



THUNDERBIRD ENERGY

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Consolidated Financial Statements of

THUNDERBIRD ENERGY CORP.

January 31, 2011

May 31, 2011

Independent Auditor's Report

To the Shareholders of Thunderbird Energy Corp.

We have audited the accompanying consolidated financial statements of Thunderbird Energy Corp. (the "Company") which comprise the consolidated balance sheets as at January 31, 2011 and January 31, 2010 and the consolidated statements of loss and deficit, comprehensive loss and accumulated other comprehensive loss, and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

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 Canadian generally accepted accounting principles, 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 auditor's 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.

We believe that the audit evidence we have obtained in our audits 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 the Company as at January 31, 2011 and January 31, 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern.

PricewaterhouseCoopers LLP

Chartered Accountants

THUNDERBIRD ENERGY CORP.

Consolidated Balance Sheets

As at January 31, 2011 and 2010

	2011	2010
ASSETS		
CURRENT		
Cash	\$ 62,810	\$ 24,783
Accounts receivable	329,437	548,256
Prepaid expenses and deposits	116,765	35,897
	509,012	608,936
RESTRICTED CASH [note 4]	120,180	128,508
PROPERTY AND EQUIPMENT [note 5]	9,277,087	10,042,377
	\$ 9,906,279	\$ 10,779,821
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 1,049,288	\$ 1,053,652
Due to related parties [note 13]	299,674	849,060
Convertible debentures [note 7]	515,000	1,924,392
Short-term debt [note 8]	307,348	4,759,716
	2,171,310	8,586,820
ASSET RETIREMENT OBLIGATION [note 6]	215,003	212,394
LONG-TERM DEBT [note 9]	6,232,938	-
	8,619,251	8,799,214
SHAREHOLDERS' EQUITY		
Common shares [note 10]	19,249,903	18,575,047
Warrants [note 10]	1,586,725	-
Equity portion of convertible debentures	42,292	164,241
Contributed surplus [note 10]	3,902,983	3,425,973
Accumulated other comprehensive loss	(563,973)	(158,755)
Deficit	(22,930,902)	(20,025,899)
	\$ 9,906,279	\$ 10,779,821

NATURE OF OPERATIONS AND GOING CONCERN [note 1]

COMMITMENTS [note 15]

Approved on Behalf of the Board:

"Cameron White"

Cameron White, Director

"Stephen Cheikes"

Stephen Cheikes, Director

See accompanying notes to the consolidated financial statements

THUNDERBIRD ENERGY CORP.
Consolidated Statements of Loss and Deficit
Years Ended January 31, 2011 and 2010

	2011	2010
REVENUES		
Oil and gas	\$ 1,087,085	\$ 1,358,878
Royalties	(181,974)	(173,972)
	905,111	1,184,906
EXPENSES		
Operating costs	683,987	706,176
General and administrative	971,741	781,594
Interest, accretion and debt service costs	1,534,945	982,837
Depletion, depreciation and accretion	429,701	607,627
Stock-based compensation [note 10]	220,301	206,774
Unrealized foreign exchange gain	(29,345)	(60,709)
Interest income	(1,216)	(9,876)
	3,810,114	3,214,423
NET LOSS	(2,905,003)	(2,029,517)
DEFICIT, BEGINNING OF YEAR	(20,025,899)	(17,996,382)
DEFICIT, END OF YEAR	\$ (22,930,902)	\$ (20,025,899)
BASIC AND DILUTED LOSS PER SHARE	(0.04)	(0.03)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	69,003,000	67,079,000

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, 2011 and 2010

	2011	2010
COMPREHENSIVE LOSS		
Net Loss	\$ (2,905,003)	\$ (2,029,517)
Other comprehensive loss:		
Unrealized loss on translation of self-sustaining foreign operations	(405,218)	(853,637)
Comprehensive Loss	\$ (3,310,221)	\$ (2,883,154)
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Accumulated other comprehensive gain (loss), beginning of year	\$ (158,755)	\$ 694,882
Other comprehensive loss	(405,218)	(853,637)
Accumulated other comprehensive loss, end of year	\$ (563,973)	\$ (158,755)

See accompanying notes to the consolidated financial statements

THUNDERBIRD ENERGY CORP.
Consolidated Statements of Cash Flows
Years Ended January 31, 2011 and 2010

	2011	2010
OPERATING ACTIVITIES		
Net loss	\$ (2,905,003)	\$ (2,029,517)
Items not involving cash		
Stock-based compensation	220,301	206,774
Interest, accretion and debt service costs	512,387	410,200
Depletion, depreciation and accretion	429,701	607,627
Foreign exchange gain	(29,345)	(60,709)
	(1,771,959)	(865,625)
Changes in non-cash working capital	138,639	61,615
	(1,633,320)	(804,010)
FINANCING ACTIVITIES		
Issuance of shares, net of costs	692,500	-
Increase (decrease) in amounts due to related parties	(588,298)	432,468
Proceeds from short-term debt	325,450	120,000
Repayment of short-term debt	(4,484,716)	-
Proceeds from long-term debt	7,500,000	-
Proceeds from convertible debentures	-	162,500
Repayment of convertible debentures	(1,485,000)	-
Change in non-cash working capital	(62,299)	179,153
	1,897,637	894,121
INVESTING ACTIVITIES		
Oil and gas property exploration and acquisition costs	(281,045)	(333,943)
Acquisition of property and equipment	(6,600)	(28,595)
Change in non-cash working capital	69,797	(5,123)
	(217,848)	(367,661)
FOREIGN CURRENCY EFFECT OF FOREIGN CURRENCY DENOMINATED CASH		
	(8,442)	44,780
CHANGE IN CASH FOR THE YEAR	38,027	(232,770)
CASH, BEGINNING OF YEAR	24,783	257,553
CASH, END OF YEAR	\$ 62,810	\$ 24,783
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	532,770	356,972

See accompanying notes to the consolidated financial statements

THUNDERBIRD ENERGY CORP.

Notes to the Consolidated Financial Statements

Years Ended January 31, 2011 and 2010

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

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern which assume that the Company will realize its assets and discharge its liabilities in the normal course of business. As at January 31, 2011, the Company had a working capital deficiency of \$1,662,298 (2010 - \$7,977,884) and an accumulated deficit of \$22,930,902 (2010 - \$20,025,899). Cash flow used in operations were (\$1,771,959) (2010 – (\$865,625)).

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

- Continued weak natural gas prices have affected the ability of the Company to generate cash flows from its operations at satisfactory levels
- The current recession and the continued weakness in natural gas prices has hampered the Company’s ability to raise funds for its planned capital expenditures.

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:

The Company completed a new debenture issue [note 9] and a new equity issue [note 10] in order to address the current working capital deficiency. The Company is actively in discussions with potential joint venture and other financing partners in order to provide for the development of the Gordon Creek natural gas field at minimal cost to the Company.

There is no assurance that the steps management plans to take as outlined above 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, both incorporated in the state of Nevada, Gordon Creek LLC, incorporated in the State of Utah, and MBA Energy Corp. (“MBA”), incorporated in Canada. All intercompany transactions and balances have been eliminated upon consolidation. Effective for the first quarter ended April 30, 2011, the Company will be required to report consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”).

THUNDERBIRD ENERGY CORP.
Notes to the Consolidated Financial Statements
Years Ended January 31, 2011 and 2010

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Measurement uncertainty

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

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

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

(c) Property and equipment

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

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

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

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

(d) Income taxes

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

THUNDERBIRD ENERGY CORP.
Notes to the Consolidated Financial Statements
Years Ended January 31, 2011 and 2010

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Stock-based compensation

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

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

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

(f) Convertible Debentures

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

(g) Share and debt issue costs

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

(h) Foreign currency translation

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

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

(i) Revenue recognition

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

THUNDERBIRD ENERGY CORP.
Notes to the Consolidated Financial Statements
Years Ended January 31, 2011 and 2010

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Income (loss) per share

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

(k) Asset retirement obligations

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

(l) Joint interests

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

(m) Comparative figures

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

3. CHANGES IN ACCOUNTING POLICIES

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

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

THUNDERBIRD ENERGY CORP.
Notes to the Consolidated Financial Statements
Years Ended January 31, 2011 and 2010

3. CHANGES IN ACCOUNTING POLICIES (continued)

The above CICA Handbook sections are converged with International Financial Reporting Standards (“IFRS”). The Company will be required to report its results in accordance with IFRS beginning February 1, 2011.

4. RESTRICTED CASH

In connection with the Utah State bonding requirements, the Company posted a letter of credit in the amount of U.S. \$120,000 (Cdn \$120,180) (2010 – U.S. \$ 120,000 (Cdn \$128,508)) for which a short-term investment in the same amount is held as collateral.

5. PROPERTY AND EQUIPMENT

2011	Cost	Accumulated Depreciation/ Depletion	Net Carrying Value
Oil and gas properties	\$ 11,236,626	\$ (2,005,965)	\$ 9,230,661
Property and equipment	134,564	(88,138)	46,426
	\$ 11,371,190	\$ (2,094,103)	\$ 9,277,087

2010	Cost	Accumulated Depreciation/ Depletion	Net Carrying Value
Oil and gas properties	\$ 11,714,760	\$ (1,736,560)	\$ 9,978,200
Property and equipment	133,475	(69,298)	64,177
	\$ 11,848,235	\$ (1,805,858)	\$ 10,042,377

The depletion and ceiling test calculation have excluded the cost of unproven properties in the amount of \$1,004,764 (2010 - \$1,070,876). Future development costs for proved reserves of \$5,733,588 (2010 - \$7,172,460) have been included in the depletion calculation. During the year, the Company capitalized \$70,404 (2010 - \$1,125) in administrative expenses relating to exploration and development activities.

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

	Natural Gas (\$U.S./mmbtu)
2011	4.65
2012	5.06
2013	5.28
2014	6.71
2015	6.90
Average annual increase thereafter	1.5%

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, 2011.

THUNDERBIRD ENERGY CORP.
Notes to the Consolidated Financial Statements
Years Ended January 31, 2011 and 2010

6. ASSET RETIREMENT OBLIGATIONS

The asset retirement obligation relates to the restoration and closure of the Company's oil and gas properties. The total undiscounted amounts of the estimated obligations are approximately \$363,044 (U.S. \$362,500) (2010 \$388,201 (U.S. \$362,500)) and are expected to be incurred in fifteen years. The asset retirement obligations have been recorded as liabilities at fair value, using a credit adjusted discount rate of 8% and a 3% inflation rate. The amounts of the liabilities are subject to re-measurement during each reporting period.

	2011		2010	
Balance, beginning of year	\$	212,394	\$	217,961
Revision in estimates		-		6,583
Accretion expense		16,786		17,006
Foreign exchange translation adjustment		(14,177)		(29,156)
Balance, end of year	\$	215,003	\$	212,394

7. CONVERTIBLE DEBENTURES

In fiscal 2009 the Company issued a private placement of two year, 12% convertible debentures in the principal amount of \$1,737,500. In fiscal 2010 the Company completed this private placement of two year, 12% convertible debentures with additional principal amount of \$262,500, bringing the total convertible debenture issued to \$2,000,000. Issuance costs of \$3,750 were charged to operations during the current fiscal year.

In October 2010, the Company completed financing of long-term debentures (note 9), partial proceeds of which were used to retire existing convertible debentures of \$1,485,000. The remaining convertible debentures were extended until June 2011 and are convertible to common shares at a rate of \$0.15 per share.

	2011		2010	
Balance, beginning of year	\$	1,924,392	\$	1,601,843
Face value of convertible debentures issued during the year		-		262,500
Equity component		-		(19,512)
Liability portion		1,924,392		1,844,831
Accretion		75,608		79,561
Liability portion of convertible debentures		2,000,000		1,924,392
Redemption of convertible debentures		(1,485,000)		-
Balance, end of year	\$	515,000	\$	1,924,392

8. SHORT-TERM DEBT

As of January 31, 2011, the Company owes \$6,898 (2010 - \$375,738) pursuant to an unsecured shareholder loan that bears interest at 10% per annum and is repayable on demand.

Pursuant to a joint venture letter of intent, Artola Energy, LLC provided the Company with a U.S. \$300,000 (Cdn \$300,450) non-interest bearing advance in order to acquire additional oil and gas rights in Carbon County Utah and for corporate purposes. In the event that the joint venture is terminated, the advance will be repayable April 1, 2011 and will bear interest at a rate of 8% if it is not repaid within 30 days of termination.

THUNDERBIRD ENERGY CORP.

Notes to the Consolidated Financial Statements

Years Ended January 31, 2011 and 2010

9. LONG-TERM DEBT

During the year, the Company issued three year, secured, natural gas linked debentures totaling \$7,500,000. The debentures bear interest at a base rate of 15% per annum with an adjustment provision whereby a 1% interest 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 gas linked debentures were also issued two detachable transferable warrants [note 10] for every \$1.00 of principal amount to purchase up to 14,685,000 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 10] to purchase up to 1,381,250 common shares of the Company at a price of \$0.20 per share until October 31, 2013.

10. SHARE CAPITAL

Authorized: Unlimited common shares without par value

Issued:

	Number of Shares	Amount
Balance, January 31, 2009 and 2010	67,079,492	\$ 18,575,047
Shares issued for cash, net of issue costs	4,833,334	692,500
Allocated to warrants	-	(179,797)
Shares issued on Long-Term Debt [note 9]	1,247,327	162,153
Balance, January 31, 2011	73,160,153	\$ 19,249,903

Private placement

On September 11, 2010, the Company completed a brokered private placement of 4,833,334 units at a price of \$0.15 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 \$0.20 per share until September 11, 2012. If the closing price of the Company's shares exceeds \$0.30 for 20 consecutive trading days, the term of the warrants will be automatically reduced to a period of 30 days following the issuance of a press release announcing the reduced exercise term. The selling brokers received a cash commission of \$28,125 and broker's warrants exercisable to purchase 250,000 additional units at a price of \$0.15 per unit until September 11, 2012. A value of \$10,324 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 filing fees totaled \$4,375.

Stock-based compensation plan:

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

THUNDERBIRD ENERGY CORP.
Notes to the Consolidated Financial Statements
Years Ended January 31, 2011 and 2010

10. SHARE CAPITAL (continued)

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:

	2011	2010
Weighted average fair value per share	\$ 0.15	\$ 0.20
Dividend yield	0%	0%
Interest rate	1.94%	2.28%
Expected life	3 years	4.45 years
Volatility	154.64%	144%

For the year ended January 31, 2011, the Company recorded stock-based compensation of \$220,301 (2010 - \$206,774) 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 is presented below.

	Number of Options	Weighted Average Exercise Price
Balance, January 31, 2009	4,420,000	\$ 0.27
Issued	2,425,000	0.20
Forfeited and expired	(1,430,000)	0.30
Balance, January 31, 2010	5,415,000	\$ 0.23
Issued	250,000	0.15
Forfeited and expired	(500,000)	0.32
Balance, January 31, 2011	5,165,000	\$ 0.22

The following table summarizes the stock options outstanding at January 31, 2011:

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
\$ 0.15	250,000	January 2014	2.93	\$ 0.15	62,500	\$ 0.15
\$ 0.20	3,425,000	Jun 2013- Dec 2014	3.35	\$ 0.20	2,868,750	\$ 0.20
\$ 0.22 - \$ 0.25	1,100,000	Apr 2011	0.18	\$ 0.25	1,100,000	\$ 0.25
\$ 0.30	390,000	Jul 2011-Feb 2013	1.04	\$ 0.30	390,000	\$ 0.30
	5,165,000		2.48	\$ 0.22	4,421,250	\$ 0.22

THUNDERBIRD ENERGY CORP.
Notes to the Consolidated Financial Statements
Years Ended January 31, 2011 and 2010

10. SHARE CAPITAL (continued)

Share purchase warrants:

The following table summarizes the warrants outstanding:

	Exercise Price	Number of warrants	Weighted average exercise price
Balance, January 31, 2009		24,871,168	\$ 0.557
Expired	\$ 0.20 - \$ 0.50	(11,871,168)	\$ 0.282
Balance, January 31, 2010		13,000,000	\$ 0.654
Issued	\$ 0.15 - \$ 0.30	21,469,584	\$ 0.269
Expired	\$ 0.50 - \$ 1.00	(13,000,000)	\$ 0.654
Balance, January 31, 2011		21,469,584	\$ 0.269

Pursuant to debenture financing completed October 29, 2010, the Company issued warrants to purchase 14,685,000 common shares at escalating prices between \$0.30 and \$0.50 per share until October 31, 2013. The Company issued non-transferable finder's warrants to purchase up to 1,381,250 common shares of the Company at a price of \$0.20 per share until October 31, 2013.

Pursuant to additional debenture financing completed December 22, 2010, the Company issued warrants to purchase 315,000 common shares at escalating prices between \$0.30 and \$0.50 per share until December 22, 2013. The Company issued non-transferable finder's warrants to purchase up to 5,000 common shares of the Company at a price of \$0.20 per share until December 22, 2013.

Pursuant to a private placement completed in September 11, 2010 the Company issued warrants to purchase 4,833,334 common shares at a price of \$0.20 per share until September 11, 2012. If the closing price of the Company's shares exceeds \$0.30 for 20 consecutive trading days, the term of the warrants will be automatically reduced to a period of 30 days following the issuance of a press release announcing the reduced exercise term. The selling brokers received warrants to purchase 250,000 units at a price of \$0.15 per share.

Pursuant to the debenture financing completed during the year [note 9], the company retired their revolving credit facility. Upon retirement of the debt on October 29, 2011, the 13,000,000 warrants granted to the lender on this revolving credit facility expired.

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

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

<i>Contributed surplus:</i>	2011	2010
Balance, beginning of year	\$ 3,425,973	\$ 2,888,561
Convertible debentures - equity portion (note 7)	121,949	-
Stock-based compensation expense	220,301	206,774
Fair value of lender's warrants	134,760	330,638
	477,010	537,412
Balance, end of year	\$ 3,902,983	\$ 3,425,973

THUNDERBIRD ENERGY CORP.

Notes to the Consolidated Financial Statements

Years Ended January 31, 2011 and 2010

11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

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

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

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

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

The Company’s cash and risk management contracts have been assessed on the fair value hierarchy described above as Level 2.

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

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

Credit risk

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

The carrying amount of the accounts receivable represents the maximum credit exposure. The Company has an allowance for doubtful accounts as at January 31, 2011 in the amount of US\$72,940 (2010 - \$nil). As at January 31, 2011 and 2010, the Company’s receivables were aged as follows:

Ageing	January 31, 2011	January 31, 2010
Not past due (less than 120 days)	\$ 329,437	\$ 457,943
Past due (120 days to one year)	-	90,313
	\$ 329,437	\$ 548,256

THUNDERBIRD ENERGY CORP.

Notes to the Consolidated Financial Statements

Years Ended January 31, 2011 and 2010

11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

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

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

	Within 1 Year	After 1 Year	Total
Accounts payable and accrued liabilities	\$ 1,049,288	\$ -	\$ 1,049,288
Due to related parties [note 13]	299,674	-	299,674
Convertible debentures [note 7]	515,000	-	515,000
Short-term debt [note 8]	307,348	-	307,348
Long-term debt [note 9]	-	6,232,938	6,232,938
Total	\$ 2,171,310	\$ 6,232,938	\$ 8,404,248

The Company's capital programs are primarily funded by cash obtained through operations, equity issuances, convertible debentures, and long-term debt as outlined in note 9. 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, 2011, if the Canadian dollar had declined five percent against the United States dollar with all other variables held constant, the effect on net income 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, 2011.

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, 2011 the Company has not entered into a fixed price contract. The Company's exposure to changes in natural gas prices to a plus or minus \$1.00 change would affect the loss by \$150,000 while a \$1.00 change in the price of oil would affect the loss by \$nil for the year ended January 31, 2011.

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 as it does not have debt bearing interest at a floating interest rate. The short-term debt, convertible debentures and long-term debt do not bear interest rate risk as they are at a fixed rate. The Company has no interest rate hedges or swaps outstanding at January 31, 2011.

THUNDERBIRD ENERGY CORP.
Notes to the Consolidated Financial Statements
Years Ended January 31, 2011 and 2010

12. CAPITAL DISCLOSURES

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

The capital structure consists of the following:

	January 31 2011	January 31 2010
Revolving credit facility	\$ -	\$ 4,383,978
Long term debt	6,232,938	-
Convertible Debentures	515,000	1,924,392
Short Term Debt	307,348	375,738
Less: Cash	(62,810)	(24,783)
Net Debt ⁽¹⁾	6,992,476	6,659,325
Total Shareholder's Equity	1,287,028	1,980,607
	\$ 8,279,504	\$ 8,639,932

⁽¹⁾ Net debt as calculated above are not standard terms/measures used by others.

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

13. RELATED PARTY TRANSACTIONS

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

	2011	2010
Consulting fees paid or accrued to companies controlled by directors	\$ 233,375	\$ 262,050
Consulting fees paid to an individual related to a director	6,000	-
General and administrative expenses reimbursed to companies with common directors	106,373	160,479

Amounts due to related parties include an unsecured short-term loan payable and accrued interest to directors of the Company for \$nil (2010 - U.S. \$150,675 (Cdn \$161,358)) and \$88,500 (2010 - \$60,318). The loan carries a 12% interest rate and is payable on demand. Also included is \$211,174 (2010 - \$627,384) due to directors and companies with common directors. Included in the long-term debt is \$2,623,500 held by related parties.

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

THUNDERBIRD ENERGY CORP.
Notes to the Consolidated Financial Statements
Years Ended January 31, 2011 and 2010

14. INCOME TAXES

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

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

	2011	2010
Future income tax assets:		
Non-capital losses	\$ 4,722,333	\$ 3,949,449
Capital losses	414,409	416,463
Resource pools	(709,460)	(519,933)
Loan acquisition costs & share issuance costs	359,340	344,961
Property, equipment and other	(350,833)	(280,363)
Total gross future income tax assets	4,435,789	3,910,577
Valuation allowance	(4,435,789)	(3,910,577)
Net future income tax asset	\$ -	\$ -

As at January 31, 2011, the Company has non-capital loss carry-forwards in Canada and the U.S. of approximately \$13,128,000 (2010 - \$11,304,000), which are available to offset future taxable income. These non-capital loss carry-forwards expire as follows:

2015	\$ 38,000
2025	1,000
2026	282,000
2027	963,000
2028	2,287,000
2029	3,030,000
2030	3,066,000
2031	3,325,000
	<u>\$ 12,992,000</u>

- a) Canadian exploration expenditures of \$543,336 (2010 - \$543,336) can be deducted against future years' taxable income.
- b) Foreign exploration and development expenses of \$667,783 (2010 - \$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\$4,618,164 (2010 - US\$5,300,719).
- d) The Company has a capital loss of \$3,300,000 (2010 - \$3,300,000) available to reduce future years' capital gains.

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

THUNDERBIRD ENERGY CORP.
Notes to the Consolidated Financial Statements
Years Ended January 31, 2011 and 2010

14. INCOME TAXES (continued)

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

	2011	2010
Canadian statutory income tax rate	28.33%	29.88%
Expected income tax recovery	\$ 823,228	\$ 904,418
Permanent differences	85,010	86,540
Change in valuation allowance	686,572	959,670
Rate reduction	15,095	70,387
True ups	145,770	(130,735)
Rate differential (U.S.)	(150,772)	(101,270)
Other	41,553	19,826
Income tax recovery	\$ -	\$ -

15. COMMITMENTS

The Company leases its office premises for which minimum lease payments are due as follows:

Fiscal	Amount
2012	21,527
Thereafter	-
	\$ 21,527

16. SEGMENTED INFORMATION

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

		Canada		United States		Total
2011						
Revenue	\$	-	\$	1,087,085	\$	1,087,085
Property and equipment		8,514		9,268,573		9,277,087
2010						
Revenue	\$	-	\$	1,358,878	\$	1,358,878
Property and equipment		12,371		10,030,006		10,042,377

17. SUBSEQUENT EVENTS

Subsequent to the year-end, additional secured, natural gas linked debentures in the amount of \$167,000 were issued.

Subsequent to the year-end, the Company has entered into a fixed price contract to deliver 200 MMBtu per day at a price of \$3.98 Mcf for the period April through October 2011.