THUNDERBIRD
ENERGY

Thunderbird Energy Corp.
800-555 4th Avenue SW,
Calgary, AB T2P 3E7
Tel: 403.453.1608
Fax: 403.453.1609

Consolidated Financial Statements of

THUNDERBIRD ENERGY CORP.

January 31, 2013

Collins Barrow
Chartered Accountants & Consultants

Collins Barrow Calgary LLP
1400 First Alberta Place
777 – 8th Avenue S.W.
Calgary, Alberta, Canada
T2P 3R5

T. 403.298.1500
F. 403.298.5814
e-mail: calgary@collinsbarrow.com

Independent Auditors' Report

To the Shareholders
Thunderbird Energy Corp.

We have audited the accompanying consolidated financial statements of Thunderbird Energy Corp. and its subsidiaries, which comprise the consolidated statement of financial position as at January 31, 2013, and the consolidated statement of loss and comprehensive loss, statement of changes in shareholders' equity (deficit) and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Thunderbird Energy Corp. and its subsidiaries as at January 31, 2013, and its financial performance and its cash flows for the year then ended January 31, 2013 in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to note 2 to the consolidated financial statements which describes conditions that indicate the existence of a material uncertainty that may cast significant doubt about Thunderbird Energy Corp.'s ability to continue operating as a going concern. Our opinion is not qualified in respect of this matter.

Other Matters

The consolidated financial statements of Thunderbird Energy Corp. as at, and for the year ended January 31, 2012 were audited by another auditor who expressed an unmodified opinion on those statements on May 30, 2012.

Collins Barrow Calgary LLP

CHARTERED ACCOUNTANTS

Calgary, Canada
May 30, 2013

THUNDERBIRD ENERGY CORP.
Consolidated Statement of Financial Position

(Cdn$)	Notes		January 31, 2013		January 31, 2012
ASSETS					
Current					
Cash and cash equivalents		$	658,145	$	7,628,701
Accounts receivable	5		581,768		1,292,936
Prepaid expenses and deposits	6		199,149		724,844
			1,439,062		9,646,481
Restricted cash	7		189,487		120,336
Exploration and evaluation assets	8		538,870		966,545
Property and equipment	9		22,963,254		13,496,746
		$	**25,130,673**	**$**	**24,230,108**
LIABILITIES					
Current					
Accounts payable and accrued liabilities	10	$	5,378,059	$	2,150,317
Due to related parties	17		25,970		69,161
Debentures	11		9,225,666		-
Financing deposit	12		17,641,873		-
			32,271,568		2,219,478
Debentures	11		-		8,403,646
Financing deposit	12		-		14,978,631
Decommissioning liabilities	13		584,400		394,579
			32,855,968		25,996,334
SHAREHOLDERS' DEFICIENCY					
Share Capital	14		21,353,804		20,505,292
Warrants	14		1,879,522		3,115,677
Contributed surplus			5,914,968		4,432,311
Accumulated other comprehensive loss			(519,885)		(455,168)
Deficit			(36,353,704)		(29,364,338)
			(7,725,295)		(1,766,226)
		$	**25,130,673**	**$**	**24,230,108**

Going Concern (Note 2)
Commitments (Note 20)
Subsequent Events (Notes 12, 24)

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 Statement of Loss and Comprehensive Loss

(Cdn$)	Notes		Year ended January 31 2013		2012
REVENUE					
Oil and natural gas sales		$	1,372,211	$	937,048
Royalties			(201,870)		(155,086)
			1,170,341		781,962
EXPENSES					
Operating and transportation			1,074,508		669,618
General and administrative	*21*		1,272,765		1,220,046
Finance expenses	*22*		4,968,403		3,912,962
Depletion, depreciation and impairment	*8, 9*		644,103		202,400
Share-based compensation			205,206		549,469
Foreign exchange (gain)/loss			(5,278)		16,850
			8,159,707		6,571,345
NET LOSS		$	(6,989,366)	$	(5,789,383)
Other comprehensive loss:					
Gain/(Loss) on translation of foreign subsidiaries			(64,717)		36,740
COMPREHENSIVE LOSS		$	(7,054,083)	$	(5,752,643)
BASIC AND DILUTED NET LOSS PER SHARE	*14*	$	(0.08)	$	(0.08)

See accompanying notes to the consolidated financial statements

THUNDERBIRD ENERGY CORP.
Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(Cdn$)	*Notes*	Share Capital	Warrants	Other Equity	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity/ (Deficiency)
January 31, 2011		$ 19,249,903	$ 1,520,025	$ 42,292	$ 3,885,296	$ (491,908)	$ (23,574,955)	$ 630,653
Loss for the year		-	-	-	-	-	(5,789,383)	(5,789,383)
Shares issued for debenture interest	11, 14	589,642	-	-	-	-	-	589,642
Shares issued for cash and consideration	14	222,090	-	-	-	-	-	222,090
Shares issued for advisory services	14	333,333		-	-	-	-	333,333
Shares issued for warrants exercised	14	58,078	(13,603)	-	-	-	-	44,475
Stock options exercised		12,246	-	-	(4,746)	-	-	7,500
Share-based compensation	14	40,000	-	-	509,469	-	-	549,469
Accretion on warrants		-	32,831	-	-	-	-	32,831
Warrants issued	11	-	1,576,424	-	-	-	-	1,576,424
Repayment of convertible debentures		-	-	(42,292)	42,292	-	-	-
Unrealized gain on translation of foreign subsidiaries		-	-	-	-	36,740	-	36,740
January 31, 2012		**$ 20,505,292**	**$ 3,115,677**	**$ -**	**$ 4,432,311**	**$ (455,168)**	**$ (29,364,338)**	**$ (1,766,226)**
Loss for the year		-	-	-	-	-	(6,989,366)	(6,989,366)
Shares issued for debenture interest	11, 14	823,808	-	-	-	-	-	823,808
Share-based compensation	14	24,704	-	-	205,206	-	-	229,910
Accretion on warrants		-	41,296	-	-	-	-	41,296
Expired/Cancelled warrants	14	-	(1,277,451)	-	1,277,451	-	-	-
Unrealized loss on translation of foreign subsidiaries		-	-	-	-	(64,717)	-	(64,717)
January 31, 2013		**$ 21,353,804**	**$ 1,879,522**	**$ -**	**$ 5,914,968**	**$ (519,885)**	**$ (36,353,704)**	**$ (7,725,295)**

THUNDERBIRD ENERGY CORP.
Consolidated Statement of Cash Flows

(Cdn$)	Notes	Year ended January 31 2013	2012
OPERATING ACTIVITIES			
Net loss		$ (6,989,366)	$ (5,789,383)
Items not involving cash			
Share-based compensation	14	205,206	549,469
Finance costs		1,704,260	2,894,632
Depletion, depreciation and impairment	8, 9	644,103	202,400
Foreign exchange (gain)/loss		(5,278)	16,850
Changes in non-cash working capital	18	(1,227,830)	1,097,143
		(5,668,905)	(1,028,889)
FINANCING ACTIVITIES			
Change in amounts due to/from related parties		(43,191)	(230,513)
Proceeds from short term debt		-	2,144,694
Repayment of short term debt		-	(2,445,534)
Proceeds from debentures		-	2,500,000
Proceeds from financing deposit	12	2,991,900	15,000,000
Repayment of financing deposit	12	(246,901)	(21,369)
Debt issue costs			(120,000)
Repayment of convertible debentures		-	(515,000)
Issuance of shares		24,704	220,974
Warrants exercised		-	44,475
Stock options exercised		-	7,500
Changes in non-cash working capital	18	2,524,764	(220,460)
		5,251,276	16,364,767
INVESTING ACTIVITIES			
Change in restricted cash		(69,811)	-
Net additions to exploration and evaluation assets and property and equipment		(9,594,244)	(5,715,882)
Changes in non-cash working capital	18	3,166,603	(1,975,992)
		(6,497,452)	(7,691,874)
FOREIGN CURRENCY EFFECT OF FOREIGN CURRENCY DENOMINATED CASH		(55,475)	(78,113)
INCREASE (DECREASE) IN CASH FOR THE YEAR		(6,970,556)	7,565,891
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		7,628,701	62,810
CASH AND CASH EQUIVALENTS, END OF YEAR		**$ 658,145**	**$ 7,628,701**
Cash and cash equivalents is comprised of:			
Bank balances		$ 410,025	$ 7,628,701
Investment savings accoumt balance		248,120	-
		$ 658,145	**$ 7,628,701**

See accompanying notes to the consolidated financial statements

1. CORPORATE INFORMATION

Thunderbird Energy Corp. ("the Company") is engaged in the acquisition, exploration, development and production of oil and natural gas properties located in the United States of America ("U.S."). Thunderbird Energy Corp. is a publicly traded company, incorporated in British Columbia, Canada. The Company's head office is located at 800-555 4th Avenue SW, Calgary, AB, T2P 3E7.

The Consolidated Financial Statements were approved and authorized for issuance by the Board of Directors ("the Board") on May 30, 2013.

2. GOING CONCERN

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis, which assume that the Company will realize its assets and discharge its liabilities in the normal course of business.

For the year ended January 31, 2013, the Company reported a net loss of $6,989,366 and has an accumulated deficit of $36,353,704. In addition, as outlined in note 12, in fiscal 2012, the Company entered into a US$25 million commodity stream production payment agreement with Sandstorm Metals & Energy Ltd. ("Sandstorm") whereby Sandstorm has the right to purchase 35% of the Company's Gordon Creek natural gas production at a price of $1.00 per Mcf plus 20% of the amount by which the Gordon Creek field gate price exceeds $4.00. Pursuant to the agreement, the Company is contractually obligated to drill 50 additional wells and workover 5 standing wells on the Gordon Creek Property. As at January 31, 2013, Sandstorm had advanced US$18 million of the US$25 million payment. In order to secure the further advance of US$7 million, the Company was to drill 15 wells and complete 5 workovers by December 31, 2012.

As at January 31, 2013 the Company had only drilled 8 wells and thus, is in default of the Sandstorm agreement. The default amount owed to Sandstorm is amounts advanced or recovered from Sandstorm less production provided to Sandstorm, aggregating $17,641,873 as at January 31, 2013. As at May 30, 2013, Sandstorm had not called the default amount and is aware of the Company's ongoing efforts to obtain additional funding to complete the remaining 42 wells.

The above events and circumstances represent a material uncertainty that casts significant doubt as to the ability of the Company to meet its obligations as they come due, and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. 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. The Company intends to raise additional capital to complete its commitments under the Sandstorm agreement, by way of issuing debt and/or equity. These funding arrangements are not yet in place, but given its external reserve engineer proved plus probable estimated pre-tax net future cash flows discounted at 10% of approximately US$55 million, the Company is optimistic that additional funding can be secured. There is no assurance that the initiatives undertaken by management will be successful.

The realization of the Company's investment in oil and natural gas properties is dependent upon various factors, including the existence of economically recoverable oil and natural 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 do not reflect any adjustments related to the carrying values and classifications of assets and liabilities and the reported revenues and expenses that would be necessary 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.

3. BASIS OF PRESENTATION AND ADOPTION OF IFRS

These financial statements present the Company's financial position as at January 31, 2013 and January 31, 2012 and financial performance for the years ended January 31, 2013 and January 31, 2012. They have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of measurement
The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments which are carried at fair value.

Significant accounting estimates and judgments
The preparation of the consolidated financial statements 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 related to unsettled transactions and events as at the date of the consolidated financial statements. Actual results may differ from those estimates. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are outlined below.

Fair value of oil and natural gas properties, depletion and depreciation and amounts used in impairment calculations are based on estimates of oil and natural gas reserves, future prices and future costs required to develop those reserves. By nature, estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact of the differences between actual and estimated amounts on the consolidated financial statements of future periods could be material.

Oil and natural gas properties, exploration and evaluation assets and other corporate assets are aggregated into cash-generating-units ("CGUs") based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of the Company's CGUs is subject to management's judgment.

The decision to transfer exploration and evaluation assets to property and equipment is based on management's determination of an area's technical feasibility and commercial viability based on proved and probable reserves.

The valuation of accounts receivable is based on management’s best estimate of the provision for doubtful accounts.

Amounts recorded in decommissioning liabilities and the related accretion expense require the use of estimates including timing of asset retirements, site remediation, discount rate, inflation rate and related cash flows. Provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

The allocation between the debt and warrant components of the debentures issued is based on estimates of the interest rate the Company would pay on debt instruments without detachable warrants.

If the Company is able to obtain financing necessary to meet its full future exploration commitments under the agreement with Sandstorm (note 12), the Company will recognize a sale of property and equipment to Sandstorm. The timing and measurement of a sale require management’s judgment.

Amounts recorded for share-based compensation payments are based on estimates of future volatility of the Company’s share price, estimated market price of the Company’s shares at grant date, expected lives of options and warrants, expected dividends and other relevant assumptions.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to audit and interpretation by taxation authorities. Deferred tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in theses consolidated financial statements, and have been applied consistently by the Company and its subsidiaries.

a) Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Thunderbird Energy Inc. ("TEI") and Horse Bench Gathering LLC, both incorporated in the state of Nevada, and Gordon Creek LLC, incorporated in the State of Utah. All intercompany transactions and balances have been eliminated upon consolidation.

b) Foreign Currency

Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars ("Cdn$"), which is the Company's functional currency. The functional currency of the Company's subsidiaries is the U.S. dollar (US$).

Foreign operations

The Company has operations in the U.S. transacted via U.S. subsidiaries. Transactions by foreign operations are translated into Canadian dollars at exchange rates in effect at the transaction date. Foreign currency denominated assets and liabilities are translated to Canadian dollars at exchange rates prevailing at the statement of financial position date, while revenues and expenses are translated using the average rate during the period. Shareholders' deficiency is translated at historical cost. Unrealized translation gains and losses on the Company's net investment, are accumulated in a separate component of shareholders' deficiency, reported in the statement of financial position as part of accumulated other comprehensive loss.

Foreign transactions

Foreign currency transactions are translated into the functional currency at exchange rates in effect at the transaction dates. Foreign currency assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the statement of financial position date and income and expenses are restated to Canadian dollars using the average exchange rate for the period. Translation gains and losses are included in net loss.

c) Cash and cash equivalents

Cash and cash equivalents consist of amounts on deposit with banks, term deposits and other similar short-term highly liquid investments with maturities of 90 days or less at the date of issue.

d) Exploration and evaluation

Costs directly associated with the exploration and evaluation ("E&E") of oil and natural gas reserves are initially capitalized. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. These costs include unproved property acquisition costs, exploration costs, geological and geophysical costs, decommissioning costs, exploration and evaluation drilling, sampling and appraisals. Costs incurred prior to acquiring the legal rights to explore an area are charged directly to net loss as exploration and evaluation expense. Exploration and evaluation assets are measured at cost and are not depleted or depreciated.

When an area is determined to be technically feasible and proved and or probable reserves are assigned, the accumulated costs are transferred to property and equipment. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to net loss as exploration and evaluation expense.

Exchanges or swaps that involve only exploration and evaluation assets are accounted for at cost. Any gains or losses from the divestiture of exploration and evaluation assets are recognized in the statement of loss.

e) Property and Equipment

Costs directly associated with the development of oil and natural gas reserves are capitalized on an area by area basis. Development costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include property acquisitions, development drilling, completion, gathering and infrastructure, decommissioning liability costs and transfers of exploration and evaluation assets.

Cost of replacing parts of property and equipment are capitalized only when they increase the future economic benefits embodied in the specific assets to which they relate. All other expenditures are recognized in income as incurred. The carrying amount of any replaced or sold component is derecognized. The cost of the day-to-day servicing of property and equipment are recognized in loss as incurred.

Exchanges or swaps of property and equipment are measured at fair value unless the transaction lacks commercial substance or neither the fair value of the asset received nor the asset given up can be reliably estimated. When fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gains or losses from the divestiture of property and equipment are recognized in the statement of loss.

Costs accumulated within each CGU are depleted using the unit-of-production method based on proved plus probable reserves incorporating estimated future price and costs. Costs subject to depletion include estimated future costs to be incurred in developing proved plus probable reserves. Costs of major development projects are excluded from the costs subject to depletion until they are available for use.

Production and reserves of natural gas are converted to equivalent barrels of crude oil, for the purposes of the depletion calculations, on the basis of six thousand cubic feet of natural gas to one barrel of oil. Changes in estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations do no give rise to prior period adjustments and are dealt with on a prospective basis.

Well and production equipment and facilities included in oil and natural gas properties are depleted using the unit-of-production method along with the related reserves when the assets are designed to have a life similar to the reserves of the related wells with little to no residual value. Where facilities and equipment, including major components, have differing useful lives, they are depreciated separately on a straight-line basis over the estimated useful life of the facilities and equipment and other related components.

Depletion methods, useful lives and residual values are reviewed annually, with any amendments considered to be a change in estimate and accounted for prospectively.

Costs associated with corporate assets and production assets are carried at cost and depreciated on a straight-line basis over the estimated service lives of the assets, which range from 1 to 5 years.

f) Impairment of non-financial assets

The carrying amounts of non-financial assets, other than E&E and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If indicators of impairment exist, the asset's recoverable amount is estimated. If the carrying value of the asset exceeds the recoverable amount, the asset is written down with an impairment loss recognized in net loss.

E&E assets are assessed separately for impairment when they are reclassified to property and equipment, or if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

The recoverable amount of a CGU is the greater of its fair value less cost to sell and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's-length transaction between knowledgeable and willing parties. Fair value less costs to sell may be determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs and including future development costs. These cash flows are discounted at an appropriate discount rate which would be applied by a market participant. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the CGU in its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU.

An impairment loss is recognized if the carrying amount of the asset or its CGU exceeds its recoverable amount. An impairment loss recognized in respect of a CGU is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. Impairment losses are recognized in the statement of loss.

Reversals of impairments are recognized when there has been a subsequent increase in the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss has been recognized.

g) Provisions and Contingent Liabilities

Provisions are recognized by the Company when it has a legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are stated at the present value of the expenditure expected to settle the obligation. The obligation is not recorded and is disclosed as a continent liability if it is not probable that an outflow will be required, if the amount cannot be estimated reliably or if the existence of the outflow can only be confirmed by the occurrence of a future event.

h) Decommissioning Liabilities

The Company recognizes the present value of a decommissioning obligation in the period in which it is incurred. The best estimate of the expenditure required to settle the present obligation at the statement of financial position date is recorded on a discounted basis using the relevant pre-tax risk free interest rate, with a corresponding increase to the carrying amount of the related asset. The future cash flow estimates are adjusted to reflect the risks specific to the liability. Over time, the liabilities are accreted for the change in their present value and the capitalized costs are depleted on a unit-of-production basis over the life of the underlying proved plus probable reserves. Accretion expense is recognized in net loss. Revisions to the discount rate, estimated timing or amount of future cash flows would also result in an increase or decrease to the decommissioning liability and related asset. Actual decommissioning expenditures up to the recorded liability at the time are charged against the provision as the costs are incurred. Any differences between the recorded provision and the costs incurred are recorded as a gain or loss in the statement of income (loss).

i) Financing Deposit

The Company recognizes the fair value of the financing deposit as a liability as it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the expenditure expected to settle the obligation. At such point in time that the Company is able to remove the uncertainty that it can meet its future exploration commitments, the financing deposit accounting recognition will be revaluated.

j) Debenture

In accordance with IAS 39, the Company has separately valued the present value of the principal amount of the debentures, related detachable warrants and the future interest payments.

k) Revenue Recognition

Revenues from the sale of oil and natural gas production are recognized when title passes, gross of royalties. The costs associated with the delivery, including operating and maintenance costs and transportation, are recognized in the same period in which the related revenue is earned and recorded. Transportation costs are reported as a separate expense and are not netted against revenue.

l) Finance expenses

Finance expenses are comprised of interest expense on borrowings, accretion of the discount on decommissioning liabilities, accretion on the discount of debentures and transaction costs. Finance income, consisting of interest income, is recognized as it accrues in the statement of loss using the effective interest method.

m) Share-based payments

Obligations for issuance of common shares under the Company's stock-based compensation plan and warrants are accrued over the vesting period using fair values as at the grant date. Fair values are determined at issuance using the Black-Scholes option-pricing model.

The Company measures share-based payments to non-employees at the fair value of the goods or services received at the date of receipt of the goods or services. If the fair value of the goods or services cannot be measured reliably, the value of the options granted will be used, measured using the Black-Scholes option pricing model.

Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation cost is expensed over the vesting period with a corresponding increase in contributed surplus. When stock options and warrants are exercised, the cash proceeds along with the amount previously recorded as contributed surplus or warrants are recorded as share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the number of options that vest.

n) Income Taxes

Current Income Tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used are those that are substantively enacted by the end of the reporting date.

Deferred Income Tax

Deferred income taxes are provided using the liability method, on the temporary differences at the reporting date between the tax basis of assets and liabilities and their carrying amounts for accounting. The change in the net deferred income tax asset or liability is included in income except for deferred income tax relating to equity items which is recorded directly in equity. Deferred income tax assets and liabilities are measured using the substantively enacted statutory income tax rates which are expected to apply to taxable income in the years in which the assets are realized or the liabilities settled. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized.

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

o) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions that define the instrument. Financial assets and liabilities are initially recognized at fair value. This initial fair value is normally the transaction price plus, in the case of financial assets not at fair value through profit (loss), directly attributable transaction costs.

Subsequent measurement of the Company's financial instruments depends on their classification determined by the purpose for which the instruments were acquired, as follows:

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are measured at fair value with changes in fair value recognized in net loss. Cash and restricted cash are classified as fair value through profit or loss.

Available for sale investments

Available for sale financial assets are measured at fair value at the settlement date, with changes in the fair value recognized in other comprehensive loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, these assets are measured at amortized cost at the settlement date using the effective interest method of amortization. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Accounts receivable and deposits are classified as loans receivables.

Other financial liabilities at amortized cost

These financial liabilities are measured at amortized cost at the settlement date using the effective interest method of amortization. Accounts payable and accrued liabilities, due to related parties, debentures, and financing deposit are classified as financial liabilities at amortized cost.

Common shares and warrants are classified as equity. Incremental costs directly attributable to the issue of common shares and warrants are recognized as a deduction from equity, net of any tax effects.

The Company assesses at each statement of financial position date whether there is objective evidence that financial assets, other than those designated as "fair value through the statement of loss" are impaired. When impairment has occurred, the cumulative loss is recognised in the statement of loss. For financial assets carried at amortized cost, the amount of impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to the statement of loss in the period. Impairment losses may be reversed in subsequent periods.

p) Derivative financial instruments

The Company may enter into certain financial derivative contracts in order to manage its commodity price market risk. The Company's policy is not to utilize derivative financial instruments for speculative purposes. All financial derivative contracts are classified as "fair value through the statement of income".

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through the statement of income. Changes in the fair value of separable embedded derivatives are recognized immediately in the statement of income. The Company's commodity linked interest rate on debentures (note 11) is considered an embedded derivative.

q) Income (Loss) Per Share

Basic loss per share is calculated by dividing the net loss for the period by the weighted-average number of common shares outstanding during the year.

Diluted income (loss) per share is computed by adjusting the weighted-average number of common shares for the effects of dilutive instruments such as stock options and warrants. Dilutive instruments are excluded from the computation if their effect is anti-dilutive.

r) Comprehensive loss

Comprehensive loss is defined as the change in equity from transactions and other events from non-owner sources and other comprehensive loss is comprised of revenues, expenses, gains and losses that, in accordance with IFRS, are recognized in comprehensive loss but excluded from net loss.

s) Joint interests

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

t) New standards and interpretations not yet adopted

The Company has reviewed new and revised accounting standards that have been issued but are not yet effective, and determined that the following may have an impact on the Company. For the annual periods beginning on or after January 1, 2013, the Company will be required to adopt the following:

- IFRS 7 – "Financial Instruments" provides additional information about offsetting of financial assets and liabilities. Additional disclosures will be required to enable users of financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position.
- IFRS 10 - "Consolidated Financial Statements" provides a single model to be applied in control analysis for all investees including special purpose entities.
- IFRS 11 - "Joint Arrangements" redefines joint arrangements into two types, joint operations and joint ventures, each with their own accounting model. All joint operations will need to be proportionately consolidated and joint ventures to be equity accounted.
- IFRS 12 - "Disclosure of Interests in Other Entities" combines in a single standard the disclosure requirements for subsidiaries, associates and joint arrangements as well as unconsolidated structured entities.
- IFRS 13 - "Fair Value Measurement" defines the fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In addition to the issuance of new standards as detailed above, there have also been amendments to existing standards, which are also effective January 1, 2013, including:

- IAS 1 - "Presentation of Financial Statements", amended to require presentation of an additional opening balance sheet when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification and to clarify the disclosure requirements.
- IAS 32 "Financial Instruments: Presentation", amended to clarify the criteria that should be considered in determining whether an entity has a legally enforceable right of offset in respect of its financial instruments and clarifying the treatment of income taxes related to distributions and transaction costs.

For annual periods beginning on or after January 1, 2015, the Company will be required to adopt:

- IFRS 9 – "Financial Instruments". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

The Company has not completed its evaluation of the effect of adopting the new and amended standards and the impact they may have on its financial statements.

5. ACCOUNTS RECEIVABLE

Accounts receivable are non-interest bearing and the Corporation considers all amounts greater than 90 days past due. As at January 31, 2013 and 2012, none of the receivables have been assessed as impaired. In determining the recoverability of accounts receivable, the Company considers the type and age of the outstanding receivables, the credit risk of the counterparties, and the recourse available to the Company.

		January 31, 2013		January 31, 2012
Oil and natural gas sales	$	205,542	$	53,760
Sandstorm receivable		246,057		7,331
Joint interest partners and other		113,205		175,496
GST / HST		16,964		22,615
Project reimbursement		-		1,033,734
	$	**581,768**	**$**	**1,292,936**

The Company's receivables are all current to 90 days.

Project reimbursement

During the prior year, the Company commenced operations at the previously announced Gordon Creek Carbon Sequestration Phase III: Deep Saline Sequestration Deployment. This project was to be funded approximately 80% by the U.S. Department of Energy and 20% by the other participants, including the Company, The University of Utah through the Utah Science Technology And Research initiative and the New Mexico Tech – Petroleum Recovery Research Center. Initial operations included a substantial workover on one of the Company's wells in order to significantly enhance the Company's ability to inject both water and CO2 into this well. During the fourth quarter of fiscal 2012, the U.S. Department of Energy announced that due to internal policy changes unrelated to the specific SWP CO2 project, they were terminating a number of Deep Saline injection projects, including the Gordon Creek project. The project reimbursement was recorded at approximately 80% of the costs incurred on the project and the outstanding balance was received on July 5, 2012.

6. PREPAID EXPENSES AND DEPOSITS

		January 31, 2013		January 31, 2012
Prepaid Expenses	$	45,671	$	59,777
Advances on production equipment & services		100,716		584,779
Deposit on future land acquisitions		52,762		80,288
	$	**199,149**	**$**	**724,844**

7. RESTRICTED CASH

In connection with the Utah State bonding requirements, the Company posted letters of credit in the aggregate amount of US $190,000 (Cdn $189,487) (January 31, 2012 – US $ 120,000 (Cdn $120,336)) for which a short-term investment in the amount of US $120,000 is held as collateral maturing September 14, 2013. In addition there is a US $70,000 (Cdn $69,811) (January 31, 2012 – US $nil (Cdn $nil)) bond held by a US government agency relating to an abandonment liability on the well pads.

8. EXPLORATION AND EVALUATION ASSETS

The following financial information represents the amounts relating to activity associated with the exploration for and evaluation of oil and natural gas resources.

	January 31, 2013	January 31, 2012
Balance, beginning of year	$ 966,545	$ 949,630
Capital additions	(56,393)	15,493
Impairment	(366,193)	-
Foreign currency translation	(5,089)	1,422
Balance, end of year	**$ 538,870**	**$ 966,545**

Exploration and evaluation assets consist of the Company's undeveloped land and exploration projects which are pending the determination of technical feasibility. During the year ended January 31, 2013, the Company recognized impairment relating to the valuation of the Weston County project due to expiring leases and the Company's limited capital being focused on the Gordon Creek project.

9. PROPERTY AND EQUIPMENT

	Corporate Assets	Production Assets	Oil and Natural Gas Properties	Totals
Cost				
January 31, 2012	$ 75,538	$ 113,155	$ 15,056,880	$ 15,245,573
Additions	-	-	9,822,392	9,822,392
Foreign currency translation	3,116	(620)	(27, 882)	(25,386)
At January 31, 2013	78,654	112,535	24,851,390	25,042,579
Accumulated depletion, depreciation and impairment				
January 31, 2012	74,234	44,994	1,629,599	1,748,827
Charge for the year	540	16,915	256,427	273,882
Foreign currency translation	500	4,993	51,123	56,616
At January 31, 2013	75,274	66,902	1,937,149	2,079,325
Net book value at January 31, 2013	$ 3,380	$ 45,633	$ 22,914,241	**$ 22,963,254**

	Corporate Assets	Production Assets	Oil and Natural Gas Properties	Totals
Cost				
January 31, 2011	$ 67,519	$ 65,001	$ 8,965,098	$ 9,097,618
Additions	8,000	48,070	6,071,161	6,127,231
Foreign currency translation	19	84	20,621	20,724
At January 31, 2012	75,538	113,155	15,056,880	15,245,573
Accumulated depletion, depreciation				
January 31, 2011	66,746	27,136	1,507,885	1,601,767
Charge for the year	7,470	-	177,226	184,696
Foreign currency translation	18	17,858	(55,512)	(37,636)
At January 31, 2012	74,234	44,994	1,629,599	1,748,827
Net book value at January 31, 2012	$ 1,304	$ 68,161	$ 13,427,281	**$ 13,496,746**

The Company has pledged assets with the carrying value of $21,822,529 (2012 - $13,000,248) as security on the natural gas linked debentures (note 11).

Costs subject to depletion included $20,174,000 of future development costs for the year ended January 31, 2013 and $19,500,000 for the year ended January 31, 2012.

Capitalized costs amounting to $1.1 million were excluded from the depletable base at January 31, 2013 (2012 - $0.4 million), relating to production equipment that was in the construction phase and not on location at Gordon Creek. To January 31, 2013, the Company has not capitalized any general and administrative expenses or finance costs to property and equipment.

At January 31, 2013 and January 31, 2012 the Company tested its one CGU, Gordon Creek, for impairment.

The recoverable amount of the Company's CGU was estimated based on the higher of the value in use and the fair value less costs to sell. The estimate of fair value less costs to sell was determined using a discount rate of 10 percent and forecast net cash flows, with escalating prices and future development costs, as obtained from externally prepared reserve estimates. The forecast prices used to estimate the fair value less cost to sell are those used by independent industry reserve engineers. The Gordon Creek CGU was not considered impaired as at or during the years ended January 31, 2013 or 2012.

The prices used in the impairment test of the Company's CGU at January 31, 2013 were:

	Natural Gas	Natural Gas
	Nymex Hub Benchmark (US$/mmbtu)	AECO-C Hub Benchmark (Cdn$/mmbtu)
2013	3.75	3.38
2014	4.25	3.83
2015	4.75	4.28
2016	5.25	4.72
2017	5.50	4.95
2018	5.80	5.22
2019	5.91	5.32
2020	6.03	5.43

Prices are assumed to increase at a rate of approximately 2.0 percent per year after 2020. Adjustments were made to the benchmark prices, for purposes of the impairment tests, to reflect varied delivery points and quality differentials in the products to be delivered.

The prices used in the impairment test of the Company's CGU at January 31, 2012 were:

	Natural Gas	Natural Gas
	Nymex Hub Benchmark (US$/mmbtu)	AECO-C Hub Benchmark (Cdn$/mmbtu)
2012	3.80	3.49
2013	4.50	4.13
2014	5.00	4.59
2015	5.50	5.05
2016	6.00	5.51
2017	6.50	5.97
2018	6.76	6.21
2019	6.89	6.33

Prices are assumed to increase at a rate of approximately 2.0 percent per year after 2019. Adjustments were made to the benchmark prices, for purposes of the impairment tests, to reflect varied delivery points and quality differentials in the products to be delivered.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	January 31, 2013	January 31, 2012
Trade payables	$ 1,943,687	$ 1,473,681
Debenture interest payable	388,680	403,897
Accrued liabilities	495,692	272,739
Sandstorm share payment accrual (note 12)	2,550,000	-
	$ 5,378,059	**$ 2,150,317**

Accounts payable and accrued liabilities are non-interest bearing and are generally settled within 30 to 90 days.

11. DEBENTURES

The Company has $10,000,000 in three year, secured, natural gas linked debentures due October 31, 2013. The Debentures bear interest at a base rate of 15% per annum calculated daily and payable quarterly with an adjustment provision whereby a 1% interest premium is added each quarter for every US$0.50 by which the price of natural gas as published by the Henry Hub exceeds US$5.00, capped at 25% per annum. One-half of each quarterly interest payment will be paid in fully paid common shares of the Company at a deemed price per interest share equal to the greater of (i) a 10% discount to the volume weighted average trading price of the Company's common shares on the TSX Venture Exchange over the quarter and (ii) the discounted market price of the Company's common shares. The purchasers of the natural gas linked debentures were also issued two detachable transferable warrants (note 14) for every $1.00 of principal amount to purchase up to 20,000,000 common shares of the Company at escalating prices between $0.30 and $0.50 per share until October 31, 2013. The Company paid a 7.5% finder's fee in respect of a portion of the debenture issuance and issued non-transferable finder's warrants (note 14) to purchase common shares of the Company until October 31, 2013. The debentures are secured against the Company's U.S. property and equipment (note 9). The Company may redeem the debentures before they come due at a price of 115% of the principal amount being redeemed together with accrued and unpaid interest.

	January 31, 2013	January 31, 2012
Balance, beginning of year	$ 8,403,646	$ 5,968,899
Face value of debentures issued during the year	-	2,500,000
Fair value allocated to warrants	-	(418,951)
Transaction cost allocated to debentures	-	(190,143)
Liability portion of debentures	8,403,646	7,859,805
Accretion and transaction costs	822,020	543,841
Balance, end of year	**$ 9,225,666**	**$ 8,403,646**

12. FINANCING DEPOSIT

In fiscal 2012, the Company entered into a US$25 million commodity stream production payment agreement with Sandstorm, whereby Sandstorm has the right to purchase 35% of the Company's Gordon Creek natural gas production at a price of US$1.00 per Mcf plus 20% of the amount by which the Gordon Creek field gate price exceeds US$4.00. Pursuant to the agreement, the Company is contractually obligated to drill 50 additional wells and workover 5 standing wells on the Gordon Creek Property, while Sandstorm advanced US$15 million to the Company and will advance a further US$10 million in fiscal 2014.

During the first quarter of fiscal 2013, the Company and Sandstorm amended the commodity stream production payment agreement whereby all minimum cash flow guarantees and drilling commitments at Gordon Creek were deferred by one year. As consideration for this deferral, in March 2013, the Company issued to Sandstorm $2.55 million common shares determined at a deemed price equivalent to 50 day volume weighted average trading price prior to issuance (notes 10 and 24). Under the amended agreement, the Company has provided Sandstorm with minimum annual before tax cash flows guarantees earned through the sale of their 35% share of natural gas produced in Gordon Creek. The guarantee is the lesser of US$2.3 million or 790mmcf by December 31, 2013, US$5.1 million or 1740mmcf in calendar 2014, US$4.6 million or 1560mmcf in calendar 2015, US$4.2 million or 1410mmcf in calendar 2016, US$3.8 million or 1260mmcf in calendar 2017, US$3.3 million or 1140mmcf in calendar 2018 and US$1.7 million or 590mmcf in calendar 2019.

During the second quarter of fiscal 2013, the Company negotiated an amendment to its agreement with Sandstorm whereby Sandstorm provided an early advance on the remaining production payment of US$3 million of the US$10 million originally due in fiscal 2013, in order to facilitate an 8 well completion program. In exchange, the Company has agreed to expand the boundaries of the area of mutual interest set out in the original Sandstorm agreement by approximately 2 miles on all sides. This provides Sandstorm with the right to continue to participate with the Company over a substantially expanded area as the development operations at Gordon Creek grow in the future. In order to secure the remaining advance of US$7 million the Company must drill 15 wells and complete 5 workovers by December 31, 2012. The remaining 35 wells are required to be drilled by December 31, 2013.

As at January 31, 2013 the Company had only drilled 8 wells and thus is in default of the Sandstorm Agreement. Additionally, as the ability of the Company to obtain the financing necessary to meet its full future exploration commitments under the agreement is uncertain, as at January 31, 2013, the Company has accounted for the US$18 million aggregate advance received from Sandstorm as a financing deposit liability. The default amount owed to Sandstorm is amounts advanced or recovered from Sandstorm less production provided to Sandstorm, and as a result, a value of $17,641,873 has been classified as a current liability as at January 31, 2013. As at May 30, 2013 Sandstorm had not called the default amount and is aware of the Company's ongoing efforts to obtain additional funding to complete the remaining 42 wells.

Until December 31, 2013, the Company has the option to repurchase 50% of the commodity stream by making a $US16.25 million payment to Sandstorm, upon receipt of which, the percentage of natural gas Sandstorm will be entitled to purchase will decrease to 17.5%. If the Company drills additional wells on the Gordon Creek Property over and above the minimum 50 net wells, then Sandstorm has the option to have production from the additional net wells form a part of the commodity stream by providing additional production payment advances to the Company at an agreed amount per well.

The following financial information represents the activity associated with amounts advanced and repaid, via production, to Sandstorm.

	January 31, 2013	January 31, 2012
Balance, beginning of year	$ 14,978,631	$ -
Production payment advanced	3,037,800	14,950,500
Less cash flows generated by production	(294,459)	(64,165)
Foreign currency translation	(80,099)	92,296
Balance, end of year	**$ 17,641,873**	**$ 14,978,631**

13. DECOMMISSIONING LIABILITIES

Upon retirement of its oil and natural gas assets, the Company anticipates incurring costs associated with decommissioning. The total undiscounted amounts of the estimated obligations are approximately $580,927 (US $582,500) (January 31, 2012 - $488,865 (US $487,500)) and are expected to be settled based on the economic lives of the underlying assets, which currently extend up to twenty-seven years into the future. The estimated future cash flows have been discounted using the average risk free rate of approximately 2.93% and an inflation rate of 2.08% (January 31, 2012 – approximately 3.845% and 3.02%, respectively).

The following table reconciles decommissioning liabilities:

	January 31, 2013	January 31, 2012
Balance, beginning of year	$ 394,579	$ 303,810
Additions	75,150	99,682
Change in estimate and discount rate	99,800	(22,278)
Accretion expense	17,136	12,833
Foreign currency translation	(2,265)	532
Balance, end of year	**$ 584,400**	**$ 394,579**

14. SHARE CAPITAL

Authorized: Unlimited common shares without par value

Issued and outstanding:

	Number of Shares	Amount
Balance, January 31, 2011	73,160,153	$ 19,249,903
Shares issued for debenture interest (note 11)	2,980,020	589,642
Shares issued for private placement to related party	2,000,000	262,090
Shares issued for cash on exercise of stock options	50,000	7,500
Shares issued for warrant exercise	166,125	58,078
Shares issued for advisory services	1,666,667	333,333
Transfer from contributed surplus	-	4,746
Balance, January 31, 2012	80,022,965	$ 20,505,292
Shares issued for debenture interest (note 11)	5,507,085	823,808
Loan repayment on shares issued for private placement to related party	-	24,704
Balance, January 31, 2013	**85,530,050**	**$ 21,353,804**

Private placement to related party

On June 22, 2011, the Company completed a brokered private placement of 2,000,000 units at a price of $0.15 per unit. On the date of issue, the Company's common shares were trading at $0.17, therefore $40,000 was recognized in share-based compensation. Each unit consists of one common share and one non-transferable share purchase warrant. Each warrant was exercisable to purchase one common share of the Company at a price of $0.20 per share until the warrants expired July 18, 2012. Compensation for the units was received through cash and settlement of invoices for past services performed. Concurrent with the placement, the purchaser was provided with a loan in the amount of $77,910. This loan corresponded with the purchase of 519,400 of the 2,000,000 common shares issued through the private placement. During the year ended January 31, 2013, $24,704 of the loan has been repaid. The loan is considered to be under the scope of IFRS 2 – Share-based payment, and accordingly no financial asset is recognized on the statement of financial position.

The fair value of the loan option is determined using the Black-Scholes valuation model was $0.17 per option. The significant inputs into the model were the share price of $0.17 at the date of grant, exercise price of $0.15 (determined based on the principal due on the notes), volatility of 125.91%, dividend yield of 0%, an expected life of 7.5 years and a risk free rate of 2.60%. The expense of $81,945 recognized on issuance of the option is included in share-based compensation.

Advisory Services
Pursuant to the closing of the financing deposit with Sandstorm in fiscal 2012, the Company issued 1,666,667 common shares with a fair value of $0.20 per share as payment for advisory services rendered with respect to the agreement.

Income (loss) per share
The following table summarizes the weighted average shares used in calculating net loss per share:

	January 31, 2013	**January 31, 2012**
Weighted average shares outstanding	83,117,356	76,753,298
Dilutive effect of options and warrants	-	-
Diluted weighted average shares outstanding	**83,117,356**	**76,753,298**

For the year ended January 31, 2013 and 2012, all options and warrants were excluded from the diluted calculation as their effect was anti-dilutive.

Share-based compensation plan
The Company has established a Share Option Plan (the “option plan”) which provides for options to purchase common shares to be granted by the Company to directors, officers, employees and consultants of the Company. Options typically vest over a period of 12 to 18 months. The fair value of the options issued is recognized in share-based compensation over the vesting period, with a corresponding charge to contributed surplus. The maximum number of common shares issuable under the option plan is 8,000,000.

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

	January 31, 2013	**January 31, 2012**
Share price on date of grant	$ 0.15	$ 0.23
Dividend yield	0%	0%
Interest rate	1.32%	1.80%
Expected life	5 years	5 years
Forfeiture Rate	13.70%	17.60%
Volatility	98%	133%
Fair value per option	$ 0.10	$ 0.23

The following table summarizes the changes in stock options outstanding:

	Number of Options		Weighted Average Exercise Price
Balance, January 31, 2011	5,165,000	$	0.22
Issued	2,750,000		0.23
Exercised	(50,000)		0.15
Forfeited and expired	(1,350,000)		0.26
Balance, January 31, 2012	6,515,000	$	0.22
Issued	75,000		0.15
Balance, January 31, 2013	**6,590,000**	**$**	**0.22**

The following table summarizes the stock options outstanding at January 31, 2013:

Exercise price	Number of shares	Expiry Date	Weighted average remaining contractual life	Number exercisable
$ 0.15	1,275,000	Jan 2014 - Sept 2017	2.86	1,218,750
$ 0.20	3,425,000	Jun 2013 - Dec 2014	1.34	3,425,000
$ 0.22	100,000	Dec 2014	1.88	75,000
$ 0.30	1,790,000	Feb 2013 – Nov 2016	3.49	1,377,500
	6,590,000		**2.15**	**6,096,250**

Share purchase warrants:

The following table summarizes the changes in the warrants outstanding:

	Exercise Price	Number of warrants	Weighted average exercise price
Balance, January 31, 2011		21,469,584	$ 0.269
Issued	$ 0.20 - $ 0.40	14,538,000	$ 0.245
Exercised	$0.30	(166,125)	$ 0.268
Balance, January 31, 2012		35,841,459	$ 0.297
Expired	$0.20	(13,821,334)	$ 0.200
Balance, January 31, 2013		**22,020,125**	**$ 0.384**

Pursuant to a private placement completed in fiscal 2011, the Company issued warrants to purchase 4,833,334 common shares at a price of $0.20 per share until September 11, 2012. The selling brokers received warrants to purchase 250,000 units at a price of $0.15 per share. These warrants expired September 11, 2012.

During fiscal 2012, the Company completed a brokered private placement which included 2,000,000 non-transferable share purchase warrants. Each warrant was exercisable to purchase one common share of the Company at a price of $0.20 per share. These warrants expired July 18, 2012.

During fiscal 2012, 112,500 warrants were exercised to purchase 112,500 common shares at a price of $0.30 per share and 53,625 warrants were exercised to purchase 53,625 common shares at a price of $0.20 per share.

During fiscal 2012, the Company issued 6,738,000 warrants to purchase 6,738,000 common shares, at $0.15 per share until October 31, 2013. These warrants were issued pursuant to the agreement to retire the revolving credit facility in fiscal 2011.

During fiscal 2012, the Company completed additional debenture financing (note 11) in which it issued warrants to purchase 5,000,000 common shares at escalating prices between $0.30 and $0.50 per share until October 31, 2013. Non-transferable finder's warrants were also issued to purchase up to 800,000 common shares of the Company at a price of $0.20 per share until October 31, 2013.

There were no warrants issued during fiscal 2013. The fair value of each warrant granted during the fiscal 2012 was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	January 31, 2012
Weighted average fair value per warrant	$ 0.25
Interest rate	1.48%
Expected life	1.57 years
Volatility	108%

At January 31, 2013, a total of 19,887,500 warrants to purchase common shares until October 31, 2013, 15,571,500 of which at an exercise price of $0.50 per share and 4,316,000 of which at an exercise price of $0.40 per share, are outstanding in connection with the Company's debenture issuances. A total of 2,127,625 non-transferable finders warrants to purchase common shares at $0.20 per share until October 31, 2013 and 5,000 non-transferable finders warrants to purchase common shares at $0.30 per share until October 29, 2013 are also outstanding.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's activities expose it to financial risks including credit risk, liquidity risk and market risk from changes in commodity prices, foreign currency rates and interest rates which could affect the value of the financial instruments held. The Company employs risk management strategies and polices to ensure that any exposure to risk is mitigated.

The Company's financial instruments recognized on the statement of financial position consist of cash and cash equivalents, restricted cash, accounts receivable, deposits, accounts payable and accrued liabilities, due to related parties, debentures, and financing deposit.

a) Fair value of financial instruments

The Company classifies the fair value of these balances according to the following fair value hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 – Values are based on unadjusted quoted prices available in active markets for identical assets or liabilities as of the reporting date.
- Level 2 – Values are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. Prices in Level 2 are either directly or indirectly observable as of the reporting date.
- Level 3 – Values are based on prices or valuation techniques that are not based on observable market data.

Accordingly, cash and cash equivalents and restricted cash are measured using a Level 1 designation. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy. The fair value of the commodity linked interest rate on the debentures (see note 11) at January 31, 2013 is $nil (2012 - $nil). The fair value is calculated using a Level 2 designation.

b) 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 Company's joint venture partners and oil and natural gas marketers. Receivables from purchasers of oil and natural gas are normally collected on the 25th day of the month following production. Receivables from joint venture partners are typically collected within one to three months of the joint venture billing being issued.

Significant changes in industry conditions and risks that negatively impact partners' ability to generate cash flow will increase the risk of not collecting receivables. Management of Thunderbird believes the risk is mitigated by the size and reputation of the companies to which they extend credit. Thunderbird's management believes all receivables will be collected.

The Company manages the credit exposure related to cash and cash equivalents and restricted cash by selecting financial institutions with high credit ratings. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

The majority of the Company's accounts receivables are due from companies in the oil and natural gas industry and are subject to normal industry credit risks including commodity price fluctuations and escalating costs. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit. Joint venture receivables are typically collected within one to three months of the joint venture bill being issued by the partner. The Company has not experienced any credit loss in the collection of accounts receivable to date.

The Company sells all of its production to one natural gas marketer and therefore is subject to concentration risk. At January 31, 2013, the Company's credit exposure to the natural gas marketer represents approximately 35% (January 31, 2012 – 6%) of accounts receivable. At January 31, 2013 the Company also has a receivable due from Sandstorm representing 42% (January 31, 2012 – 1%) of accounts receivable. Management does not believe that this concentration of credit risk will result in any loss to the Company based on past payment experience. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with reputable and natural gas marketers. The Company does not obtain collateral from oil and natural gas marketers or others in the event of non-payment.

The carrying amount of the accounts receivable represents the maximum credit exposure. The Company has an allowance for doubtful accounts as at January 31, 2013 of $nil and January 31, 2012 of $nil and did not provide for any doubtful accounts nor write-off any accounts receivables during the years ended January 31, 2013 or 2012.

c) Liquidity risk

The Company is exposed to liquidity risk from the possibility that it will encounter difficulty meeting its financial obligations (note 2). 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's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and the global economic downturn.

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

	Within 1 Year	After 1 Year	Total
Accounts payable and accrued liabilities	$ 5,378,059	$ -	$ 5,378,059
Due to related parties (note 17)	25,970	-	25,970
Debentures (note 11) and estimated interest	11,250,000	-	11,250,000
Financing deposit (note 12)	17,641,873	-	17,641,873
Total	**$ 34,295,902**	**$ 0**	**$ 34,295,902**

The Company's capital programs are primarily funded by cash obtained through operations, equity issuances, debentures (note 11) and a financing deposit (note 12). The Company requires sufficient cash to fund capital programs necessary to maintain or increase production and develop reserves and to potentially acquire strategic assets. The Company may require additional equity or debt financing to enable it to generate sufficient cash flow from its oil and natural gas properties, attain profitable operations and pay its financial obligations when due. See also financial commitments disclosed in note 20.

d) 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 loss 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. Market risks are as follows:

i. 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 rates. The Company is exposed to foreign currency fluctuations on transactions conducted in foreign currencies and in the carrying value of its foreign subsidiaries. As of January 31, 2013, if the Canadian Dollar had changed one per cent against the United States dollar with all other variables held constant, the effect on net loss for the year would have been $nil (January 31, 2012 – $nil), while the effect on comprehensive loss for the year would have been approximately $42,000 (January 31, 2012 – $71,000).

The Company has the following balances in USD as at:

	January 31, 2013	January 31, 2012
Cash	$ 316,534	$ 7,460,534
Restricted cash	190,000	120,000
Accounts receivable	636,980	1,235,437
Prepaid expenses and deposits	188,009	693,562
Exploration and evaluation assets	540,329	963,846
Property and equipment	23,022,034	13,457,760
Accounts payable and accrued liabilities	2,380,573	1,559,888
Financing deposit	17,689,635	14,936,808
Decommissioning liabilities	585,982	393,477

The Company had no forward foreign exchange rate contracts in place as at or during the years ended January 31, 2013 and 2012.

ii. 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 interest rate on the debentures is linked to natural gas prices. Given current market prices for natural gas at January 31, 2013, if natural gas prices changed by 10%, there would be no impact to net loss for the year ended January 31, 2013.

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. In fiscal 2012, the Company had a fixed price contract to sell 200 Mcf/day at a fixed price of $3.98 per Mcf from April 1, 2011 until October 31, 2011. During the year ended January 31, 2013, the Company had no forward pricing contracts to mitigate the exposure to future commodity price fluctuations.

iii. 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 not exposed to interest rate risk at January 31, 2013. The Company has no interest rate hedges or swaps outstanding at January 31, 2013.

16. CAPITAL MANAGEMENT

The Company's objectives when managing capital is 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 natural gas properties and acquisitions while attempting to maximize the return to shareholders though the optimization of reasonable debt and equity balances commensurate with current operating requirements.

The capital structure consists of the following:

		January 31 2013		January 31 2012
Debentures	$	9,225,666	$	8,403,646
Financing Deposit		17,641,873		14,978,631
Less: Cash		(658,145)		(7,628,701)
Net Debt[1]		26,209,394		15,753,576
Total Shareholders' Deficiency		(7,725,295)		(1,766,226)
	$	**18,484,099**	**$**	**13,987,350**

[1] Net debt as calculated above is a non-IFRS measure and is 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 oil and natural gas assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares and/or debt and adjust its capital spending to manage current and projected debt levels.

The Company has no externally imposed capital requirements other than capital expenditures relating to its financing deposit discussed in note 12. As at January 31, 2013, the Company is in default of these capital expenditure requirements (note 12). The Company's objectives for managing capital structure have not changed from 2012.

17. RELATED PARTY TRANSACTIONS

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

	Year ended January 31, 2013	2012
Consulting fees paid or accrued to companies controlled by officers	$ 270,238	$ 246,800
General and administrative expenses reimbursed to companies with common directors	175,495	174,967

Amounts due to related parties includes $32,851 (January 31, 2012 - $80,511) due to officers and directors and companies with common directors and $6,881 (January 31, 2012 - $11,350) due from officers and directors and companies with common directors. Included in the debentures is $2,103,000 (January 31, 2013 - $2,103,000) (face value) held by related parties. During fiscal 2013, cash interest paid to related parties on the debentures was $157,725 (January 31, 2012 - $156,027) and common shares issued to related parties on the debentures was 1,244,442 (January 31, 2012 – 957,806).

Key Management Personnel Compensation

The remuneration of directors, President, CEO and CFO is as follows:

	January 31, 2013	January 31, 2012
Consulting fees	$ 270,238	$ 266,600
Amortization of share-based payment awards	143,523	150,324
	$ 413,761	**$ 416,924**

18. SUPPLEMENTAL CASH FLOW INFORMATION

The following table reconciles the changes in non-cash working capital as disclosed in the consolidated statement of cash flows:

	Year ended January 31	
	2013	**2012**
Operating activities		
Changes in non-cash working capital:		
Accounts receivable	$ (323,860)	$ 69,644
Prepaid expenses and deposits	(83,497)	53,721
Accounts payable and accrued liabilities	(820,473)	973,778
	(1,227,830)	**1,097,143**
Financing activities		
Changes in non-cash working capital:		
Accounts payable and accrued liabilities	**2,524,764**	**(220,460)**
Investing activities		
Changes in non-cash working capital:		
Accounts receivable	1,028,579	(1,021,260)
Prepaid expenses and deposits	605,629	(1,075,613)
Accounts payable and accrued liabilities	1,532,395	120,881
	3,166,603	**(1,975,992)**
Interest paid	**747,945**	**875,458**

19. INCOME TAXES

The following table reconciles the income tax recovery calculated using the statutory tax rates to the income tax recovery per the statement of loss.

	2013			**2012**		
	Canada	**US**	**Total**	**Canada**	**US**	**Total**
Canadian statutory income tax rate	**25.00%**	**25.00%**	**25.00%**	**26.46%**	**26.46%**	**26.46%**
Expected income tax recovery	$ (298,982)	$ (1,454,528)	$ (1,753,510)	$ (800,581)	$ (712,281)	$ (1,512,862)
Permanent differences	270,118	-	270,118	401,686	-	401,686
Change in tax asset not recognized	(138,968)	2,172,479	2,033,511	100,016	1,035,632	1,135,648
Rate reduction	44,563	-	44,563	3,510	-	3,510
Provision to return true ups	125,602	(7,120)	118,482	48,006	(35,548)	12,458
Expiration of Non-Capital Loss	-	-	-	228,560	-	228,560
Rate differential (U.S.)	-	(712,440)	(712,440)	-	(291,713)	(291,713)
Change in effective tax rates		(2,798)	(2,798)	(40,352)	(1,115)	(41,467)
Other	(2,333)	4,407	2,074	59,155	5,025	64,180
	$ -	$ -	$ -	$ -	$ -	$ -

The change in the applicable tax rate for the year ended January 31, 2013 from the previous year is due to a reduction in the federal component of the tax rate.

In assessing the realization of the Company's future income tax assets, management considers whether it is probable 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 a full valuation allowance against these assets.

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

	2013			2012		
	Canada	US	Total	Canada	US	Total
Future Income Tax Assets:						
Non-Capital Losses	$ 497,831	$2,296,486	$ 2,794,317	$640,435	$1,427,674	$2,068,109
Capital Losses	412,569	-	412,569	426,948	-	426,948
Resource Pools	303,330	(1,669,874)	(1,366,544)	313,902	(2,442,777)	(2,128,875)
Property, equipment and other	15,711	5,633,894	5,649,605	15,969	5,097,877	5,113,846
Loan acquisition costs & share issuance costs	148,292	-	148,292	338,862	27,797	366,659
Debentures	(193,584)	-	(193,584)	(412,998)	-	(412,998)
Total gross future income tax asset	$1,184,149	$6,260,506	$7,444,655	$1,323,118	$4,110,571	$5,433,689
Asset not recognized			(7,444,655)			(5,433,689)
Net Future Tax Asset			**$ -**			**$ -**

As at January 31, 2013, the Company has non-capital loss carry-forwards in Canada and the U.S. of approximately $8,157,177 (2012 - $6,340,921), which are available to offset future taxable income. These non-capital loss carry-forwards expire as follows:

	Canada	US	Total
2015	$ 126,205	$ -	$ 126,205
2028	135,512	-	135,512
2029	223,883	-	223,883
2030	130,018	2,117,805	2,247,823
2031	415,453	2,626,332	3,041,785
2032	552,429	-	552,429
2033	407,825	1,421,715	1,829,540
	$ 1,991,325	**$ 6,165,852**	**$ 8,157,177**

a) Canadian exploration expenditures of $543,336 (2012 - $543,336) can be deducted against future years' taxable income.
b) Foreign exploration and development expenses of $667,783 (2012 - $667,783) are fully deductible against foreign mineral profits or 10% of taxable income in any given year.
c) U.S. resource property expenditures of US$12,764,231 (2012 – US$3,819,511).
d) The Company has a capital loss of $3,300,000 (2012 - $3,300,000) available to reduce future years' capital gains.

The value of the amount by which these tax assets exceeds the carrying amounts of the Company's assets and liabilities has been reduced to $nil because of an asset not recognized.

20. COMMITMENTS

The Company is contractually obligated to drill 50 wells and workover 5 standing wells on the Gordon Creek Property by December 31, 2013 under the terms of its commodity stream production payment agreement with Sandstorm (note 12). As at January 31, 2013 the Company had only drilled 8 wells and thus is obligated to drill an additional 42 wells and workover 5 standing wells.

The Company leases its office premises for which minimum lease payments are due for fiscal 2014 of $39,808.

21. GENERAL AND ADMINISTRATIVE

	January 31, 2013	January 31, 2012
Investor relations and filing fees	$ 115,594	$ 132,341
Office and miscellaneous expenses	164,856	139,332
Salaries and contractor fees	701,673	590,037
Professional fees	206,880	268,032
Travel, meals and entertainment	83,762	90,304
	$ 1,272,765	**$ 1,220,046**

22. FINANCE EXPENSES

	January 31, 2013	January 31, 2012
Interest on debentures	$ 1,548,572	$ 1,577,012
Fair value of warrants issued on debt retirement	-	1,087,330
Debt issue costs	2,540,630	662,127
Accretion on debentures and transaction costs (note 11)	863,316	576,672
Accretion on decommissioning liabilities (note 13)	17,136	12,833
Interest income	(1,251)	(3,012)
	$ 4,968,403	**$ 3,912,962**

Fair value of warrants issued on debt retirement

During fiscal 2012, the Company issued 6,738,000 warrants to purchase 6,738,000 common shares, at $0.15 per share until October 31, 2013. These warrants were issued pursuant to the agreement to retire the revolving credit facility which occurred during fiscal 2011 in the amount of US$2,843,732. The Company received approvals for issuance of the warrants in fiscal 2012 year and therefore recorded a loss for the fair value of warrants issued as calculated using the Black-Scholes option-pricing model.

23. GEOGRAPHIC INFORMATION

The Company operates in two geographic regions, being Canada and the United States. The United States operations is primarily the acquisition and development of oil and natural gas properties and the production of oil and natural gas through participation agreements, while the Canadian operation is corporate support. The accounting policies of the regions are the same as those described in note 4.

		Canada		United States		Total
2013						
Revenue	$	-	$	1,372,211	$	1,372,211
Evaluation and exploration assets		-		538,870		538,870
Property and equipment		3,380		22,959,874		22,963,254
2012						
Revenue	$	-	$	937,048	$	937,048
Evaluation and exploration assets		-		966,545		966,545
Property and equipment		1,304		13,495,442		13,496,746

24. SUBSEQUENT EVENTS

On February 12, 2012, The Company and Sandstorm agreed to amend the natural gas purchase agreement whereby all minimum cash flow guarantees and drilling commitments at Gordon Creek were deferred by one year (note 12). As consideration for this deferral, on March 28, 2013, the Company issued to Sandstorm 17,922,724 shares at a price of $0.142 per share, representing $2.55 million of Thunderbird shares at a deemed price equivalent to the volume weighted average trading price during the first 50 trading days of 2013.

On February 5, 2013, the Company issued 1,277,843 common shares in connection with the January 31, 2013 debenture interest payment due, the fair value of which $191,676 has been included in accounts payable and accrued liabilities as at January 31, 2013. On May 14, 2013 the Company issued 1,908,134 common shares in connection with the April 30, 2013 debentures interest payment due.

At the Company's 2013 annual general and special meeting ("AGM") scheduled for June 12, 2013, the shareholders will be asked to consider a resolution whereby the Company's issued and outstanding shares will be consolidated on the basis of fifteen (15) pre-consolidation common shares for each one (1) post-consolidation common share (the "Consolidation"). The exercise price of outstanding stock options and warrants would be proportionately adjusted based upon the consolidation ratio. The proposed Consolidation is also subject to the approval of the TSX Venture Exchange. In conjunction with the Consolidation, shareholders will also be asked to approve a change of the Company's name to "Gordon Creek Energy Inc." or such other name as may be approved by the directors of the Company, the TSX Venture Exchange and the Director under the Canada Business Corporations Act.