



THUNDERBIRD ENERGY

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

Consolidated Interim Financial Statements of

THUNDERBIRD ENERGY CORP.

July 31, 2008

The accompanying unaudited interim financial statements of Thunderbird Energy Corp. for the three and six months ended July 31, 2008 and 2007 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed by the Company's external auditors.

THUNDERBIRD ENERGY CORP.

Consolidated Balance Sheets

	July 31, 2008 (Unaudited)	January 31, 2008 (Audited)
ASSETS		
CURRENT		
Cash	\$ 1,054,186	\$ 74,150
Amounts receivable	369,747	269,193
Prepaid expenses and deposits	228,322	488,084
	1,652,255	831,427
RESTRICTED CASH [note 3]	122,856	119,640
PROPERTY AND EQUIPMENT [note 4]	28,462	25,429
OIL AND GAS PROPERTIES [note 4]	9,917,364	8,781,358
	\$ 11,720,937	\$ 9,757,854
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 394,529	\$ 2,398,448
Due to related parties [note 12]	375,741	326,855
Short-term debt [note 7]	226,512	226,512
Convertible debentures [note 6]	1,294,918	1,284,416
	2,291,700	4,236,231
ASSET RETIREMENT OBLIGATION [note 5]	44,421	41,578
LONG-TERM DEBT [note 8]	4,187,317	3,592,584
	6,523,438	7,870,393
SHAREHOLDERS' EQUITY		
Common shares [note 9]	20,581,414	16,696,368
Equity portion of convertible debentures [note 6]	64,937	64,937
Contributed surplus [note 9]	1,284,573	957,167
	21,930,924	17,718,472
Accumulated other comprehensive loss	(419,319)	(528,329)
Deficit	(16,314,106)	(15,302,682)
	(16,733,425)	(15,831,011)
	5,197,499	1,887,461
	\$ 11,720,937	\$ 9,757,854

NATURE OF OPERATIONS AND CONTINUANCE OF BUSINESS [note 1]

Approved on Behalf of the Board:

"Cameron White"

Cameron White, Director

"Stephen Cheikes"

Stephen Cheikes, Director

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

THUNDERBIRD ENERGY CORP.
Consolidated Statements of Loss and Deficit
For the three and six months ended July 31, 2008 and 2007

(Unaudited)	Three months ended July 31		Six months ended July 31	
	2008	2007	2008	2007
REVENUES				
Oil and gas	\$ 364,546	\$ 206,819	\$ 847,605	\$ 409,596
Royalties	(58,877)	(41,989)	(150,072)	(85,644)
	305,669	164,830	697,533	323,952
EXPENSES				
Operating costs	188,884	119,014	370,142	202,590
General and administrative	268,102	153,887	484,180	263,761
Interest, accretion and debt service costs	251,115	108,340	497,639	204,566
Depletion, depreciation and accretion	144,549	140,964	293,680	159,884
Stock-based compensation [note 9]	41,810	92,344	65,798	164,453
Interest income	(1,273)	-	(2,482)	-
	893,187	614,549	1,708,957	995,254
NET LOSS	(587,518)	(449,719)	(1,011,424)	(671,302)
DEFICIT, BEGINNING OF PERIOD	(15,726,588)	(13,070,638)	(15,302,682)	(12,849,055)
DEFICIT, END OF PERIOD	\$ (16,314,106)	\$ (13,520,357)	\$ (16,314,106)	\$ (13,520,357)
BASIC AND DILUTED LOSS PER SHARE	(0.009)	(0.014)	(0.016)	(0.021)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	62,738,000	31,555,000	62,738,000	31,555,000

Consolidated Statements of Comprehensive Loss and Accumulated Other Comprehensive Loss
For the three and six months ended July 31, 2008 and 2007

(Unaudited)	Three months ended July 31		Six months ended July 31	
	2008	2007	2008	2007
Comprehensive loss				
Net Loss	\$ (587,518)	\$ (449,719)	\$ (1,011,424)	\$ (671,302)
Other comprehensive income:				
Unrealized gain on translation of self-sustaining foreign operations	46,429	-	109,010	-
Comprehensive loss	\$ (541,089)	\$ (449,719)	\$ (902,414)	\$ (671,302)
Accumulated other comprehensive loss				
Balance, beginning of period	\$ (465,748)	\$ -	\$ (528,329)	\$ -
Unrealized gain on translation of self-sustaining foreign operations	46,429	-	109,010	-
Balance, end of period	\$ (419,319)	\$ -	\$ (419,319)	\$ -

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

THUNDERBIRD ENERGY CORP.
Consolidated Statements of Cash Flows
For the three and six months ended July 31, 2008 and 2007

(Unaudited)	Three months ended July 31		Six months ended July 31	
	2008	2007	2008	2007
Net loss	\$ (587,518)	\$ (449,719)	\$ (1,011,424)	\$ (671,302)
Items not involving cash				
Stock-based compensation	41,810	92,344	65,798	164,453
Interest, accretion and debt service costs	137,539	20,595	274,728	40,134
Depletion, depreciation and accretion	144,549	127,804	293,680	146,724
Foreign exchange loss	1,152	12	1,170	63
Unrealized foreign exchange (gain) loss	1,009	-	(13,964)	-
	(261,459)	(208,964)	(390,012)	(319,928)
Changes in non-cash operating assets and liabilities				
Amounts receivable	115,730	(1,221,678)	(92,278)	(1,257,411)
Prepaid expenses and deposits	291,489	1,734	265,702	(1,818)
Accounts payable and accrued liabilities	(1,277,095)	1,846,242	(2,032,522)	2,014,101
	(1,131,335)	417,334	(2,249,110)	434,944
FINANCING ACTIVITIES				
Issuance of shares, net of costs	3,032,428	1,503,947	3,182,428	2,910,114
Increase (decrease) in amounts due to related parties	(57,778)	(21,992)	48,886	(3,416)
Proceeds from short-term debt	-	994,586	-	994,586
Proceeds from long-term debt	-	-	498,162	-
	2,974,650	2,476,541	3,729,476	3,901,284
INVESTING ACTIVITIES				
Oil and gas property exploration and acquisition costs	(892,776)	(3,126,010)	(488,639)	(3,542,531)
Acquisition of property and equipment	-	(805)	(10,521)	(3,297)
	(892,776)	(3,126,815)	(499,160)	(3,545,828)
FOREIGN CURRENCY EFFECT OF FOREIGN CURRENCY DENOMINATED CASH	(1,152)	(12)	(1,170)	(63)
INCREASE (DECREASE) IN CASH FOR THE PERIOD	949,387	(232,952)	980,036	790,337
CASH , BEGINNING OF PERIOD	104,799	1,069,928	74,150	46,639
CASH , END OF PERIOD	\$ 1,054,186	\$ 836,976	\$ 1,054,186	\$ 836,976
SUPPLEMENTAL CASH FLOW INFORMATION				
Interest paid	\$ 97,961	\$ 108,340	\$ 187,039	\$ 192,219
Non cash issuance of share capital for oil and gas property rights	\$ 700,000	\$ -	\$ 700,000	\$ -

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

THUNDERBIRD ENERGY CORP.

Notes to the Consolidated Financial Statements

For the Three and Six Months Ended July 31, 2008 and 2007

(UNAUDITED)

1. NATURE OF OPERATIONS AND CONTINUANCE OF BUSINESS

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

The Company has interests in oil and gas at the production, exploration and development stage, the economic viability of which has not been assessed. The realization of the Company’s investment in oil and gas properties is dependent upon various factors, including the existence of economically recoverable oil and gas reserves, the ability to obtain the necessary financing to complete the exploration and development of the properties, future profitable operations, or, alternatively, upon disposal of the investment on an advantageous basis.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern which assume that the Company will realize its assets and discharge its liabilities in the normal course of business. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the year ended January 31, 2008, except as disclosed below. The following disclosure is incremental to the disclosure included with the annual financial statements. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended January 31, 2008.

Certain amounts in the prior period unaudited consolidated financial statements have been reclassified to conform to the July 31, 2008 unaudited consolidated financial statement presentation; such reclassifications had no effect on the prior period net loss.

(b) Change in Accounting Policies

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

- i) Section 1535, “Capital Disclosures”, establishes standards for disclosure of an entity’s objectives, policies and processes for managing capital. In addition, this standard requires disclosure of summary of quantitative and qualitative information about what an entity manages as capital; see note 11 to these consolidated financial statements.
- ii) Sections 3862, “Financial Instruments – Disclosures” and 3863, “Financial Instruments - Presentation”, replace CICA handbook section 3861 “Financial Instruments – Disclosure and Presentation” and specify a revised and enhanced disclosure on financial instruments. Increased disclosure is required on the nature and extent of risks arising from financial instruments and how the entity manages those risks; see note 12 to these consolidated financial statements.

3. RESTRICTED CASH

In connection with the Utah State bonding requirements, the Company posted a letter of credit in the amount of U.S. \$120,000 (Cdn \$122,856) for which a short-term investment in the same amount is held as collateral.

THUNDERBIRD ENERGY CORP.
Notes to the Consolidated Financial Statements
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4. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depreciation/ Depletion	Net Carrying Value
July 31, 2008			
Oil and gas properties	\$ 10,788,308	\$ (870,944)	\$ 9,917,364
Property and equipment	95,560	(67,098)	28,462
	\$ 10,883,868	\$ (938,042)	\$ 9,945,826

	Cost	Accumulated Depreciation/ Depletion	Net Carrying Value
January 31, 2008			
Oil and gas properties	\$ 9,348,379	\$ (567,021)	\$ 8,781,358
Property and equipment	83,713	(58,284)	25,429
	\$ 9,432,092	\$ (625,305)	\$ 8,806,787

Interest in oil and gas proven and unproven properties include the following acquisition, exploration and development costs.

	July 31, 2008	January 31, 2008
Balance, beginning of period	\$ 8,781,358	\$ 2,676,978
Acquisition costs	1,060,734	3,331,680
Development costs	39,647	3,445,399
General & administrative	88,258	72,555
Asset retirement obligation	-	14,244
Depletion & depreciation	(284,175)	(403,680)
Foreign exchange translation adjustment	231,542	(355,818)
Balance, end of period	\$ 9,917,364	\$ 8,781,358

During the first six months of fiscal 2009, the Company capitalized \$1,188,639 (2008 - \$3,542,351) of costs to oil and gas properties. Included in this amount is the acquisition of certain royalty interests and participation rights in the Gordon Creek Project from Black Tusk Entertainment ("BTE") for \$1,000,000. The consideration was paid for by way of \$300,000 cash and the issuance of 2,000,000 shares at a deemed price of \$0.35 per (note 9). Costs capitalized and associated with unproven properties excluded from costs subject to depletion for 2009 totalled \$146,461 (2008 - \$22,954).

5. ASSET RETIREMENT OBLIGATIONS

The asset retirement obligation relates to the restoration and closure of the Company's oil and gas properties. The total undiscounted amounts of the estimated obligations are approximately U.S. \$124,000 and are expected to be incurred in fifteen years. The asset retirement obligations have been recorded as liabilities at fair value, using a discount rate of 5% and a 3% inflation rate. The amounts of the liabilities are subject to re-measurement during each reporting period.

	Three months ended July 31		Six months ended July 31	
	2008	2007	2008	2007
Balance, beginning of period	\$ 43,112	\$ 29,696	\$ 41,578	\$ 29,114
Accretion expense	859	594	1,698	1,176
Foreign exchange translation adjustment	450	-	1,145	-
Balance, end of period	\$ 44,421	\$ 30,290	\$ 44,421	\$ 30,290

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6. CONVERTIBLE DEBENTURES

In accordance with EIC-158 and CICA 3860, the Company has separately valued the conversion option and the warrants on each issuance from the convertible debentures. The liability component represents the present value of the principal payment of the debentures and the future interest payments and the equity component represents both the fair value of the holder's conversion feature and the warrants. The convertible debenture discount is accreted to interest expense over the term of the loan. The issuance costs of \$58,992 related to the liability component of the convertible debentures were previously included in deferred financing charges and were amortized over the term of the convertible debenture. Upon adoption of new accounting standards as described in note 2(b) to the January 31, 2008 audited financial statements, the Company has written-off the remaining issuance costs to operations.

	July 31, 2008	January 31, 2008
Balance, beginning of period	\$ 1,284,416	\$ 3,077,766
Accretion up to face value	10,502	35,471
Liability portion of convertible debentures	1,294,918	3,113,237
Conversion into common shares	-	(1,850,000)
Remaining discount related to converted debentures	-	21,179
	1,294,918	1,284,416
Less current portion	(1,294,918)	(1,284,416)
Balance, end of period	\$ -	\$ -

7. SHORT-TERM DEBT

As of July 31, 2008, the Company owes U.S. \$215,462 (Cdn \$226,512) pursuant to an unsecured shareholder loan that bears interest at 10% per annum and is repayable on demand.

8. LONG-TERM DEBT

The Company has a credit facility agreement with an Australian bank that provides up to a maximum commitment of U.S. \$50 million, subject to an initial availability limit of U.S. \$5,685,000. At July 31, 2008, U.S. \$4,089,975 (Cdn \$4,187,317) is owed under this facility.

A quarterly commitment fee of U.S. \$2,055 (Cdn \$2,076) was charged during the period, and represents one half of one percent (0.5%) per annum on the daily average unused amount of the availability limit.

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9. SHARE CAPITAL

Authorized: Unlimited common shares without par value

Issued:

	Number of Shares	Amount
Balance, January 31, 2007	24,509,672	\$ 11,827,714
Shares issued for cash, net of issue costs	3,499,832	850,271
Warrants exercised	11,444,184	2,030,124
Options exercised	215,000	97,143
Conversion of debentures	9,999,994	1,861,116
Stock issued for compensation	100,000	30,000
Balance, January 31, 2008	49,768,682	16,696,368
Shares issued for cash, net of issue costs	16,500,000	3,032,428
Shares issued for acquisition of oil and gas property interests	2,000,000	700,000
Warrants exercised	810,810	152,618
Balance, July 31, 2008	69,079,492	\$ 20,581,414

Private Placement

During the quarter, the Company completed a brokered private placement of 16,500,000 units at a price of \$0.20 per unit. Each unit consists of one common share and one-half of one non-transferable share purchase warrant. Each whole warrant is exercisable to purchase one common share of the Company at a price of \$0.25 per share until June 26, 2009. The selling brokers received a cash commission of \$174,650 and broker's warrants exercisable to purchase 1,247,500 additional units at a price of \$0.20 per unit until June 26, 2009. Other issuance costs related to legal and filing fees totalled \$92,922.

Acquisition of oil and gas property interests

During the quarter, the Company completed the acquisition of Black Tusk Entertainment's ("BTE") royalty interests in the Gordon Creek Project, as well as BTE's participation rights in further drilling, for \$1.0 million, payable by way of \$300,000 cash and the issuance of 2,000,000 shares at a deemed price of \$0.35 per share. BTE is a partnership in which certain directors and their associates of the Company have an interest. In conjunction with this acquisition, under the credit facility agreement with an Australian bank the Company will grant the creditor warrants to acquire 365,000 common shares at a price of \$0.50 per share. The granting of the warrants is pending subject to regulatory approval.

Warrants exercised

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

Stock-based compensation plans:

The Company has established a Share Option Plan (the "option plan") which provides for options to purchase common shares to be granted by the Company to directors, officers, employees and consultants of the Company. At the date options are granted, the exercise price for an option shall not be less than the fair value of common shares of the Company. Options vest over a period of 18 months. The maximum number of common shares issuable under the option plan is 6,000,000.

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9. SHARE CAPITAL (continued)

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

	July 31, 2008	January 31, 2008
Weighted average fair value per share	\$ 0.29	\$ 0.30
Dividend yield	0%	0%
Interest rate	3.43% - 4.38%	3.93% - 4.38%
Expected life	4.35 - 5 years	5 years
Volatility	102% - 104%	102%

For the six months ended July 31, 2008 the Company recorded stock-based compensation of \$65,798 (year-ended January 31, 2008 - \$273,092) relating to the fair value of vested share options.

A summary of the status of the Company's stock options as of July 31, 2008 is presented below.

	Number of Options	Weighted Average Exercise Price
Balance, January 31, 2007	3,850,000	\$ 0.31
Issued	600,000	0.35
Cancelled	(575,000)	0.32
Exercised	(215,000)	0.30
Balance, January 31, 2008	3,660,000	0.32
Issued	1,365,000	0.21
Cancelled	(300,000)	0.30
Balance, July 31, 2008	4,725,000	\$ 0.29

The following table summarizes the stock options outstanding at July 31, 2008:

Exercise price	Number of shares	Expiry Date	Options outstanding		Options exercisable	
			Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$ 0.20	1,200,000	Jun 2013	4.84	\$ 0.20	300,000	\$ 0.20
\$ 0.22 - 0.25	1,505,000	Apr 2011	2.68	\$ 0.24	1,505,000	\$ 0.24
\$ 0.30	1,215,000	Jul 2009-Feb 2013	1.88	\$ 0.30	1,091,250	\$ 0.30
\$ 0.40 - 0.45	530,000	Apr 2009-May 2012	2.47	\$ 0.42	455,000	\$ 0.31
\$ 0.55	275,000	Aug 2008	0.01	\$ 0.55	275,000	\$ 0.55
	4,725,000		2.85	\$ 0.32	3,626,250	\$ 0.30

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

Share purchase warrants:

The following table summarizes the warrants outstanding at July 31, 2008:

	Exercise Price	Number of warrants	Weighted average exercise price
Balance, January 31, 2007		12,314,994	\$ 0.147
Issued	\$ 0.300 - 1.50	15,274,893	\$ 0.626
Expired	\$ 0.500	(60,000)	\$ 0.500
Exercised	\$ 0.150 - 0.185	(11,444,184)	\$ 0.175
Balance, January 31, 2008		16,085,703	\$ 0.581
Issued	\$0.20 - \$0.25	10,121,250	\$ 0.244
Expired	\$0.30 - \$0.50	(524,975)	\$ 0.367
Exercised	\$0.185	(810,810)	\$ 0.185
Balance, July 31, 2008		24,871,168	\$ 0.557

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

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

Pursuant to a private placement completed in March 2007, the selling broker received 349,983 Units at a price of \$0.30 per unit. Each unit consists of one common share and one-half of one non-transferable share purchase warrant. Each whole warrant is exercisable into one common share of the Company at a price of \$0.50 per share. The broker warrants expired March 16, 2008.

<i>Contributed surplus:</i>	July 31, 2008	January 31, 2008
Balance, beginning of period	\$ 957,167	\$ 625,444
Stock-based compensation expense	65,798	339,148
Fair value of broker's warrants	264,226	55,645
Fair value of exercised options	-	(33,393)
Fair value of exercised warrants	(2,618)	(29,677)
	327,406	331,723
Balance, end of period	\$ 1,284,573	\$ 957,167

10. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

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

THUNDERBIRD ENERGY CORP.
Notes to the Consolidated Financial Statements
For the Three and Six Months Ended July 31, 2008 and 2007
(UNAUDITED)

10. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's joint venture partners and oil and natural gas marketers. As at July 31, 2008 the Company's accounts receivable consisted of \$194,222 from joint venture partners, \$146,070 from oil and natural gas marketers and \$29,455 from other trade receivables.

The carrying amount of the accounts receivable represents the maximum credit exposure. The Company does not have an allowance for doubtful accounts as at July 31, 2008 and January 31, 2008 and did not provide for any doubtful accounts, nor was it required to write-off any receivables during the three and six months ended July 31, 2008 and 2007.

(b) Liquidity risk

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

The Company expects to satisfy obligations under accounts payable, amounts due to related parties, convertible debenture and short-term debt in less than one year.

To facilitate the capital expenditure program, the Company has a revolving reserve based credit facility as outlined in note 8, that is at least reviewed annually by the lender. The Company also attempts to match its payment cycle with collections of petroleum and natural gas revenues on the 25th of each month.

Thunderbird anticipates it will have adequate liquidity to fund its financial liabilities as they come due.

(c) Market risk

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

Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange risks. The Company is exposed to foreign currency fluctuations on transactions conducted in foreign currencies and in the carrying value of its self-sustaining foreign subsidiary. As of July 31, 2008, if the Canadian dollar had depreciated five percent against the United States dollar with all other variables held constant, the effect on net income and other comprehensive income would have been insignificant.

The Company had no forward exchange rate contracts in place as at or during the three and six months ended July 31, 2008.

Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar, as outlined above, but also world economic events that dictate the levels of supply and demand. As of July 31, 2008, a one dollar change to the price per barrel of oil would have had an insignificant impact to the net earnings for the second quarter of 2009 and a one dollar change to the price per thousand cubic feet of natural gas would have had an impact to second quarter net earnings of approximately \$32,000.

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10. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk on its long-term loan which bears a floating interest rate. The short-term debt and convertible debentures do not bear interest rate risk as they are at a fixed rate. A decrease in the interest rates of one percent would decrease the net loss and increase cash flows from operations for the three months ended July 31, 2008 by approximately \$10,000 based on the average amount of long-term debt outstanding during the quarter. An opposite impact would have occurred to loss and cash flows had interest rates increased one percent. The Company has no interest rate hedges or swaps outstanding at July 31, 2008.

11. RISK MANAGEMENT

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

The capital structure consists of debt, cash and cash equivalents, convertible debentures and shareholders' equity excluding accumulated other comprehensive income loss.

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

12. RELATED PARTY TRANSACTIONS

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

	Three months ended		Six months ended	
	July 31,		July 31,	
	2008	2007	2008	2007
Consulting fees paid or accrued to companies controlled by a director	\$ 44,600	\$ 22,500	\$ 67,100	\$ 45,000
General and administrative expenses reimbursed to companies with common directors	53,830	21,318	83,491	42,194
Royalties paid or accrued to a partnership in which certain directors or their associates have an interest	-	4,676	-	9,883

Amounts due to related parties include an unsecured short-term loan payable and accrued interest to two directors and a related person of the Company for U.S. \$314,914 (Cdn \$336,430) (2007- \$nil). The loan carries a 12% interest rate and is payable on demand. Also included is \$39,311 (2008 - \$11,104) due to a company with common directors and \$nil (2008 - \$18,147) due to directors.

All of the above noted transactions have been in the normal course of operations and are recorded at the exchange amount, which is the consideration agreed upon by the related parties.