288 (Cdn \$406,875)) and \$60,318 (2009- \$nil). The loan carries a 12% interest rate and is payable on demand. Also included is \$627,384 (2009 - \$70,805) due to directors and companies with common directors.

All of the above noted transactions have been in the normal course of operations and are recorded at the exchange amount.

THUNDERBIRD ENERGY CORP.
Notes to the Consolidated Financial Statements
Years Ended January 31, 2010 and 2009

14. INCOME TAXES

In assessing the realization of the Company's future income tax assets, management considers whether it is more likely than not that some portion or all of the Company's future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. It is management's opinion that the Company's future tax assets are unlikely to be realized. Based upon this assessment, the Company has provided fully against these assets.

The significant components of the Company's future tax assets and liabilities are as follows:

	2010	2009
Future income tax assets:		
Non-capital losses	\$ 3,949,449	\$ 2,953,083
Capital losses	416,463	420,502
Resource pools	(519,933)	(377,201)
Loan acquisition costs & share issuance costs	344,961	398,162
Property, equipment and other	(280,363)	(188,884)
Total gross future income tax assets	3,910,577	3,205,662
Valuation allowance	(3,910,577)	(3,205,662)
Net future income tax asset	\$ -	\$ -

As at January 31, 2010, the Company has non-capital loss carry-forwards in Canada and the U.S. of approximately \$11,304,000 (2009 - \$8,736,000), which are available to offset future taxable income. These non-capital loss carry-forwards expire as follows:

2011	\$ 605,000
2015	38,000
2025	1,000
2026	302,000
2027	1,030,000
2028	2,435,000
2029	3,214,000
2030	3,679,000
	<u>\$ 11,304,000</u>

- a) Canadian exploration expenditures of \$543,336 (2009 - \$543,336) can be deducted against future years' taxable income.
- b) Foreign exploration and development expenses of \$667,783 (2009 - \$667,783) are fully deductible against foreign mineral profits or 10% of taxable income in any given year.
- c) U.S. resource property expenditures of US\$5,300,719 (2009 - US\$5,950,308).
- d) The Company has a capital loss of \$3,300,000 (2009 - \$3,300,000) available to reduce future years' capital gains.

The value of these tax assets has been reduced to \$Nil because of a valuation allowance.

THUNDERBIRD ENERGY CORP.
Notes to the Consolidated Financial Statements
Years Ended January 31, 2010 and 2009

14. INCOME TAXES (continued)

Income taxes differ from the amounts that would be obtained by applying the Canadian statutory income tax rate to the net loss for the year as follows:

	2010	2009
Canadian statutory income tax rate	29.88%	30.88%
Expected income tax recovery	\$ 904,418	\$ 825,771
Permanent differences	86,540	71,048
Change in valuation allowance	959,670	(1,306,520)
Rate reduction	70,387	536,660
True ups	(130,735)	1,591,702
Rate differential (U.S.)	(101,270)	(52,804)
Other	19,826	(14,315)
Income tax recovery	\$ -	\$ -

15. COMMITMENTS

The Company sub-leases its office premises for which minimum lease payments are due as noted below:

Fiscal	Amount
2011	\$ 32,290
2012	21,527
Thereafter	-
	\$ 53,817

16. SEGMENTED INFORMATION

The Company operates in two geographic segments, being Canada and the United States. The accounting policies of the segments are the same as those described in note 2.

	Canada	United States	Total
2010			
Revenue	\$ -	\$ 1,358,878	\$ 1,358,878
Property and equipment	12,371	10,030,006	10,042,377
2009			
Revenue	-	1,565,474	1,565,474
Property and equipment	18,003	11,741,931	11,759,934