



# THUNDERBIRD ENERGY

Thunderbird Energy Corp.  
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*Consolidated Financial Statements of*

## **THUNDERBIRD ENERGY CORP.**

*January 31, 2009*

May 28, 2009

*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, 2009 and consolidated statement of loss and deficit, comprehensive loss and accumulated other comprehensive loss, and cashflows the year ended January 31, 2009. 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at January 31, 2008 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated May 14, 2008.

*PricewaterhouseCoopers LLP*

Chartered Accountants  
Calgary, Alberta

# THUNDERBIRD ENERGY CORP.

## Consolidated Balance Sheets

As at January 31, 2009 and 2008

	2009	2008
<b>ASSETS</b>		
CURRENT		
Cash	\$ 257,553	\$ 74,150
Accounts receivable	255,188	269,193
Prepaid expenses and deposits	149,171	488,084
	661,912	831,427
RESTRICTED CASH [note 3]	147,696	119,640
PROPERTY AND EQUIPMENT [note 4]	11,759,934	8,806,787
	\$ 12,569,542	\$ 9,757,854
<b>LIABILITIES</b>		
CURRENT		
Accounts payable and accrued liabilities	\$ 661,464	\$ 2,398,448
Due to related parties [note 12]	477,680	326,855
Short-term debt [note 7 and note 8]	5,303,757	226,512
Convertible debentures [note 6]	-	1,284,416
	6,442,901	4,236,231
ASSET RETIREMENT OBLIGATION [note 5]	217,961	41,578
CONVERTIBLE DEBENTURES [note 6]	1,601,843	-
LONG TERM DEBT [note 8]	-	3,592,584
	8,262,705	7,870,393
<b>SHAREHOLDERS' EQUITY</b>		
Common shares [note 9]	18,575,047	16,696,368
Equity portion of convertible debentures [note 6]	144,729	64,937
Contributed surplus [note 9]	2,888,561	957,167
	21,608,337	17,718,472
Accumulated other comprehensive gain (loss)	694,882	(528,329)
Deficit	(17,996,382)	(15,302,682)
	(17,301,500)	(15,831,011)
	4,306,837	1,887,461
	\$ 12,569,542	\$ 9,757,854

NATURE OF OPERATIONS AND GOING CONCERN [note 1]

COMMITMENTS [note 14]

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, 2009 and 2008**

	2009	2008
<b>REVENUES</b>		
Oil and gas	\$ 1,565,474	\$ 978,666
Royalties	(261,762)	(114,262)
	1,303,712	864,404
<b>EXPENSES</b>		
Operating costs	1,017,124	691,141
General and administrative	1,170,030	1,319,560
Interest, accretion and debt service costs	921,937	492,041
Depletion, depreciation and accretion	633,157	444,242
Stock-based compensation [note 9]	175,807	273,092
Unrealized foreign exchange loss	83,802	51,491
Interest income	(4,445)	(3,873)
	3,997,412	3,267,694
<b>NET LOSS</b>	(2,693,700)	(2,403,290)
<b>DEFICIT, BEGINNING OF YEAR</b>	(15,302,682)	(12,849,055)
Adjustment to deficit from adoption of new accounting policy	-	(50,337)
<b>DEFICIT, BEGINNING OF YEAR, AS RESTATED</b>	(15,302,682)	(12,899,392)
<b>DEFICIT, END OF YEAR</b>	\$ (17,996,382)	\$ (15,302,682)
<b>BASIC AND DILUTED LOSS PER SHARE</b>	(0.06)	(0.06)
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	48,718,000	38,066,000

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, 2009 and 2008**

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	2009	2008
<b>COMPREHENSIVE LOSS</b>		
Net Loss	\$ (2,693,700)	\$ (2,403,290)
Other comprehensive loss:		
Unrealized gain (loss) on translation of self-sustaining foreign operations	1,223,211	(528,329)
<b>Comprehensive Loss</b>	<b>\$ (1,470,489)</b>	<b>\$ (2,931,619)</b>
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS</b>		
Accumulated other comprehensive loss, beginning of year	\$ (528,329)	\$ -
Other comprehensive gain (loss)	1,223,211	(528,329)
<b>Accumulated other comprehensive gain (loss), end of year</b>	<b>\$ 694,882</b>	<b>\$ (528,329)</b>

See accompanying notes to the consolidated financial statements

**THUNDERBIRD ENERGY CORP.**  
**Consolidated Statements of Cash Flows**  
**Years Ended January 31, 2009 and 2008**

	2009	2008
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (2,693,700)	\$ (2,403,290)
Items not involving cash		
Stock-based compensation	175,807	273,092
Interest, accretion and debt service costs	443,260	101,527
Depletion, depreciation and accretion	633,157	444,242
Foreign exchange loss	83,802	51,491
	(1,357,674)	(1,532,938)
Changes in non-cash working capital	(310,721)	394,701
	(1,668,395)	(1,138,237)
<b>FINANCING ACTIVITIES</b>		
Issuance of shares, net of costs	3,175,725	3,000,113
Increase in amounts due to related parties	104,018	323,439
Proceeds from short-term debt	-	265,979
Repayment of short-term debt	-	(39,467)
Proceeds from long-term debt	603,508	3,592,584
Repayment of long-term debt	-	(1,110,521)
Proceeds from convertible debentures	702,500	-
Repayment of convertible debentures	(430,000)	-
Change in non-cash working capital	8,848	24,668
	4,164,599	6,056,795
<b>INVESTING ACTIVITIES</b>		
Oil and gas property exploration and acquisition costs	(1,233,788)	(6,266,820)
Acquisition of property and equipment	(71,747)	(30,983)
Change in non-cash working capital	(1,237,065)	1,306,668
	(2,542,600)	(4,991,135)
<b>FOREIGN CURRENCY EFFECT OF FOREIGN CURRENCY DENOMINATED CASH</b>		
	229,799	100,088
<b>INCREASE IN CASH FOR THE YEAR</b>	183,403	27,511
<b>CASH , BEGINNING OF YEAR</b>	74,150	46,639
<b>CASH , END OF YEAR</b>	\$ 257,553	\$ 74,150
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid	397,457	390,514

See accompanying notes to the consolidated financial statements

# THUNDERBIRD ENERGY CORP.

## Notes to the Consolidated Financial Statements

### Years Ended January 31, 2009 and 2008

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#### 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. 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, 2009, the Company had a working capital deficiency of \$5,780,989 (2008 - \$3,404,804) and an accumulated deficit of \$17,996,382 (\$15,302,682).

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 250 MMBtu per day at a price of \$2.78 Mcf for the period May through October 2009.
- The Company plans to issue new equity to finance future operations and satisfy its working capital deficiency. The Company currently expects to fund any future capital expenditures through a combination of operating cash flows and new equity issuance.

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 significant intercompany transactions and balances have been eliminated upon consolidation.

**THUNDERBIRD ENERGY CORP.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended January 31, 2009 and 2008**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(b) Change in accounting policies*

Effective February 1, 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (“CICA”).

- i) Section 1535, “Capital Disclosures”, establishes standards for disclosure of an entity’s objectives, policies and processes for managing capital. In addition, this standard requires disclosure of summary of quantitative and qualitative information about what an entity manages as capital. There was no financial impact to previously reported financial statements as a result of the implementation of this new standard. See note 11 to these consolidated financial statements.
- ii) Sections 3862, “Financial Instruments – Disclosures” and 3863, “Financial Instruments - Presentation”, replace CICA handbook section 3861 “Financial Instruments – Disclosure and Presentation” and specify a revised and enhanced disclosure on financial instruments. Increased disclosure is required on the nature and extent of risks arising from financial instruments and how the entity manages those risks. There was no financial impact to previously reported financial statements as a result of the implementation of this new standard. See note 10 to these consolidated financial statements.

*(c) 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.



**THUNDERBIRD ENERGY CORP.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended January 31, 2009 and 2008**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(d) 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.

*(e) 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.

*(f) 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.

**THUNDERBIRD ENERGY CORP.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended January 31, 2009 and 2008**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(g) 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.

*(h) 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.

*(i) 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.

*(j) 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.

*(k) 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.

**THUNDERBIRD ENERGY CORP.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended January 31, 2009 and 2008**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(l) 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.

*(m) 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.

*(n) Comparative figures*

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

*(o) Recent accounting pronouncements*

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.

Section 3064, "Goodwill and Intangible Assets", establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard will be effective for fiscal years beginning on or after October 1, 2008. This new standard is not expected to have a significant impact on the Company's consolidated financial statements.

Section 1582, "Business Combinations", supersedes Section 1581 "Business Combinations" and establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. CICA 1582 improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. This section outlines a variety of changes, including but not limited to: an expanded definition of a business, a requirement to measure all business combinations and non-controlling interests at fair value, and a requirement to recognize future income tax assets and liabilities and acquisition and related costs as expenses of the period. The section applies to all financial statements for fiscal years beginning on or after January 1, 2011, with early adoption permitted. The Company is currently evaluating the impact of adopting this section on its consolidated financial statements.

**THUNDERBIRD ENERGY CORP.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended January 31, 2009 and 2008**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(o) Recent accounting pronouncements(continued)*

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. The Company is currently evaluating the impact of adopting these sections on its consolidated financial statements.

**3. 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 \$147,696) for which a short-term investment in the same amount is held as collateral.

**4. PROPERTY AND EQUIPMENT**

	Cost	Accumulated Depreciation/ Depletion	Net Carrying Value
<b>2009</b>			
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
<b>2008</b>			
Oil and gas properties	\$ 9,348,379	\$ (567,021)	\$ 8,781,358
Property and equipment	83,713	(58,284)	25,429
	\$ 9,432,092	\$ (625,305)	\$ 8,806,787

At January 31, 2009 costs capitalized and associated with unproven properties excluded from costs subject to depletion for 2009 totalled \$1,222,165 (2008 - \$379,450). Future development costs for proved reserves of \$10,786,731 (2008 - \$2,961,190) have been included in the depletion calculation.

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

	Natural Gas (\$U.S./mmbtu)	Oil (\$U.S./bbl)
2010	6.491	50.49
2011	7.181	62.00
2012	7.365	64.47
2013	7.436	66.39
2014	7.464	68.12
Average Thereafter	7.621	71.69

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, 2009.

**THUNDERBIRD ENERGY CORP.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended January 31, 2009 and 2008**

**5. 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 \$430,780 (U.S. \$350,000) and are expected to be incurred in fifteen years. The asset retirement obligations have been recorded as liabilities at fair value, using a discount rate of 8% and a 3% inflation rate. The amounts of the liabilities are subject to re-measurement during each reporting period.

	2009		2008	
Balance, beginning of year	\$	41,578	\$	29,114
Liabilities incurred		-		14,244
Revision in estimates		158,169		
Accretion expense		7,952		3,061
Foreign exchange translation adjustment		10,262		(4,841)
Balance, end of year	\$	217,961	\$	41,578

**6. CONVERTIBLE DEBENTURES**

In December 2008 the Company completed a private placement of two year, 12% convertible debentures in the principal amount of \$1,737,500, partial proceeds of which were used to retire the existing convertible debentures of \$1,325,000. Debentures of \$430,000 were redeemed for cash, while \$895,000 of the existing debentures were applied to the purchase of the new issuance of debentures. The new debentures is convertible into common shares at a price of \$0.15 per share in the first year and \$0.25 per share in the second year. Issuance costs of \$77,225 were charged to operations.

In fiscal 2008, \$1,850,000 of convertible debentures were converted into 9,999,994 common shares. In accordance with EIC-158, \$32,295 of the equity component of the convertible debentures plus the carrying amount of the liability component was transferred to share capital.

	2009		2008	
Balance, beginning of year	\$	1,284,416	\$	3,077,766
Face value of convertible debentures issued during the year		1,737,500		-
Equity component		(144,729)		-
Liability portion		2,877,187		3,077,766
Accretion		49,656		35,471
Liability portion of convertible debentures		2,926,843		3,113,237
Conversion into common shares		-		(1,850,000)
Remaining discount related to converted debentures		-		21,179
Redemption of convertible debentures		(1,325,000)		-
		1,601,843		1,284,416
Less current portion		-		(1,284,416)
Balance, end of year	\$	1,601,843	\$	-

**7. SHORT-TERM DEBT**

As of January 31, 2009, the Company owes U.S. \$215,462 (Cdn \$265,191) pursuant to an unsecured shareholder loan that bears interest at 10% per annum and is repayable on demand.

**THUNDERBIRD ENERGY CORP.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended January 31, 2009 and 2008**

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**8. LONG TERM DEBT**

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%.

The initial availability limit is U.S. \$5,685,000. A quarterly commitment fee of U.S. \$8,528 (Cdn \$9,218) was charged during the period, and represents one half of one percent (0.5%) per annum on the daily average unused amount of the availability limit.

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, 2009, U.S. \$4,093,733 (Cdn \$5,038,566) 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.

**9. SHARE CAPITAL**

*Authorized:* Unlimited common shares without par value

*Issued:*

	Number of Shares	Amount
Balance, January 31, 2007	24,509,672	\$ 11,827,714
Shares issued for cash, net of issue costs	3,499,832	850,271
Warrants exercised	11,444,184	2,030,124
Options exercised	215,000	97,143
Conversion of debentures	9,999,994	1,861,116
Stock issued for compensation	100,000	30,000
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	67,079,492	\$ 18,575,047

# THUNDERBIRD ENERGY CORP.

## Notes to the Consolidated Financial Statements

### Years Ended January 31, 2009 and 2008

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#### 9. SHARE CAPITAL (continued)

##### *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.

On March 16, 2007, the Company completed a brokered private placement of 3,499,832 units at a price of \$0.30 per unit for proceeds of \$1,049,950. 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 \$0.50 per share until March 16, 2008. The selling brokers received a cash commission of \$79,241 and broker's warrants exercisable to purchase 349,983 additional units at a price of \$0.30 per unit. A value of \$55,645 was assigned to the brokers units, based on their fair value, and was computed using the Black-Scholes option pricing model. The Company incurred other cash share issuance costs of \$64,793.

##### *Warrants exercised*

During the year, 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.

During fiscal 2008, 3,335,000 shares were issued pursuant to warrants exercised at a price of \$0.15 per share for proceeds totalling \$500,250. The warrants were issued as part of the fiscal 2007 private placement. Directors and other related parties exercised 1,975,000 of the warrants for proceeds of \$296,250.

During fiscal 2008, 8,109,184 shares were issued pursuant to warrants exercised at a price of \$0.185 per share for proceeds totalling \$1,500,197. The warrants were issued as part of the fiscal 2007 convertible debentures. The warrants' fair value of \$29,677, previously recorded in contributed surplus, was transferred to share capital. Directors and other related parties exercised 3,028,106 of the warrants for proceeds of \$560,198.

##### *Options exercised*

During fiscal 2008, 15,000 options were exercised at a price of \$0.25 and 200,000 options were exercised at a price of \$0.30 for proceeds totalling \$63,750. Contributed surplus of \$33,393 was also transferred to share capital.

##### *Conversion of debentures*

During fiscal 2008, \$1,850,000 of convertible debentures were converted into an aggregate of 9,999,994 common shares of the Company at a rate of one share for each \$0.185 of principal converted. The two year 10% convertible debentures were issued on March 13, 2006 and were convertible, at the option of the holders. In accordance with EIC-158, \$32,295 of the equity component of the convertible debentures less an unamortized discount of the liability component of \$21,179 were transferred to share capital.

##### *Stock issued for compensation*

During fiscal 2008, 100,000 shares were issued pursuant to an employment agreement at a value of \$0.30 per share.

**THUNDERBIRD ENERGY CORP.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended January 31, 2009 and 2008**

**9. SHARE CAPITAL (continued)**

*Stock-based compensation plans:*

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.

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:

	2009	2008
Weighted average fair value per share	\$ 0.27	\$ 0.30
Dividend yield	0%	0%
Interest rate	3.43% - 4.38%	3.93% - 4.38%
Expected life	4.35 - 5 years	5 years
Volatility	102% - 104%	102%

For the year ended January 31, 2009, the Company recorded stock-based compensation of \$175,807 (2008 - \$273,092) 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, 2009 is presented below.

	Number of Options	Weighted Average Exercise Price
Balance, January 31, 2007	3,850,000	\$ 0.31
Issued	600,000	0.35
Cancelled	(575,000)	0.32
Exercised	(215,000)	0.30
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

The following table summarizes the stock options outstanding at January 31, 2009:

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	1,200,000	Jun 2013	4.35	\$ 0.20	600,000	\$ 0.20
\$ 0.22 - 0.25	1,500,000	Apr 2011	2.18	\$ 0.24	1,500,000	\$ 0.24
\$ 0.30	1,190,000	Jul 2009-Feb 2013	1.32	\$ 0.30	1,120,000	\$ 0.30
\$ 0.40 - 0.45	530,000	Apr 2009-May 2012	1.96	\$ 0.42	530,000	\$ 0.42
	4,420,000		2.51	\$ 0.27	3,750,000	\$ 0.29



**THUNDERBIRD ENERGY CORP.**  
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**9. SHARE CAPITAL (continued)**

*Share purchase warrants:*

The following table summarizes the warrants outstanding at January 31, 2009:

	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

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.

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.

Pursuant to a private placement completed in March 2007, the Company issued warrants to purchase 1,924,910 common shares at a price of \$0.50 per share until March 16, 2008. The selling brokers received 349,983 broker's warrants as more fully described in *Private placement* above. As of January 31, 2008, none of these warrants were exercised. In fiscal 2009, the Company received approval to extend the expiry date of the warrants until March 16, 2009.

Concurrent to the closing of the long-term debt financing (note 8), 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 a private placement completed in fiscal 2007, the Company issued warrants to purchase 4,000,000 common shares at a price of \$0.15 per share until April 4, 2007. The remaining 3,335,000 warrants were exercised in fiscal 2008.

Pursuant to the issuance of convertible debentures completed in March 2006 (note 6), 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.

Pursuant to the issuance of convertible debentures completed in November 2006 (note 6), the Company issued broker's warrants to purchase 60,000 common shares at a price of \$0.50 per share which expired December 20, 2007.

**THUNDERBIRD ENERGY CORP.**  
**Notes to the Consolidated Financial Statements**  
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**9. SHARE CAPITAL (continued)**

<i>Contributed surplus:</i>	2009		2008	
Balance, beginning of year	\$	957,167	\$	625,444
Convertible debentures - equity portion (note 6)		64,937		-
Stock-based compensation expense		175,807		273,092
Fair value of warrants		1,045,072		-
Fair value of lender's warrants		393,604		66,056
Fair value of broker's warrants		254,592		55,645
Fair value of exercised options		-		(33,393)
Fair value of exercised warrants		(2,618)		(29,677)
		1,931,394		331,723
Balance, end of year	\$	2,888,561	\$	957,167

**10. 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 made the following classifications:

Cash	Held for trading
Restricted cash	Held for trading
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Due to related parties	Other financial liabilities
Short-term debt	Other financial liabilities
Revolving credit facility	Other financial liabilities
Convertible debentures	Other financial liabilities

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.

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.

**THUNDERBIRD ENERGY CORP.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended January 31, 2009 and 2008**

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**10. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)**

*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 except as noted below. The Company does not have an allowance for doubtful accounts as at January 31, 2009.

During fiscal 2009, the Company's oil marketer Semcrude filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. The Company did not receive oil revenues for June and July estimated to be a maximum of \$45,000 and the resultant revenues have not been recorded as collectability cannot be assured, pending a determination by the bankruptcy court. In the third quarter the Company began marketing its natural gas through an alternative purchaser.

*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.

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 8, 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, 2009, 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, 2009.

**THUNDERBIRD ENERGY CORP.**  
**Notes to the Consolidated Financial Statements**  
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**10. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)**

*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, 2009 the Company had no oil and natural gas risk management contracts in place.

*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 \$50,000 based on the average amount of long-term 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, 2009.

**11. 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:

	<b>January 31 2009</b>	<b>January 31 2008</b>
Revolving credit facility <sup>(1)</sup>	\$ 5,038,566	\$ 3,592,584
Convertible Debentures	1,601,843	1,284,416
Short Term Debt	265,191	226,512
Less: Cash	(257,553)	(74,150)
Net Debt <sup>(2)</sup>	6,648,047	5,029,362
Total Shareholder's Equity	4,306,837	1,887,461
	<b>\$ 10,954,884</b>	<b>\$ 6,916,823</b>

<sup>(1)</sup> The Company's revolving credit facility imposes financial covenants which the company is not in compliance with at year-end. See note 8.

<sup>(2)</sup> 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.

**THUNDERBIRD ENERGY CORP.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended January 31, 2009 and 2008**

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**12. RELATED PARTY TRANSACTIONS**

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

	2009	2008
Consulting fees paid or accrued to a companies controlled by directors	\$ 200,600	\$ 90,000
Consulting fees paid to an individual related to a director	17,316	8,432
General and administrative expenses reimbursed to a companies with common directors	165,844	84,669
Royalties paid or accrued to a partnership in which certain directors or their associates have an interest	-	26,846

Amounts due to related parties include an unsecured short-term loan payable and accrued interest to two directors and a related person of the Company for U.S. \$334,288 (Cdn \$406,875) (2008- U.S. \$294,571 (Cdn \$315,751)). The loan carries a 12% interest rate and is payable on demand. Also included is \$66,085 (2008 - \$11,104) due to companies with common directors and \$4,720 (2008 - \$18,147) due to directors.

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

**13. 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:

	2009	2008
Future income tax assets:		
Non-capital losses	\$ 2,953,083	\$ 1,993,792
Capital losses	420,502	462,077
Resource pools	(377,201)	220,890
Loan acquisition costs & share issuance costs	398,162	164,468
Property, equipment and other	(188,884)	15,006
Total gross future income tax assets	3,205,662	2,856,233
Valuation allowance	(3,205,662)	(2,856,233)
Net future income tax asset	\$ -	\$ -

**THUNDERBIRD ENERGY CORP.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended January 31, 2009 and 2008**

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**13. INCOME TAXES (continued)**

As at January 31, 2009, the Company has non-capital loss carry-forwards in Canada and the U.S. of approximately \$8,736,000 (2008 - \$5,778,000), which are available to offset future taxable income. These non-capital loss carry-forwards expire as follows:

2010	\$	186,000
2011		605,000
2015		38,000
2025		2,000
2026		347,000
2027		1,183,000
2028		2,776,000
2029		3,599,000
	\$	<u>8,736,000</u>

- a) Canadian exploration expenditures of \$543,336 (2008 - \$543,336) can be deducted against future years' taxable income.
- b) Foreign exploration and development expenses of \$667,783 (2008 - \$698,488) are fully deductible against foreign mineral profits or 10% of taxable income in any given year.
- c) U.S. resource property expenditures of U.S. \$5,950,308 USD (2008 – U.S. \$6,087,409).
- d) The Company has a capital loss of \$3,300,000 (2008 - \$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.

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:

	2009	2008
Canadian statutory income tax rate	30.88%	34.12%
Expected income tax recovery	\$ 825,771	\$ 1,270,657
Permanent differences	71,048	(19,662)
Change in valuation allowance	(1,306,520)	(884,245)
Rate reduction	536,660	(44,313)
True ups	1,591,702	(205,828)
Rate differential (U.S.)	(52,804)	-
Other	(14,315)	(116,609)
Income tax recovery	\$ -	\$ -

**14. COMMITMENTS**

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

Fiscal	Amount
2010	\$ 57,356
2011	32,290
2012	21,527
	<u>\$ 111,173</u>

**THUNDERBIRD ENERGY CORP.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended January 31, 2009 and 2008**

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**15. 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
2009			
Revenue	\$ -	\$ 1,565,474	\$ 1,565,474
Property and equipment	18,003	11,741,931	11,759,934
2008			
Revenue	-	978,666	978,666
Property and equipment	10,068	8,796,719	8,806,787

**16. SUBSEQUENT EVENTS**

Subsequent to the year-end, additional convertible debentures in the amount of \$262,500 were issued. The new debentures will be convertible into common shares at a price of \$0.15 per share in the first year and \$0.25 per share in the second year.

Subsequent to the year-end, the Company has entered into a fixed price contract to deliver 250 MMBtu per day at a price of \$2.78 Mcf for the period May through October 2009.



YEAR ENDED JANUARY 31, 2009  
MANAGEMENT DISCUSSION AND ANALYSIS

## OVERVIEW AND HIGHLIGHTS

Thunderbird Energy Corp. (the "Company") is a Canadian based natural resource company focused on the exploration, exploitation, acquisition and production of natural gas and crude oil, primarily in the United States. The Company owns and operates a producing natural gas field in Carbon County, Utah, known as the Gordon Creek field, and holds a 50% interest in a producing light oil project located in Rush County, Kansas. The Company also holds interests ranging from 95%-100% in a roughly 20,000 acre exploration project in Weston County, Wyoming.

In June 2008, the Company strengthened its management team and Board of Directors with the addition of David Evans as Chairman and Rick Ironside as Chief Operating Officer. David Evans holds a B. Sc. (Honours), (London) as well as a Ph. D. Geology (Wales). He has 30+ years of experience in the oil and gas industry, in both technical and senior management roles. Most notably, Mr. Evans has created, grown and ultimately merged or sold three very successful oil and gas public companies, namely Barrington Petroleum, Defiant Energy and Defiant Resources. Rick Ironside P. Eng. Holds a B.Sc. Engineering (Calgary) and an MBA (Ivey School of Business). He has nearly thirty years of broad based petroleum industry experience, including ten years in senior management roles. Most recently, Mr. Ironside served as President and CEO of Defiant Resources Corporation.

Immediately upon joining the Company, Messrs. Evans and Ironside implemented an overall review of the Company's Gordon Creek, Utah and Weston Country, Wyoming projects, with a view to implementing a go forward plan. Work to date at Gordon Creek has included optimizing production from existing wells, re-equipping certain of the existing producing wells, and upgrading the water disposal system in order to accommodate increased water disposal revenues from third parties. Late in the second quarter, the Company initiated the first phase of a workover plan at Gordon Creek which involved replacing, and in some cases re-designing, the downhole pumping system on certain of the producing wells.

During the first quarter of the current fiscal year, the Company completed an extensive review of the geology in the Gordon Creek region, which included an assessment of the geology and best operating practises at the neighbouring Drunkards Wash natural gas field operated by Conoco Phillips. Based on this study the Company has created a development plan that includes re-working/re-activating six of the existing wells and drilling up to twenty-six new wells on the existing land base over the next three years.

During the third quarter, the Company entered into a water disposal contract with a neighbouring producer which is expected to significantly enhance the Company's revenues from its gas gathering and water disposal system in 2010.

The Company has also concluded a geological review of the Weston County oil exploration project and has decided to solicit farm in partners to conduct the next round of exploration on portions of the land base.

MHA Petroleum Consultants ("MHA"), Inc. of Denver, Colorado prepared a reserves report (the "MHA Report") on the Company's oil and gas interests in accordance with NI 51-101 effective January 31, 2009. Specifically, the MHA Report covers the Company's interests in the Gordon Creek natural gas project and its 50% working interest in the Rush County, Kansas light oil project. MHA estimated the Company's total proved and probable (2P) reserves at 29.73 BCF of natural gas and 39,400barrels of oil (236 MMCFE) representing a ratio of approximately 1% oil and 99% gas. The MHA Report estimated the Net Present Value before tax of Future Net Revenue discounted at 10% (PV10) of the Company's combined oil and gas interests as of January 31, 2009 at U.S. \$41 million, using forecasted prices and costs.



This Management's Discussion and Analysis ("MD&A") of the consolidated financial position and results of operations of The Company, which includes its subsidiaries and partnership arrangements, was prepared as of May 27, 2009, and is for the years ended January 31, 2009 and 2008. For a full understanding of the consolidated financial position and results of operations of the Company, the MD&A should be read in conjunction with the documents filed on SEDAR, including historical financial statements and press releases. These documents are available at [www.sedar.com](http://www.sedar.com). The selected financial information contained herein has been prepared in accordance with Canadian Generally Accepted Accounting principles, and are expressed in Canadian dollars, unless otherwise noted.

The Company's Board of Directors and Audit Committee have reviewed and approved the consolidated financial statements and MD&A.

## **OTHER MEASUREMENTS**

All dollar amounts are referenced in Canadian dollars, except when noted otherwise. Where amounts are expressed on a barrel of oil equivalent ("BOE") basis, natural gas volumes have been converted to oil equivalence at six thousand cubic feet per barrel. Conversely, where amounts are expressed as a thousand cubic foot of gas equivalent ("MCFE") oil has been converted to natural gas equivalence at the same rate of six thousand cubic feet per barrel. The term BOE or MCFE may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet per barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. References to oil in this discussion include crude oil and natural gas liquids ("NGLs") although the Company does not currently produce NGLs. NGLs include condensate, propane, butane and ethane.

## **RESOURCE PROPERTIES**

### ***Gordon Creek, Utah***

The Company is the owner and operator of the Gordon Creek natural gas field located in Price, Utah. The Gordon Creek field comprises roughly 5,000 acres and includes four producing wells and seven shut-in wells. Three of the shut in wells were drilled in the fourth quarter of fiscal 2008, two of which were completed as potential gas wells. The Gordon Creek project also includes an associated gas gathering and water disposal system consisting of ten km of pipeline, a scalable compression facility and a disposal well. These facilities service the Company's production as well as adjacent third party production for which the Company earns gathering fees and disposal fees. The Company entered into a new water disposal contract with a neighbouring producer which is expected to significantly enhance the Company's revenues from its gas gathering and water disposal system in 2010.

Gas is marketed into a transmission pipeline operated by Questar Gas Resources that crosses the project acreage. The property is adjacent to the Drunkards Wash natural gas field which is operated by Conoco/Phillips.

Production in the region is largely from the formation known as the Ferron formation. The Ferron is a member of the much larger Mancos Shale and is a cretaceous aged fluvial deltaic formation consisting of a sequence interbedded sands, shale, and coals. The Ferron is productive throughout region including the adjacent Drunkard's Wash field (Conoco/Phillips) and Clear Creek field (Marion Energy). The productive horizons in the Ferron formation are overlain and underlain by extensive shale features – the Mancos shale above and Tununc shale below – both of which have been productive in the region. In addition to continuing development of the conventional Ferron production, The Company is investigating opportunities to commercially produce gas from the Mancos Shale.

During the first quarter of the current fiscal year, the Company completed an extensive review of the geology in the Gordon Creek region, which included an assessment of the geology and best operating practises at the neighbouring Drunkards Wash natural gas field operated by Conoco Phillips. As a result of this study the Company has gained a much greater understanding of the geology in the region and the geological nexus between Gordon Creek and Drunkard's Wash. Based on this study the Company has created a development plan that includes re-working/re-activating 6 of the existing wells and drilling up to twenty-six new wells on the existing land base over the next three years.

The Company also intends to revise its operating practises in order to adopt the practises that have proved to be most successful at Drunkard's Wash.

The Company has also initiated steps to acquire additional land adjacent to Gordon Creek in order to substantially expand the scope for the project.

### ***Rush County, Kansas***

The Company holds a 50% working interest (45% net profit interest) in five producing light (45 API) oil wells in Rush County, Kansas. All the Company's oil reserves and revenues are attributable to the Rush County, Kansas project.

### ***Weston County, Wyoming***

The Company holds interests ranging from 95% to 100% in a medium to light oil exploration prospect located in the Eastern Powder River basin, Weston County, Wyoming.

The Weston County project is located in a prolific oil and gas producing area of the Eastern Powder River Basin. The project has a number of conventional oil and natural gas targets in the Dakota and Minnelusa formations. The Cretaceous Dakota and Permo-Penn Minnelusa are both highly productive sandstone reservoirs when found in the trapping positions and have accounted for hundreds of millions of barrels of production in the Powder River Basin. Dakota and Minnelusa fields in the vicinity of the Weston County project have cumulative production to date of 100 million barrels of oil and 40 Bcf of natural gas.

Approximately two hundred miles of 2D seismic data were shot over the subject lands in the early 1980's. The Company has acquired and re-processed certain of the 2D data as a first step in designing a 3D program to cover portions of the lands that appear highly prospective for both Dakota and Minnelusa production. One of the areas being investigated includes lands offsetting a former producing well.

The Company anticipates that for the balance of fiscal 2010 it will be focusing its efforts and capital expenditures on its Gordon Creek natural gas field and has therefore elected to look at opportunities to farm out portions of the Weston County lands on a drill to earn basis.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth selected consolidated financial data as of and for the years ended January 31, 2009, 2008 and 2007. This data was derived from the audited annual consolidated financial statements.

<b>Balance Sheet</b>	<b>As at January 31, 2009</b>	<b>As at January 31, 2008</b>	<b>As at January 31, 2007</b>
Current assets	661,912	831,427	238,372
Other assets	11,907,630	8,926,427	2,762,348
<b>Total assets</b>	<b>12,569,542</b>	<b>9,757,854</b>	<b>3,000,720</b>
Current liabilities	6,442,901	4,236,231	536,504
Other liabilities	1,819,804	3,634,162	2,762,880
<b>Total liabilities</b>	<b>8,262,705</b>	<b>7,870,393</b>	<b>3,299,384</b>

	<b>Quarter ended January 31, 2009</b>	<b>Year ended January 31, 2009</b>	<b>Year ended January 31, 2008</b>	<b>Year ended January 31, 2007</b>
<b>Revenues</b>	<b>\$ 444,963</b>	<b>\$ 1,565,474</b>	<b>\$ 978,666</b>	<b>\$ 451,373</b>
Royalties	62,580	261,762	114,262	28,662
	<b>382,383</b>	<b>1,303,712</b>	<b>864,404</b>	<b>422,711</b>
<b>Expenses</b>				
Operating costs	361,480	1,017,124	691,141	309,474
General and administrative	479,492	1,170,030	1,319,560	488,294
Interest, accretion and debt service costs	166,414	921,937	492,041	225,018
Depletion, depreciation and accretion	148,872	633,157	444,242	234,679
Impairment loss on oil and gas properties	-	-	-	953,371
Impairment loss on mineral properties	-	-	-	59,562
Stock-based compensation	61,975	175,807	273,092	202,375
Unrealized foreign exchange loss	9,607	83,802	51,491	-
Interest income	(816)	(4,445)	(3,873)	(735)
	<b>1,227,024</b>	<b>3,997,412</b>	<b>3,267,694</b>	<b>2,472,038</b>
<b>Net loss</b>	<b>\$ (844,641)</b>	<b>\$ (2,693,700)</b>	<b>\$ (2,403,290)</b>	<b>\$ (2,049,327)</b>
Basic and diluted loss per share	(0.01)	(0.06)	(0.06)	(0.09)
Weighted-average number of shares outstanding	67,079,000	48,718,000	38,066,000	22,893,000

### **Production Summary**

The following table summarizes the production for fiscal 2009 and 2008:

	Year ended January 31		Quarter ended January 31	
	2009	2008	2009	2008
<b>Production:</b>				
Natural gas (mcf)	204,512	158,071	57,967	77,060
Oil (bbls)	2,979	4,312	628	675
Total (BOE) (6:1)	37,064	30,657	10,289	13,518
<b>Production split:</b>				
Natural gas (%)	92%	86%	94%	95%
Oil (%)	8%	14%	6%	5%

### **Revenues**

Revenue, before royalties for fiscal 2009 was \$1,565,474, an increase of 60% compared to \$978,666 in fiscal 2008. This increase was attributable to increased commodity prices and natural gas production levels at Gordon Creek. In addition, as the Company purchased the remaining 50% interest in the Gordon Creek project in the prior year, the Company has recognized all of Gordon Creek's production for the full year ended January 31, 2009. Revenues from the Gordon Creek property including natural gas and other revenues, represents 85% of total revenues, while the Rush County oil revenues represents the remaining 15%. Revenues were negatively impacted during the year by a decline in oil production from Kansas including approximately two months of uncollectible oil revenues due to the bankruptcy of Semcrude, the former purchaser of the Company's oil.

The breakdown of revenue for the past three years is summarized in the following table:

	Year ended January 31, 2009		Year ended January 31, 2008		Year ended January 31, 2007	
	\$	\$/BOE	\$	\$/BOE	\$	\$/BOE
Gas revenue	1,225,417	35.95	586,677	22.27	418,550	25.30
Oil revenue	228,369	76.66	251,422	58.31	31,570	50.03
Royalties	(261,762)	(7.06)	(114,262)	(3.73)	(28,662)	(1.67)
Other revenue	111,688		140,567		1,253	
<b>Revenue</b>	<b>1,303,712</b>		<b>864,404</b>		<b>422,711</b>	

The average price received for natural gas sales for fiscal 2009 increased 61% over the prior year to \$35.95 per BOE, while the average price received for oil sales increased 31% over fiscal 2008 to \$76.66 per barrel.

For the year ended January 31, 2009, the average royalties were 18% of gas and oil revenues. This was an increase of approximately 4.5% over fiscal 2008. The increase is due significantly to the overall average increase in oil and gas prices in the current year.

### **Operating costs**

Direct costs include all normal operating costs as well as workover costs for both the Gordon Creek and the Rush County projects. The costs were higher for fiscal 2009 compared to fiscal 2008 as this was the first year the Company had 100% ownership in the Gordon Creek properties throughout the entire fiscal period. Activities during fiscal 2009 included revising operating practices and replacing downhole equipment on all of the producing wells. The Company does not anticipate that these levels of expenditure will be ongoing. Gordon Creek expenses were 87% of the total operating expenses, while Rush County operating expenses were 13% of the total operating expenses.

**General and administrative**

General and administrative costs include such items as office rent, accounting fees, legal fees, professional and consulting fees, filing fees, salaries and wages, transfer agent fees, travel costs, advertising and promotions and investor relations, as well as general office expenses. G&A expenses decreased 11% for the fiscal year ended January 31, 2009 to \$1,170,031 from \$1,319,560 in the previous fiscal year. Approximately \$265,000 and \$140,000 of the decrease were due to legal fees and transaction costs, respectively, incurred during the due diligence related to the Macquarie loan facility set up in fiscal 2008. Fiscal 2009 was the first year the Company maintained 100% ownership in Gordon Creek property throughout the full year and therefore the general costs related to this operating company increased by approximately \$109,000 during the year. Other increases during the year included the debt issue costs of issuing convertible debentures of approximately \$77,000 in the fourth quarter.

**Interest, accretion and debt service costs**

Interest charges relate to interest on the credit facility obtained by the Company during the prior fiscal year of approximately \$232,000 in addition to interest paid on short term debt and promissory note assumed in the prior year for the acquisition of the remaining 50% of the Gordon Creek Property of approximately \$68,000 and interest paid on the acquisition in fiscal 2009 of working interest of \$14,000. Interest charges also include approximately \$164,000 in interest paid on convertible debentures. For further details on the convertible debentures see "Liquidity and Capital Resources" below. Accretion costs of approximately \$50,000 relate to the accretion on the convertible debentures. The increase interest, accretion and debt service costs pertains mainly to the increase in debt service costs which relate to the fair value of warrants issued to Macquarie of approximately \$393,604.

**Depletion, depreciation and accretion**

Depletion, depreciation, and accretion increased in the 2009 fiscal year by approximately 43% due primarily to the increase in the cost base for the depletion calculation due to an increase in the future costs to access proved undeveloped resources. In addition, the reserve estimates used increased by approximately 100% from the previous year. The Company follows the full-cost method of accounting for oil and gas properties, whereby all capitalized costs relating to the acquisition, exploration and development of oil and gas activities are amortized against future income using the unit-of-production method. This method is based on production volumes before royalties in relation to total estimated proved reserves as determined by independent engineers. MHA estimated the Company's reserves as of January 31, 2009 in accordance with NI 51-101.

**Unrealized foreign exchange loss**

At year-end the Company had unrealized foreign exchange losses of \$83,802. This loss pertains to the translation of short-term debt and promissory notes denominated in U.S. currency. The increase in unrealized foreign exchange loss is due to a weaker Canadian dollar at January 31, 2009 than a year earlier.

**Stock-based compensation**

The Company granted 1,365,000 of stock options during the year priced between \$0.20 and \$0.30 to directors and employees. In accordance with CICA Handbook section 3870, the fair value of the stock options granted are expensed over their vesting period with a corresponding increase to contributed surplus. Using the Black-Scholes option pricing model for valuing shares, the Company assumed a volatility rate of 102% - 104% an expected life of 4.35 - 5 years, a risk-free rate between 3.43% and 4.38%, and a 0% dividend yield.

**SELECTED QUARTERLY RESULTS** *(unaudited)*

<b>Balance Sheet:</b>	<b>Q4 2009</b>	<b>Q3 2009</b>	<b>Q2 2009</b>	<b>Q1 2009</b>	<b>Q4 2008</b>	<b>Q3 2008</b>	<b>Q2 2008</b>	<b>Q1 2008</b>
Current assets	661,912	875,726	1,652,255	1,108,098	831,427	1,736,002	2,287,937	1,300,945
Other assets	11,907,630	11,441,267	10,068,712	8,534,891	8,926,427	6,269,843	6,145,166	3,155,831
<b>Total assets</b>	<b>12,569,542</b>	<b>12,316,993</b>	<b>11,720,937</b>	<b>9,642,989</b>	<b>9,757,854</b>	<b>8,005,845</b>	<b>8,433,103</b>	<b>4,456,776</b>
Current liabilities	6,442,901	2,484,494	2,291,700	3,622,450	4,236,231	3,498,325	3,356,775	696,076
Other liabilities	1,819,804	4,998,699	4,231,738	4,188,302	3,634,162	1,151,244	1,145,742	2,802,672
Shareholders' equity	<b>4,306,837</b>	4,833,800	5,197,499	1,832,237	1,887,461	3,356,276	3,930,586	958,028
<b>Total equity and liabilities</b>	<b>12,569,542</b>	<b>12,316,993</b>	<b>11,720,937</b>	<b>9,642,989</b>	<b>9,757,854</b>	<b>8,005,845</b>	<b>8,433,103</b>	<b>4,456,776</b>

<b>Income Statement:</b>	<b>Q4 2009</b>	<b>Q3 2009</b>	<b>Q2 2009</b>	<b>Q1 2009</b>	<b>Q4 2008</b>	<b>Q3 2008</b>	<b>Q2 2008</b>	<b>Q1 2008</b>
Net Revenues	382,383	223,796	305,669	391,864	402,889	143,615	161,950	155,950
<b>Expenses:</b>								
Operating costs	361,480	285,502	188,884	181,258	384,213	110,390	116,134	80,409
General and administrative	479,492	186,614	262,520	241,404	642,263	410,923	155,026	111,348
Interest, accretion and debt service costs	166,414	257,884	251,115	246,524	222,167	77,655	108,340	96,226
Depletion, depreciation and accretion	148,872	190,605	144,549	149,131	93,482	178,529	140,964	18,920
Impairment loss on oil and gas properties	-	-	-	-	-	-	-	-
Stock-based compensation	61,975	48,034	41,810	23,988	27,746	80,893	92,344	72,109
Unrealized foreign exchange loss	9,607	93,939	5,582	(25,326)	22,363	31,741	(1,139)	(1,474)
Interest income	(816)	(1,147)	(1,273)	(1,209)	(2,559)	(1,314)	-	-
	<b>1,227,024</b>	<b>1,061,431</b>	<b>893,187</b>	<b>815,770</b>	<b>1,389,675</b>	<b>888,817</b>	<b>611,669</b>	<b>377,538</b>
<b>Net loss for the period</b>	<b>(844,641)</b>	<b>(837,635)</b>	<b>(587,518)</b>	<b>(423,906)</b>	<b>(986,786)</b>	<b>(745,202)</b>	<b>(449,719)</b>	<b>(221,588)</b>
Basic and diluted loss per share	<b>(0.013)</b>	<b>(0.012)</b>	<b>(0.009)</b>	<b>(0.010)</b>	<b>(0.019)</b>	<b>(0.015)</b>	<b>(0.014)</b>	<b>(0.008)</b>
Weighted average number of shares outstanding (thousands)	67,079	67,079	62,738	50,227	49,769	49,750	31,555	27,344

### ***Operations***

The Company's increase in its investment in oil and gas properties over the last eight quarters is a result of a series of property acquisitions and the resulting growth in the growth of the Company's energy related assets and operations. The overall increase in expenses during the past eight quarters is representative of the increased activity level of the Company.

Revenue for the first and second quarter of 2009 increased over the first and second quarter of 2008 as the Company purchased the remaining 50% of the Gordon Creek Project at the end of the second quarter of fiscal 2008. Therefore production in 2009 was higher from the acquisition as well as from increase in overall well production. In addition, the 2008 first quarter revenues were lower than usual due to decreases in production as a result of mechanical issues. Operating expenses decreased in the first quarter of 2009 compared to the fourth quarter of 2008 primarily due to the fact that reduced workover expenditures were incurred during the quarter. Second quarter operating expenses remained consistent with the first quarter.

Revenues for the second and third quarters are typically reduced due to seasonal decline in natural gas prices. (See "Outlook" above) This reduction was partially mitigated in fiscal 2009 by the Company's decision to enter into a fixed price sale of 40% of its net production at a price of \$7.89. Revenues in the third quarter of 2008 were further negatively impacted by a shutdown of the Questar pipeline in the region for approximately three weeks. Gordon Creek operating expenses increased in the third quarter of 2009 compared to the first and second quarter primarily due to work-over costs.

Fourth quarter revenues in 2009 decreased over the fourth quarter of 2008 due to a decrease in gas production as the compressor was shut down for approximately one week for maintenance. Operating expenses increased in the fourth quarter over the previous 2009 quarters primarily due to operating costs relating to the oil production for the third quarter not being known. Therefore the third and fourth quarter operating costs for the oil production were expensed in the fourth quarter.

### ***General and administrative***

General and administrative costs include such items as advertising and promotions, investor relations, office rent, accounting fees, legal fees, professional and consulting fees, filing fees, transfer agent fees, travel costs, as well as general office expenses. During the fourth quarter, general costs increased 150% from the third quarter largely due to the increase in costs related to the issuance of convertible debentures during the fourth quarter and accruals for professional fees at year-end.

### ***Interest accretion and debt service costs***

Non-cash interest charges increased in quarter four over the previous quarter is due to the increase in accretion on the November 2006 convertible debenture which retired in the quarter. See "Liquidity and Capital Resources" below.

### ***Commitments***

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

Fiscal	Amount
2010	\$ 57,356
2011	32,290
2012	21,527
	\$ 111,173

## OUTLOOK

Following an extensive study of the Gordon Creek geology and production history, as well as the history of neighboring Drunkards Wash and Clear Creek fields, the Company has gained a greater understanding of the geology at Gordon Creek and, in particular, the depositional characteristics of the Ferron Sandstone and Coals throughout the region. This study, combined with an extensive review of the geology and operating practices at the neighboring Drunkards Wash field have led the Company's management to the conclusion that the Gordon Creek field has not been traditionally operated in accordance with best practices and there is considerable room for optimization in existing wells and new drilling locations. Specifically, the practice at Drunkard's Wash is to perforate and fracture stimulate all sandstones above 7% porosity and all coal zones. At Gordon Creek, very few of the sandstones have been frac'd and none of the coals have been perforated or frac'd. The company has established a 3 year development plan for Gordon Creek which includes reworking/reactivating 6 existing wells, including 2 of the 3 wells drilled in late fiscal 2008 and drilling up to 26 additional wells on the existing land base. The first phase of this program will involve fracture stimulating the certain sandstone pay zones (certain of which have produced in the past), as well as perforating and frac'ing a number of coal zones that have not been previously accessed. The program is contingent on the Company raising financing through a combination of equity and debt.

Short-term constraints on pipeline capacity contribute to a negative price differential of \$1 to \$2 for natural gas in the Rocky Mountain region. In early 2008, Phase two of the Rocky Mountain Express ("REX") pipeline was completed and the basis price spread returned to more traditional levels during the first two quarters of fiscal 2009. The third and final phase of the REX pipeline is scheduled for completion in the fall of 2009 and should help provide long-term price stability for natural gas produced in the Rockies.

Natural gas prices for the first two quarters of fiscal 2009 remained relatively strong; however, prices softened during the Company's third and fourth fiscal quarters due to traditional seasonal price reductions and the downturn in the worldwide economy. In anticipation of this, the Company entered into a fixed price contract to sell roughly 40% of existing production through the third quarter at a price of \$7.59/mcf, which partially reduced the impact of these price reductions. Gas prices are continuing to be below seasonal norms for the first quarter of fiscal 2010 and therefore subsequent to year end, the Company has entered into a fixed price contract for roughly 40% of its production at a price of \$2.79 Mcf for the period May through October.

During the first and second quarters of fiscal 2009, the Company doubled the interests it owns in its Wyoming properties from a 50% working interest, to 95% to 100%. The Company has conducted a substantial geological review of the region and the Company's lands and has acquired and re-processed an extensive 2D seismic program shot in the early 1980's. The Company has identified a number of exploration opportunities within the acreage and on surrounding lands. These opportunities range from high impact exploration targets to more development style drilling opportunities offsetting existing or former producing wells. The Company is continuing its review of available geological and geophysical data in order to identify and prioritize existing drill targets, as well as designing a 3D seismic program aimed at delineating prospective targets. With the Company's current focus on the Gordon Creek project, it is the Company's intent to seek farm in partners for the next phase of development in Weston County.



## RISKS AND TRENDS

Demand for natural gas has traditionally been highly cyclical and somewhat predictable. Demand for and pricing of natural gas has traditionally been highest during the coldest months of winter. The primary driver for this cyclical nature is the need for residential and commercial heating. Because natural gas is increasingly being used to generate electricity, increased electrical demand often means increased natural gas demand and pricing. This results in a smaller spike in natural gas demand during the warmest months of the year as electrical demand for space cooling increases. Accordingly, the spring and fall “shoulder seasons” are typically becoming the periods of lowest natural gas prices. The magnitude of this summer spike in natural gas prices is expected to increase in future years as natural gas continues to replace coal as a clean source of electrical power generation. In addition, issues relating to pipeline capacity constraints, pipeline maintenance and unscheduled shut-downs, can temporarily impact regional pricing.

Oil and natural gas operations involve many risks that even a combination of experience and knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Company depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves the Company may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in the Company’s reserves will depend not only on the Company’s ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that further commercial quantities of oil and natural gas will be discovered or acquired by the Company.

The Company’s principal risks include finding and developing economic hydrocarbon reserves efficiently and being able to fund the required capital programs. The Company’s need for capital is both short-term and long-term in nature. Short-term working capital will be required to finance accounts receivable, drilling deposits and other similar short-term assets, while the acquisition and development of oil and natural gas properties require large amounts of long-term capital. The Company anticipates that future capital requirements will be funded through a combination of internal cash flow, debt and equity financing. There is no assurance that debt and equity financing will be available on terms acceptable to the Company to meet its capital requirements. If any components of the Company’s business plan are missing, the Company may not be able to exercise the entire business plan.

Although the Company has no set policy concerning hedges, the management may use hedging contracts to reduce corporate risk in certain situations. The Company currently has no hedging commitments in place and has no present intention to implement any hedging commitments. However, as noted in the Outlook, subsequent to year end, the Company has entered into a fixed price contract to reduce the impact of price reductions.

These risk factors should not be construed as exhaustive. There are numerous factors, both known and unknown, that could cause results or events to differ materially from forecast results.

### ***Safety and Environment***

Oil and gas exploration and production can involve environmental risks such as pollution of the environment and destruction of natural habitat, as well as safety risks such as personal injury. The Company conducts its operations with high standards in order to protect the environment and the general public. The Company maintains current insurance coverage for comprehensive and general liability as well as limited pollution liability. The amount and terms of this insurance are reviewed on an ongoing basis and adjusted as necessary to reflect current corporate requirements, as well as industry standards and government regulations.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's source of funding includes the issuance of equity securities for cash, primarily through private placements and debt financing. The Company has issued common shares pursuant to private placement financings and exercise of warrants and options. The Company's access to exploration financing when the financing is not transaction specific is always uncertain. There can be no assurance of the continued access to significant equity financing.

During the year ended January 31, 2009, The Company's additions to its oil and gas properties totalled \$1,368,851. These acquisitions were funded largely by the issuance of equity and assumption of debt.

At January 31, 2009, the Company had cash of \$257,553 and a working capital deficit of \$5,780,989. The working capital deficit includes a current liability of \$6,442,901 which consists of accounts payable, amounts due to related parties, short-term debt and the Company's revolving credit facility. At year-end the Company is not in compliance with all covenants on its revolving credit facility, as a result the loan is in default. The Company has not subsequently received a waiver and may be called by the lenders at anytime, therefore the entire amount of the loan is considered current. This contributes to factors which raise substantial doubt about the Company's ability to continue as a going concern as discussed in Note 1 –Nature of Operations and Going Concern in the financial statements.

The Company has no "purchase obligations" defined as any agreement to purchase goods or services that is enforceable and legally binding on the Company that specifies all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the proximate timing of the transaction.

The Company had no commitments for capital expenditures as of January 31, 2009. The Company has no lines of credit or other sources of financing which have been arranged at this time, other than those listed below.

### ***Revolving Credit Facility***

The Company has a long-term financing facility agreement with Macquarie 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 loan's interest rate 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%. The initial availability limit is U.S. \$5,685,000 and will be re-determined by the lender every six months based on reserve estimates provided by independent engineers, subject to certain calculations.

The credit facility operates as a revolving credit line with no principal repayments for the first three years. 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, 2009, U.S. \$4,093,733 (Cdn \$5,038,566) is owed under this facility. At year-end the company is not in full compliance with certain financial covenants contained in the loan agreement and as result the loan is in default. Macquarie Bank has not indicated that it has any present intention to call the loan, but since it is in default and no subsequent waivers have been issued, it may be called by the lenders at anytime, and therefore the entire amount of the loan has been categorized as a current liability.

### ***Convertible debentures***

In December 2008 the Company completed a private placement of two year, 12% convertible debentures in the principal amount of \$1,737,500, partial proceeds of which were used to retire the existing convertible debentures of \$1,325,000. Debentures of \$430,000 were redeemed for cash, while \$895,000 of the existing debentures were transferred into the new issuance of debentures. Subsequent to the year end, an additional \$262,500 was raised. The new debentures will be convertible into common shares at a price of \$0.15 per share in the first year and \$0.25 per share in the second year.

***Private Placements***

On June 26, 2008, the Company completed a brokered private placement of 16,500,000 units of the Company 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, 2008. The selling brokers received a cash commission equal to 7% of the gross proceeds from the sale of the units, and broker's warrants exercisable to purchase 1,047,500 additional units at a price of \$0.20 per until June 4, 2009.

***Warrants Exercised***

In the first quarter of 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.

**CRITICAL ACCOUNTING ESTIMATES**

Management is required to make judgments, assumptions and estimates in the application of Canadian generally accepted accounting principles that have a significant impact on the financial results of the Company.

***Oil and Natural Gas Properties***

Under NI 51-101, "proved" reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. In accordance with this definition, the level of certainty targeted by the reporting corporation should result in at least a 90% probability that the quantities actually recovered will equal or exceed the estimated reserves. In the case of "probable" reserves, which are obviously less certain to be recovered than proved reserves, NI 51-101 states that it must be equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves. With respect to the consideration of certainty, in order to report reserves as proved plus probable, the reporting company must believe that there is at least a 50% probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves. The implementation of NI 51-101 has resulted in a more rigorous and uniform standard of reserve evaluation.

The oil and natural gas reserve estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in the Company's plans.

The Company uses the full cost method of accounting for exploration and development activities. In accordance with this method of accounting, all costs associated with exploration and development are capitalized whether or not the activities funded were successful. The aggregate of net capitalized costs and estimated future development costs, less estimated salvage values, is amortized using the unit-of production method based on estimated proved oil and natural gas reserves. An increase in estimated proved oil and natural gas reserves would result in a corresponding reduction in depletion expense. A decrease in estimated future development costs would result in a corresponding reduction in depletion expense.

***Impairment of Oil and Natural Gas Assets***

The Company is required to review the carrying value of all oil and natural gas assets for potential impairment. Impairment is indicated if the carrying value of the oil and natural gas assets is not recoverable by the future undiscounted funds from operations. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the oil and natural gas asset is charged to earnings. The assessment of impairment is dependent on estimates of reserves, production rates, prices, future costs and other relevant assumptions.

***Asset Retirement Obligations***

The Company is required to provide for future removal and site restoration costs. The Company must estimate these costs in accordance with existing laws, contracts or other policies. The fair value of the liability of U.S. \$350,000 for the Company's asset retirement obligation is recorded in the period in which it is expected to be incurred between 2008 and 2023, discounted to its present value using the Company's 8% discount rate. The offset to the liability is recorded in the carrying amount of oil and natural gas properties. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of funds from operations or to the original estimated undiscounted cost could also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded.

***Stock-Based Compensation***

The Company uses the fair value method for valuing stock option grants. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. A zero dividend yield is used as the Company does not issue dividends; the volatility is a calculation based on past trading history and the risk-free rate is from the Bank of Canada. An increase in dividends would decrease the option expense and an increase in the volatility or the risk-free rate would increase the calculated expense.

***Income Taxes***

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulation often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated in the Company's notes to the financial statements.

**ADOPTION OF NEW ACCOUNTING POLICIES**

Effective February 1, 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") relating to financial instruments. As required by the transitional provisions of these new standards, these new standards have been adopted on a prospective basis with no restatement to prior period financial statements.

Section 1535, "Capital Disclosures", establishes standards for disclosure of an entity's objectives, policies and processes for managing capital. In addition, this standard requires disclosure of summary of quantitative and qualitative information about what an entity manages as capital. There was no financial impact to previously reported financial statements as a result of the implementation of this new standard. See note 11 to these consolidated financial statements.

Sections 3862, "Financial Instruments – Disclosures" and 3863, "Financial Instruments - Presentation", replace CICA handbook section 3861 "Financial Instruments – Disclosure and Presentation" and specify a revised and enhanced disclosure on financial instruments. Increased disclosure is required on the nature and extent of risks arising from financial instruments and how the entity manages those risks. There was no financial impact to previously reported financial statements as a result of the implementation of this new standard. See note 10 to these consolidated financial statements.

## **SIGNIFICANT ACCOUNTING POUNDNCEMENTS**

Section 3064, “Goodwill and Intangible Assets”, establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard will be effective for fiscal years beginning on or after October 1, 2008. This new standard is not expected to have a significant impact on the Company’s consolidated financial statements.

Section 1582, “Business Combinations”, supersedes Section 1581 “Business Combinations” and establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. CICA 1582 improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. This section outlines a variety of changes, including but not limited to: an expanded definition of a business, a requirement to measure all business combinations and non-controlling interests at fair value, and a requirement to recognize future income tax assets and liabilities and acquisition and related costs as expenses of the period. The section applies to all financial statements for fiscal years beginning on or after January 1, 2011, with early adoption permitted. The Company is currently evaluating the impact of adopting this section on its consolidated financial statements.

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. The Company is currently evaluating the impact of adopting these sections on its consolidated financial statements

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)**

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.

## TRANSACTIONS WITH RELATED PARTIES

Koele Capital Corp, of which the President and CEO is a shareholder, was paid \$90,000 in consulting fees for the year (\$22,500 in the fourth quarter). The Company has an ongoing contractual arrangement with Koele Capital Corp to pay consulting fees of \$7,500 per month. An individual related to a director was also paid \$17,316.00 in consulting fees in fiscal 2009.

Westrich Resources Inc, of which the COO is a shareholder, was paid \$75,600 in consulting fees for the year (\$27,450 in the fourth quarter). The Company pays Westrich Resources Inc a daily consulting fee which varies month to month, that averages approximately \$10,000 per month. Westrich was also paid \$29,747 by way of a partial reimbursement of rent, supplies and computer expenses during the year (\$7,469 in the fourth quarter), pursuant to a cost sharing arrangement between the two companies.

Bar Anchor Five Ranch Ltd, of which the Chairman is a director, was paid \$35,000 in consulting fees for the year (\$15,000 in the fourth quarter). The Company has an ongoing contractual arrangement with Bar Anchor Five Ranch Ltd to pay consulting fees of \$5,000 per month.

On December 31, 2007, the Company reached an agreement to purchase the royalty interests of Black Tusk Entertainment Ltd. ("BTE"), a partnership in which certain directors or their associates have an interest. Under the purchase agreement, the Company bought out the BTE royalty interests in the Gordon Creek Project, as well as BTE's participation rights in further drilling, for \$450,000, payable by way of \$310,000 cash and \$140,000 in convertible debentures. The agreement became effective, January 1, 2008 and closed on June 26, 2008.

Thunderbird Films Inc, a company that shares common directors with The Company, was paid \$136,097.27 by way of a partial reimbursement of accounting fees, office reception, rent and supplies during the year (\$30,633 in the fourth quarter), pursuant to a cost sharing arrangement between the two companies.

Amounts due to related parties include an unsecured short-term loan payable and accrued interest to two directors and a related person of the Company for U.S. \$334,288 (Cdn \$406,875) (2008- U.S. \$294,571 (Cdn \$315,751)). The loan carries a 12% interest rate and is payable on demand. Also included is \$66,085 (2008 - \$11,104) due to companies with common directors and \$4,720 (2008 - \$18,147) due to directors.

## DISCLOSURE OF OUTSTANDING SHARE DATA

As at May 28, 2009 the Company had the following common shares and stock options outstanding:

Common Shares	67,079,492
Share Purchase Warrants	22,596,275
Stock Options	4,190,000

There are no shares held in escrow.

As of May 28, 2009, there was \$2,000,000 of two-year convertible debentures outstanding, convertible to common shares at rates of \$0.15 per share and \$0.25 per share.

## FORWARD LOOKING STATEMENTS

This discussion includes certain statements that may be deemed “forward-looking statement”. All statements in this discussion, other than statements of historical facts, that address future production, reserve potential, exploration drilling, exploitation activities and events or developments that the Company expects are forward-looking statements. Although the company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration successes, continued availability of capital and financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and that actual results, or developments may differ materially from those projected in the forward-looking statements.

**“CAMERON WHITE”**

Cameron White, President & Chief Executive Officer

**“STEPHEN CHEIKES”**

Steven Cheikes, Director

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