

**THUNDERBIRD RESORTS, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in United States Dollars)**

**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

# Oliva, Goddard & Wright

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CERTIFIED PUBLIC ACCOUNTANTS

## AUDITOR'S REPORT

To the Shareholders of  
Thunderbird Resorts, Inc.

We have audited the consolidated balance sheets of Thunderbird Resorts, Inc. as of December 31, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements, expressed in United States dollars, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**"OLIVA, GODDARD & WRIGHT"**

San Diego, CA

Certified Public Accountants

April 29, 2008

**THUNDERBIRD RESORTS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in thousands of United States dollars)  
**AS OF DECEMBER 31**

|   | 2007       | 2006      |
|---|------------|-----------|
| <b>ASSETS</b>   |            |           |
| <b>Current assets</b>   |            |           |
| Cash and cash equivalents                                       | \$ 71,656  | \$ 7,353  |
| Restricted cash   | 5,245      | 3,179     |
| Accounts receivable (Note 4)                                    | 8,148      | 5,616     |
| Prepaid expenses, deposits and inventories (Note 3)             | 4,076      | 2,658     |
| Current portion of amounts receivable                           | 41         | 101       |
| Total current assets  | 89,166     | 18,907    |
| <b>Amounts receivable</b> (Note 5)                              | 5          | 67        |
| <b>Investments in and advances to equity investees</b> (Note 6) | 1,282      | 928       |
| <b>Property and equipment</b> (Note 7)                          | 114,525    | 43,024    |
| <b>Property available for sale</b> (Note 7)                     | -          | 562       |
| <b>Goodwill</b> (Note 8)  | 1,603      | 1,306     |
| <b>Intangible assets</b> (Note 8)                               | 1,034      | 1,297     |
| <b>Deferred tax asset</b> (Note 16)                             | 1,149      | -         |
| <b>Other assets</b> (Note 9)                                    | 6,152      | 1,293     |
| Total assets  | \$ 214,916 | \$ 67,384 |

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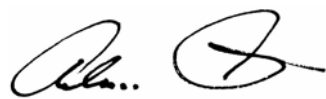
The accompanying notes are an integral part of these consolidated financial statements.

**THUNDERBIRD RESORTS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in thousands of United States dollars)  
AS OF DECEMBER 31

|  | 2007       | 2006      |
|--|------------|-----------|
| <i>Continued...</i>                              |            |           |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>      |            |           |
| <b>Current liabilities</b>                       |            |           |
| Accounts payable and accrued liabilities         | \$ 22,281  | \$ 10,878 |
| Income taxes payable                             | 1,525      | 861       |
| Current portion of finance lease commitments     | 2,755      | 367       |
| Current portion of loans payable                 | 15,426     | 10,787    |
| Current portion of other payables                | 51         | 50        |
| Total current liabilities                        | 42,038     | 22,943    |
| <b>Finance lease commitments</b> (Note 18)       | 19,726     | 365       |
| <b>Loans payable</b> (Note 11)                   | 65,114     | 35,311    |
| <b>Other payables</b> (Note 12)                  | 5,151      | 4,748     |
| <b>Derivative financial instrument</b> (Note 12) | 1,196      | 2,529     |
| <b>Future income taxes</b> (Note 16)             | 1,006      | 901       |
| Total liabilities                                | 134,231    | 66,797    |
| <b>Non-controlling interest</b> (Note 6)         | 5,093      | 2,889     |
| <b>Shareholders' equity</b>                      |            |           |
| Share capital (Note 13)                          | 98,962     | 21,584    |
| Contributed surplus (Note 13)                    | 4,738      | 490       |
| Deficit  | (29,250)   | (23,580)  |
| Foreign exchange adjustment                      | 1,142      | (796)     |
| Total shareholders' equity                       | 75,592     | (2,302)   |
| Total liabilities and shareholders' equity       | \$ 214,916 | \$ 67,384 |

**Nature of operations** (Note 1)  
**Commitments and contingencies** (Notes 2 and 18)  
**Subsequent events** (Note 22)

**On behalf of the Board:**



Director



Director

The accompanying notes are an integral part of these consolidated financial statements.

**THUNDERBIRD RESORTS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Expressed in thousands of United States dollars)  
**FOR THE YEARS ENDED DECEMBER 31**

|   | 2007              | 2006              |
|---|-------------------|-------------------|
| <b>REVENUE</b>  |                   |                   |
| Gaming operations   | \$ 88,819         | \$ 68,590         |
| Food and Beverage Sales   | 10,956            | 3,514             |
|   | <u>99,775</u>     | <u>72,104</u>     |
| <b>COSTS AND EXPENSES</b>   |                   |                   |
| Direct costs  | 36,885            | 27,120            |
| Operations costs  | 39,186            | 29,740            |
| Project development   | 2,482             | 1,999             |
| Depreciation and amortization   | 10,244            | 5,444             |
| Financing costs   | 9,994             | 5,831             |
| Equity loss (gain) in equity investees and write-down of equity investment (Note 6) | 190               | (141)             |
| Loss on fair value of derivative financial instruments (Note 15)                    | 1,881             | 189               |
| Loss on disposal of investments and other assets (Note 15)                          | 226               | 3,260             |
|   | <u>101,088</u>    | <u>73,442</u>     |
| <b>Loss before income taxes</b>   | <u>(1,313)</u>    | <u>(1,338)</u>    |
| <b>Income taxes</b> (Note 16)   |                   |                   |
| Current   | 1,910             | 1,561             |
| Future  | 165               | 748               |
|   | <u>2,075</u>      | <u>2,309</u>      |
| <b>Loss from continuing operations before non-controlling interest</b>              | (3,388)           | (3,647)           |
| <b>Non-controlling interest</b> (Note 6)  | <u>2,282</u>      | <u>314</u>        |
| <b>Net loss for the year</b>  | <u>\$ (5,670)</u> | <u>\$ (3,961)</u> |
| <b>Basic and diluted earnings per share</b> (Note 14)                               |                   |                   |
| Continuing operations   | \$ (0.57)         | \$ (0.47)         |

The accompanying notes are an integral part of these consolidated financial statements.

**THUNDERBIRD RESORTS, INC.****CONSOLIDATED STATEMENTS OF RETAINED DEFICIT AND STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
AND ACCUMULATED OTHER COMPREHENSIVE INCOME**

(Expressed in thousands of United States dollars)

FOR THE YEARS ENDED DECEMBER 31

| <b>Consolidated Statements of Retained Deficit</b> | Year Ended December 31, |                    |
|--|-------------------------|--------------------|
|  | 2007                    | 2006               |
| Retained deficit, beginning of period              | \$ (23,580)             | \$ (19,619)        |
| Net loss   | (5,670)                 | (3,961)            |
| Retained deficit, end of period                    | <u>\$ (29,250)</u>      | <u>\$ (23,580)</u> |

| <b>Consolidated Statements of Comprehensive (Loss) and Accumulated Other<br/>Comprehensive Income (Loss)</b> | Year Ended December 31, |                   |
|--|-------------------------|-------------------|
|  | 2007                    | 2006              |
| Net loss   | \$ (5,670)              | \$ (3,961)        |
| Unrealized effect of foreign currency translation of foreign<br>operations                                   | 1,938                   | 32                |
| Comprehensive loss   | <u>\$ (3,732)</u>       | <u>\$ (3,929)</u> |
| Accumulated other comprehensive loss, beginning of period  | (796)                   | (828)             |
| Other comprehensive income   | 1,938                   | 32                |
| Accumulated other comprehensive income (loss), end of period   | <u>\$ 1,142</u>         | <u>\$ (796)</u>   |

The accompanying notes are an integral part of these consolidated financial statements

**THUNDERBIRD RESORTS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in thousands of United States dollars)  
**FOR THE YEARS ENDED DECEMBER 31**

|   | 2007            | 2006            |
|---|-----------------|-----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |                 |                 |
| Loss from continuing operations                                 | \$ (5,670)      | \$ (3,961)      |
| <b>Items not affecting cash:</b>                                |                 |                 |
| Depreciation and amortization                                   | 10,244          | 5,444           |
| Equity gain in equity investments                               | 190             | (141)           |
| Future income taxes   | 165             | 748             |
| Loss on disposal of investments and other assets                | 226             | 3,260           |
| Stock-based compensation  | 1,034           | 229             |
| Loss on derivative financial instrument                         | 1,881           | 189             |
| Non-controlling interest  | 2,137           | 314             |
| Other   | (1,026)         | (607)           |
| <b>Changes in non-cash working capital items:</b>               |                 |                 |
| Increase in accounts receivable                                 | (2,665)         | (608)           |
| Increase in restricted cash                                     | (2,066)         | (1,160)         |
| (Increase) decrease in prepaid expenses and supplies            | (5,778)         | 559             |
| Increase in accounts payable and accrued liabilities            | 10,914          | 971             |
| Increase (decrease) in income taxes payable                     | 636             | (40)            |
| Net cash provided by operating activities                       | <u>10,222</u>   | <u>5,197</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |                 |                 |
| Loans receivable, net   | 79              | 790             |
| Expenditures on capital assets, net                             | (75,918)        | (19,947)        |
| Investment in and advances to equity investees and other assets | (1,997)         | (1,122)         |
| Net cash used in investing activities                           | <u>(77,836)</u> | <u>(20,279)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                     |                 |                 |
| Net proceeds from issuance of common shares                     | 77,378          | 8               |
| Loans payable   | 71,967          | 33,194          |
| Funding of cash deposits  | -               | 8,551           |
| Net proceeds from minority interests                            | -               | 1,500           |
| Repayment of loans and leases payable                           | (17,111)        | (23,075)        |
| Net cash provided by financing activities                       | <u>132,234</u>  | <u>20,178</u>   |

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The accompanying notes are an integral part of these consolidated financial statements.

**THUNDERBIRD RESORTS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in thousands of United States dollars)  
**FOR THE YEARS ENDED DECEMBER 31**

|  | 2007             | 2006            |
|--|------------------|-----------------|
| <i>Continued...</i>  |                  |                 |
| Effect of foreign exchange on cash and cash equivalents    | (317)            | 18              |
| <b>Change in cash and cash equivalents during the year</b> | 64,303           | 5,114           |
| <b>Cash and cash equivalents, beginning of year</b>        | 7,353            | 2,239           |
| <b>Cash and cash equivalents, end of year</b>              | <b>\$ 71,656</b> | <b>\$ 7,353</b> |
| <b>Supplemental disclosure with respect to cash flows:</b> |                  |                 |
| Interest paid  | \$ 8,778         | \$ 5,129        |
| Income taxes paid  | \$ 2,389         | \$ 2,265        |

The accompanying notes are an integral part of these consolidated financial statements.

**THUNDERBIRD RESORTS, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

(Tabular amounts expressed in thousands of dollars except per share amounts)

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

**1. NATURE OF OPERATIONS**

Thunderbird Resorts, Inc., (“Company”) is an international provider of casino entertainment and hospitality services, focused mainly on mid-sized markets in Central America, South America and Southeast Asia. The Company is a British Virgin Islands corporation with investments and operations conducted through subsidiaries. As of December 31, 2007, the Company operated twenty casinos and slot parlors, three video lottery locations, two slot routes, seven hotels and various associated food and beverage, entertainment facilities.

**2. SIGNIFICANT ACCOUNTING POLICIES****Basis of consolidation**

These consolidated financial statements include the accounts of the Company, its subsidiaries, and on a proportionate basis, the accounts of its joint ventures. Significant inter-company balances and transactions with subsidiaries and the Company’s proportionate share of inter-company balances and transactions with joint ventures are eliminated upon consolidation.

**Principal operating entities**

The Company owns directly or indirectly the following companies as outlined below. The principal operations are carried out in the country of registration; all subsidiaries have a December 31 year-end. The Company comprises a large number of companies and it is not practical to list all of them below. This list, therefore, includes those companies which the Directors consider to have a principal effect the results or financial positions of the Company.

| Entity   | Place of Incorporation (or Registration) and Operation | 2007                             |                                 | 2006                             |                                 | Principal Activity  |
|--|--|----------------------------------|---------------------------------|----------------------------------|---------------------------------|---|
|  |  | Proportion of Ownership Interest | Proportion of Voting Power Held | Proportion of Ownership Interest | Proportion of Voting Power Held |   |
| <b>Subsidiaries</b>  |  |                                  |                                 |                                  |                                 |   |
| East Bay Resorts, Inc.   | Philippines  | 51%                              | 60%                             | 50%                              | 60%                             | Owens and operates the casino operation at Rizal outside of Manila. The company is sublicensed as a casino operator under the Philippine Amusement Gaming Corp. |
| South American Entertainment Corp. II Ltd -- regional operating head quarters (ROHQ) | Philippines  | 100%                             | 100%                            | 100%                             | 100%                            | Regional operating headquarters in Philippines  |
| Thunderbird Pilipinas Hotels and Resorts, Inc.                                       | Philippines  | 52%                              | 61%                             | 51%                              | 61%                             | Owens and operates the casino operation at Poro Point. The company is sublicensed as a casino operator under the Philippine Amusement Gaming Corp.              |
| Thunderbird de Guatemala S.A.  | Guatemala  | 100%                             | 100%                            | 100%                             | 100%                            | Owens and operates three video lottery parlors.   |
| Buena Esperanza Limitada S. A.   | Nicaragua  | 54.6%                            | 54.6%                           | 52.6%                            | 52.6%                           | Owens and operates three casinos in Managua   |
| Thunderbird Hoteles Las Americas S.A.  | Peru   | 86%                              | 100%                            | --                               | --                              | Owens and operates six hotels in Lima, Peru   |

**THUNDERBIRD RESORTS, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

(Tabular amounts expressed in thousands of dollars except per share amounts)

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)****Principal operating entities (cont'd)**

| Entity   | Place of<br>Incorporation<br>(or Registration)<br>and Operation | 2007                                   |                                       | 2006                                   |                                       | Principal<br>Activity  |
|--|---|--|---------------------------------------|--|---------------------------------------|--|
|  |   | Proportion of<br>Ownership<br>Interest | Proportion of<br>Voting<br>Power Held | Proportion of<br>Ownership<br>Interest | Proportion of<br>Voting<br>Power Held |  |
| <b>Joint Ventures</b>                              |   |  |                                       |  |                                       |  |
| International Thunderbird<br>Gaming (Panama) Corp. | Panama  | 50%                                    | 50%                                   | 50%                                    | 50%                                   | Owns and operates six casinos<br>within Panama.                                      |
| Grupo Thunderbird de Costa<br>Rica                 | Costa Rica  | 50%                                    | 50%                                   | 50%                                    | 50%                                   | Owns and operates eight<br>casinos and slot parlor locations<br>and two slot routes. |

**Use of estimates**

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but are not limited to, the fair value of net assets acquired in business combinations, impairment of goodwill and long-lived assets, estimated useful lives of property, plant and equipment and intangible assets, recoverability of accounts and amounts receivable, stock-based compensation, and the determination of fair value of derivatives, income taxes and contingencies. Actual results could differ from those estimates.

**Cash and cash equivalents**

Cash and cash equivalents consist of highly liquid investments that are readily convertible to known amounts of cash and generally have original maturities of three months or less.

**Accounts and amounts receivable**

Accounts and amounts receivable are reported at face value less any provisions for uncollectible accounts considered necessary. Accounts receivable primarily includes receivables due from the Company's non-eliminated interests in its Panama and Costa Rica joint ventures. Amounts receivable primarily consists of notes receivable from various parties as described in Note 5. The Company estimates allowances on amounts receivable when there are indications that an impairment exists, at which point the amounts will be written down to their collectible values.

**Inventories**

Inventories are valued at the lower of cost and net realizable value. Cost of inventory is determined on a 'first-in-first-out' basis. Inventory consists of food, beverages and supplies. Cost of goods sold within cost of sales was \$2,906,000 for the year ended December 31, 2007 and \$1,807,000 for the year ended December 31, 2006.

**THUNDERBIRD RESORTS, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

(Tabular amounts expressed in thousands of dollars except per share amounts)

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Restricted cash**

Restricted cash includes the Company's portion of the casinos' bankroll and hopper loads in the Republic of Panama, Nicaragua, Costa Rica, Guatemala, and the Philippines.

**Investments in and advances to equity investees**

The investments in and advances to equity investees are accounted for using the equity method. Under the equity method, the original cost of the investee is adjusted for the Company's share of post-acquisition earnings or losses and is reduced for dividends received.

**Property and equipment**

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is expensed on a straight-line basis from the month assets are put in use over the estimated useful life of the assets, generally at the following rates:

|                                   |   |
|-----------------------------------|---|
| Land                              | Not amortized                           |
| Building                          | 20 – 30 years                           |
| Furniture, fixtures and equipment | 3 – 5 years                             |
| Gaming operations equipment       | 3 – 5 years                             |
| Leasehold improvements            | Lesser of useful life or the lease term |
| Machinery and equipment           | 3 years                                 |
| Vehicles                          | 3 – 5 years                             |

During the construction period of significant facilities, the Company capitalized construction and interest costs directly attributable to the construction project. The costs of construction of the Company's gaming and ancillary facilities are classified as construction in progress. When the property or portion thereof is substantially complete and ready for use, costs cease to be capitalized, are transferred from construction in progress to their respective asset categories, and are depreciated over the assets' estimated useful lives.

**Property available for sale**

Property available for sale is presented at the lesser value of cost or market. The Company classifies in this category such properties which have been acquired with the purpose of being sold in the short-term, or those properties originally part of the property and equipment that the Company intends to sell.

**THUNDERBIRD RESORTS, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

(Tabular amounts expressed in thousands of dollars except per share amounts)

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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**SIGNIFICANT ACCOUNTING POLICIES (cont'd...)****Intangible assets**

The Company's finite-lived intangible assets consist primarily of gaming licenses. Intangible assets are amortized over their estimated useful lives ranging from three to twenty years. Judgment is used to estimate an intangible asset's useful life and is based on an analysis of all pertinent factors, including expected use of the intangible asset, contractual provisions that enable renewal or extension of the intangible asset's legal or contractual life without substantial cost, and renewal history. Changes in the estimate of an intangible asset's useful life are treated as a change in accounting estimate and are applied prospectively.

Intangible assets are tested for impairment consistent with the method described for long-lived assets below. The intangible assets impairment test had no impact on the Company's results for the years ended December 31, 2007 and 2006.

**Goodwill**

Goodwill represents the excess of the purchase price of acquired companies over the estimated fair value of the tangible and intangible net assets acquired. Goodwill is tested for impairment at least annually and whenever events or circumstances indicate that its carrying value may not be fully recoverable. The impairment test requires comparing the carrying values of the reporting units, including goodwill, to their fair values. The Company determines fair value using discounted cash flows. The excess of the carrying value amount over the fair value of goodwill, if any, is charged to operations in the period the impairment occurred.

**Impairment of long-lived assets**

Long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized when the carrying value of a long-lived asset intended for use exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. The impairment loss is measured as the excess of the carrying value of the asset over its fair value.

**Debt transaction costs**

Debt transaction costs relate to the costs associated with securing long-term financing and credit facilities. These costs are expensed to interest and financing costs, net on the consolidated statements of earnings over the term of the related debt using the effective interest method. When a debt facility is retired by the Company, any remaining balance of related debt refinancing transaction costs is expensed to interest and financing costs, net on the consolidated statements of earnings in the period that the debt facility is retired.

**THUNDERBIRD RESORTS, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

(Tabular amounts expressed in thousands of dollars except per share amounts)

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)****Income taxes**

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets are recognized to the extent that realization of those assets is more likely than not. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. Withholding taxes, where applicable, on earnings of foreign operations are provided in the accounts only to the extent earnings are expected to be repatriated.

**Revenue recognition**

The Company recognizes as gaming revenues the net win from gaming activities, which is the difference between coins and currencies deposited into the machines and payments to customers, and for other games, the difference between gaming wins and losses.

**Project development and pre-opening costs**

Project development costs incurred in an effort to identify and develop new gaming locations are expensed as incurred. Pre-opening costs for new projects that are not recoverable from third parties are expensed as incurred.

**Reporting currency and foreign currency translation**

The Company's consolidated financial statements are presented in United States dollars. The Company's operations are translated into United States dollars using the current rate method. Under this method, assets and liabilities are translated into United States dollars using the exchange rates in effect on the dates of the Consolidated Financial Statements. Revenue and expenses are translated at average exchange rates prevailing during the year. The resulting translation gains and losses are included as a separate component of comprehensive income (loss).

Transactions completed in foreign currencies are translated into United States dollars at the rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are reflected in the consolidated financial statements at the exchange rates prevailing at the dates of the consolidated statements of financial position with the resulting gain or loss included in the consolidated statements of earnings (loss) in the period in which it occurs.

**Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Additionally, the Company provides in full against various litigation proceedings once judgments are rendered against it. The award amount is used as the directors' best estimate of the potential liability even if the Company is appealing the judgment. The Company does not recognize a provision in instances where no judgment is provided; however, if it is possible that an outflow of resources might arise, the directors will disclose this item as a contingent liability.

**THUNDERBIRD RESORTS, INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States dollars)

(Tabular amounts expressed in thousands of dollars except per share amounts)

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Earnings per share**

Basic earnings per share is calculated using the weighted-average number of shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period.

**Classification of equity instruments as debt**

When equity instruments are issued, any component that creates a financial liability of the Company as defined in Section 3855 of the CICA Handbook *Financial Instruments – Recognition and Measurement*, is presented as a liability in the balance sheet. These liabilities are carried in the balance sheet at fair value with gains and losses recognized in the income statement.

**Comprehensive Income**

Other comprehensive income (loss) represents changes in shareholders' equity in a period arising from the portion of the change the unrealized effect of foreign currency translation of foreign operations.

**Financial Instruments**

Financial instruments are initially recognized at fair value. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values of financial instruments are based on independent prices quoted in active markets or the value obtained in private markets. In the absence of an active market, fair values are determined based on valuation models such as discounted cash flows, which require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. Subsequent measurement depends on management's classification of financial instruments, which depends on the nature of and the purpose of the financial instruments, management's choice and in some circumstances, management's intentions.

**Held for trading**

Financial instruments classified as held-for-trading are measured at fair value with the realized and unrealized changes in fair value recognized each reporting period through interest and financing costs, net on the consolidated income statement.

**Available-for-Sale**

Financial assets classified as available-for-sale are measured at fair value with the unrealized changes in fair value recorded each reporting period in other comprehensive income. Investments in equity instruments classified as available-for-sale that do not have a quoted price in an active market are recorded at cost. Each reporting period, available-for-sale assets are written down to fair value through interest and financing costs, net on the consolidated income statement to reflect impairments that are considered to be other than temporary.

**THUNDERBIRD RESORTS, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

(Tabular amounts expressed in thousands of dollars except per share amounts)

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)****Held-to-Maturity, Loans and Receivables and Other Liabilities**

Financial instruments classified as held-to-maturity, loans and receivables and other liabilities are measured at amortized cost using the effective interest rate method.

The following table summarizes the Company's selected financial instrument classifications based on its intentions:

| <b>Financial Instrument</b>              | <b>Classification</b> |
|--|-----------------------|
| Cash                                     | Held for trading      |
| Cash equivalents                         | Held to maturity      |
| Restricted cash                          | Held for trading      |
| Accounts receivable                      | Held for trading      |
| Amounts receivable                       | Held to maturity      |
| Accounts payable and accrued liabilities | Held for trading      |
| Long-term debt                           | Held to maturity      |
| Derivative liability                     | Held to maturity      |

**Stock-based compensation**

The Company applies the fair value method of accounting for all stock option awards. Under this method, the Company recognizes compensation expense for stock options awarded using the Black-Scholes model based on the fair value of the options at the later of the date of grant or the date of shareholder approval of any new share option plan from which options were granted. The Company assumes that all awards will vest and recognizes the effect of forfeitures as they occur. The fair value of the options is expensed over the vesting period of the options.

**Comparative figures**

Certain of the prior year's figures have been reclassified to conform with the presentation adopted in the current year.

**3. PREPAID EXPENSES, DEPOSITS AND INVENTORIES**

|                    | 2007         | 2006         |
|--------------------|--------------|--------------|
| Deposits           | \$ -         | \$ 536       |
| Parts and Supplies | 2,846        | 994          |
| Prepaid expenses   | <u>1,230</u> | <u>1,128</u> |
|                    | \$ 4,076     | \$ 2,658     |

**THUNDERBIRD RESORTS, INC.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States dollars)

(Tabular amounts expressed in thousands of dollars except per share amounts)

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

**4. ACCOUNTS RECEIVABLE**

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|  | 2007       | 2006         |
|--|------------|--------------|
| Amounts due from joint ventures (Note 17)  | \$ 4,366   | \$ 3,449     |
| Accounts receivable trade                  | 1,978      | 631          |
| Amounts due from related parties (Note 17) | 1,043      | -            |
| Other receivables                          | <u>761</u> | <u>1,536</u> |
|  | \$ 8,148   | \$ 5,616     |

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**5. AMOUNTS RECEIVABLE**

Amounts receivable consist of the following:

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|                                       | 2007        | 2006         |
|---------------------------------------|-------------|--------------|
| The Fantasy Group S.A.                | \$ 46       | \$ 89        |
| Other                                 | <u>-</u>    | <u>79</u>    |
|                                       | 46          | 168          |
| Current portion of amounts receivable | <u>(41)</u> | <u>(101)</u> |
|                                       | \$ 5        | \$ 67        |

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**The Fantasy Group, S.A.**

The Company has an unsecured promissory note dated June 4, 2003, with 48 monthly payments of principal and interest of \$5,200 beginning March 2004. The president and principal of The Fantasy Group, S.A. were coordinating the Company's efforts to establish its operations in Chile.

**THUNDERBIRD RESORTS, INC****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**6. INVESTMENTS IN AND ADVANCES TO EQUITY INVESTEES AND NON-CONTROLLING INTERESTS**

Through its equity investments, the Company managed operations in various skill game locations in Mexico (Note 6a), and the Company has an equity interest in a property and development company in the Philippines (Note 6b). The equity investments of the Company and the Company's share of income (loss) from these investments are as follows:

|   | 2007        |          |       |          | 2006        |          |        |          |
|---|-------------|----------|-------|----------|-------------|----------|--------|----------|
|   | Philippines | Mexico   | Other | Total    | Philippines | Mexico   | Other  | Total    |
| Investment and advances                       | \$ 1,377    | \$ 1,933 | \$ 95 | \$ 3,405 | \$ 562      | \$ 1,813 | \$ 225 | \$ 2,600 |
| Gain (loss / write down) of equity investment | (190)       | -        | -     | (190)    | 141         | -        | -      | 141      |
|   |             | (1,933)  |       | (1,933)  |             | (1,813)  |        | (1,813)  |
|   | \$ 1,187    | \$ -     | \$ 95 | \$ 1,282 | \$ 703      | \$ -     | \$ 225 | \$ 928   |

The Company is entitled to recover the advances that funded certain pre-opening costs from the first available cash flows of the operations. The advances are non-interest bearing. The equity losses of the Company's investees include pre-opening costs which are expensed by the investees in the year the costs are incurred.

- In Mexico, as of December 31, 2007 and 2006, the Company had a 37% equity interest in the operation located in Matamoros, a 33% equity interest in the operation located in Nuevo Laredo, and a 40% equity interest in the operation located in Reynosa, which was opened during 2001. The investment amounts have been fully reserved.
- The Company has a 40% equity interest in a Philippine entity that will be used to further develop the operations of the casino and hotel in Manila. The amounts advanced in 2006 and 2005 were used by the entity for development, per the terms of the agreement with the Company's Philippine partners. Advances made by the Company will be repaid as cash flow allows.

**Non-controlling interests**

The non-controlling interest liability of \$5,093,000 as of December 31, 2007 (2006 - \$2,889,000) represents the net assets in the Company's non-wholly owned subsidiaries that are due to the minority shareholders in the Company's subsidiaries.

The non-controlling interest expense of \$2,282,000 for 2007 relates to the Company's Nicaraguan operation of \$197,000, the Philippine Poro Point operation of \$1,945,000, and the Costa Rica operation of \$140,000.

The non-controlling interest of \$314,000, as of December 31, 2006, is related to the Company's Nicaraguan operation of \$424,000, offset by \$20,000 recovered against non-controlling interest investments in a Costa Rica Subsidiary and \$90,000 recovered from the Philippines subsidiaries.

**THUNDERBIRD RESORTS, INC.**

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**7. PROPERTY AND EQUIPMENT**

|                                      | 2007              |                             |                   | 2006             |                             |                   |
|--------------------------------------|-------------------|-----------------------------|-------------------|------------------|-----------------------------|-------------------|
|                                      | Cost              | Accumulated<br>Depreciation | Net<br>Book Value | Cost             | Accumulated<br>Depreciation | Net<br>Book Value |
| Gaming operations<br>equipment       | \$ 32,249         | \$ 12,793                   | 19,456            | \$ 20,217        | \$ 7,977                    | \$ 12,240         |
| Leasehold<br>improvements            | 36,972            | 4,735                       | 32,237            | 24,222           | 3,246                       | 20,976            |
| Machinery and<br>equipment           | 15,561            | 4,810                       | 10,751            | 6,861            | 3,462                       | 3,399             |
| Furniture, fixtures<br>and equipment | 6,268             | 3,455                       | 2,813             | 3,470            | 934                         | 2,536             |
| Building                             | 33,810            | 769                         | 33,041            | 597              | 55                          | 542               |
| Land                                 | 15,289            |                             | 15,289            | 2,789            | -                           | 2,789             |
| Vehicles                             | 1,255             | 317                         | 938               | 748              | 206                         | 542               |
|                                      | <u>\$ 141,404</u> | <u>\$ 26,879</u>            | <u>\$ 114,525</u> | <u>\$ 58,904</u> | <u>\$ 15,880</u>            | <u>\$ 43,024</u>  |

Building and land are net of property available for sale of \$387,000 and \$175,000, respectively, for a total of \$562,000 for the period ended December 31, 2006; the building was sold during 2007.

**8. GOODWILL AND INTANGIBLE ASSETS**

|                                 | 2007            |                 |                 | 2006            |                 |                 |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                                 | Gaming Licenses | Goodwill        | Total           | Gaming          | Goodwill        | Total           |
| <i>Cost</i>                     |                 |                 |                 |                 |                 |                 |
| Balance at beginning of year    | \$ 3,967        | \$ 1,306        | \$ 5,273        | \$ 3,967        | \$ 1,306        | \$ 5,273        |
| Additions                       | -               | 297             | 297             | -               | -               | -               |
| Balance at end of year          | <u>3,967</u>    | <u>1,603</u>    | <u>5,570</u>    | <u>3,967</u>    | <u>1,306</u>    | <u>5,273</u>    |
| <i>Accumulated amortization</i> |                 |                 |                 |                 |                 |                 |
| Balance at beginning of year    | (2,670)         | -               | (2,670)         | (2,392)         | -               | (2,392)         |
| Additions                       | (263)           | -               | (263)           | (278)           | -               | (278)           |
| Balance at end of year          | <u>(2,933)</u>  | <u>-</u>        | <u>(2,933)</u>  | <u>(2,670)</u>  | <u>-</u>        | <u>(2,670)</u>  |
| <i>Carrying amount</i>          |                 |                 |                 |                 |                 |                 |
| At beginning of year            | 1,297           | 1306            | 2,603           | 1,575           | 1,306           | 2,881           |
| At end of year                  | <u>\$ 1,034</u> | <u>\$ 1,603</u> | <u>\$ 2,637</u> | <u>\$ 1,297</u> | <u>\$ 1,306</u> | <u>\$ 2,603</u> |

The gaming licenses consist of costs associated with the acquisition of gaming licenses in Panama and the Philippines; both are amortized over the remaining term of the gaming license. The amortized balance of the Panama license is \$909,000 as of December 31, 2007 and \$998,000 as of December 31, 2006 and is amortized over twenty years. The amortized balance of the Philippines license is \$125,000, as of December 31, 2007, and \$300,000, as of December 31, 2006, and is amortized over three years.

**THUNDERBIRD RESORTS**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

**8. GOODWILL AND INTANGIBLE ASSETS (cont'd)****Goodwill**

The changes in the carrying amount of goodwill by geographical segment are as follows:

|                                 | 2007      |            |             | 2007     | 2006      |
|---------------------------------|-----------|------------|-------------|----------|-----------|
|                                 | Nicaragua | Costa Rica | Philippines | Total    | Nicaragua |
| <i>Cost</i>                     |           |            |             |          |           |
| Balance at beginning of year    | \$ 1,306  | \$ -       | \$ -        | \$ 1,306 | \$ 1,306  |
| Additions                       | 81        | 172        | 44          | 297      | 0         |
| Balance at end of year          | 1,387     | 172        | 44          | 1,603    | 1,306     |
| <i>Accumulated amortization</i> |           |            |             |          |           |
| Balance at beginning of year    | -         | -          | -           | -        | -         |
| Additions                       | -         | -          | -           | -        | -         |
| Balance at end of year          | -         | -          | -           | -        | -         |
| <i>Carrying amount</i>          |           |            |             |          |           |
| At beginning of year            | 1,603     | 1,306      | -           | -        | -         |
| At end of year                  | \$ 1,387  | \$ 172     | \$ 44       | \$ 1,603 | \$ 1,306  |

The additions to goodwill represent the purchase by the Company of some of its minority interests held in its subsidiaries representing 2% of Nicaragua, 5% of Thunderbird Gran Entretenimiento, a subsidiary of the Costa Rican joint venture and 2% of the Philippines (1% of the East Bay operation and 1% of the Poro Point operation).

**9. OTHER ASSETS**

|  | 2007            | 2006            |
|--|-----------------|-----------------|
| Severance Funds  | \$ 878          | \$ 620          |
| Cash bond to secure Pagcor gaming license in Philippines | 218             | -               |
| Deposits   | 477             | -               |
| Prepaid value added tax Peru acquisition (Note 10)       | 3,818           | -               |
| Other long term prepaids                                 | 389             | -               |
| Due from related parties                                 | 246             | -               |
| Other  | 126             | 673             |
|  | <u>\$ 6,152</u> | <u>\$ 1,293</u> |

**THUNDERBIRD RESORTS, INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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**10. PURCHASES AND ACQUISITIONS**

**Peru Acquisition:**

On July 27, 2007, the Company acquired the Hoteles Las Americas hotel chain, consisting of six hotels in Lima, Peru. The results of the hotels operations have been included in the consolidated financial statements since that date.

The purchase price was \$43,502,000 for the buildings, land and hotel assets, plus closing costs of \$2,451,000 and recoverable value added taxes of \$3,818,000. The Company did not acquire any liabilities of the operation. The buildings and land were encumbered by a judgment against the previous owner. The amount of the purchase price equivalent to the liens will be held in an escrow account until all liens have been removed.

The following table summarizes the estimated fair value of the assets acquired. The Company is in the process of obtaining third-party valuations of the furniture and fixtures; thus, the allocation of the purchase price is subject to refinement.

As of July 27, 2007

|                              |                         |
|------------------------------|-------------------------|
| Inventories                  | \$ 478                  |
| Land                         | 9,101                   |
| Buildings                    | 31,760                  |
| Property Plant and Equipment | 4,614                   |
| <b>Total assets acquired</b> | <b><u>\$ 45,953</u></b> |

The acquisition was financed through loans payable of \$33.9 million (Note 11) and a capital lease payable of \$20.0 million, secured by the building and land assets (Note 18).

**THUNDERBIRD RESORTS, INC.**

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**11. LOANS PAYABLE**

Loans payable consist of the following:

|   | Collateral                                     | Interest Rate                  | Maturity Date | 2007      |                |            | 2006      |                |            |
|---|--|--------------------------------|---------------|-----------|----------------|------------|-----------|----------------|------------|
|   |  |                                |               | Principal | Issuance Costs | Total Debt | Principal | Issuance Costs | Total Debt |
| <b>The Company and wholly owned subsidiaries:</b>   |  |                                |               |           |                |            |           |                |            |
| <i>Loans with Financial Entities</i>  |  |                                |               |           |                |            |           |                |            |
| Banco Continental, principal of \$520,000, principal payments due in monthly installments of \$5,000 plus interest, secured by fidelity bond from Company and Panama operation and 50% of real estate   | Fidelity Bond and Real Estate                  | Prime plus 0.5%                | Oct-13        | 403       | -              | 403        | 452       | -              | 452        |
| Banistmo, semiannual principal payments due of \$215,799 and quarterly interest payments.   | Shares of Buena Esperanza owned by the Company | Bank of Panama Prime plus 4.5% | Oct-09        | 863       | -              | 863        | 1,295     | -              | 1,295      |
| <b>Panama:</b>  |  |                                |               |           |                |            |           |                |            |
| Banco Bilbao Vizcaya Argentaria (Panama), S.A. Principal \$1,800,000, payments due in monthly installments of \$35,724. Loan consists of three loans secured by cash in the amount of \$106,523, properties owned by third parties and gaming machines in the amount of \$300,000 | Cash, Properties and Gaming Machines           | 9.25%                          | Sep-13        | 689       | -              | 689        | 902       | -              | 902        |
| Banco Bilbao Vizcaya Argentaria (Panama), S.A. Principal \$842,500, payments due in monthly installments of \$21,989  | None   | Prime plus 1.0%                | Dec-10        | 556       | -              | 556        | 774       | -              | 774        |
| Banco General, S.A., Principal \$500,000, payments made in monthly installments of \$6,463.   | Gaming Machines for \$728,720                  | FECI, plus 7.5%                | Dec-08        | 150       | -              | 150        | 327       | -              | 327        |
| Banistmo, S.A., Principal \$182,135, payments due in monthly installments of \$5,059, secured by properties owned by third parties and guarantee of International Thunderbird Gaming (Panama), S.A.   | Properties; and Subsidiary guarantee           | Prime plus 1.75%               | Nov-08        | 56        | -              | 56         | 127       | -              | 127        |
| Primer Banco del Istmo, S.A. Principal \$722,019, payments due in monthly installments of \$20,056.   | Gaming Machines                                | Prime plus 1.5%                | Dec-09        | 401       | -              | 401        | 681       | -              | 681        |
| Towerbank, Int'l, Inc. Principal \$450,000, payments due in monthly installments of \$5,057.  | Land and Buildings                             | Libor plus 3%                  | Dec-09        | 418       | -              | 418        | 229       | -              | 229        |

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**THUNDERBIRD RESORTS, INC.**
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**11. LOANS PAYABLE (cont'd...)**

|  | Collateral                         | Interest Rate    | Maturity Date | 2007      |                |            | 2006      |                |            |
|--|------------------------------------|------------------|---------------|-----------|----------------|------------|-----------|----------------|------------|
|  |                                    |                  |               | Principal | Issuance Costs | Total Debt | Principal | Issuance Costs | Total Debt |
| <b>Panama:</b>   |                                    |                  |               |           |                |            |           |                |            |
| <i>Loans with Financial Entities (cont'd)</i>  |                                    |                  |               |           |                |            |           |                |            |
| Cooperativa de Ahorro y Credito Colfi, R.L., principal \$750,000, payments due in monthly installments of \$20,560.  | None                               | 14.00%           | Jan-10        | 443       | -              | 443        | 614       | -              | 614        |
| Multicredit Bank (Hemisphere Bank), principal \$250,000, payments due in monthly installments of \$6,462.  | Gaming Machines                    | 11.00%           | Aug-07        | 152       | -              | 152        | 234       | -              | 234        |
| Multicredit Bank, S.A., principal \$1,300,000, payments due in monthly installments of \$32,971  | Gaming Machines for \$728,000      | 10.00%           | Dec-11        | 1,165     | -              | 1,165      | -         | -              | -          |
| Metrobank, S.A., principal \$750,000, payments due in monthly installments of \$19,021.  |                                    | 10.00%           | Dec-11        | 720       | -              | 720        | -         | -              | -          |
| Global Bank, S.A., principal \$1,000,000, payments due in monthly installments of \$25,362.  | Gaming Machines for \$1,281,000    | 10.00%           | Dec-11        | 940       | -              | 940        | -         | -              | -          |
| Banistmo, S.A. credit line   | None                               | 8.25%            | Aug-09        | 315       | -              | 315        | 262       | -              | 262        |
| <b>Costa Rica</b>  |                                    |                  |               |           |                |            |           |                |            |
| Multicredit Bank, Inc., principal of \$1,632,000, principal payments of \$59,000 plus interest due in monthly installments. Secured by the Company's shares in the following Costa Rican entities: Thunderbird Gran Entretenimiento, S.A., Inmobiliaria Piedra Dorada, S.A. and Casino El Cacique. | Shares of Costa Rican Subsidiaries | Prime plus 1.75% | Jan-11        | 1,278     | -              | 1,278      | 1,632     | -              | 1,632      |
| Banco Nacional de Costa Rica, principal \$1,100,000, payments due in monthly installments of \$12,242  | Land                               | 7.73%            | Mar-19        | 1,095     | 33             | 1,062      | -         | -              | -          |
| Banco Nacional de Costa Rica, payments due in monthly installments; interest only to October 2008, then payments of principal and interest of \$17,064   | Land                               | 7.29%            | Apr-19        | 1,500     | 92             | 1,408      | -         | -              | -          |
| Banco HSBC, principal of \$9,000, payments due in monthly installments of \$188.   | Auto                               | 9.75%            | Jul-10        | 4         | -              | 4          | -         | -              | -          |

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**THUNDERBIRD RESORTS, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**11. LOANS PAYABLE (cont'd...)**

|  | Collateral                                      | Interest Rate           | Maturity Date | 2007          |                |               | 2006          |                |               |
|--|---|-------------------------|---------------|---------------|----------------|---------------|---------------|----------------|---------------|
|  |   |                         |               | Principal     | Issuance Costs | Total Debt    | Principal     | Issuance Costs | Total Debt    |
| <b>Nicaragua:</b>  |   |                         |               |               |                |               |               |                |               |
| <i>Loans with Financial Entities (cont'd)</i>  |   |                         |               |               |                |               |               |                |               |
| Banco de America Central, principal \$595,000, payments due in monthly instalments of \$16,022.  | Machinery and Equipment and credit card sales   | 9.50%                   | Mar-10        | 384           | -              | 384           | 528           | -              | 528           |
| Banco de America Central, principal of \$2,171,224, principal payments due in monthly installments of \$18,094, plus interest.   | Land, credit card sales and a company guarantee | 10.00%                  | Nov-13        | 1,954         | 35             | 1,919         | 2,171         | 43             | 2,128         |
| Banco de America Central, principal of \$300,000, payments due in monthly installments of \$5,558.   | Land, furniture and equipment                   | 10.00%                  | Dec-13        | 300           | -              | 300           | -             | -              | -             |
| Banco HSBC Nicaragua S.A., line of credit up to \$1,800,000, principal outstanding \$800,000, principal payments due in monthly installments of \$9,523 plus interest. | Land  | Between 9.45% and 10.2% | May-11        | 177           | -              | 177           | 765           | -              | 765           |
| <b>Total Loans with Financial Institutions</b>   |   |                         |               | <b>13,963</b> | <b>160</b>     | <b>13,803</b> | <b>10,993</b> | <b>43</b>      | <b>10,950</b> |
| <b>The Company and wholly owned subsidiaries:</b>  |   |                         |               |               |                |               |               |                |               |
| <i>Loans with non-financial entities</i>   |   |                         |               |               |                |               |               |                |               |
| Langton International Holdings Ltd., principal of \$2,928,009, payments due in monthly installments of \$105,057.  | None  | 14% (18% upon default)  | Jun-07        | -             | -              | -             | 606           | -              | 606           |
| MRG, principal of \$1,500,000, 14% term loan, interest paid quarterly plus \$4,500 per quarter in administration fees.   | None  | 14% (20% upon default)  | Jan-07        | -             | -              | -             | 214           | -              | 214           |
| Multiple banks, interest paid monthly, principal is due upon maturity.   | Shares in Thunderbird Chile S.A.                | 9.00%                   | Jan-07        | -             | -              | -             | 321           | -              | 321           |
| Multiple Lenders, principal of \$1,281,000, payments due in monthly installments of \$19,973.8%, (Note 11c).   | None  | 8.00%                   | Oct-13        | 1,114         | -              | 1,114         | 1,281         | -              | 1,281         |

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**11. LOANS PAYABLE (cont'd...)**

|  | Collateral   | Interest Rate          | Maturity Date | 2007      |                |            | 2006      |                |            |
|--|--|------------------------|---------------|-----------|----------------|------------|-----------|----------------|------------|
|  |  |                        |               | Principal | Issuance Costs | Total Debt | Principal | Issuance Costs | Total Debt |
| <b>The Company and wholly owned subsidiaries (cont'd)</b>  |  |                        |               |           |                |            |           |                |            |
| <i>Loans with non-financial entities</i>   |  |                        |               |           |                |            |           |                |            |
| Langton International Holdings, Ltd., principal of \$850,040, payments due in monthly installments of \$23,328.  | None   | 14% (18% upon default) | Aug-10        | 618       | -              | 618        | 796       | -              | 796        |
| Transcom Bank, principal of \$200,000, payments due in monthly installments of \$6,483.  | None   | 8.25%                  | Dec-08        | 78        | -              | 78         | 156       | -              | 156        |
| Universal Marketing Group, Ltd., principal of \$6,000,000, payments due in monthly payments; interest only for the first twelve months, then principal and interest of \$163,959, (Note 11h).          | Shares of Int'l Thunderbird Gaming Panama, Inc.                  | 14.00%                 | May-11        | 5,319     | 23             | 5,296      | 6,000     | 74             | 5,926      |
| Multiple Lenders, principal of \$6,200,000, payments due quarterly; interest only for the first four quarters, then principal and interest of \$618,034.   | Equipment of Subsidiaries to value of loan and Company guarantee | 12.00%                 | Sep-11        | 5,848     | 107            | 5,741      | 5,000     | 104            | 4,896      |
| \$730,000 note due in monthly installments of principal only of \$10,000 (Note 11a)  | None   | 13.00%                 | Dec-07        | -         | -              | -          | 130       | -              | 130        |
| Langton International Holdings, Ltd., principal of \$1,000,000, interest only for the first twelve months, then due in monthly payments of principal and interest of \$33,792.                         | None   | 13% (18% upon Default) | Dec-10        | 1,000     | -              | 1,000      | 1,000     | 33             | 967        |
| Private Lender, principal of \$1,000,000, interest only for the first twelve months, then due in monthly payments of principal and interest of \$39,222. Loan refinanced 2007 in subsidiary operations | None   | 13.00%                 | Jun-10        | -         | -              | -          | 1,000     | -              | 1,000      |
| Langton International Holdings, Ltd., principal of \$600,000, interest only for the first twelve months, then due in monthly payments of principal and interest of \$20,582.                           | None   | 14% (18% upon default) | Apr-10        | 488       | -              | 488        | 600       | -              | 600        |
| Langton International Holdings, Ltd., principal of \$350,000, interest only for the first twelve months, then due in monthly payments of principal and interest of \$12,006.                           | None   | 14% (18% upon default) | Apr-10        | 285       | -              | 285        | 350       | -              | 350        |

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**11. LOANS PAYABLE (cont'd...)**

|   | Collateral  | Interest Rate | Maturity Date | 2007      |                |            | 2006      |                |            |
|---|---|---------------|---------------|-----------|----------------|------------|-----------|----------------|------------|
|   |   |               |               | Principal | Issuance Costs | Total Debt | Principal | Issuance Costs | Total Debt |
| <b>The Company and wholly owned subsidiaries (cont'd)</b>   |   |               |               |           |                |            |           |                |            |
| <i>Loans with non-financial entities (cont'd)</i>   |   |               |               |           |                |            |           |                |            |
| Private Lender, principal of \$1,000,000, interest only for the first twelve months, then due in monthly payments of principal and interest of \$34,178.  | None  | 14.00%        | Aug-11        | 1,000     | 44             | 956        | -         | -              |            |
| Langton International Holdings, Ltd., principal of \$440,000, interest only for the first twelve months, then due in monthly payments of principal and interest of \$15,082. Funds used to purchase shares in subsidiaries 5% Thunderbird Gran Entretenimiento, 2% Philippine operations and 2% Buena Esperanza Limitada (Note 8) | Shares of subsidiaries purchased with loan proceeds | 14.00%        | Jan-11        | 440       | 7              | 433        | -         | -              | -          |
| Langton International Holdings, Ltd, principal of \$2,000,000, interest only for the first twelve months, then due in monthly payments of principal and interest of \$68,517.   | None  | 14.00%        | May-11        | 2,000     | 60             | 1,940      | -         | -              | -          |
| Multiple Lenders, principal of \$1,100,000, payments due monthly installments of \$37,595.  | None  | 14.00%        | May-10        | 867       | -              | 867        | 1,100     | -              | 1,100      |
| PDS Gaming, Inc., principal of \$872,862, payments due in monthly installments of \$22,502.   | Gaming machines and Company guarantee               | 10.00%        | Feb-10        | 523       | 6              | 517        | 729       | 10             | 719        |
| PDS Gaming, Inc., principal of \$581,134, payments due in monthly installments of \$15,306.   | Gaming machines and Company guarantee               | 10.00%        | Jan-10        | 333       | 5              | 328        | 485       | 6              | 479        |
| Private Lender, principal of \$35,000, payments due in monthly installments of \$3,296.   | Revenues of Guatemalan operation                    | 12.00%        | Mar-07        | -         | -              | -          | 35        | -              | 35         |
| Multiple Lenders, principal of \$1,700,000, payments due monthly installments of \$37,595 (Note 11j).   | None  | 14.00%        | Oct-12        | 1,700     | 46             | 1,654      | -         | -              | -          |
| <b>Panama</b>   |   |               |               |           |                |            |           |                |            |
| <i>Loans with non-financial entities</i>  |   |               |               |           |                |            |           |                |            |
| AGM Holding Corporation, Principal \$50,000, payments due in monthly installments of \$1,268.   | None  | 10.00%        | Oct-09        | 25        | -              | 25         | 38        | -              | 38         |

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**THUNDERBIRD RESORTS, INC.**
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**11. LOANS PAYABLE (cont'd...)**

|  | Collateral                            | Interest Rate  | Maturity Date         | 2007      |                |            | 2006      |                |            |
|--|---------------------------------------|----------------|-----------------------|-----------|----------------|------------|-----------|----------------|------------|
|  |                                       |                |                       | Principal | Issuance Costs | Total Debt | Principal | Issuance Costs | Total Debt |
| <b>Panama</b>  |                                       |                |                       |           |                |            |           |                |            |
| <i>Loans with non-financial entities (cont'd)</i>  |                                       |                |                       |           |                |            |           |                |            |
| Atronic International, principal \$150,105, payments due in monthly installments of \$13,196.  | Gaming Machines                       | 10.00%         | Jul-08                | 89        | -              | 89         | -         | -              | -          |
| International Gaming Technology, principal \$602,589.  | Gaming Machines                       | 8.0% and 10.0% | Dec-05 and Dec-07     | -         | -              | -          | 49        | -              | 49         |
| Banco Bilbao Vizcaya Argentaria (Panama), S.A., principal \$644,321.   | Building and Land                     | Prime plus 3%  | Jul-07                | -         | -              | -          | 261       | -              | 261        |
| Banco Continental, S.A. principal \$644,321.   | Building and Land                     | Prime plus 3%  | Jul-07                | -         | -              | -          | 261       | -              | 261        |
| <b>Costa Rica:</b>   |                                       |                |                       |           |                |            |           |                |            |
| San Jose Garni, S.A., principal of \$325,000, payments due in monthly installments of \$11,925   | None                                  | 9.00%          | Jul-07                | -         | -              | -          | 81        | -              | 81         |
| Multiple Lenders, principal of \$700,000, payments due in monthly installments of \$23,900 er 2008 (Note 11d)  | None                                  | 14.00%         | Oct-08                | 225       | -              | 225        | 442       | 9              | 433        |
| Multiple Lenders, principal of \$1,250,000, payments due in monthly installments of \$42,500, (Note 11e).  | None                                  | 14.00%         | May-10                | 932       | -              | 932        | 1,263     | 108            | 1,155      |
| Langton International Holdings, principal \$250,000, due in monthly installments of \$8,326 including interest plus \$0.38 per day per machine up to 166 machines. | Gaming Machines                       | 12.00%         | Oct-10                | 86        | -              | 86         | 170       | -              | 170        |
| PDS Gaming Corporation, principal \$1,103,059 payments due in monthly payments of \$36,262.  | Gaming Machines and Company guarantee | 10.00%         | Apr-2009 and Aug-2011 | 952       | 12             | 940        | 762       | 13             | 749        |

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**11. LOANS PAYABLE (cont'd...)**

|   | Collateral                            | Interest Rate | Maturity Date | 2007          |                |               | 2006          |                |               |
|---|---------------------------------------|---------------|---------------|---------------|----------------|---------------|---------------|----------------|---------------|
|   |                                       |               |               | Principal     | Issuance Costs | Total Debt    | Principal     | Issuance Costs | Total Debt    |
| <b>Philippines:</b>   |                                       |               |               |               |                |               |               |                |               |
| <i>Loans with non-financial entities (cont'd)</i>   |                                       |               |               |               |                |               |               |                |               |
| Multiple Lenders, principal \$3,500,000, payments due in monthly installments of \$118,425, (Note 11b).   | None                                  | 14.00%        | Oct-08        | 1,279         | 30             | 1,249         | 2,431         | 76             | 2,355         |
| Multiple Lenders, principal \$3,850,000, payments due in monthly installments of \$120,399 (Note 11f).  | None                                  | 14.00%        | Aug-10        | 2,435         | 69             | 2,366         | 3,477         | 122            | 3,355         |
| R & S Investments, principal of \$1,500,000, payments due in monthly installments of \$43,913.  | Gaming Machines                       | 12.00%        | Aug-09        | 792           | 18             | 774           | 1,198         | 42             | 1,156         |
| PDS Gaming Incorporated, principal of \$864,625, payments due in monthly installments of \$21,981.  | Gaming Machines and Company guarantee | 10.00%        | Feb-10        | 511           | 10             | 501           | 712           | 20             | 692           |
| Multiple Lenders, principal of \$875,000, payments due in monthly installments of \$29,905 (Note 11g)   | None                                  | 14.00%        | Feb-10        | 667           | 41             | 626           | 875           | 40             | 835           |
| Multiple Lenders, principal of \$2,600,000, payments due in monthly installments of \$92,802.   | None                                  | 14.00%        | Sep-10        | 2,372         | 39             | 2,333         | 2,600         | 70             | 2,530         |
| Multiple Lenders, principal \$5,550,000, payments due in monthly installments, interest only for the first twelve months then principal and interest of \$151,662 (Note 11i). | None                                  | 14.00%        | Nov-12        | 5,550         | 228            | 5,322         | -             | -              | -             |
| <b>Peru</b>   |                                       |               |               |               |                |               |               |                |               |
| Multiple Lenders, principal of \$14,336,000, interest only payments due in monthly installments of \$91,134, 100% of principal due on maturity.                               | None                                  | 12.00%        | Jul-09        | 9,336         | 296            | 9,040         | -             | -              | -             |
| Private Lender, principal of \$1,000,000, interest payments only first 12 months of \$11,250 then principal and interest of \$39,459.   | None                                  | 13.50%        | Jan-11        | 1,000         | -              | 1,000         | -             | -              | -             |
| Multiple Lenders, principal of \$18,590,000, (Note 11k)   | None                                  | 10.00%        | --            | 18,590        | 638            | 17,952        | -             | -              | -             |
| <b>Total loans with non-financial institutions</b>  |                                       |               |               | <b>66,454</b> | <b>1,679</b>   | <b>64,775</b> | <b>34,423</b> | <b>727</b>     | <b>33,696</b> |

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**THUNDERBIRD RESORTS, INC.**

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**11. LOANS PAYABLE (cont'd...)**

|  | Collateral | Interest Rate | Maturity Date            | 2007      |                |            | 2006      |                |            |
|--|------------|---------------|--------------------------|-----------|----------------|------------|-----------|----------------|------------|
|  |            |               |                          | Principal | Issuance Costs | Total Debt | Principal | Issuance Costs | Total Debt |
| <b>Panama</b>  |            |               |                          |           |                |            |           |                |            |
| <i>Loans with Related Parties (Note 17)</i>  |            |               |                          |           |                |            |           |                |            |
| First Federal Financial Corp, principal of \$191,000, interest only first twelve months, then payments of principal and interest due in monthly installments of \$6,446. | None       | 13.00%        | Dec-11                   | 191       | -              | 191        |           |                |            |
| Ambar Financial, Inc. principal \$107,570, interest only first twelve months then payments of principal and interest due in monthly installments of \$3,624.             | None       | 13.00%        | Apr-11                   | 108       | -              | 108        | -         | -              | -          |
| Ancar Holdings, Corp., principal \$50,030, payments due in monthly installments of 1,367.  | None       | 14.00%        | Nov-09                   | 26        | -              | 26         | 38        | -              | 38         |
| Argona Financial, principal of \$107,570, interest only first twelve months then payments of principal and interest due in monthly installments of \$3,624.              | None       | 13.00%        | Apr-11                   | 108       | -              | 108        | -         | -              | -          |
| Atlantic Sales Co. Ltd., principal \$200,120, payments due in monthly installments of 5,469.   | None       | 14.00%        | Dec-09                   | 114       | -              | 114        | 160       | -              | 160        |
| Calimar Valle, S.A., principal \$85,030, interest only first twelve months then payments of principal and interest due in monthly installments of \$2,546.               | None       | 13% and 14%   | Nov-09 and Apr-11        | 61        | -              | 61         | 38        | -              | 38         |
| Corporate & Financial Services, Principal \$211,182, interest only first twelve months then payments due in monthly installments of \$8,273.                             | None       | 13% and 14%   | Mar-10 and Apr-11        | 317       | -              | 317        | 170       | -              | 170        |
| Ivan Jurado Abadia, principal \$28,015, payments due in monthly installments of \$683.   | None       | 14.00%        | Feb-10                   | 15        | -              | 15         | 21        | -              | 21         |
| Ivan Jurado Tribaldos, principal \$366,720, interest only first twelve months then payments of principal and interest due in monthly installments of \$10,934.           | None       | 13% to 14%    | Jan-09, Feb 10 to Jul-11 | 284       | -              | 284        | 164       | -              | 164        |
| Jorge Jurado Abadia, principal \$28,015, payments due in monthly installments of \$683.  | None       | 14.00%        | Feb-10                   | 15        | -              | 15         | 21        | -              | 21         |

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**THUNDERBIRD RESORTS, INC.**
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**11. LOANS PAYABLE (cont'd...)**

|  | Collateral | Interest Rate | Maturity Date     | 2007         |                |              | 2006         |                |              |
|--|------------|---------------|-------------------|--------------|----------------|--------------|--------------|----------------|--------------|
|  |            |               |                   | Principal    | Issuance Costs | Total Debt   | Principal    | Issuance Costs | Total Debt   |
| <b>Panama</b>  |            |               |                   |              |                |              |              |                |              |
| <i>Loans with Related Parties (cont'd) (Note 17)</i>   |            |               |                   |              |                |              |              |                |              |
| Servicios Electricos, S.A., principal \$217,690, interest only first twelve months then payments of principal and interest due in monthly installments of \$2,771. | None       | 13% to 14%    | Feb-10 to Dec-11  | 197          | -              | 197          | 41           | -              | 41           |
| Note payable to Universal Marketing Group, Ltd., principal \$749,640, payments due in monthly installments of \$20,237.  | None       | 12% to 14%    | Nov-09 and Dec-09 | 409          | -              | 409          | 583          | -              | 583          |
| <b>Nicaragua:</b>  |            |               |                   |              |                |              |              |                |              |
| <i>Loans with related parties (Note 17)</i>  |            |               |                   |              |                |              |              |                |              |
| Inversiones Santa Catarina, principal of \$375,000, payments due in monthly installments of \$9,601.   | None       | 10.50%        | Jan-09            | 117          | -              | 117          | 216          | -              | 216          |
| <b>Total loans with Related parties</b>  |            |               |                   | <b>1,962</b> | <b>-</b>       | <b>1,962</b> | <b>1,452</b> | <b>-</b>       | <b>1,452</b> |

| Loan Summary                          | 2007      |                |                  | 2006      |                |                  |
|---------------------------------------|-----------|----------------|------------------|-----------|----------------|------------------|
|                                       | Principal | Issuance Costs | Total Debt       | Principal | Issuance Costs | Total Debt       |
| Loans with financial institutions     | \$ 13,963 | \$ 160         | \$ 13,803        | \$ 10,993 | \$ 43          | \$ 10,950        |
| Loans with non-financial institutions | 66,454    | 1,679          | 64,775           | 34,423    | 727            | 33,696           |
| Loans with Related parties            | 1,962     | -              | 1,962            | 1,452     | -              | 1,452            |
| Total loans payable                   | 82,379    | 1,839          | 80,540           | 46,868    | 770            | 46,098           |
| Less current portion of notes payable |           |                | (15,426)         |           |                | (10,787)         |
| <b>Loans payable long term</b>        |           |                | <b>\$ 65,114</b> |           |                | <b>\$ 35,311</b> |

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**THUNDERBIRD RESORTS, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**11. LOANS PAYABLE (cont'd...)**

a) 13% loan:

During the year ended December 31, 2000, the Company renegotiated the terms of a loan on which it was in arrears in payments and in default. The loan was renegotiated two times by December 31, 2001 and during the year ended December 31, 2002, the Company renegotiated the terms to \$10,000 per month for 73 months, without interest (13% payable upon default). During the year ended December 31, 2004, pursuant to the terms of the renegotiated agreement, the Company committed to increasing to \$20,000 the monthly payment for July 2004 through April 2005. The ten months of increased payments reduced the maturity date to December 2007.

b) 14% term loans:

During the year ended December 31, 2004, the Company raised \$5.2 million and an additional \$2.3 million in 2005 to fund the casino and hotel project in Manila, the Philippines. The \$7.5 million was raised as a debt instrument bearing interest at 14% per annum over 48 months, with the first twelve months as interest only payments, followed by 36 months of principal and interest payments. The debt instrument allows for a 10% non-voting, equity interest in the operations in Manila and is secured by the shares of the corresponding entity.

In August of 2005, \$4.0 million of this funding was refinanced whereby the interest only payments were extended through August 31, 2006, followed by 36 months of principal and interest payments. In June of 2006 the \$4.0 million of this funding was again refinanced extending the interest only payments through June 30, 2007 followed by 48 months of principal and interest payments. (Note 11h)

c) 8% note payable:

During the year ended December 31, 2005, the Company's Chilean operation raised \$1.15 million to fund additional development costs and deposits to move forward through the bid process in Chile. The \$1.15 million was raised as a debt instrument bearing interest at 12% per annum, with principal and interest due within 120 days of winning casino licenses for the Chile projects. If the Company did not win any Casino licenses, then the loan would be paid directly by the Company with interest at 8% per annum over 84 months. The debt instrument allowed for a 7% equity interest of the Company's and partners share of the Chilean operation. As the Company was unsuccessful in its quest to win a casino license in Chile, the note was converted according to the terms and the accrued interest in the amount of \$130 thousand was added to the principal portion of the note.

d) 14% note payable:

During the year ended December 31, 2005, the Company's Costa Rican operation raised \$1.4 million (\$700,000 is the Company's 50% share) to fund the development of a casino project known as Heredia. The \$1.4 million was raised as a debt instrument bearing interest at 14% per annum over 42 months, with the first six months as interest only payments followed by 36 months of principal and interest payments. The debt instrument allows for a 10% non-voting equity interest in the new casino.

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**11. LOANS PAYABLE (cont'd...)**

e) 14% note payable:

During the years ended December 31, 2006 and 2005, the Company's Costa Rican operation raised \$1.8 million and \$0.7 million, respectively, (1,250,000 is the Company's 50% share), to fund the development of a new slot parlor project known as Operacion Banshai. The \$2.5 million was raised as a debt instrument bearing interest at 14% per annum over 48 months, with the first twelve months as interest only payments followed by 36 months of principal and interest payments. The debt instrument allows for a 10% non-voting equity interest in the new slot parlor operation.

f) 14% note payable:

During the year ended December 31, 2006 and 2005, the Company's Philippine operation raised \$0.4 million and \$3.45 million, respectively to fund the development of a new casino project known as Poro Point. The \$3.85 million was raised as a debt instrument bearing interest at 14% per annum over 54 months, with the first twelve months as interest only payments followed by 36 months of principal and interest payments. The remaining \$1.0 million was raised as a debt instrument bearing interest at 14% per annum over 42 months, with the first six months as interest only payments followed by 36 months of principal and interest payments. The debt instrument allows for a 10% non-voting equity interest in the new casino.

g) 14% note payable

During the year ended December 31, 2006, the Company's Philippine operation raised \$0.875 million to fund the expansion of its Manila project. The \$0.875 million was raised as a debt instrument bearing interest at 14% per annum over 48 months, with the first twelve months as interest only payments followed by 36 months of principal and interest payments. The debt instrument allows for a 1.19% profits participation interest in the resort operation.

h) 14% note payable:

During the year ended December 31, 2006, the Company raised \$6 million to fund the Company's development efforts and to refinance the \$4 million (Note 11b) in the Company's Philippine operation. The \$6 million was raised as a debt instrument bearing interest at 14% per annum over 60 months with the first twelve months as interest only payments followed by 48 months of principal and interest. This note is secured by the Company's 50% interest in the Panama operations.

i) 14% note payable

During the year ended December 31, 2007, the Company's Philippine operation raised \$5.55 million to fund the development of a hotel, golf course and resort at its Poro Point location. The \$5.55 million was raised as a debt instrument bearing interest at 14% per annum over 60 months, with the first twelve months as interest only payments followed by 48 months of principal and interest payments. The debt instrument allows for a 10% profits participation interest in the resort operation, as of December 31, 2007 6.8% was subscribed. The profits participation was revalued at year end using the present value of projected cash flows attributable to the liability and discounting those cash flows at the effective interest rate calculated at the inception of the loan.

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**11. LOANS PAYABLE (cont'd...)**

## j) 14% note payable:

During the year ended December 31, 2007, the Company's Guatemalan operation raised \$1.7 million to fund the purchase of gaming machines for the expansion of the Guatemalan operation. The \$1.65 million was raised as a debt instrument bearing interest at 14% per annum over 60 months, with the first twelve months as interest only payments followed by 48 months of principal and interest payments. The remaining \$0.5 million was raised as a debt instrument bearing interest at 13.5% per annum over 42 months, with the first twelve six months as interest only payments followed by 30 months of principal and interest payments. The debt instrument allows for a 10% profits participation interest in the Guatemalan operations as of December 31, 2007 2% was subscribed. The profits participation was revalued at year end using the present value of projected cash flows attributable to the liability and discounting those cash flows at the effective interest rate calculated at the inception of the loan.

## k) 10% note payable

During the year ended December 31, 2007, the Company raised \$18.59 million for a portion of the purchase of the Hoteles Las Americas chain of hotels in Peru. The private funding contained an annual interest rate of 10% and entitled the lenders to 80% of the net cash flow generated by the acquired properties for each year until the principal was paid. Thereafter the lender is entitled to 14% of the net available cash flow generated by the acquired properties. The cash flow participation was revalued at year end using the present value of projected cash flows attributable to the liability and discounting those cash flows at the effective interest rate calculated at the inception of the loan.

**12. OTHER PAYABLES, DERIVATIVE FINANCIAL INSTRUMENT AND OTHER FINANCIAL LIABILITITES**

|  | 2007     | 2006     |
|--|----------|----------|
| Former directors and former associated companies | \$ 133   | \$ 198   |
| Due to related parties                           | 886      | 650      |
| Deferred lease liability                         | 609      | 697      |
| Litigation Provision                             | 1,796    | 1,796    |
| Severance and other                              | 1,777    | 1,457    |
|  | 5,201    | 4,798    |
| Current portion of other payables                | (50)     | (50)     |
|  | \$ 5,151 | \$ 4,748 |

**Former directors and associated companies**

Effective December 31, 2002, the Company renegotiated the terms on accrued liabilities of \$468,000, owed to former officers and an associated company. The repayment terms were extended to installments of \$5,000 per month from January 1, 2003 to June 1, 2004, then \$6,500 per month from July 1, 2004 to June 1, 2005 and then \$5,000 per month to June 1, 2010.

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**12. OTHER PAYABLES (cont'd...)**

**Litigation Provision**

The Company provides in full against various litigation proceedings once judgments are rendered against it. The award amount is used as the directors' best estimate of the potential liability even if the Company is appealing the judgment. The Company recognizes provisions in the instances no judgment is provided; however, if it is possible that an outflow of resources might arise, the directors will disclose this item as a contingent liability.

**Due to related parties**

The Company has certain amounts that are due to its partners within some of its operations. The amounts due to its partners in other operations was \$886,000 as of December 31, 2007 and \$650,000 as of December 31, 2006, (Note 17).

**Deferred lease liabilities**

Payments made under operating leases, net of lease incentives or premiums, are charged to the income statement on a straight line basis over the period of the lease. Where the lessor has offered an incentive to the Company or imposed a price escalation clause within the lease agreement, the effect of these items are deferred and amortized on a straightline basis over the period of the lease.

**Severance and other**

The Company's subsidiaries are liable for retirement plans, seniority premiums and severance plans for their employees,, which typically requires an percentage of wages be set aside for payments to employees in the event of death, retirement or dismissal without just cause. A liability was recorded in the amount of \$1,777,000 as of December 31, 2007 (2006 - \$1,457,000).

**Derivative financial instrument**

The Company had 173,471 warrants outstanding as of December 31, 2007 (2006 -781,667) under its warrant agreement, where warrants are exercisable for \$0.10 or CAD\$0.15, whichever is lower. The warrant agreement meets the definition of a derivative, and therefore is held as a liability in the consolidated financial statements at fair value. The Company applies the fair value method of accounting for all warrants. Under this method, the Company recognizes changes in the fair value in the consolidated income statement using the Black-Scholes model.

**THUNDERBIRD RESORTS, INC.**

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**13. SHARE CAPITAL**

Holders of common shares are entitled to one vote for each share held. There are no restrictions that limit the Company's ability to pay dividends on its common stock. The Company has not declared any dividends since incorporation. The Company's common stock has no par value.

|  | Number<br>of Shares | Amount    | Contributed<br>Surplus |
|--|---------------------|-----------|------------------------|
| Authorized                                     |                     |           |                        |
| 500,000,000 common shares without par value    |                     |           |                        |
| 500,000,000 preferred shares without par value |                     |           |                        |
| Issued   |                     |           |                        |
| Balance as at December 31, 2005                | 8,288,158           | \$ 21,584 | \$ 253                 |
| Exercise of options                            | 109,833             | -         | 93                     |
| Issued   |                     | -         | -                      |
| Compensation expense                           |                     |           | 144                    |
| Balance as at December 31, 2006                | 8,397,991           | 21,584    | 490                    |
| Exercise of options                            | 287,347             | 185       |                        |
| Issued   | 9,500,000           | 77,136    |                        |
| Exercise of warrants                           | 666,666             | 57        | 3,214                  |
| Compensation expense                           |                     |           | 1,034                  |
| Balance as at December 31, 2007                | 18,852,004          | \$ 98,962 | \$ 4,738               |

On November 19, 2007, the Company completed a one for three reverse stock split. The number of issued and outstanding shares have been adjusted for the one for three reverse stock split throughout these financial statements.

On November 20, 2007, the Company completed a Private Placement of 9,500,000 shares at a price of \$9.00 per share for net proceeds of \$77,136,000, after share issuance costs of \$8,363,000.

**THUNDERBIRD RESORTS, INC.**

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**13. SHARE CAPITAL (cont'd ...)****Warrants**

|                                | 2007                     |  | 2006                     |  |
|--------------------------------|--------------------------|--|--------------------------|--|
|                                | Number<br>of<br>Warrants | Weighted<br>Average<br>Exercise<br>Price | Number<br>of<br>Warrants | Weighted<br>Average<br>Exercise<br>Price |
| Outstanding, beginning of year | 781,667                  | \$ 0.10                                  | 781,667                  | \$ 0.10                                  |
| Exercised                      | 666,666                  | 0.10                                     |                          |  |
| Issued                         | 58,470                   | 0.10                                     | -                        | -  |
| Outstanding, end of year       | 173,471                  | \$ 0.10                                  | 781,667                  | \$ 0.10                                  |

**Options**

The Company, through its Board of Directors and shareholders, adopted two Stock Option Plans the first on July 1, 1997, and the second on June 25, 2005. Both plans will continue separate and apart from one another. The Company has granted a number of stock options and entered into various agreements for which up to 1,160,050 shares are available for purchase pursuant to options granted under these plans. All of the stock options issued under these plans are nontransferable and terminate on the earlier of the expiry date or 30 days after the grantee ceases to be employed by the Company.

|   | Number<br>of Shares | Weighted<br>Average<br>Exercise Price |
|---|---------------------|---------------------------------------|
| Balance as at December 31, 2005         | 1,162,265           | \$1.08                                |
| Granted                                 | 25,000              | 2.01                                  |
| Exercised                               | -109,833            | 0.33                                  |
| Cancelled                               | -37,521             | 2.44                                  |
| Balance as at December 31, 2006         | 1,039,911           | 1.13                                  |
| Granted                                 | 433,311             | 4.85                                  |
| Exercised                               | 287,341             | 0.61                                  |
| Expired                                 | 25,831              | 0.33                                  |
| Balance as at December 31, 2007         | 1,160,050           | \$2.71                                |
| Number of options currently exercisable | 740,696             | \$2.04                                |

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**13. SHARE CAPITAL (cont'd...)**

The following table summarizes information about the stock options outstanding at December 31, 2007:

| Range of Exercise prices | Number Outstanding | Weighted Average Remaining Life | Weighted Average Exercise Price |
|--------------------------|--------------------|---------------------------------|---------------------------------|
| \$0.61 - \$1.00          | 279,996            | 1.00 years                      | 0.78                            |
| \$1.01 - \$2.00          | 145,499            | 1.29 years                      | 1.27                            |
| \$2.01 - \$3.00          | 301,244            | 3.93 years                      | 2.13                            |
| \$3.01 - \$5.00          | 433,311            | 4.53 years                      | 4.85                            |
|                          | <u>1,160,050</u>   | <u>3.11 years</u>               | <u>\$2.71</u>                   |

**Stock-based compensation**

Effective January 1, 2003, the Company recognizes compensation expense for stock options granted in the consolidated statements of operations and deficit using the fair value based method of accounting for all options issued on or after January 1, 2003. During the current year, the Company granted 433,311 stock options that vested when they were issued with a fair value of \$1,034,000, which is included in general and administrative expense.

The following weighted average assumptions were used for the Black-Scholes method of valuation of stock options granted during the year:

|                          | 2007<br>January Grant | 2007<br>July Grant | 2006    |
|--------------------------|-----------------------|--------------------|---------|
| Risk-free interest rate  | 4.00%                 | 4.56%              | 5.00%   |
| Expected life of options | 5 years               | 5 years            | 5 years |
| Annualized volatility    | 137%                  | 138%               | 70%     |
| Dividend rate            | 0%                    | 0%                 | 0%      |

**14. EARNINGS PER SHARE**

The following weighted average number of shares were used for computation of earnings per share:

|   | 2007       | 2006         |
|---|------------|--------------|
| Weighted average shares used in computation of basic earnings per share   | 9,929      | 8,352        |
| Effect of diluted securities:   |            |              |
| Stock options and warrants  | <u>255</u> | <u>1,137</u> |
| Weighted average shares used in computation of diluted earnings per share | 10,184     | 9,489        |
| Net loss for the year   | \$ (5,670) | \$ (3,961)   |

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**15. OTHER EXPENSES**

|  | 2007     | 2006     |
|--|----------|----------|
| Write off of Chile assets                                | \$ -     | \$ 1,419 |
| Employee settlement agreements                           | 342      | -        |
| Litigation provisions                                    | -        | 1,796    |
| Loss on Mexico litigation and other                      | 188      | -        |
| (Gain) loss on Property Plant and Equipment disposal     | (304)    | 45       |
| Total Other Expenses (Income)                            | \$ 226   | \$ 3,260 |
| Fair Value of derivative instruments                     |          |          |
| Fair value adjustment for financial derivative contracts | \$ 1,881 | \$ 189   |

**a. Chile Assets**

During the year ended December 31, 2006, the Company reserved \$1,419,000 for other assets associated with its development in Chile. The reserve was created as a result of the Chilean Supreme Court's decision upholding the Chilean gaming authority's decision to exclude the Company from participating in the bid process in Chile.

**b. Employee Settlement agreements**

During the year ended December 31, 2007, the Company negotiated a settlement with one of its former employees who had moved into a consulting agreement during the year. The agreement provided for a settlement amount of \$300,000 plus the forgiveness of \$42,000 in certain amounts owed to the Company by the employee.

**c. Litigation Provision**

The Company provides in full against various litigation proceedings once judgments are rendered against it. The award amount is used as the directors best estimate of the potential liability even if the Company is appealing the judgment. The Company recognizes provisions in the instances no judgment it provided; however, it is possible that an outflow of resources might arise the directors will disclose this item as a contingent liability.

**d. Fair value adjustments for financial derivative contracts**

The adjustment for the fair value of financial derivative contracts is derived from the revaluation of 781,666 outstanding warrants granted at December 31, 2002, 666,666 were exercised on June 4, 2007, 58,470 were issued under the same agreement leaving 173,471 outstanding as of December 31, 2007.

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**16. INCOME TAXES**

A reconciliation of income taxes at statutory rates is as follows:

|   | 2007            | 2006            |
|---|-----------------|-----------------|
| Computed "expected" tax expense at statutory rates                | \$ (1,226)      | \$ 291          |
| Increase (reduction) in income taxes resulting from:              |                 |                 |
| Lower effective income tax rate on income of foreign subsidiaries | (1,348)         | (225)           |
| Benefit of losses not reflected in accounts                       | <u>4,649</u>    | <u>2,243</u>    |
|   | <u>\$ 2,075</u> | <u>\$ 2,309</u> |

## a) Future tax assets and liabilities:

The tax effects of temporary differences that give rise to significant future tax assets and future tax liabilities are as follows:

|  | 2007            | 2006            |
|--|-----------------|-----------------|
| Future income tax assets:  |                 |                 |
| Non-capital loss carry forwards  | \$ 17,847       | \$ 14,999       |
| Property and equipment – unamortized tax cost in excess of net book value      | <u>-</u>        | <u>567</u>      |
| Total future tax assets  | 17,847          | 15,566          |
| Valuation allowance  | <u>(17,847)</u> | <u>(15,566)</u> |
| Future income tax assets, net of allowance                                     | <u>-</u>        | <u>-</u>        |
| Future income tax liabilities:   |                 |                 |
| Property and equipment - net book value in excess of unamortized capital cost  | 546             | 459             |
| Other assets - net book value in excess of unamortized tax cost                | 273             | 300             |
| Withholding tax on repatriation of retained earnings from foreign subsidiaries | 170             | 142             |
| Other  | <u>17</u>       | <u>-</u>        |
| Total future tax liabilities   | <u>1,006</u>    | <u>901</u>      |
| Net future income tax liability  | <u>\$ 1,006</u> | <u>\$ 901</u>   |

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**16. INCOME TAXES (Cont'd)**

## b) Potential future tax benefits

At December 31, 2006, the Company has United States non-capital loss carry forwards of approximately \$26 million. The operating losses expire at various dates prior to 2014 and 2024, respectively. The potential income tax benefits related to the Canadian loss carry forwards and the United States' operating losses have not been reflected in the accounts. The Company has recorded a deferred tax asset for its Peruvian operation in the amount of \$1,149,000 from the tax loss recorded for the year. The losses will be offset against future

**17. RELATED PARTY TRANSACTIONS****Transactions with joint ventures**

Included in accounts receivable is \$2,383,000 (2006 - \$2,292,000) due from Thunderbird Panama. Also included in accounts receivable is \$1,983,000 (2006 - \$1,157,000) due from Thunderbird de Costa Rica S.A. These amounts represent the balances due in excess of the Company's proportionate share of the net assets included on consolidation. These balances are primarily comprised of management fees accrued but not yet paid by the entity. The income and expenses related to these management fees are fully eliminated upon consolidation.

**Transactions with partners in operating entities**

The Company and its partners receive dividends as well as management fees from the subsidiary operations. The management fees and dividends paid are eliminated upon consolidation. Amounts due to the Company's partners relate primarily to accrued yet un-paid management fees. Included in loans payable are loans from partners in the Company's operating entities. The loans outstanding are as follows (Note 11):

|                    | Country   | 2007            |               | 2006            |               |
|--------------------|-----------|-----------------|---------------|-----------------|---------------|
|                    |           | Amount Due      | Interest Paid | Amount Due      | Interest Paid |
| Panama partners    | Panama    | \$ 1,845        | \$ 203        | \$ 1,236        | \$ 187        |
| Nicaragua partners | Nicaragua | 117             | 18            | 216             | 28            |
| <b>Total</b>       |           | <b>\$ 1,962</b> | <b>\$ 221</b> | <b>\$ 1,452</b> | <b>\$ 215</b> |

Included in other liabilities are amounts due to the Company's partner in Costa Rica for \$444,000 as of December 31, 2007 (2006 - 243,000) for their portion of management fees, which have been fully eliminated in the consolidated income statement. In other liabilities are amounts due to the Company's partner in its Philippines entity East Bay Resorts, Inc., as of December 31, 2007 for \$302,000 (2006 - \$407,000), for amounts due for their expenses associated with the securitization of the gaming license for that facility. Additionally, in other liabilities are \$135,000 due to a shareholder of the Nicaraguan operation for a loan due for a small acquisition completed by the entity for Masaya.

Included in other assets is \$246,000 as of December 31, 2007 (2006 - \$329,000) due from a shareholder in the Nicaraguan operation for their portion of the loan attributed to the purchase of the majority interest in Nicaragua in October 2004.

An officer indirectly owns 10% of Angular Investments S.A., which owns 50% of the Costa Rica operating entity.

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**17. RELATED PARTY TRANSACTIONS (cont'd)****Transactions with officers and directors**

Included in accounts receivable is \$Nil (2006 - \$521,000) receivable from officers of the Company. The receivable amounts are unsecured, non-interest bearing and due on demand. Included in accounts payable is \$2,012,000 (2006 - \$523,000) of bonuses payable to the officers, which represent the unpaid bonuses approved by the board for the closing of the private offering in November 2007.

A Director received compensation under a consulting agreement in the amount of \$78,000 for December 31, 2007 (2006 - \$39,000), and received commissions from the successful securitization of loans payable, in the amount of \$39,000 for December 31, 2007 (2006 -- \$32,000) in addition to directors fees. In addition Directors have the following loans outstanding as follows:

|                    | Country     | 2007          |               | 2006          |               |
|--------------------|-------------|---------------|---------------|---------------|---------------|
|                    |             | Amount Due    | Interest Paid | Amount Due    | Interest Paid |
| Director           | Philippines | \$ 44         | \$ 9          | \$ 76         | \$ 13         |
| Director           | Philippines | 68            | 11            | 92            | 14            |
| Director           | Corporate   | 104           | 9             | 118           | 2             |
| Director           | Costa Rica  | -             | -             | -             | 8             |
| Mother of Director | Philippines | 91            | 14            | 100           | 4             |
| Mother of Director | Costa Rica  | -             | -             | -             | 8             |
| Director           | Philippines | 80            | 18            | 100           | 28            |
| <b>Total</b>       |             | <b>\$ 387</b> | <b>\$ 61</b>  | <b>\$ 486</b> | <b>\$ 77</b>  |

The loans to Costa Rica contained an equity interest in the subsidiary Thunderbird Gran Entretenimiento for which the loans benefited. Both the Director and the Director's mother received a 0.04% interest in the entity as a result of their loans. As of December 31, 2007 the Director and the Director's mother received \$3,000 each related to their ownership interest in this entity.

The Company employs immediate family members of the President of the Company. They are as follows:

| Relation       | Position            | 2007 Salary (1) | 2006 Salary   |
|----------------|---------------------|-----------------|---------------|
| Spouse         | Executive Assistant | \$ 28           | \$ 28         |
| Brother-in-law | Regional Counsel    | 82              | 46            |
| Brother-in-law | General Manager     | 46              | -             |
| Brother-in-law | General Manager     | 39              | -             |
| Daughter       | Assistant Analyst   | 44              | 5             |
| Brother        | Project Manager     | 78              | 83            |
| <b>Total</b>   |                     | <b>\$ 317</b>   | <b>\$ 162</b> |

(1) Salary includes bonuses and other compensation.

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**18. COMMITMENTS AND CONTINGENCIES**

- a) As at December 31, 2007, minimum operating lease payments of the Company and the Company's share of minimum operating lease payments of joint ventures were as follows:

|            |           |               |
|------------|-----------|---------------|
| 2008       | \$        | 3,765         |
| 2009       |           | 2,793         |
| 2010       |           | 2,662         |
| 2011       |           | 2,663         |
| 2012       |           | 2,690         |
| Thereafter |           | <u>34,164</u> |
|            | <u>\$</u> | <u>48,737</u> |

In addition to the above, Thunderbird Panama is committed to pay minimum annual rentals for two of the casinos equal to 9% of the net win less the income participation payable to the Government of the Republic of Panama.

Rent expense for the year ended December 31, 2007 was \$4,887,000 (2006 - \$3,831,000).

- b) Finance lease commitments:

|  | <b>Future Commitments Due</b> |             |                |             |                |     |    |     |
|--|-------------------------------|-------------|----------------|-------------|----------------|-----|----|-----|
|  | <b>2007</b>                   |             | <b>2006</b>    |             |                |     |    |     |
| Finance lease commitments                        |                               |             |                |             |                |     |    |     |
| Not longer than 1 year                           | \$                            | 4,892       | \$             | 317         |                |     |    |     |
| After one year but not more than five years      |                               | 14,212      |                | 483         |                |     |    |     |
| After five years                                 |                               | 14,696      |                | 10          |                |     |    |     |
| Sub total  | \$                            | 33,800      | \$             | 810         |                |     |    |     |
| Less finance charges allocated to future periods |                               | (10,827)    |                | (78)        |                |     |    |     |
| Less deferred transaction costs                  |                               | (492)       |                | -           |                |     |    |     |
| Present value of minimum lease payments          | \$                            | 22,481      | \$             | 732         |                |     |    |     |
|  |                               | <b>2007</b> |                | <b>2006</b> |                |     |    |     |
|  |                               | Cost        | Amortized Cost | Cost        | Amortized Cost |     |    |     |
| Autos  | \$                            | 247         | \$             | 217         | \$             | 140 | \$ | 131 |
| Gaming Machines                                  |                               | 1,182       |                | 940         |                | 693 |    | 436 |
| Buildings  |                               | 34,706      |                | 34,024      |                | -   |    | -   |
| Land   |                               | 9,101       |                | 9,101       |                | -   |    | -   |
| Total  | \$                            | 45,236      | \$             | 44,282      | \$             | 833 | \$ | 567 |

**THUNDERBIRD RESORTS, INC.**

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**18. COMMITMENTS AND CONTINGENCIES (cont'd..)**

b) Finance lease commitments (cont'd)

The finance lease liabilities have effective interest rates ranging from 7.09% to 20.00% in 2007 and 7.09% to 14.18% in 2006, which are equal to the rate implicit in the lease. Lease payments are made on a monthly basis.

c) Thunderbird Panama is committed to pay the Government of the Republic of Panama an annual minimum income participation equal to \$4,216,000 in the first year, which increases by 2% per year, or 10% of Thunderbird Panama's gross income, whichever is higher. This commitment commenced in August 1998, on the opening of the first casino in the Republic of Panama, and related payments commenced shortly thereafter. Amounts paid under the agreement by Thunderbird Panama were \$5,312,000 in 2007 (2006 - \$4,595,000).

c) Thunderbird Panama is committed to pay to a third party a 2% profit interest, defined as gross revenue less operating expenses, in the Panamanian operations. The Company is committed to pay to a third party \$6,700 (2006 - \$6,700) each month while operations continue in the Republic of Panama commencing July 1999, for a maximum of 10 years. During the year ended December 31, 2004, the Company prepaid half of the remaining balance of this obligation at a discounted rate and is amortizing the payment over the remaining life of the original maximum of 10 years.

d) The Company has opened both of its Philippine casinos under the Philippine Amusement Gaming authority's (PAGCOR) charter. Under this charter, PAGCOR is granted an exemption from tax, income or otherwise, as well as exemption from any form of charges, fees, or levies, except a 5% franchise tax on the gross revenue or earnings derived by PAGCOR on its casino operations. The Company, upon the advice rendered by PAGCOR, is of the opinion that the tax benefits granted to PAGCOR under its charter inures to the benefit of and extends to corporations, associations, agencies, or individuals with whom PAGCOR has any contractual arrangement in connection with the operation of the casinos. This taxation status of the Company's Philippine operations have come under scrutiny from the local and national Philippine tax authorities due to the recent passing of two laws that challenge the tax incentives offered to PAGCOR and its Franchisees. Republic Act No. 9337 (RA 9337) Section 27(c) removed PAGCOR from the list of government-owned and controlled entities subject to tax exemptions. Additionally, the Philippine Bureau of Internal Revenue (BIR) has consistently taken the position that effective January 1, 2006, under Section 102 for RA 7716 (now section 108 of NIRC of 1997), PAGCOR ceased to qualify for payment of franchise tax in lieu of all other taxes. The BIR ruled that legislative franchises grantees, except only 'electric, gas and water utilities'; have been expressly subjected to the 10% VAT pursuant to this Section 102. Based on the BIR ruling and RA 7716, the Company, as a franchisee of PAGCOR, may be subject to payment of VAT, at its Rizal location, as the Poro Point location is in a special economic zone, and clearly exempt from VAT. The Company has taken the position that the tax issue is being currently contested by PAGCOR and, until the issue is settled or becomes law by way of ruling of the Supreme Court, no accrual for the VAT or any other tax will be made by the Company. The estimated VAT liability arising from the Rizal casino's 2006 activity is approximately US\$650,000. The Company's position on RA 9337 and the BIR ruling is based on the following:

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**18. COMMITMENTS AND CONTINGENCIES (cont'd..)**

- a. PAGCOR's legal position is fully stated in a Petition filed in the Supreme Court in March 2007 wherein PAGCOR is requesting that the Supreme Court rule that PAGCOR is exempt from the payment of all local taxes ("... it being adopted that Eastbay is a contractee of PAGCOR:" and exempt as well). In the Petition of March 2007 PAGCOR referred to various precedent including the position taken by the Philippine Department of Justice when it promulgated a resolution in PAGCOR vs. The Bureau of Internal Revenue declaring that PAGCOR is exempt from the payment of all taxes, save for the franchise tax as provided under section 13 of PD 1869, as amended. (OSJ Case No 2004-1 promulgated on December 22, 2006). In addition PAGCOR is relying on the recent Supreme Court ruling on The Commissioner of Internal Revenue verses Acesite Hotel Corporation (Acesite Case).  
  
In the Acesite case (regarding payment of VAT by contractors of PAGCOR), dated February 16, 2007, the SC anchored its decision on Section 13 (2) of the PAGCOR Charter which states that "no tax of any kind or form, income or otherwise, as well as fee, charges or levies of whatever nature, whether National or Local, shall be assessed and collected under this Franchise from the Corporation (PAGCOR); nor shall any form of tax or charge attach in any way to the earnings of the Corporation..." The SC interpreted this as a blanket exemption, which does not distinguish whether the taxes are direct or indirect. The SC also noted that by extending the exemption from indirect taxes, considering that such taxes would, by their nature, be otherwise or passed on by said entities or individuals to PAGCOR as the buyer, transferee, or lessee. Thus, notwithstanding RA 7716, the SC still invoked PAGCOR's exemption under its Charter. This necessarily implies that PAGCOR's exemption under its Charter continued to remain in full force and effect notwithstanding the affectivity of RA 7716.
- b. The Petition for Certiorari and Prohibition before the Supreme Court filed by PAGCOR in case No. C.R. 172087 dated April 17, 2006. This Petition is supported by the highest level legal department that being the Office of the Solicitor General, who filed a "Manifestation in Lieu of Comment" dated April 25, 2006. PAGCOR's position that its government corporate body is exempt from all taxes (except the 5% franchise tax), including VAT and income tax, is clearly set forth in this Petition. The Petition and the Manifestation seek to declare Republic Act No. 9337 "NULL AND VOID" as it relates to the tax exemption enjoyed by PAGCOR under section 13(2) of the PAGCOR Charter.
- c. No output VAT has been paid by PAGCOR since January 1, 1996, nor has there been any payment of income tax for the period November 1, 2005 to December 31, 2005.
- e) The Company's casino in Poro Point, Philippines is required by the lease agreement with the Base Conversion Development Authority (BCDA), Poro Point Management Corporation (PPMC), and the Memorandum of Agreement with PAGCOR, to complete a PHP 5.2 billion, (US\$100 million), investment in phases which are as follows:

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**18. COMMITMENTS AND CONTINGENCIES (cont'd..)**

| Phase | Required Completion Date | Investment Amount | Expected Timing of Cash Outflows |                |                   |
|-------|--------------------------|-------------------|----------------------------------|----------------|-------------------|
|       |                          |                   | 2005 and 2006                    | 2007           | 2008 and After    |
| 1     | 2006                     | PHP 162,300,000   | PHP 162,300,000                  | PHP -          | PHP -             |
| 2     | 2008                     | 216,400,000       | 80,000,000                       | 26,400,000     | 110,000,000       |
| 3     | To be determined         | 193,300,000       |                                  |                | 193,300,000       |
| 4     | To be determined         | 1,928,000,000     |                                  |                | 1,928,000,000     |
| 5     | To be determined         | 2,700,000,000     |                                  |                | 2,700,000,000     |
|       |                          | PHP 5,200,000,000 | PHP 242,300,000                  | PHP 26,400,000 | PHP 4,931,300,000 |

Start of work on Phases 3, 4 and 5 depends on the completion of phases preceding them. Phases 3, 4 and 5 are required to be completed within 36 months, 60 months and 120 months, respectively, from the date of signing of the renewal/extended Grant of Authority from PAGCOR to the Company, or until the expiration of the new/extended franchise, whichever comes first.

The Company's agreements with PAGCOR and PPMC/BCDA requires the Company to make deposits amounting to PHP 5.2 billion (US\$100 million) with local bank acceptable to PAGCOR and PPMC/BCDA. The investment will be funded entirely from sources external to the Philippines. The Company is authorized to draw from such deposit for the construction costs and other fees for the development of the investment commitment. The investment amount shall be exhausted for each phase of the project.

- f) The Company's casino in Rizal, Philippines is required by the addendum to the MOA with PAGCOR dated January 18, 2006 to complete a PHP 2.5 billion (US\$50 million), investment in phases which are as follows:

| Phase | Required Completion Date | Investment Amount | Expected Timing of Cash Outflows |                 |                   |
|-------|--------------------------|-------------------|----------------------------------|-----------------|-------------------|
|       |                          |                   | 2005 and 2006                    | 2007            | 2008 and After    |
| 1     | January 18, 2009         | PHP 1,505,000,000 | PHP 448,933,333                  | PHP 524,066,666 | PHP 532,000,001   |
| 2     | See note below           | 1,015,000,000     | -                                | -               | 1,015,000,000     |
|       |                          | PHP 2,520,000,000 | PHP 448,933,333                  | PHP 524,066,666 | PHP 1,547,000,001 |

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**18. COMMITMENTS AND CONTINGENCIES (cont'd..)**

The Company committed to complete Phase 1 within a period of 36 months from signing the Addendum to MOA. The fulfillment of the tasks for the years 2008 and thereafter that fall beyond July 11, 2008, which is the expiration of the present franchise of PAGCOR, are contingent on all of the following circumstances that:

- a. PAGCOR is given a new franchise or its present franchise is extended beyond July 11, 2008.
- b. The authority of PAGCOR to grant license to operate a private casino within the special economic zones falls within the scope of the new franchise or the extended franchise, whichever is applicable; and,
- c. PAGCOR grants unto the Company and TRI extension of the authority to operate the Fiesta Hotel and Casino in Rizal.

As of December 31, 2007, the Company had already spent PHP 97.6 million and received an extension from PAGCOR for the first six months in 2008 for the remainder of the investment commitment. As of December 31, 2006 the Company spent PHP 449.4 million for the phase one of the commitment.

- e) Thunderbird Gaming Inc. ("TGI"), a wholly-owned subsidiary of the Company that has been inactive since 1996, received notification of a reassessment from the Canada Revenue Agency ("CRA") with respect to a transfer of assets in 1996 in relation to the California Indian gaming business previously operated by TGI. Specifically, this reassessment stems from a transfer of assets which CRA contends was under valued. The reassessment is in the amount of CDN\$380,000.

TGI submitted applications to CRA utilizing its net operating loss ("NOL") in a manner that reduced the actual tax liability to zero and is taking the position that the valuation of assets was accurate in order to preserve its NOL. By taking this position, TGI believes it avoids the imposition of interest on tax, which is the subject of the reassessment. Further, TGI filed a fairness application with the appropriate Canadian taxing authority requesting a complete abatement of the alleged interest imposed on the alleged tax liability. In this filing, management alleges that TGI received unconscionable and egregious treatment from CRA in addition to experiencing excessive delays in the reassessment process. TGI also recently filed an appeal of CRA's assessment with the tax courts in Canada in which TGI will attempt to establish that the underlying tax liability should never have been assessed. The fairness application was rejected and in March 2007, TGI abandoned further appeal to the tax courts in Canada.

Although the Company believes CRA's case is without merit, the liability is contained within an insolvent subsidiary and consequently even though TGI is responsible for the liability, the Company's parent and subsidiaries have no exposure to the TGI liability. The Company does not expect that CRA will collect the judgment as TGI is insolvent and therefore there is no accrual in these consolidated financial statements related to this reassessment.

**THUNDERBIRD RESORTS, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

(Tabular amounts expressed in thousands of dollars except per share amounts)

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**18. COMMITMENTS AND CONTINGENCIES (cont'd..)**

- f) The Company's 1999, 2001, and 2002, Canadian tax returns are under audit by Canada Revenue Agency ("CRA"). On January 26, 2006, the Company received notification of a proposed reassessment from the CRA with respect to its reported income on its 1999, 2001, and 2002 Tax returns. The basis for the proposed re-assessment is twofold: (1) the receipt and payment of management fees the company charged to its subsidiary operations and (2) the alleged failure to report settlement proceeds from California Indian gaming business. To date, the Company has submitted a vigorous challenge to the re-assessment. In any event, if the Company is not successful in its challenge, the entire re-assessed tax will be offset by the Company's net operating loss ("NOL") in a manner that will reduce the actual tax liability to zero. CRA is also assessing a tax penalty alleging the company failed to report the Indian settlement proceeds as taxable income and that a tax penalty is not reduced or eliminated by the NOL. The Company is contending that the penalty is without basis in fact and in law. The Company's subsidiary operation, Thunderbird Greeley Inc., properly reported the Indian Settlement proceeds. In October of 2006, the Company received an assessment of approximately \$880,000 for a tax penalty (including interest). The Company is filing a notice of appeal and is vigorously opposing the assessment of the tax penalty, taking the position that the income was properly reported in its United States Tax returns upon the advice of its tax preparer.
- g) Pardini & Asociados v. International Thunderbird Gaming Corporation: This lawsuit was filed in the latter part of 2004. Pardini is a law firm in Panama City, Panama, claiming that the company owes it fees for assisting in the Panama casino bid back in 1998. The company deems this matter completely frivolous and intends a vigorous defense. The Company entered into an agreement with attorney Juan Raul De La Guardia, who has agreed to indemnify and hold the company free and harmless from any all liability which may be imposed by the court.
- h) The Company was engaged in a "legal challenge" in its quest to be included as a bidder in the Chile Bid Process. On April 5, 2006, the Santiago Court of Appeals unanimously ruled (3-0) in favor of Thunderbird's petitions against the Chilean Gaming Commission's resolutions that had excluded Thunderbird from the current casino bid process. The Court found that the Gaming Commission's resolutions were arbitrary and illegal. The Commission appealed the decision to the Supreme Court. The Supreme Court ruled against the Company and no further legal challenges are now pending. The Company's Chilean subsidiaries are engaged in litigation in Chile with respect to potential collection of damages from a real estate transaction incurred by the Company's Chilean subsidiary. The Company is not expecting any material impact to its financials as a result of these proceedings, as the Company believes that the Chilean litigation is without merit. The Company does not expect that the parties in Chile will collect if a judgement is made as the Chilean subsidiary is insolvent and therefore there is no accrual in these consolidated financial statements related to this liability.

**THUNDERBIRD RESORTS, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

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**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006****18. COMMITMENTS AND CONTINGENCIES (cont'd..)**

- i) As at December 31, 2007, principal payments required under the terms of the loan agreements and their liabilities in each of the next five years are as follows:

|                           |                  |
|---------------------------|------------------|
| Year ending December 31:  |                  |
| 2008                      | \$ 16,374        |
| 2009                      | 25,363           |
| 2010                      | 11,625           |
| 2011                      | 5,713            |
| 2012                      | 1,820            |
| Thereafter                | <u>21,484</u>    |
| Subtotal                  | 82,379           |
| Less: Debt Issuance Costs | (3,451)          |
|                           | <u>\$ 78,928</u> |

- j) The Company would be subject to certain tax liabilities in Canada in connection with emigrating from Canada and continuing its charter under the laws of the British Virgin Islands.

In 2006, the Company filed "discontinuation documents" with the Yukon, Canada Registrar and continued its charter under the laws of the British Virgin Islands. In connection with this change the Company could be subject to certain Canadian tax liabilities associated with our deemed disposition of the assets and a deemed dividend calculated by us under Canadian tax laws. The Company determined that it had no tax charges associated with its emigration from Canada. Although management believes the position they have taken in the submitted tax return was appropriate for determining any potential tax liabilities there is no assurance that the Canadian tax authorities will not challenge the position to calculate the potential tax liability, which could result in us being subject to additional Canadian taxes.

**19. DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS****Fair value:**

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and income taxes payable approximate their fair value because of the short-term maturities of these items. The carrying amount of the restricted cash approximates fair value because of the high liquidity of the item. Certain of the Company's amounts receivable, loans payable and other payables do not bear any interest, bear fixed rates of interest or are due to related parties and accordingly, the fair value of these financial instruments cannot be determined.

**Credit risk:**

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable and amounts receivable. The Company places its cash and cash equivalents with high quality financial institutions and limits the amount of credit exposure with any one institution. The Company has limited concentrations of credit risk with respect to accounts receivable since 70% of its accounts receivable is due from its joint ventures and officers. At December 31, 2007, the Company had accounts receivable of \$4.3 million (2006 – \$2.7 million) due from its joint ventures in Panama and Costa Rica. The Company mitigates credit risk through standard credit and reference checks, but generally does not require collateral to support accounts receivable.

**THUNDERBIRD RESORTS, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

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**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006****19. DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS (Cont'd...)****Currency risk:**

The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

**20. INVESTMENT IN JOINT VENTURES**

Amounts included in these financial statements related to the Company's interest in joint ventures are as follows:

|                                      | 2007           | 2006           |
|--------------------------------------|----------------|----------------|
| Current assets                       | \$ 1,426       | \$ 1,781       |
| Current liabilities                  | 9,451          | 9,944          |
| Long-term liabilities                | 14,096         | 10,649         |
| Revenue                              | 41,656         | 33,514         |
| Expenses                             | <u>36,844</u>  | <u>31,813</u>  |
| Net income before taxes              | 4,812          | 1,701          |
| Cash flows from operating activities | 6,991          | 5,907          |
| Cash flows from financing activities | 4,599          | 1,878          |
| Cash flows from investing activities | <u>(9,209)</u> | <u>(7,408)</u> |

**THUNDERBIRD RESORTS, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

(Tabular amounts expressed in thousands of dollars except per share amounts)

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

**21. SEGMENTED INFORMATION**

Management has organized the enterprise based on geographic areas of operations. Based on this organization, the Company has the following reportable segments. The accounting policies of the segments are the same as those described in Note 2 of the financial statements.

| <b>As of December 31, 2007</b>               | Panama    | Guatemala | Nicaragua | Costa Rica | Philippines | Peru     | Corporate | Total     |
|--|-----------|-----------|-----------|------------|-------------|----------|-----------|-----------|
| External revenue                             | \$ 28,121 | \$ 3,426  | \$ 12,871 | \$ 13,535  | \$ 34,464   | \$ 7,056 | \$ 302    | \$ 99,775 |
| Depreciation and Amortization                | 3,089     | 294       | 696       | 798        | 2,863       | 2,347    | 157       | 10,244    |
| Income tax expense                           | 720       | 150       | 380       | 140        | 54          | (1,131)  | 1,762     | 2,075     |
| Net income (loss) from continuing operations | 1,931     | (854)     | 236       | 1,308      | 2,603       | (736)    | (10,158)  | (5,670)   |
| Property, Plant & Equipment (gross)          | 25,612    | 6,422     | 8,757     | 13,541     | 31,797      | 53,603   | 1,671     | 141,403   |
| Accumulated Depreciation                     | (12,244)  | (2,069)   | (2,210)   | (1,653)    | (5,500)     | (2,336)  | (866)     | (26,878)  |
| Property, Plant & Equipment (net)            | 13,368    | 4,353     | 6,547     | 11,888     | 26,297      | 51,267   | 805       | 114,525   |
| Segment assets                               | 19,106    | 5,305     | 9,182     | 14,775     | 19,106      | 68,111   | 79,331    | 214,916   |

| <b>As of December 31, 2006</b>               | Panama    | Guatemala | Nicaragua | Costa Rica | Philippines | Peru | Corporate | Total     |
|--|-----------|-----------|-----------|------------|-------------|------|-----------|-----------|
| External revenue                             | \$ 24,233 | \$ 4,742  | \$ 13,402 | \$ 9,281   | \$ 20,204   | \$ - | \$ 242    | \$ 72,104 |
| Depreciation and Amortization                | 2,313     | 237       | 430       | 573        | 1,798       | -    | 93        | 5,444     |
| Income tax expense                           | 585       | 195       | 467       | 279        | -           | -    | 783       | 2,309     |
| Net income (loss) from continuing operations | 1,460     | 232       | 471       | (417)      | (940)       | -    | (4,767)   | (3,961)   |
| Property, Plant & Equipment (gross)          | 21,119    | 4,700     | 7,619     | 7,582      | 16,344      | -    | 1,628     | 58,992    |
| Accumulated Depreciation                     | (9,473)   | (1,807)   | (888)     | (780)      | (2,330)     | -    | (690)     | (15,968)  |
| Property, Plant & Equipment (net)            | 11,646    | 2,893     | 6,731     | 6,802      | 14,014      | -    | 938       | 43,024    |
| Segment assets                               | 16,733    | 3,517     | 8,882     | 8,242      | 30,788      | -    | (778)     | 67,384    |

**Business segment as of December 31, 2007 and December 31, 2006:**

|  | <b>2007</b> |          |           | <b>2006</b> |        |           |
|--|-------------|----------|-----------|-------------|--------|-----------|
|  | Gaming      | Hotel    | Total     | Gaming      | Hotel  | Total     |
| External revenue                             | \$ 92,389   | \$ 7,386 | \$ 99,775 | \$ 71,891   | \$ 213 | \$ 72,104 |
| Depreciation and Amortization                | 2,313       | 2,347    | 4,660     | 5,444       | -      | 5,444     |
| Income tax expense                           | 585         | (1,131)  | (546)     | 2,309       | -      | 2,309     |
| Net income (loss) from continuing operations | 1,460       | (736)    | 724       | (3,961)     | -      | (3,961)   |
| Property, Plant & Equipment (gross)          | 21,119      | 53,603   | 74,722    | 58,992      | -      | 58,992    |
| Accumulated Depreciation                     | (9,473)     | (2,336)  | (11,809)  | (15,968)    | -      | (15,968)  |
| Property, Plant & Equipment (net)            | 11,646      | 51,267   | 62,913    | 43,024      | -      | 43,024    |
| Segment assets                               | 16,733      | 68,111   | 84,844    | 67,384      | -      | 67,384    |

**THUNDERBIRD RESORTS, INC.**

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**22. SUBSEQUENT EVENTS**

The following events occurred subsequent to December 31, 2007:

- a) The Company's shareholders at the special meeting held January 18, 2008, voted by a "super majority" in favor of several resolutions which had been previously approved by the Board of Directors on November 20, 2007, including the following:
- a resolution to cease the issuance of any further options under Thunderbird's existing stock option plans.
  - a resolution to approve the 2007 Equity Incentive Plan and authorize the Board of Directors to issue stock or stock options out of the plan. The Company's 2007 Equity Incentive Plan authorizes the issuance of 1.1 million common shares; the Company's Board of Directors approved the issuance of 500,000 common shares to various executives subject to certain restrictions and vesting rights.
  - a special resolution to amend Thunderbird's Memorandum of Association and Articles of Association to add provisions:
    - i. allowing Thunderbird to redeem the shares of any shareholder who causes or would cause Thunderbird to lose any of its gaming licenses in any country where Thunderbird operates.
    - ii. removing the staggered Board of Directors provision as members come up for reelection with 2009 elections.
    - iii. allowing shareholders to remove a director without cause with a vote of two-thirds of the outstanding shares.
    - iv. forcing a shareholder to transfer or sell its shares to Thunderbird if the ownership of such shares would result in Thunderbird triggering a violation under the Employee Retirement Security Act of 1974 ("ERISA").
    - v. allowing the Secretary of Thunderbird to convene a special meeting of the shareholders to consider and vote on the removal of the directors of Thunderbird in the event that Thunderbird defaults on its obligation to apply to list on the London Stock Exchange or Euronext or file a registration of statement with the United States Securities and Exchange Commission as required by the Listing/Registration Rights Agreement Thunderbird has entered into in connection with Thunderbird's private placement of common shares.
- b) The Company "closed" on a stock purchase agreement to acquire 11.36% of the total issued and outstanding shares in its Panama operation from certain selling shareholders that comprise the local partner group in Panama. The Company had owned 50% of its joint venture operation, International Thunderbird (Panama) Corporation, since inception of operations in 1998. The Company entered the Panama market in 1997 through its affiliate, International Thunderbird (Panama) Corporation, which owns and operates six casinos in the Republic of Panama. This acquisition gives the Company a 61.36% "controlling interest" in the Panamanian operations. The purchase price for the 11.36% was \$10,695,000. There is additional value in the transaction because it places Thunderbird in "control" both from a management and financial reporting standpoint. By virtue of this acquisition, the Company will now consolidate 100% of revenue, costs, assets and liabilities of the Panama entity while recognizing a "non-controlling interest" expense and a liability for the minority interests held by shareholders remaining in the entity. As of December 31, 2007, the Company proportionally consolidated 50% of the Panama entity and did not recognize any minority interests.

**THUNDERBIRD RESORTS, INC.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**22. SUBSEQUENT EVENTS**

- c) The Company has now funded its phase one obligation of \$8.0 million in equity against the over 40,000 square meters of land contributed by local partners. The Company will own 50% of Daman Hospitality Private Limited (“DHPL”), a company incorporated under the laws of India that will own the land and a 5-star resort to be developed on this land. The resort, which will begin construction during the second quarter of 2008, and will include a 5-star hotel, an event center and restaurants and bars, all to be operated by Thunderbird under a long-term management contract. DHPL will also build and lease facilities to an Indian company that is eligible to operate the area’s first gaming license under the 1976 Gambling Act of Goa, Daman & Diu. Thunderbird’s subsidiary, Impacto, is managing the design and engineering of the facility.
- d) The Company entered into a series of agreements, on March 24, 2008, with a local Indian group to jointly own a luxury resort in Daman, India that will include at minimum a 5-star hotel, an event center, restaurants and bars, all to be operated by Thunderbird under a long-term management contract. Thunderbird will own 50% of Daman Hospitality Private Limited (“DHPL”), a company incorporated under the laws of India that will own the land and the operations mentioned above. The local Indian partner will contribute contiguous, undeveloped lots in Daman comprising over 40,000 square meters that are appraised at approximately \$8 million. The project is currently in design, and cost estimates will be prepared within the next 30 days. The financial structure of the transaction will be finalized upon completion of the design and costing of the project. There will be a combination of equity and debt from the partners and third parties. Thunderbird’s subsidiary, Impacto, is managing the design and engineering of the facility. DHPL will also build and lease facilities to an Indian company that is eligible to operate the area’s first gaming license under the 1976 Gambling Act of Goa, Daman & Diu.
- e) During the first quarter of 2008, there was a fire at the under construction facility, the Gran Plaza, in Guatemala. The construction and anticipated opening have been delayed until second quarter of 2008. The Company expects the damage to be covered by insurance.
- f) The Company was unable to consummate the acquisition of an additional 25% interest in the Costa Rican operation based on a letter of intent signed in 2007 and as disclosed in an information statement posted on the Company’s website. The Company is no longer pursuing the acquisition at this time. The Company had also announced in its Information Statement that it intending to spend certain capital on a project known as Cavite, Philippines. The Company has decided not to pursue this project because of delays in securing the gaming license.
- g) In December, 2007 in Peru, the Company entered into a \$10 million loan facility with “Interbank-Peru” for hotel improvements, a portion of which is leased to our flagship casino space. The loan agreements calls for a fixed interest rate of 9.75% and terms of four and seven years, depending on the type of collateral that secures the loan.
- h) In April, 2008, the Company entered into a \$20 million loan transaction with Capital International Assets Corporation, a privately held Panama equity investment firm. The 72 month, 13% loan will be drawn in three installments with \$4.7 million drawn by early May 2008, and the second and third draws in mid-May and early June 2008. The Company intends to use the \$20 million in proceeds for potential acquisitions and/or development of various gaming facilities in Peru. Certain proceeds may also be used to fund the construction of gaming facilities located within the Thunderbird Hoteles Las Americas in Peru that are now under construction or in the design phase.

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- i) In April 2008, the Company entered into a \$19.5 million loan transaction with a syndicate of private banks in Panama (Banco Panameño de la Vivienda S.A., Grupo Mundial Tenedora and Mundial Fiduciaria S.A.). The loan is fully amortized over a 10 year period at 9.5% and is subject to governmental approval. The loan will not be funded until the Panama Gaming Board approves loan which we expect during the second quarter. The use of the \$19.5 million in loan proceeds will be as follows: approximately \$15.9 million will be used to replenish the Company's cash reserves that was used when the company paid approximately \$10.7 million to acquire 11.36 % of the International Thunderbird Gaming (Panama) Corporation ("Thunderbird-Panama") shares in January 2008, and approximately \$5.2 million will be use to replenish the Company's cash reserves for a certain Company debt that was repaid. Approximately \$2.1 million will be used to purchase an additional 2.27% of Thunderbird-Panama shares, which is subject to approval of the Panama Gaming Board;
- j) In April 2008, the Company commenced and circulated a \$20 million private debt financing offer to accredited and qualified investors to be used for slot machines and other gaming equipment for uses in our various countries at 12% interest payable over a 60 month term.
- k) Mexico and NAFTA: As previously reported the U.S. District Court for Washington D.C. confirmed the decision of the NAFTA tribunal and the Company filed an appeal to the U.S. Court of Appeals (Washington D.C. Circuit). The NAFTA Tribunal awarded Mexico with approximately \$1,250,000 in costs and attorney fees as a "prevailing party". Management's position is that "the NAFTA tribunal erred in awarding the costs and attorney fees in spite of the dissenting arbitrator's acknowledgment that such an award would be unprecedented". The Company expensed the \$1,250,000 in costs in the third quarter of 2007. In December 2007, the U.S. Court of Appeals affirmed the District Court decision. Despite Management's position that "that the arbitrators' decision and the decisions of the U.S. Courts are manifestly unjust and in disregard of the law", the Company has determined not to take the matter up to higher level within the U.S. court system.
- l) On September 30 2007, Thunderbird announced the signing of a \$122 million Revolving Line of Credit ("RCLA") with Global Mortgage, Inc., a mortgage broker. The RCLA to date has not been funded; therefore, Thunderbird is no longer actively pursuing the RCLA at this time, but may pursue similar type corporate financing with other parties.