



CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED

JUNE 30, 2008 (UNAUDITED)

**MANAGEMENT'S COMMENTS ON
UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

FIRST MAJESTIC SILVER CORP.
CONSOLIDATED BALANCE SHEETS
AS AT JUNE 30, 2008 (UNAUDITED) AND DECEMBER 31, 2007

	June 30, 2008	December 31, 2007
	<u>\$</u>	<u>\$</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	46,224,719	12,835,183
Accounts receivable	2,209,380	3,365,054
Other receivables (Note 4)	8,348,552	6,600,195
Inventories (Note 5)	3,703,563	2,908,880
Prepaid expenses and advances	2,018,595	1,044,753
	<u>62,504,809</u>	<u>26,754,065</u>
MINING INTERESTS (Note 6)		
Producing properties	33,260,093	25,167,945
Exploration properties	120,108,068	102,462,552
Plant and equipment	36,410,343	28,903,950
	<u>189,778,504</u>	<u>156,534,447</u>
CORPORATE OFFICE EQUIPMENT (Note 6)	389,278	432,309
DEPOSITS ON LONG-TERM ASSETS AND OTHER	<u>5,125,336</u>	<u>1,282,030</u>
	<u>257,797,927</u>	<u>185,002,851</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	16,242,767	8,532,702
Vendor liability and interest (Note 7)	13,940,237	13,541,125
Current portion of arrangement liability	388,836	388,836
Current portion of capital lease obligations	4,046,328	2,061,464
Employee profit sharing payable	264,532	177,624
Income and other taxes payable	1,349,683	926,946
	<u>36,232,383</u>	<u>25,628,697</u>
FUTURE INCOME TAXES	36,621,708	31,848,682
CAPITAL LEASE OBLIGATIONS	1,299,346	1,245,194
OTHER LONG TERM LIABILITIES	918,650	1,207,332
ASSET RETIREMENT OBLIGATIONS (Note 13)	<u>2,360,023</u>	<u>2,290,313</u>
	<u>77,432,110</u>	<u>62,220,218</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 8 (a))	196,255,584	145,699,783
SHARE CAPITAL TO BE ISSUED	300,695	9,286,155
CONTRIBUTED SURPLUS	21,496,561	17,315,001
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	(4,123,291)	(15,186,207)
DEFICIT	<u>(33,563,732)</u>	<u>(34,332,099)</u>
	<u>180,365,817</u>	<u>122,782,633</u>
	<u>257,797,927</u>	<u>185,002,851</u>

COMMITMENTS (Note 12)

APPROVED BY THE BOARD OF DIRECTORS

(Signed) Keith Neumeyer

(Signed) Douglas Penrose

 "Keith Neumeyer"

Director

 "Douglas Penrose"

Director

FIRST MAJESTIC SILVER CORP.
CONSOLIDATED STATEMENTS OF (LOSS) INCOME
FOR THE PERIODS ENDED JUNE 30, 2008, AND 2007 (UNAUDITED)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Revenue (Note 9)	11,436,889	(as restated - Note 3) 10,846,344	24,401,071	(as restated - Note 3) 21,004,966
Cost of sales	7,629,755	7,648,913	14,146,811	14,507,656
Amortization and depreciation	877,252	472,317	1,664,431	928,260
Depletion	698,844	1,586,800	1,585,206	3,041,277
Accretion of reclamation obligation	50,367	50,017	95,842	132,104
Mine operating earnings	2,180,671	1,088,297	6,908,781	2,395,669
General and administrative	2,100,325	1,836,693	4,232,205	3,713,558
Stock based compensation	670,616	775,532	1,778,832	1,694,876
	2,770,941	2,612,225	6,011,037	5,408,434
Operating (loss) income	(590,270)	(1,523,928)	897,744	(3,012,765)
Interest and other expenses	(226,872)	(343,142)	(565,699)	(749,406)
Investment and other income	644,057	324,529	781,450	439,021
Foreign exchange gain (loss)	542,846	472,955	533,034	38,051
Income (loss) before taxes	369,761	(1,069,586)	1,646,529	(3,285,099)
Income tax (recovery) - current	267,530	15,877	705,934	1,239,964
Income tax (recovery) - future	399,187	(355,803)	172,228	(657,653)
Income tax (recovery) expense	666,717	(339,926)	878,162	582,311
NET (LOSS) INCOME FOR THE PERIOD	(296,956)	(729,660)	768,367	(3,867,410)
BASIC AND DILUTED EARNINGS (LOSS)				
PER COMMON SHARE	(0.00)	(0.01)	0.01	(0.07)
WEIGHTED AVERAGE SHARES OUTSTANDING	73,782,410	53,646,178	68,919,747	53,001,930

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

FIRST MAJESTIC SILVER CORP.
CONSOLIDATED INTERIM STATEMENTS OF SHAREHOLDER'S EQUITY AND COMPREHENSIVE INCOME (LOSS)
FOR THE SIX MONTHS ENDED JUNE 30, 2008, AND 2007 (UNAUDITED)

	Share capital			Special Warrants	Contributed Surplus	Accumulated Other Comprehensive Income (Loss) ("AOCI") (1)	Deficit	Total AOCI and deficit	Total
	Shares	Amount \$	To be issued \$						
Balance at December 31, 2006	51,698,630	103,466,619	9,294,020	-	11,720,436	7,910,502	(27,101,977)	(19,191,475)	105,289,600
Net loss	-	-	-	-	-	-	(3,867,410)	(3,867,410)	(3,867,410)
Other comprehensive income (loss):									
Cumulative translation adjustment	-	-	-	-	-	(7,675,875)	-	(7,675,875)	(7,675,875)
Total comprehensive loss								(11,543,285)	(11,543,285)
Shares issued for:									
Exercise of options	917,500	1,980,050	-	-	-	-	-	-	1,980,050
Exercise of warrants	1,092,500	2,839,375	-	-	-	-	-	-	2,839,375
First Silver arrangement	1,625	7,865	(7,865)	-	-	-	-	-	-
Acquisition of La Encantada	382,582	2,000,904	-	-	-	-	-	-	2,000,904
Special warrants issued	-	-	-	32,104,084	-	-	-	-	32,104,084
Stock option expense during the period	-	-	-	-	1,694,876	-	-	-	1,694,876
Warrants issued during the period	-	-	-	-	333,444	-	-	-	333,444
Transfer of contributed surplus upon exercise of stock options	-	855,600	-	-	(855,600)	-	-	-	-
Balance at June 30, 2007	54,092,837	111,150,413	9,286,155	32,104,084	12,893,156	234,627	(30,969,387)	(30,734,760)	134,699,048
Balance at December 31, 2007	63,042,160	145,699,783	9,286,155	-	17,315,001	(15,186,207)	(34,332,099)	(49,518,306)	122,782,633
Net income	-	-	-	-	-	-	768,367	768,367	768,367
Other comprehensive income:									
Cumulative translation adjustment	-	-	-	-	-	11,242,916	-	11,242,916	11,242,916
Unrealized loss on Other asset	-	-	-	-	-	(180,000)	-	(180,000)	(180,000)
Total comprehensive income								11,831,283	11,831,283
Shares issued for:									
Exercise of options	376,250	1,130,588	-	-	-	-	-	-	1,130,588
Exercise of warrants	7,500	31,875	-	-	-	-	-	-	31,875
First Silver arrangement	1,856,500	8,985,460	(8,985,460)	-	-	-	-	-	-
Public offering, net of issue costs	8,500,000	40,144,471	-	-	-	-	-	-	40,144,471
Stock option expense during the period	-	-	-	-	1,778,832	-	-	-	1,778,832
Warrants issued during the period	-	-	-	-	2,666,135	-	-	-	2,666,135
Transfer of contributed surplus upon exercise of stock options	-	263,407	-	-	(263,407)	-	-	-	-
Balance at June 30, 2008	73,782,410	196,255,584	300,695	-	21,496,561	(4,123,291)	(33,563,732)	(37,687,023)	180,365,817

(1) AOCI consists of the cumulative translation adjustment on self sustaining subsidiaries, except for the unrealized losses on the "available for sale" Other asset in the amount of \$180,000

FIRST MAJESTIC SILVER CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED JUNE 30, 2008 AND 2007 (UNAUDITED)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
OPERATING ACTIVITIES		(as restated - Note 3)		(as restated - Note 3)
Net (loss) income for the period	(296,956)	(729,660)	768,367	(3,867,410)
Adjustment for items not affecting cash				
Depletion	698,844	1,586,800	1,585,206	3,041,277
Depreciation	906,483	528,325	1,727,752	1,032,870
Stock-based compensation	670,616	775,532	1,778,832	1,694,876
Accretion of reclamation obligation	50,367	50,017	95,842	132,104
Write-down of Other assets	-	-	240,000	-
Future income taxes	399,187	(355,803)	172,228	(657,653)
Other	278,444	518,052	39,765	(366,506)
	<u>2,706,985</u>	<u>2,373,263</u>	<u>6,407,992</u>	<u>1,009,558</u>
Net change in non-cash working capital items				
Decrease (increase) in accounts receivable and advances	126,912	774,409	(592,683)	(1,448,241)
(Increase) decrease in inventory	(318,828)	379,346	(794,683)	(226,003)
(Increase) decrease in prepaid expenses	(2,280,319)	(2,233,688)	(973,842)	(2,269,970)
Increase (decrease) in accounts payable and accrued liabilities	5,406,934	(2,148,980)	6,894,210	(1,450,622)
Increase (decrease) in employee profit sharing payable	81,333	(182,371)	86,908	137,115
Increase (decrease) in taxes receivable and payable	400,741	(441,379)	422,737	676,837
Increase in vendor liability and interest	199,556	-	399,112	-
	<u>6,323,314</u>	<u>(1,479,400)</u>	<u>11,849,751</u>	<u>(3,571,326)</u>
INVESTING ACTIVITIES				
Acquisition costs of Minera La Encantada less cash acquired	-	-	-	(3,798,896)
Additions to plant and equipment (net of accruals)	(2,834,191)	(1,508,205)	(5,993,053)	(3,956,732)
Expenditures on mineral property interests (net of accruals)	(8,036,238)	(6,018,998)	(12,537,258)	(8,935,112)
Deposits on long term assets	(2,150,613)	(1,598,739)	(3,843,306)	(1,598,739)
	<u>(13,021,042)</u>	<u>(9,125,942)</u>	<u>(22,373,617)</u>	<u>(18,289,479)</u>
FINANCING ACTIVITIES				
Issuance of common shares and warrants net of issue costs	157,432	1,748,850	42,810,606	4,819,425
Issuance of special warrants, net of issue costs	-	32,104,084	-	32,104,084
Payment of short-term vendor liability	-	(13,341,380)	-	(13,341,380)
Payment of liability for acquisition of Desmin	-	(576,450)	-	(1,165,300)
Exercise of options	-	-	1,130,588	-
Exercise of warrants	-	-	31,875	-
	<u>157,432</u>	<u>19,935,104</u>	<u>43,973,069</u>	<u>22,416,829</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,540,296)	9,329,762	33,449,203	556,024
EFFECT OF EXCHANGE RATE CHANGES ON CASH HELD IN FOREIGN CURRENCY	(54,169)	(804,308)	(59,667)	(974,701)
CASH AND CASH EQUIVALENTS - BEGINNING OF THE PERIOD	<u>52,819,184</u>	<u>8,926,581</u>	<u>12,835,183</u>	<u>17,870,712</u>
CASH AND CASH EQUIVALENTS - END OF THE PERIOD	<u>46,224,719</u>	<u>17,452,035</u>	<u>46,224,719</u>	<u>17,452,035</u>
CASH AND CASH EQUIVALENTS IS COMPRISED OF:				
Cash	740,710	3,161,801	740,710	3,161,801
Short term deposits	45,484,009	14,290,234	45,484,009	14,290,234
	<u>46,224,719</u>	<u>17,452,035</u>	<u>46,224,719</u>	<u>17,452,035</u>
Interest paid	<u>5,832</u>	<u>410,810</u>	<u>11,665</u>	<u>817,234</u>
Income taxes paid	<u>-</u>	<u>526,869</u>	<u>221,108</u>	<u>816,624</u>
NON-CASH FINANCING AND INVESTING ACTIVITIES (NOTE 14)				

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008 (UNAUDITED) AND DECEMBER 31, 2007

1. DESCRIPTION OF BUSINESS AND CONTINUING OPERATIONS

First Majestic Silver Corp. (the “Company” or “First Majestic”) is in the business of the production, development, exploration and acquisition of mineral properties focusing on silver in Mexico. During the fiscal year ended December 31, 2007, the Company traded on the TSX Venture Exchange under the symbol “FR”. On January 15, 2008, the Company’s shares and warrants commenced trading on the TSX under the symbols “FR”, “FR.WT” respectively, and were de-listed from the TSX Venture Exchange. On March 25, 2008, the Company has warrants trading under the symbol “FR.WT.A”.

2. BASIS OF PRESENTATION

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”) with respect to the preparation of interim financial information. Accordingly, they do not include all the information and disclosures required by Canadian GAAP in the preparation of annual financial statements. The accounting policies, used in preparation of the accompanying unaudited interim consolidated financial statements, are the same as those described in our most recent annual consolidated financial statements. In the opinion of management, all adjustments of a normal recurring nature necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of results for the entire year. These interim financial statements should be read in conjunction with the Company’s latest audited consolidated financial statements for the year ended December 31, 2007.

The consolidated financial statements include the accounts of the Company and its direct wholly-owned subsidiaries: Corporación First Majestic, S.A. de C.V. (“CFM”) and First Silver Reserve Inc. (“First Silver”), as well as its indirect wholly-owned subsidiaries: First Majestic Plata, S.A. de C.V., (“First Majestic Plata”), Minera El Pilon, S.A. de C.V., (“El Pilon”), and Minera La Encantada, S.A. de C.V. (“La Encantada”). The prior balances of Desmin, SA de CV were amalgamated into La Encantada on January 1, 2008, with no gain or loss on the amalgamation. Inter-company balances and transactions are eliminated on consolidation.

3. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

Capital Disclosures and Financial Instruments - Disclosures and Presentation

Effective January 1, 2008, the Company adopted three new presentation and disclosure standards that were issued by the Canadian Institute of Chartered Accountants: Handbook Section 1535, Capital Disclosures (“Section 1535”), Handbook Section 3862, Financial Instruments – Disclosures (“Section 3862”) and Handbook Section 3863, Financial Instruments – Presentation (“Section 3863”).

Section 1535 requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements and carrying forward unchanged its presentation requirements for financial instruments. Sections 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Fair Values of Financial Instruments

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, currency risk, interest rate risk and other price risks. Where material, these risks are reviewed and monitored by the Board of Directors.

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008 (UNAUDITED) AND DECEMBER 31, 2007

3. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES (continued)

Capital Risk Management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through a suitable debt and equity balance appropriate for an entity of the Company's size and status. The Company's overall strategy remains unchanged from 2007.

The capital structure of the Company consists of equity attributable to common shareholders, comprising of issued capital, contributed surplus, retained earnings and accumulated other comprehensive income.

Credit Risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its contractual obligations. The Company's credit risk relates primarily to trade receivables in the ordinary course of business and value added tax and other receivables. The Company sells exclusively to one international organization with a strong credit rating, payments receivable are scheduled, routine and received within sixty days of submission; therefore, the balance of overdue trade receivables owed to the Company in the ordinary course of business is not significant. The Company has a Mexican value added tax receivable of \$6.2 million as at June 30, 2008, a significant portion of which is past due. The Company expects to recover the full amount. The Company believes it is not exposed to significant credit risk and overall the Company's credit risk has not changed significantly from the prior year.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they arise. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its expansion plans. The Company does not have any committed loan facilities to meet its business requirements. As at June 30, 2008, the Company has outstanding accounts payable and accrued liabilities of \$16.2 million which are generally payable in 90 days or less.

On March 25, 2008, the Company completed a public offering with a syndicate of underwriters who purchased 8,500,000 Units at an issue price of \$5.35 per Unit for net proceeds to the Company of \$42,973,875. Although the Company does not have a history of operating profits, the Company believes it has sufficient cash on hand to meet operating requirements as they arise.

The Company has an obligation regarding its purchase of First Silver Reserve ("FSR") to make a final instalment payment of \$13,341,380, due on May 30, 2008, and to make simple interest payments at 6% per annum, payable quarterly on the outstanding vendor balance. In November 2007, an action was commenced by the Company and FSR against the previous majority shareholder of FSR ("Majority Shareholder"), who was a previous director, President & Chief Executive Officer of FSR, and a company he controls, whereby the Company and FSR allege that while holding the positions of director, President and Chief Executive Officer of FSR, he engaged in a course of deceitful and dishonest conduct in breach of his fiduciary and statutory duties owed to FSR, which resulted in FSR not acquiring a mine. Management believes that there are substantial grounds to this claim, however, the outcome of this litigation is not presently determinable.

Pending resolution of the litigation set out above the Company has withheld payment of quarterly instalments of interest due on November 30, 2007, February 29, 2008 and May 30, 2008 totalling \$598,857 to the previous Majority Shareholder, and has maintained a reserve of cash in the amount of such instalments. The Company has withheld payments of the final instalment and interest, combined to a total of \$13,940,237 due May 30, 2008 until such litigation has been resolved, and such date is presently not determinable. The Company has filed as security on July 22, 2008 an irrevocable Letter of Credit to the Supreme Court of British Columbia as security for this matter.

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008 (UNAUDITED) AND DECEMBER 31, 2007

3. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES (continued)

The Company's overall liquidity risk has improved significantly from the prior year due to the March 25th financing and due to the achievement of net income for the six months ended June 30, 2008.

Currency Risk

Financial instruments that impact the Company's net earnings or other comprehensive income due to currency fluctuations include: Mexican peso denominated cash and cash equivalents, accounts receivable, accounts payable, and investments in mining interests. The sensitivity of the Company's net earnings and other comprehensive income due to changes in the exchange rate between the Mexican peso and the Canadian dollar is summarized in the table below.

Commodity Price Risk

Movements in the spot price of silver have a direct and immediate impact on the Company's income. The Company does not use other derivative instruments to hedge its commodity price risk.

Interest Rate Risk

The Company is exposed to interest rate risk on its short term investments. The Company monitors its exposure to interest rates and has not entered into any derivative contracts to manage this risk.

The Company's interest-bearing financial assets comprise of cash and cash equivalents which bear interest at a mixture of variable and fixed rates for pre-set periods of time. The Company's interest-bearing financial liabilities comprise fixed rate debt instruments and capital leases with terms to maturity ranging up to three years.

The sensitivity analyses below have been determined based on the undernoted risks at June 30, 2008.

	Reasonably possible changes			
	\$US Denominated Silver Commodity Price	\$US /Peso Exchange Rate	Peso/\$CDN Exchange Rate	Market interest rate
Impact on Quarterly Operations	10%	10%	10%	25 basis points
Net Income ⁽¹⁾	\$ 1,590,600	\$ 1,062,000	\$ 544,400	\$ 115,562
Other Comprehensive Income ⁽¹⁾	\$ -	\$ -	\$ 1,198,100	\$ -

(1) These sensitivities are hypothetical and should be used with caution, favourable hypothetical changes in the assumptions result in an increased amount and unfavourable hypothetical changes in the assumptions result in a decreased amount of net income and/or other comprehensive income.

Fair Value Estimation

The fair values of accounts receivable, other receivables, accounts payable and accrued liabilities approximate their fair value due to the short term nature of these items. The fair value of the vendor liability and interest payable is not readily determinable due to the uncertainty with respect to the outcome of the litigation described in Note 7.

The carrying value less impairment provision, if necessary, of trade receivables and payables approximate their fair values.

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008 (UNAUDITED) AND DECEMBER 31, 2007

3. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES (continued)

Inventories

In June 2007, the CICA issued Section 3031, Inventories, which provides further guidance on the measurement and disclosure requirements for inventories. Specifically, the new pronouncement requires inventories to be measured at the lower of cost and net realizable value, and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. The Company adopted Section 3031 on January 1, 2008. The adoption of the new standard did not have a material impact on the Company's results of operations or financial position.

International Financial Reporting Standards ("IFRS")

In 2006, the Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for public-listed companies to use IFRS, replacing Canada's own GAAP. The transition date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for all the periods ended January 1, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Change in Accounting Policy Relating to Cost of Production

During the three months ended September 30, 2007, the Company changed its accounting policy with respect to the treatment of underground mining costs. During production at underground mines, the Company incurs development costs to build new shafts, drifts and ramps that enable the Company to physically access ore underground. Under the new policy, these underground development costs will be capitalized as incurred and amortized on a unit of production basis over the period that the related ore is extracted. Costs incurred and capitalized to enable access to specific ore blocks or areas of the mine, and which only provide an economic benefit over the period of mining that ore block or area, are attributed to earnings using the units-of-production method where the denominator is estimated recoverable ounces of silver contained in proven and probable reserves within that ore block or area.

Previously the Company did not distinguish underground mining costs on this basis and therefore such costs were expensed as costs of production in the period they were incurred.

This change has been applied on a retrospective basis, with the effect that cost of sales, net loss and comprehensive loss for the three and six months ended June 30, 2007, have all been reduced by \$497,762. Loss per share for the three and six months ended June 30, 2007 was reduced by \$0.01

Comparative Figures

Certain comparative figures have been reclassified to conform with the classifications used in 2008.

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008 (UNAUDITED) AND DECEMBER 31, 2007

4. OTHER RECEIVABLES

Details of the components of other receivables are as follows:

	June 30, 2008	December 31, 2007
	\$	\$
Value added tax and GST recoverable	6,290,715	4,467,782
Other taxes recoverable	1,414,035	1,286,967
Interest receivable	401,370	16,325
Advances to employees	83,300	11,288
Advances to suppliers	159,132	421,535
Other	-	396,298
	8,348,552	6,600,195

5. INVENTORIES

Inventories consist of the following:

	June 30, 2008	December 31, 2007
	\$	\$
Finished product (silver dore and concentrates)	1,345,191	1,321,004
Ore in process	493,797	246,289
Materials and supplies	1,864,575	1,341,587
	3,703,563	2,908,880

6. MINING INTERESTS

Expenditures incurred on mining interests, net of depletion, are as follows:

	June 30, 2008			December 31, 2007		
	Cost	Accumulated depreciation and depletion	Net	Cost	Accumulated depreciation and depletion	Net
	\$	\$	\$	\$	\$	\$
Mining properties	155,049,209	1,681,048	153,368,161	138,832,672	11,202,175	127,630,497
Plant and equipment	40,240,943	3,830,600	36,410,343	31,133,655	2,229,705	28,903,950
	195,290,152	5,511,648	189,778,504	169,966,327	13,431,880	156,534,447

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008 (UNAUDITED) AND DECEMBER 31, 2007

6. MINING INTERESTS (continued)

A summary of the net book value of mining properties is as follows:

	June 30, 2008			December 31, 2007		
	Depletable \$	Non- Depletable \$	Total \$	Plant and Equipment \$	Totals \$	Total \$
MEXICO						
Producing properties						
La Encantada (a)	4,076,446	-	4,076,446	10,519,288	14,595,734	10,086,394
La Parrilla (b)	13,630,562	-	13,630,562	17,849,587	31,480,149	24,517,121
San Martin (c)	15,553,085	-	15,553,085	8,041,468	23,594,553	19,468,380
	33,260,093	-	33,260,093	36,410,343	69,670,436	54,071,895
Exploration properties						
La Encantada (a)	-	1,946,331	1,946,331	-	1,946,331	1,728,689
La Parrilla (b)	-	8,264,184	8,264,184	-	8,264,184	4,717,254
San Martin (c) (2)	-	98,528,509	98,528,509	-	98,528,509	87,749,359
Candamena	-	-	-	-	-	700,000
Del Toro (d) (1)	-	10,263,391	10,263,391	-	10,263,391	6,804,780
Cuitaboca (e)	-	1,105,653	1,105,653	-	1,105,653	762,470
	-	120,108,068	120,108,068	-	120,108,068	102,462,552
	33,260,093	120,108,068	153,368,161	36,410,343	189,778,504	156,534,447

- (1) The ore from Del Toro is processed via the La Parrilla Silver Mine.
(2) This includes properties acquired from First Silver and held by Minera El Pilon. The properties are located in the San Martin de Bolaños region, as well as in Jalisco State (the Jalisco Group of Properties).

A summary of plant and equipment is as follows:

	June 30, 2008			December 31, 2007		
	Cost \$	Accumulated Depreciation \$	Net Book Value \$	Cost \$	Accumulated Depreciation \$	Net Book Value \$
La Encantada Silver Mine	11,095,450	576,163	10,519,287	9,451,422	301,669	9,149,753
La Parrilla Silver Mine	19,802,415	1,952,828	17,849,587	14,763,264	1,063,330	13,699,934
San Martin Silver Mine	9,343,078	1,301,609	8,041,469	6,918,969	864,706	6,054,263
Used in Mining Operations	40,240,943	3,830,600	36,410,343	31,133,655	2,229,705	28,903,950
Corporate office equipment	549,371	160,093	389,278	528,865	96,556	432,309
	40,790,314	3,990,693	36,799,621	31,662,520	2,326,261	29,336,259

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008 (UNAUDITED) AND DECEMBER 31, 2007

6. MINING INTERESTS (continued)

Details by specific assets are as follows:

	June 30, 2008			December 31, 2007		
	Cost	Accumulated	Net Book Value	Cost	Accumulated	Net Book
	\$	Depreciation	\$	\$	Depreciation	Value
Land	2,339,946	-	2,339,946	2,309,428	-	2,309,428
Automobile	321,241	81,831	239,410	266,020	41,256	224,764
Buildings	6,585,272	328,729	6,256,543	5,971,902	182,714	5,789,188
Machinery and equipment	28,313,905	3,263,808	25,050,097	21,898,609	1,922,611	19,975,998
Computer equipment	530,650	170,415	360,235	372,549	91,386	281,163
Office equipment	262,050	86,933	175,117	219,127	62,625	156,502
Leasehold improvements	309,844	58,977	250,867	308,183	25,669	282,514
Construction in progress	2,127,406	-	2,127,406	316,702	-	316,702
	40,790,314	3,990,693	36,799,621	31,662,520	2,326,261	29,336,259

Details of expenditures by nature and property are summarized in Schedule "A" – Consolidated Summary of Mineral Property Interest to these financial statements.

Mineral property options paid and future option payments are due as follows:

	Note 6(b) La Parrilla US\$	Note 6(d) Del Toro US\$	Note 6(e) Cuitaboca US\$	Totals US\$
Paid as at December 31, 2007	2,251,000	5,760,000	550,000	8,561,000
Paid as at March 31, 2008	2,550,600	5,825,000	550,000	8,925,600
Payable May 21, 2008	217,800	-	-	217,800
Payable May 22, 2008	231,600	-	-	231,600
Paid May 25, 2008	-	-	175,000	175,000
Paid as at June 30, 2008	2,550,600	5,825,000	725,000	9,550,000
Payable as at June 30, 2008	449,400	-	-	449,400
Payable in Q3 2008	-	-	-	-
Payable November 25, 2008	-	-	200,000	200,000
Payable in Q4 2008	-	-	200,000	200,000
Payable 2009 and beyond	-	-	1,575,000	1,575,000
Future Option Payments	449,400	-	1,775,000	2,224,400

(a) La Encantada Silver Mine, Coahuila State

The La Encantada Silver Mine is a producing underground mine located in Northern Mexico approximately a 1.5 hour flight from Torreon and comprises 4,076 hectares of mining rights and surface land ownership of 1,343 hectares. The closest town, Muzquiz de Boquillas del Carmen, is 45 kilometres away via dirt road. The La Encantada Silver Mine consists of an 800 tonnes per day flotation plant, an airstrip, and other facilities, including a village with 180 houses as well as administrative offices.

(b) La Parrilla Silver Mine, Durango State

The La Parrilla Silver Mine is a producing underground mine located approximately 65 kilometres southeast of the city of Durango, Mexico and includes mining equipment, an 800 tonnes per day cyanide and flotation processing mill commissioned in May 2007, and mining concessions covering an area of 53,000 hectares of which the Company owns 100 hectares of surface rights. The Company owns 100% of the La Parrilla Silver Mine, which began commercial silver production in October 2004.

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008 (UNAUDITED) AND DECEMBER 31, 2007

6. MINING INTERESTS (continued)

(c) San Martin Silver Mine, Jalisco State

The San Martin Silver Mine is a producing underground mine located within the town of San Martin de Bolaños in Northern Jalisco State, Mexico. The mine comprises approximately 7,840 hectares of mineral rights, approximately 1,300 hectares of surface land rights surrounding the mine and another 104 hectares of surface land rights where the 800 tonnes per day cyanidation mill, flotation circuit, mine buildings and offices are located. The Company owns 100% of the San Martin Silver Mine.

(d) Del Toro Silver Mine (formerly referred as the “Chalchihuites Group of Properties”), Zacatecas State

The Del Toro Silver Mine, formerly referred as the Chalchihuites Group of Properties, is located 60 km to the southeast from the Company’s La Parrilla Silver Mine and consists of a 320 contiguous hectare land package which covers the Perseverancia area and the San Juan area. In 2004, the Company signed several option agreements which covered a total land area of 487 hectares located in the Chalchihuites Mining District, in the municipality of Chalchihuites, located 150 km to the northwest of Zacatecas City in the Western portion of Zacatecas State. In January 2007, the Company exercised its option to acquire the San Juan Silver Mine, and in June 2007 exercised its option to acquire the Perseverancia Silver Mine. During the quarter ended September 30, 2007, the Company acquired 100 hectares of surface rights covering the area surrounding the San Juan area.

In reference to the final US\$2,000,000 payment due June 8, 2007, US\$1,000,000 was paid in June 2007 and the remaining US\$1,000,000 was released from trust on May 13, 2008, upon registration of the concessions with the Mexican mining registry.

In September 2007, the Company took 100% ownership of the Perseverancia Silver Mine, the San Juan Silver Mine and the surrounding 293 hectare land package.

In March 2008, the Company paid and executed one outstanding option agreement, entered into on August 29, 2005, to acquire the La Esperanza and the San Rafael mining concessions comprising approximately 29 hectares in the Chalchihuites area for a total purchase price of US\$175,000 payable over a three-year period (US\$65,000 paid in March 2008). A finder’s fee in the aggregate of US\$7,257 is payable to a director of the Company.

(e) Cuitaboca Silver Project, Sinaloa State

The Cuitaboca Silver Project, located in the State of Sinaloa, Mexico, consists of an option to acquire a 5,134 hectare land package. This option was acquired in May 2006 through the acquisition of First Silver and its wholly owned subsidiary, El Pilon. In May 2008, the Company paid US\$175,000 related to mineral property options.

The Company presently owns an option agreement entered into on November 25, 2004 with Consorcio Minero Latinamericano, S.A. de C.V. (“Consorcio”), a private Mexican company owned by a former director of First Silver, for the purchase of a 100% interest in seven mining claims covering 3,718 hectares located in the State of Sinaloa, Mexico. To purchase the claims, the Company must pay a total of US\$2,500,000 in staged cash payments through November 25, 2010 (US\$725,000 paid as at June 30, 2008). A 2.5% NSR on the claims may be purchased for an additional US\$500,000 at any time during the term of the agreement or for a period of 12 months thereafter.

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008 (UNAUDITED) AND DECEMBER 31, 2007

7. VENDOR LIABILITY AND INTEREST

First Majestic's aggregate purchase price of \$53,365,519, on acquisition of First Silver Reserves Inc. ("FSR"), was payable to the Majority Shareholder in three instalments. The first instalment of \$26,682,759, representing 50% of the purchase price, was paid on closing of the acquisition on May 30, 2006. An additional 25% instalment of \$13,341,380, was paid on May 30, 2007, on the first anniversary of the closing. The final 25% instalment of \$13,341,380 was due on May 30, 2008, on the second anniversary of the closing of the acquisition. Simple interest at 6% per annum, is payable quarterly on the outstanding vendor balance.

In November 2007, an action was commenced by the Company and FSR against the majority shareholder of FSR ("Majority Shareholder"), who was a previous director, President & Chief Executive Officer of FSR, and a company he controls, whereby the Company and FSR allege that while holding the positions of director, President and Chief Executive Officer, he engaged in a course of deceitful and dishonest conduct in breach of his fiduciary and statutory duties owed to FSR, which resulted in FSR not acquiring a mine. Management believes that there are substantial grounds to this claim, however, the outcome of this litigation is not presently determinable.

Pending resolution of the litigation set out above the Company has withheld payment of quarterly instalments of interest due on November 30, 2007, February 29, 2008 and May 30, 2008 to the previous Majority Shareholder. The Company is withholding payment of the final instalment of \$13,341,380 due May 30, 2008 and the above interest payments, an amount totalling \$13,940,237. On July 22, 2008, the Company posted an irrevocable Letter of Credit with the Supreme Court of British Columbia pending the outcome which is not anticipated for at least one year or until such litigation has been resolved.

On March 14, 2008, a statement of defence and counter-claim was filed in respect of the action commenced by the Company. Pursuant to the counterclaim, a request has been claimed for payment of an aggregate of \$598,857 in respect of interest payments due under the share purchase agreement dated April 3, 2006 which the Company has withheld under such agreement. The Majority Shareholder further claims unquantified damages, costs and interest. The Company believes that the issues raised in the counterclaim will turn on the success of the Company's action against the defendant, however, the outcome of this litigation is not presently determinable.

8. SHARE CAPITAL

(a) Authorized - unlimited number of common shares without par value

On March 25, 2008, the Company completed a public offering with a syndicate of underwriters who purchased 8,500,000 Units at an issue price of \$5.35 per Unit for net proceeds to the Company of \$42,973,875. Each Unit consisted of one common share in the capital of the Company and one-half of one Common Share purchase warrant. Each whole Common Share purchase warrant entitles the holder to acquire one additional Common Share at a price of \$7.00 for a period of 24 months from the closing of the Offering. The underwriters had an option, exercisable up until 30 days following closing of the offering, to purchase up to an additional 1,275,000 Common Shares (the "Option Shares") at a price of \$5.07 per Option Share and up to an additional 637,500 Warrants at a price of \$0.56 per Warrant. The underwriters did not exercise their option to purchase any Option Shares, but did acquire the 637,500 Warrants (see Note 8(c)).

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008 (UNAUDITED) AND DECEMBER 31, 2007

8. SHARE CAPITAL (continued)

(b) Stock Options

Under the terms of the Company's Stock Option Plan, the maximum number of shares reserved for issuance under the 2008 Plan is 10% of the issued shares on a rolling basis. Options may be exercisable over periods of up to five years as determined by the board of directors of the Company and the exercise price shall not be less than the closing price of the shares on the day preceding the award date, subject to regulatory approval. All stock options are subject to vesting with 25% vesting upon issuance and 25% vesting each six months thereafter.

The changes in stock options outstanding for the six months ended June 30, 2008, are as follows:

	Six Months Ended June 30, 2008			Year Ended December 31, 2007		
	Number of Shares	Weighted Average Exercise Price (\$)	Weighted Average Remaining Life	Number of Shares	Weighted Average Exercise Price (\$)	Weighted Average Remaining Life
Balance, beginning of the period	5,892,500	4.04	2.75 years	5,052,500	3.30	2.34 years
Granted	280,000	4.33	2.78 years	2,680,000	4.50	3.83 years
Exercised	(376,250)	3.00	0.43 years	(1,407,500)	2.15	0.22 years
Forfeited or expired	(233,350)	4.48	1.31 years	(432,500)	4.32	0.34 years
Balance, end of the period	5,562,900	4.12	2.41 years	5,892,500	4.04	2.75 years

The following table summarizes both the stock options outstanding and those that are exercisable at June 30, 2008:

Price \$	Options Outstanding	Options Exercisable	Expiry Dates
4.55	25,000	25,000	July 6, 2008
3.28	100,000	100,000	October 17, 2008
2.10	240,000	240,000	November 9, 2008
2.45	550,000	550,000	December 16, 2008
3.28	12,500	12,500	June 13, 2009
4.32	705,400	705,400	December 6, 2009
5.50	200,000	150,000	February 1, 2010
4.64	75,000	56,250	June 1, 2010
4.17	100,000	50,000	August 8, 2010
3.72	30,000	15,000	September 24, 2010
3.98	20,000	7,500	October 17, 2010
4.45	750,000	375,000	October 30, 2010
4.34	50,000	12,500	November 1, 2010
4.42	25,000	12,500	November 12, 2010
4.34	200,000	100,000	December 5, 2010
4.42	50,000	12,500	February 21, 2011
4.65	100,000	25,000	March 25, 2011
4.19	30,000	7,500	April 26, 2011
4.02	100,000	25,000	May 15, 2011
4.30	450,000	450,000	June 19, 2011
4.32	245,000	245,000	December 6, 2011
4.41	400,000	400,000	December 22, 2011
5.00	155,000	116,250	February 7, 2012
4.65	25,000	18,750	June 20, 2012
4.34	925,000	462,500	December 5, 2012
	5,562,900	4,174,150	

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008 (UNAUDITED) AND DECEMBER 31, 2007

8. SHARE CAPITAL (continued)

(b) Stock Options (continued)

During the six months ended June 30, 2008, the Company granted stock options to directors, officers and employees to purchase 280,000 shares of the Company. Pursuant to the Company's policy of accounting for the fair value of stock-based compensation over the applicable vesting period, \$1,778,832 has been recorded as an expense in the six month period ended June 30, 2008 relating to all stock options.

The weighted average fair value of stock options issued at the date of grant was \$1.33 per share during the six month period ended June 30, 2008 (2007 - \$2.05).

The fair value of stock options granted in the period is estimated using the *Black-Scholes Option Pricing Model* with the following weighted average assumptions:

	Six Months Ended June 30, 2008	Year Ended December 31, 2007
Risk-free interest rate	2.8%	4.0%
Estimated volatility	53.1%	56.3%
Expected life	1.9 years	1.7 years
Expected dividend yield	0%	0%

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

(c) Share Purchase Warrants

The changes in share purchase warrants for the six months ended June 30, 2008 are as follows:

	Six Months Ended June 30, 2008			Year Ended December 31, 2007		
	Number of Warrants	Weighted Average Exercise Price (\$)	Average Number of Periods to Expiry	Number of Warrants	Weighted Average Exercise Price (\$)	Average Number of Periods to Expiry
Balance, beginning of the period	5,845,240	5.66	0.89 years	8,766,271	4.02	1.12 years
Issued (i) (ii)	4,887,500	7.00	1.73 years	3,632,791	6.52	1.32 years
Exercised	(7,500)	4.25	0.86 years	(2,668,823)	2.58	0.33 years
Cancelled or expired	-	-	0.00 years	(3,884,999)	4.89	0.00 years
Balance, end of the period	10,725,240	6.27	1.00 years	5,845,240	5.66	0.89 years

- (i) On March 25, 2008, the Company issued 4,250,000 warrants exercisable at a price of \$7.00 per share exercisable for a period of two years. The warrants were detachable warrants issued in connection with the 8.5 million units offering. The fair value of the warrants were estimated at \$0.56 per unit using the Black Scholes Option Model.
- (ii) On April 4, 2008, the Company issued 637,500 warrants exercisable at a price of \$7.00 per share exercisable for a period of two years under the over-allotment option in connection with the March 25, 2008 public offering. Each warrant entitles the holder to acquire one additional common share at a price of \$7.00 until March 25, 2010. The fair value of the warrants were estimated at \$0.28 per ½ unit using the Black Scholes Option Model.

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008 (UNAUDITED) AND DECEMBER 31, 2007

8. SHARE CAPITAL (continued)

(c) Share Purchase Warrants (continued)

The following table summarizes the share purchase warrants outstanding at June 30, 2008:

Exercise Price \$	Warrants Outstanding	Expiry Dates
6.50	3,441,500	November 10, 2008
4.25	2,204,949	November 27, 2008
6.81	191,291	March 20, 2009
7.00	4,887,500	March 25, 2010
	10,725,240	

9. REVENUES

Details of the components of revenue are as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007 (1)	2008	2007 (1)
	\$	\$	\$	\$
Gross revenues - silver dore bars and concentrates	15,905,718		30,536,815	
Less: refining, smelting and transportation charges	(4,468,829)		(6,135,744)	
Net revenue	11,436,889	10,846,344	24,401,071	21,004,966

(1) The comparative amounts for 2007 are not readily determinable.

10. RELATED PARTY TRANSACTIONS

During the period ended June 30, 2008, the Company:

- (a) incurred \$120,273 for the six month period ended June 30, 2008 and \$75,088 for the quarter ended June 30, 2008 (six months ended June 30, 2007 - \$95,482; quarter ended June 30, 2007 - \$48,074) for management services provided by the President & CEO and/or a corporation controlled by the President & CEO of the Company pursuant to a consulting agreement.
- (b) incurred \$139,105 for the six month period ended June 30, 2008 and \$78,849 for the quarter ended June 30, 2008 (six months ended June 30, 2007 - \$95,661; quarter ended June 30, 2007 - \$48,134) to a director and Chief Operating Officer for management and other services related to the mining operations of the Company in Mexico pursuant to a consulting agreement.
- (c) incurred \$4,207,123 of service fees during the six month period ended June 30, 2008 and \$2,271,223 for the quarter ended June 30, 2008 (six months ended June 30, 2007 - \$753,597; quarter ended June 30, 2007 - \$675,789) to a mining services company sharing our premises in Durango Mexico for the management and payment of mining contractors performing services for the Company in Mexico at all three mines. An employee of the Company is a shareholder of the mining services company. Of the fees, \$1,635,365 were unpaid at June 30, 2008 (June 30, 2007 - \$281,132).

Amounts paid to related parties were incurred in the normal course of business and measured at the exchange amount, which is the amount agreed upon by the transacting parties and on terms and conditions similar to non-related parties.

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008 (UNAUDITED) AND DECEMBER 31, 2007

11. SEGMENTED INFORMATION

The Company considers that it has three operating segments all of which are located in Mexico, and one corporate segment with locations in Canada and Mexico. These reportable operating segments are summarized in the table below.

Six Months Ended June 30, 2008

	El Pilon	First Majestic	La Encantada	Corporate and	
	operations	Plata	operations	other	Totals
	\$	operations	operations	eliminations	\$
	\$	\$	\$	\$	\$
Silver sales	5,553,108	9,055,725	9,792,238	-	24,401,071
Cost of sales	4,257,678	5,827,499	4,061,634	-	14,146,811
Amortization and depreciation	499,273	904,477	292,987	63,536	1,760,273
Depletion	748,980	418,846	417,380	-	1,585,206
Operating income (loss)	47,177	1,904,903	5,020,237	(6,074,573)	897,744
Net interest and other income (expense)	169,012	681,246	(23,919)	(77,554)	748,785
Income tax (recovery) expense	(437,839)	750,886	1,170,436	(605,321)	878,162
Net income (loss)	572,169	1,835,263	3,825,883	(5,464,948)	768,367
Capital expenditures	6,920,925	13,079,039	3,644,492	20,506	23,664,962
Total assets	131,020,870	57,759,525	21,227,658	47,789,874	257,797,927

Six Months Ended June 30, 2007

	El Pilon	First Majestic	La Encantada	Corporate and	
	operations	Plata	operations	other	Totals
	\$	operations	operations	eliminations	\$
	\$	\$	\$	\$	\$
Silver sales	9,404,417	4,111,312	7,489,237	-	21,004,966
Cost of sales	7,725,504	3,296,613	3,485,539	-	14,507,656
Amortization and depreciation	512,110	165,832	250,318	-	928,260
Depletion	2,883,112	119,207	38,958	-	3,041,277
Operating income (loss)	(2,737,875)	(281,842)	2,683,334	(2,676,382)	(3,012,765)
Net interest and other income (expense)	103,368	(439,152)	10,924	52,526	(272,334)
Income tax (recovery) expense	(219,755)	-	802,066	-	582,311
Net income (loss)	(2,414,753)	(720,994)	1,892,192	(2,623,855)	(3,867,410)
Capital expenditures	621,646	8,343,938	4,643,479	134,334	13,743,397
Total assets	122,209,886	44,508,490	5,457,831	12,826,644	185,002,851

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008 (UNAUDITED) AND DECEMBER 31, 2007

12. COMMITMENTS

The Company is obligated to make certain payments as described in Note 6, in connection with the acquisition of its mineral property interests.

The Company is also obligated to make certain interest and cash payments, as described in Note 7, in connection with the acquisition of a controlling interest in FSR, subject to litigation.

In May 2007, the Company entered into an office premises lease for a period of four years and eight months commencing August 1, 2007. The premises lease commits the Company to a net annual rental expense of \$48,700 in 2007, \$116,880 in 2008 through 2011, and \$29,220 in 2012. Additional annual operating costs are estimated at \$101,110 per year (\$8,426 per month) over the term of the lease. The Company provided a deposit of one month of rent equaling \$20,151.

The Company is committed to making severance payments amounting to US\$540,000 to four officers in the event that there is a change of control of the Company.

13. ASSET RETIREMENT OBLIGATIONS

	Six Months ended June 30, 2008	Year ended December 31, 2007
	\$	\$
Balance, beginning of the period	2,290,313	3,898,085
Amounts assumed on acquisitions	-	2,305,800
Effect of change in estimates	-	(3,493,413)
Interest accretion	95,842	208,448
Effect of translation of foreign currencies	(26,132)	(628,607)
	2,360,023	2,290,313

Asset retirement obligations allocated by mineral properties are as follows:

	Anticipated Date	June 30, 2008 \$	December 31, 2007 \$
La Encantada mine	2037	316,321	307,271
La Parrilla mine	2032	371,961	360,000
San Martin mine	2013	1,671,741	1,623,042
		2,360,023	2,290,313

During the year ended December 31, 2007, the Company assessed its reclamation obligations at each of its mines including the La Encantada mine acquired during the year. The total undiscounted amount of estimated cash flows required to settle the Company's estimated obligations is \$4,274,000, which has been discounted using a credit adjusted risk free rate of 8.5%. \$1,118,465 of the reclamation obligation relates to the La Parrilla Silver Mine, \$1,900,535 of the obligation relates to the San Martin Silver Mine, and \$1,255,000 relates to the La Encantada Silver Mine. The present value of the reclamation liabilities may be subject to change based on management's current estimates, changes in the remediation technology or changes to the applicable laws and regulations. Such changes will be recorded in the accounts of the Company as they occur.

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008 (UNAUDITED) AND DECEMBER 31, 2007

14. OTHER NON-CASH FINANCING AND INVESTING ACTIVITIES

	Six Months Ended June 30, 2008 \$	Six Months Ended June 30, 2007 \$
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Fair value of warrants issued for acquisition of La Encantada (Note 8)	-	333,443
Fair value of warrants upon completion of public offering	2,666,135	-
Issuance of shares for First Silver Arrangement (Note 8)	8,985,460	-
Issuance of shares for acquisition of La Encantada	-	2,000,904
Transfer of contributed surplus to common shares for options exercised (Note 8)	263,407	855,600
Reclassification of plant and equipment to mineral property interest	-	5,881,047
Assets acquired by capital lease	1,989,227	229,154

15. SUBSEQUENT EVENTS

Subsequent to June 30, 2008:

- (a) In July 2008, the Company issued 60,400 common shares for proceeds of \$267,978 pursuant to the exercise of stock options.
- (b) On July 4, 2008 the Company granted 142,500 stock options exercisable at a price of \$4.67 expiring July 4, 2011.
- (c) On July 14, 2008 the Company cancelled 5,000 stock options exercisable at a price of \$4.32 per share expiring on December 6, 2009 and 10,000 stock options exercisable at a price of \$4.45 per share expiring on October 10, 2010.
- (d) On July 22, 2008 the Company entered into a Letter of Credit facility for \$13,940,237 expiring on July 22, 2009 with interest rate of 0.5% per annum, secured by a Guaranteed Investment Certificate.
- (e) On July 28, 2008 the Company granted 300,000 stock options exercisable at a price of \$4.15 expiring July 28, 2011.
- (f) On August 11, 2008 the Company issued 5,000 shares pursuant to the Plan of Arrangement.

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008 (UNAUDITED) AND DECEMBER 31, 2007

SCHEDULE "A"
FIRST MAJESTIC SILVER CORP.
CONSOLIDATED SCHEDULE OF MINERAL PROPERTY INTERESTS
FOR THE SIX MONTHS ENDED JUNE 30, 2008

	La Parrilla \$	San Martin \$	Del Toro \$	Candamena \$	Cuitaboca \$	La Encantada \$	Total \$
Balance - beginning of the period	15,534,440	101,163,475	6,804,781	700,000	762,470	2,665,330	127,630,496
Expenditures during the period							
Consulting	83,495	-	-	-	40,431	-	123,926
Filing fees	-	-	2,962	-	-	-	2,962
Mine exploration costs	5,174,678	4,153,634	2,778,753	-	291,925	1,999,300	14,398,290
Reports and assays	-	-	-	-	10,826	1,164	11,990
	5,258,173	4,153,634	2,781,715	-	343,182	2,000,464	14,537,168
Adjustments in acquisition costs during the period (net)	-	-	-	-	-	-	-
Less: Reclassification of proceeds on sale to other receivable	-	-	-	(700,000)	-	-	(700,000)
Less: depletion	(418,846)	(748,980)	-	-	-	(417,380)	(1,585,206)
Cumulative translation adjustment	1,535,958	9,575,835	676,895	-	-	1,792,857	13,581,545
Less : Adjustments to ARO (Note 13)	(14,979)	(62,370)	-	-	-	(18,493)	(95,842)
Balance, end of the period	21,894,746	114,081,594	10,263,391	-	1,105,652	6,022,778	153,368,161

(See Note 6)

SCHEDULE "B"
FIRST MAJESTIC SILVER CORP.
CONSOLIDATED SCHEDULE OF MINERAL PROPERTY INTERESTS
FOR THE YEAR ENDED DECEMBER 31, 2007

	La Parrilla \$	San Martin (1) \$	Del Toro \$	Candamena \$	Cuitaboca \$	La Encantada \$	Total \$
Balance - beginning of the period	6,319,008	124,777,077	3,798,218	1,993,465	221,416	1,761,699	138,870,883
Expenditures during the period							
Consulting	5,977	-	1,301,171	116,093	-	-	1,423,241
Filing fees	43,822	-	6,159	14,266	-	-	64,247
Mine exploration costs	12,029,890	2,746,556	333,661	180,769	408,129	1,708,633	17,407,638
Reports and assays	-	-	-	-	-	-	-
	12,079,689	2,746,556	1,640,991	311,128	408,129	1,708,633	18,895,126
Acquisition costs during the period (net)	1,078,650	-	2,293,864	430,661	132,925	7,032,536	10,968,636
Less: write off of mineral properties	-	-	-	(1,703,591)	-	-	(1,703,591)
Less: depletion	(747,648)	(5,392,958)	-	-	-	(176,528)	(6,317,134)
Less: amortization of mining rights ⁽²⁾	-	-	-	-	-	(434,056)	(434,056)
Cumulative translation adjustment	(2,227,324)	(19,838,914)	(928,292)	(331,663)	-	(1,229,917)	(24,556,110)
Less : New adjustments Final Price Allocation	-	-	-	-	-	(3,971,236)	(3,971,236)
Less : Adjustments to ARO	(967,935)	(1,128,286)	-	-	-	(2,025,800)	(4,122,021)
Balance, end of the period	15,534,440	101,163,475	6,804,781	700,000	762,470	2,665,331	127,630,497

- (1) For properties held by Minera El Pilon, all amounts are aggregated into acquisition costs. No part of the purchase price was allocated to the Cuitaboca property.
(2) Acquisition of Desmin S.A. de C.V.

(See Note 6)



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE QUARTER ENDED JUNE 30, 2008

Forward-Looking Statements

Certain information contained herein constitutes forward-looking statements. Forward-looking statements are frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate" and other similar words, or statements that certain events or conditions "may" or "will" occur. Forward-looking statements are based on the opinions and estimates of management at the dates the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include the inherent risks involved in the mining, exploration and development of mineral properties, the uncertainties involved in interpreting drilling results and other geological data, fluctuating metal prices, the possibility of project cost overruns or unanticipated costs and expenses, uncertainties related to the availability of and costs of financing needed in the future and other factors described in the Company's Annual Information Form under the heading "Risk Factors". The Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change. The reader is cautioned not to place undue reliance on forward-looking statements.

PRELIMINARY INFORMATION

First Majestic Silver Corp. ("First Majestic" or "the Company") is in the business of production, development, exploration and acquisition of mineral properties focusing on silver in Mexico. The common shares and warrants of the Company trade on the Toronto Stock Exchange under the symbols "FR", "FR.WT" and "FR.WT.A", respectively. The common shares are also quoted on the "Grey Market" (Pink Sheets) in the U.S. under the symbol "FRMSF" and on the Frankfurt, Berlin, Munich and Stuttgart Stock Exchanges under the symbol "FMV". Silver producing operations of the Company are carried out through three operating mines: the La Parrilla, La Encantada, and San Martin mines.

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited consolidated financial statements for the three and six months ended June 30, 2008, and the audited consolidated financial statements of the Company for the year ended December 31, 2007. Additional information on the Company, including the Company's Annual Information Form, is also available on SEDAR at www.sedar.com.

This MD&A relates to the consolidated operations of the Company and its two wholly owned direct subsidiaries: Corporación First Majestic, S.A. de C.V. ("CFM"), and First Silver Reserve Inc ("First Silver"), as well as the indirect wholly owned subsidiaries of CFM: First Majestic Plata, S.A. de C.V. ("FM Plata"), Mineral El Pilón, S.A. de C.V. ("El Pilón"), and Minera La Encantada, S.A. de C.V. ("La Encantada"), see "transactions with related parties" section below for a table of subsidiaries, mines, and mills.

QUALIFIED PERSONS

Unless otherwise indicated, Leonel Lopez, C.P.G., P.G. of Pincock Allen & Holt is the Qualified Person for the Company and has reviewed the technical information herein. National Instrument 43-101 technical reports regarding the La Parrilla Silver Mine, the La Encantada Silver Mine and the San Martin Silver Mine can be found on the Company's web site at www.firstmajestic.com or on SEDAR at www.sedar.com.

FIRST MAJESTIC SILVER CORP.
MANAGEMENT'S DISCUSSION & ANALYSIS

All financial information in this MD&A is prepared in accordance with Canadian GAAP, and all dollar amounts are expressed in Canadian dollars unless otherwise indicated.

All information contained in this MD&A is current as of August 13, 2008, unless otherwise stated.

FINANCIAL PERFORMANCE AND HIGHLIGHTS

- Sales revenues for the quarter (after smelting charges) were \$11.4 million; an increase of 6% compared to \$10.8 million for the quarter ended June 30, 2007. Gross revenues for the quarter, prior to smelting charges were \$15.9 million.
- A marked improvement to direct cash costs per ounce of silver (see Non-GAAP measures below) produced during the quarter ended June 30, 2008 was achieved primarily due to the improvements underway at the San Martin Silver Mine which amounted to US\$4.84 per ounce compared to the previous quarter ended March 31, 2008 of US\$6.51.
- Mine operating earnings for the quarter amounted to \$2.2 million, compared to \$1.1 million for the quarter ended June 30, 2007.
- Smelting charges for the quarter increased significantly to \$4.47 million as a result of a new agreement signed with Peñoles. The most impacted mine was the La Encantada as 100% of its production is in the form of concentrates. The present expansion program underway at La Encantada is converting the mill from concentrate production to doré production which will come into effect early 2009. As a result of higher charges affecting all mining companies in Mexico who sell their concentrates to Peñoles, management is reviewing its alternatives to mitigate the smelting charges going forward. The adoption of new technologies which may affect the amounts and qualities of concentrates produced are being investigated as well as establishing new buyers for concentrate production.
- Total quarterly production consisted of 1,271,141 ounces of silver equivalents, including 1,109,821 ounces of silver, 482 ounces of gold, and 1,987,551 pounds of lead. The Company shipped 892,406 payable ounces of silver equivalent in the quarter, and 1,911,896 for the six months ended June 30, 2008, resulting in increases of 11% and 30% respectively over the 801,324 payable ounces of silver equivalent sold in the quarter ended June 30, 2007, and 1,470,772 ounces of silver equivalent sold for the six months ended June 30, 2007. The remaining silver produced in the quarter was in inventory at the end of the period.
- The Company realized a price of US\$17.38 (Cdn \$17.82) per ounce of silver sold in the quarter which is higher than the average trading price of US\$17.17 per ounce.
- The Company generated an operating loss of \$0.6 million for the quarter, compared to an operating loss of \$1.5 million for the quarter ended June 30, 2007.
- The Company generated a net loss of \$0.3 million for the quarter ended June 30, 2008, compared to a loss of \$0.7 million for the quarter ended June 30, 2007. The net loss for this quarter was after deducting a non-cash stock-based compensation expense of \$670,616 (2007 - \$ 775,532).
- The Company has been extracting ore from the Del Toro Silver Mine (formerly referred to as the Chalchihuites Group of Properties) over the past two quarters. As a result of the material volumes being extracted during this quarter and as is anticipated going forward, Del Toro is now considered to be in the early stage of production. The ore extracted is being shipped, processed and blended at the La Parrilla mill. For the second quarter ending June 30, 2008, 15,261 tonnes were extracted from Del Toro, resulting in production of 117,120 ounces of silver equivalents, and allowing quarterly production to increase at La Parrilla to 72,650 tonnes (95% of capacity). Production and the resulting costs associated with mining activity at Del Toro are included in La Parrilla's costs and operating results.
- The Company currently has more than \$46 million in its treasury, is generating significant cash flows from operations, and has sufficient capital to support its operating requirements for the foreseeable future

provided it does not undertake any major acquisitions, or embark on any additional significant capital expansion plans.

- In the quarter, the Company invested \$8,943,735 in capital expenditures on its mineral properties, and a further \$3,153,042 on additions to plant and equipment.

The subsidiaries, mines, mills and properties are related as follows:

Subsidiaries:	Mine and Mill	Exploration Properties
First Majestic Plata, S.A. de C.V.	La Parrilla Silver Mine Del Toro Silver Mine	La Parrilla properties Del Toro properties (formerly referred to as the Chalchihuites Group of Properties)
Minera El Pilón, S.A. de C.V.	San Martin Silver Mine	San Martin property Cuitaboca Silver Project Jalisco Group of Properties
Minera La Encantada, S.A. de C.V.	La Encantada Silver Mine	La Encantada property

Certain financial results in this MD&A, regarding operations, cash costs, and average realized revenues, are presented in the Mine Operations Results table below to conform with industry peer company presentation standards, which are generally presented in US dollars. US dollar results are translated using the US dollar rates on the dates on which the transactions occurred.

MINING OPERATING RESULTS

Quarter Ended June 30		CONSOLIDATED FIRST MAJESTIC RESULTS	Year to date June 30	
2008	2007		2008	2007
213,994	155,762	Ore processed/tonnes milled	372,393	292,522
230	213	Average silver grade (g/tonne)	237	229
70%	72%	Recovery (%)	71%	69%
1,109,821	782,674	Silver ounces produced	2,005,179	1,498,121
482	604	Gold ounces produced	722	1,122
25,128	30,250	Equivalent ounces from gold	37,812	55,646
1,987,551	539,185	Pounds of lead produced	3,845,448	867,003
129,243	40,204	Equivalent ounces from lead	267,137	60,782
82,758	0	Pounds of zinc produced	401,297	0
5,880	0	Equivalent ounces from zinc	21,665	0
1,271,141	852,721	Total production - ounces silver	2,332,862	1,619,095
892,406	801,324	Ounces of silver equivalents sold	1,911,896	1,470,772
4.84	6.59	Total USD cash cost per ounce ⁽¹⁾	5.00	6.74
7,161	4,991	Underground development (m)	13,168	9,713
20,325	9,816	Diamond drilling (m)	30,581	19,099
47.04	n/a	Total USD production cost per tonne	43.37	n/a

(1) The Company reports non-GAAP measures which include Direct Costs Per Tonne and cash cost per ounce of payable silver in order to manage and evaluate operating performance at each of the Company's mines. These measures are widely used in the silver mining industry as a benchmark for performance, but do not have a standardized meaning, and are not GAAP measures.

Quarter Ended June 30		LA PARRILLA RESULTS	Year to date June 30	
2008	2007		2008	2007
72,650	39,884	Ore processed/tonnes milled	127,949	70,734
243	201	Average silver grade (g/tonne)	257	228
66%	68%	Recovery (%)	70%	58%
376,528	175,344	Silver ounces produced	744,397	299,331
154	81	Gold ounces produced	292	172
8,017	4,054	Equivalent ounces from gold	15,241	8,540
1,098,773	180,927	Pounds of lead produced	2,344,107	377,258
72,144	14,253	Equivalent ounces from lead	164,858	32,093
0	0	Pounds of zinc produced	0	0
0	0	Equivalent ounces from zinc	0	0
456,688	193,651	Total production - ounces of silver equiv.	924,496	334,529
307,260	162,830	Ounces of silver equivalents sold	733,779	264,115
3.61	8.03	Total USD cash cost per ounce ⁽¹⁾	3.52	8.21
2,505	1,515	Underground development (m)	4,552	3,239
10,569	8,379	Diamond drilling (m)	19,116	16,209
43.89	n/a	Total USD production cost per tonne	38.33	n/a

Quarter Ended June 30		SAN MARTIN RESULTS	Year to date June 30	
2008	2007		2008	2007
78,151	63,213	Ore processed/tonnes milled	128,369	123,902
168	170	Average silver grade (g/tonne)	156	176
85%	84%	Recovery (%)	83%	85%
359,130	296,947	Silver ounces produced	533,636	601,880
328	523	Gold ounces produced	430	950
17,111	26,196	Equivalent ounces from gold	22,571	47,105
52,353	15,845	Pounds of lead produced	161,128	29,537
3,700	1,186	Equivalent ounces from lead	11,829	2,031
134,644	0	Pounds of zinc produced	401,297	0
6,950	0	Equivalent ounces from zinc	22,735	0
386,891	324,329	Total production - ounces of silver equiv.	590,772	651,017
193,742	272,067	Ounces of silver equivalents sold	420,789	542,189
7.35	9.89	Total US cash cost per ounce ⁽¹⁾	9.12	7.47
2,896	1,944	Underground development (m)	5,460	3,841
7,255	693	Diamond drilling (m)	8,186	2,145
34.26	n/a	Total USD production cost per tonne	38.97	n/a

Quarter Ended June 30		LA ENCANTADA RESULTS	Year to date June 30	
2008	2007		2008	2007
63,194	52,664	Ore processed/tonnes milled	116,075	97,886
290	272	Average silver grade (g/tonne)	305	296
63%	66%	Recovery (%)	64%	64%
374,163	310,384	Silver ounces produced	727,145	596,911
0	0	Gold ounces produced	0	0
0	0	Equivalent ounces from gold	0	0
836,425	324,412	Pounds of lead produced	1,340,213	460,209
53,399	24,764	Equivalent ounces from lead	90,449	32,093
0	0	Pounds of zinc produced	0	0
0	0	Equivalent ounces from zinc	0	0
427,562	335,148	Total production - ounces of silver equiv.	590,772	633,550
391,404	268,527	Ounces of silver equivalents sold	757,328	524,626
3.67	2.21	Total US cash cost per ounce ⁽¹⁾	3.49	2.46
1,761	1,528	Underground development (m)	5,460	2,634
2,501	744	Diamond drilling (m)	8,186	744
66.46	n/a	Total USD production cost per tonne	53.80	n/a

(1) The Company reports non-GAAP measures which include Direct Costs Per Tonne and cash cost per ounce of payable silver in order to manage and evaluate operating performance at each of the Company's mines. These measures are widely used in the silver mining industry as a benchmark for performance, but do not have a standardized meaning, and are not GAAP measures.

		Three Months Ended June 30, 2008				Year to date June 30, 2008			
		El Pilon	La Parrilla	La Encantada	2Q2008	El Pilon	La Parrilla	La Encantada	2Q2008
DIRECT MINING EXPENSES(MMI)	US\$	2,729,893	3,107,950	1,862,447	7,700,290	4,949,332	5,318,964	3,284,553	13,552,849
Profit Sharing	US\$	-	-	217,949	217,949	-	-	234,538	234,538
Other Selling Costs (Transport, etc.)	US\$	37,834	81,735	67,762	187,331	68,269	125,618	139,349	333,235
THIRD PARTY SMELTING	US\$	39,416	1,828,318	2,827,218	4,694,952	134,259	2,282,555	3,709,755	6,126,569
BYPRODUCT CREDITS	US\$	(129,574)	(1,829,156)	(557,610)	(2,516,340)	(148,981)	(2,822,445)	(889,137)	(3,860,563)
Less Profit Sharing		-	-	(217,949)	(217,949)	-	-	(234,538)	(234,538)
TOTAL CASH COSTS	US\$	2,677,569	3,188,847	4,199,817	10,066,233	5,002,878	4,904,692	6,244,520	16,152,090
CASH COST PER OUNCE PRODUCED	US\$/OZ	7.46	8.47	11.22	9.07	9.38	6.59	8.59	8.06
CASH COST PER OUNCE PRODUCED	US\$/OZ	7.46	8.47	11.22	9.07	9.38	6.59	8.59	8.06
SMELTING CASH COST PER OUNCE	US\$/OZ	(0.11)	(4.86)	(7.56)	(4.23)	(0.25)	(3.07)	(5.10)	(3.06)
DIRECT MINING EXPENSES CASH COST	US\$/OZ	7.35	3.61	3.67	4.84	9.12	3.52	3.49	5.00
TONNES PRODUCED	TONNES	78,151	72,650	63,194	213,995	128,369	127,949	116,075	372,393
OUNCES OF SILVER PRODUCED	OZ	359,130	376,528	374,163	1,109,821	533,636	744,398	727,145	2,005,179
OUNCES OF SILVER EQ PRODUCED	OZ EQ	27,761	80,161	53,399	161,321	57,135	180,099	90,449	327,683
TOTAL OZ OF SILVER EQ PRODUCED	OZ EQ	386,891	456,689	427,562	1,271,142	590,771	924,497	817,594	2,332,862
MINING	\$/Tonne	15.31	17.41	9.89	14.42	18.13	14.68	9.52	14.26
MILLING	\$/Tonne	9.76	20.67	6.08	12.38	10.00	20.70	5.04	12.13
INDIRECT	\$/Tonne	9.86	4.70	13.50	9.18	10.42	6.20	13.74	10.00
SELLING COSTS	\$/Tonne	0.48	1.13	1.07	0.88	0.53	0.98	1.20	0.89
SMELTER COSTS	\$/Tonne	0.50	25.17	44.74	21.94	1.05	17.84	31.96	16.45
BY PRODUCT CREDITS	\$/Tonne	(1.66)	(25.18)	(8.82)	(11.76)	(1.16)	(22.06)	(7.66)	(10.37)
DIRECT COST PER TONNE	\$/Tonne	34.26	43.89	66.46	47.04	38.97	38.33	53.80	43.37
Cash Costs	US\$	2,677,569	3,188,847	4,199,817	10,066,233	5,002,878	4,904,692	6,244,520	16,152,090
Inventory changes	US\$	(527,864)	69,027	(265,782)	(724,619)	(310,576)	(109,920)	351,930	(68,565)
Byproduct credits	US\$	129,574	1,829,156	557,610	2,516,340	148,981	2,822,445	889,137	3,860,563
Smelting	US\$	(39,416)	(1,828,318)	(2,827,218)	(4,694,952)	(134,259)	(2,282,555)	(3,709,755)	(6,126,569)
Other	US\$			391,218					224,411
Cost of Sales - Calculated	US\$	2,239,863	3,258,711	1,664,428	7,554,220	4,707,025	5,334,662	3,775,832	14,041,929
Average CDN/US Exchange Rate					0.99				0.993
Booked Cost of Sales - CDN	CDN\$				7,629,755	5,393,088	4,061,744	4,687,657	14,146,811

REVIEW OF MINING OPERATING RESULTS

Production in the second quarter ending June 30, 2008 increased to 1,271,141 equivalent ounces of silver representing a 20% increase over 1,061,720 equivalent ounces in the prior quarter and an increase of 49% over the equivalent ounces in the same quarter of the previous year.

The equivalent silver production for the quarter consisted of: 1,109,821 ounces of silver, representing an increase of 24% over the 895,358 ounces in the previous quarter, and an increase in lead production to 1,987,551 pounds compared to 1,857,897 pounds of lead produced in the previous quarter, an increase of 7%. The increase in lead production was due to the increase of production at La Parrilla and also due to the addition of the flotation circuit at the San Martin Silver Mine. Production of gold was 482 ounces in the quarter compared to 240 ounces in the prior quarter representing an increase of 101%.

In this quarter, the production from the Del Toro mine totalled 19,157 tonnes of ore extracted with a head grade of 198.5 g/t of silver which was sent to the La Parrilla mill. During the quarter the combined recoveries of silver at the three different mines mills showed a minor decrease from 71% to 70%. The overall average silver head grade in the quarter for the three mines decreased to 230 g/t of silver compared to the previous quarter of 248 g/t of silver which was a result of the higher throughput achieved at each mill and a decrease of high grade ore being shipped from the Perseverancia area of the Del Toro Silver Mine due to the upgrade of the shaft and the construction of a new headframe.

The Company's aggressive development program continues now at each of the Company's four mines. This development activity is intended to open up additional producing stopes, improve grade control, and increase resource development and exploration. A total of 7,161 meters of development was completed in the quarter compared with 6,006 metres of development completed in the previous quarter representing an increase of 19%. This program is important as it provides access to areas within the different mines for preparation of additional stopes to allow for continued growth of silver production in 2008 and 2009.

Reserve and Resource development remains a top priority for the Company. Presently twenty two drill rigs are operating; seven rigs at La Parrilla, and three at the Del Toro properties, nine rigs at San Martin and three rigs at La Encantada. Also, in line with the Company's aggressive resource development strategy, 20,325 meters of diamond drilling was completed during the quarter, covering a total of 92 holes, which compared with the previous quarter's 10,256 meters, shows an increase of over 98%.

The Company's ongoing plan for 2008 includes the completion of over 82,000 metres of diamond drilling and over 46,000 metres of underground development covering each of its projects.

In line with Company's program of underground equipment replacement launched with Sandvik in 2006, a total of 3 pieces of underground equipment were delivered in the quarter, 1 in La Parrilla, and 2 in La Encantada. As well, the Company took receipt of a Long Hole drilling machine in La Parrilla and has two more on order for San Martin and La Encantada. Of the 21 pieces of underground equipment on order for 2008, 9 pieces have been delivered thus far this year. Due to the long delivering time and Sandvik's manufacturing schedule, the 12 remaining pieces of equipment for this year are scheduled to be delivered in the last quarter of 2008 and in the first quarter of 2009. All of this equipment is being deployed in underground mining activities at the different operations.

MINING PROPERTY UPDATES

La Parrilla Silver Mine, Durango, México

During the second quarter of 2008, the most important activities were: the continuous underground development at the different areas within the La Parrilla property; which included the preparation of Level 8 at the Rosarios/La Rosa area for the change of the mining method to long hole drilling with the a new Stopemate machine; at Quebradillas, development continued focusing on accessing the sulphides ore areas in the lower levels; at San Marcos and at the San Jose/La Blanca areas, development continues to access new production areas at the lower

levels within the mines. Also, the installation of new ventilation fans was completed both at the Rosarios and Quebradillas areas.

The Company maintained its focus on trying to increase recoveries with mill improvements in both the flotation and cyanidation circuits, the addition of two new filter presses, the completion of the construction of two new leaching tanks, and the completion of the construction of one of two thickeners. All of the equipment additions, including the new filter presses, are expected to contribute to an increase in recoveries of at least 5% at the cyanidation circuit.

During the second quarter of 2008, production from the La Parrilla mill was 72,650 tonnes which, when compared to the production of 55,299 tonnes in the previous quarter, shows an increase of 31%. The average head grade of silver at the mill in the second quarter of 2008 was 243 g/t which compared with the first quarter of 2008 of 276 g/t of silver, shows a decrease of 24%. Recoveries of silver decreased from 75% in the first quarter to 66% in the second quarter of 2008, which was caused by the feed of development ore coming from the Del Toro mine which was of lower grade.

Total silver production in the quarter was 456,688 ounces of silver equivalent, representing a 2% decrease over the 467,808 ounces in the previous quarter. The composition of the silver equivalent production in the second quarter of 2008 included 376,528 ounces of silver, 154 ounces of gold and 1,098,773 pounds of lead.

Resource and Reserve development at La Parrilla continues to be a priority both with diamond drilling with seven drill rigs active underground and on surface, and underground development focused toward increasing the Reserve / Resource base at the different areas of the La Parrilla property. During the quarter, a total of 43 diamond drill holes were completed at La Parrilla, consisting of 10,569 meters which compared with 8,547 meters in the previous quarter showed an increase of 24%. This includes 2,854 meters of diamond drill holes at the Del Toro Silver Mine with 9 holes completed in that area.

The primary focus of drilling during this quarter continues to be confirming Resources at the Quebradillas and Vacas areas and the beginning of testing a new area to the South West of the mill called Sacramento. In addition to the ongoing diamond drill program, a total of 2,048 meters of underground development was completed in the second quarter of 2008 focusing at the La Rosa/Rosario, La Blanca, San Marcos, Quebradillas and San José areas, with the objective of increasing the total Reserves and developing new production areas.

During the quarter, mine equipment continued to arrive at La Parrilla with the addition of one new piece of Sandvik equipment and the one Stopemate long hole machine in order to continually improve the operation.

San Martin Silver Mine, Jalisco, Mexico

During the second quarter of 2008, the newly constructed 500 tpd flotation circuit was commissioned and is now operating on a cycle of 10 days on flotation followed by 20 days of cyanidation circuit operation. The metallurgical parameters required in the flotation circuit are still being refined and improved. In the month of March, the second concentrates batch was commenced through the new circuit and 238 tonnes of lead concentrates were produced, and shipped to La Parrilla to mix with its concentrates, and 139 tonnes of zinc concentrates were produced and are being given an additional cleaning to comply with the 50% minimum grade of zinc required by the Peñoles smelter. Two additional thickener tanks are under construction and are expected to be commissioned in the third quarter to assist in the concentrate production.

In the cyanidation circuit, upgrade activities continued, including: pouring cement floors at the leaching and thickeners areas and the repair and reinforcement of the older leaching tanks. These improvements are part of the process of achieving a "Clean Industry Certification" from PROFEPA, the Mexican environmental agency responsible for policing environmental affairs.

Production at the San Martin mine during the quarter ended June 30, 2008, was 78,151 tonnes, representing a 56% increase compared to the 50,218 tonnes in the previous quarter ended March 31, 2008. The average head grade during the current quarter was 168 g/t representing a 22% increase from 138 g/t during the previous

quarter, this increase is due to a more selective mining in the oxides area. The feed of the sulphide ore had an average of 90 g/t of silver in the flotation circuit, and resulted in additional value being received from the resulting combined average grade of 4% lead and zinc received. During the previous quarter a new mining plan was developed and implemented in this quarter. These changes, which are anticipated to continue to show improvements for the remainder of 2008 are designed to increase tonnage and silver grade being fed to the mill. This new approach, which also includes some upgrades and additions to the mill, will allow for higher tonnage of ore being mined and milled, and is anticipated to reduce the overall operating costs at the San Martin.

Combined recoveries of silver in the quarter were 85%, compared to 79% in the previous quarter, resulting in total production of 386,891 equivalent ounces of silver, which is 90% higher than the 203,880 ounces in the first quarter of 2008. The equivalent ounces of silver consisted of 359,130 ounces of silver, 328 ounces of gold, 52,353 pounds of lead, and 134,644 pounds of zinc.

During the second quarter of 2008, a total of 7,255 metres of diamond drilling was completed consisting of 20 underground holes and 12 holes from surface.

During the quarter, four additional rigs were added to the drill program bringing the total to nine drill rigs operating at San Martin. Four rigs are operating underground and five are drilling from surface. This major drilling effort is focused toward defining additional Reserves and Resources in the different target areas that were defined during the previous year, in which an important surface geological program defined several targets.

During the second quarter a total of 2,896 metres of underground development was completed. An important part of this development continues to be focused on access to the upper levels in the mine where oxide ores are present. Also during the quarter, work continued at the new zone in the Rosario-Condesa system, at the Cinco Señores area, where old workings continue to be re-habilitated. Additional exploration with direct underground development is under way in this area. This activity is ongoing with the purposes of: grade control; the development of additional Reserves and Resources; and, exploration to define additional targets for future mine expansion.

La Encantada Silver Mine, Coahuila, Mexico

During the second quarter of 2008, improvements continued at the La Encantada, including the upgrade of the water pumping system, with the acquisition and installation of a new 300 hp motor for one of the main pumps. In addition, two new scoop trams arrived at the mine, replacing older pieces of equipment. The new scoop trams are permitting the Company to access high grade areas and increase the rate of development at the mine.

At the La Encantada Silver Mine, production in the quarter was 63,194 tonnes, an increase of 20% compared to the first quarter of 2008 production of 52,881 tonnes. The average head grade of silver was 290 g/t, a decrease of 10% compared to the 322 g/t achieved in the previous quarter due to lower high grade ore tonnage obtained from the dumps in this quarter. A total of 427,562 equivalent ounces of silver were produced during the second quarter, which represents an increase of 10% from the 390,032 equivalent ounces of silver in the previous quarter. Silver production consisted of 374,163 ounces of silver, an increase of 6% versus the 352,982 ounces in the previous quarter and 836,425 pounds of lead, an increase of 66% from the 503,788 pounds in the previous quarter.

Mine development continues with a total of 1,761 meters of development completed in the second quarter aimed at several targets including the San Javier/Milagros Breccias, Azul y Oro and the new Buenos Aires areas. The purpose of the ongoing underground development program is to increase production levels in 2008, confirm additional Reserves and Resources, and for exploration purposes.

Underground diamond drilling continued with a total of eight holes completed in the second quarter consisting of 2,501 meters. A new mineralized area (Buenos Aires) is presently being defined and is expected to be included in a new NI 43-101 compliant resource calculation expected later in 2008.

All permits were received for the building of the new 3,500 tpd cyanidation plant and construction commenced in the second week of June. 95% of the required equipment for this new facility has been procured, construction has commenced, and commissioning is expected in the first quarter of 2009.

In August 2008, and as a result of the original Agreement with Desmin in which its owner had committed to transfer the title rights of three mining claims registered in his name regarding La Encantada, the Company accepted the transfer of rights of the following three mining claims:

- Rosita 1, Title No. 232026, Surface 50 hectares,
- Rosita 2, Title No. 230228, Surface 350 hectares,
- Rosita 3, Title No. 232027, Surface 850 hectares,

The effect of these rights is to increase total surface rights by 1,250 hectares which add to the pre-existing 2,826 hectares increasing the total surface at La Encantada to 4,076 hectares.

Del Toro Silver Mine, Zacatecas, Mexico (previously referred to as Chalchihuites)

The Del Toro Silver Mine, formerly referred to as the Chalchihuites Group of Properties consists of a 320 hectare land package which contains two historic mines, the San Juan Silver Mine and the Perseverancia Silver Mine (hereafter referred to as the San Juan area and the Perseverancia area). During the quarter, the Company added to its land holding by electing to exercise an option to purchase the rights to another 29 hectares, consisting of two additional mining claims in the Del Toro mine area, the Esperanza claims, additionally a new Option to Purchase Agreement has been signed for the acquisition of a neighbour mining claim of the name Fatima with a 50 hectare surface area.

For the quarter ended June 30, 2008, a total of nine diamond drill holes were completed totalling 2,854 meters at both the San Juan and Perseverancia areas. An underground diamond drill is operating on a permanent basis, and an additional rig has been installed on surface to explore the extension of the San Juan ore body to the East. To date a total of three drill rigs are operating at Del Toro, two on surface at San Juan, one underground at Perseverancia. A mine contractor with a crew of 48 people is presently developing both areas.

The drilling at the Del Toro mine has shown a very high potential. A fourth rig has been ordered and is expected to arrive within the third quarter to commence underground drilling at San Juan to continue the exploration of a new third ore body which was discovered with the last hole in the San Juan area (See NR of July 23, 2008). In addition, development has been accelerated in order to access this lower ore body.

The Perseverancia area is presently being upgraded and rehabilitated to increase production from the high grade chimney areas. High grade ore is presently being produced at a rate of 100 tonnes per month. During the second quarter, 244 tonnes were extracted from the mine, grading approximately 1.5 kilos (1,500 g/t) of silver and 23% lead. This high grade ore is crushed to minus 1/8" and is being shipped directly to the smelter. A disruption of this production occurred in the second quarter to allow for the upgrade of the shaft and construction and installation of a new 200 tpd head frame and new hoist which will allow for an increase in production from this area in the following months.

EXPLORATION PROPERTY UPDATES

Cuitaboca Silver Project, Sinaloa, Mexico

As a result of the Company's acquisition of Minera El Pilon, the Company acquired an option to purchase a 100% interest in the Cuitaboca Silver Project, consisting of 5,134 hectares located in the State of Sinaloa, Mexico, which contains at least six well known veins with sulphide mineralization carrying high grade silver. The veins within the property are known as the La Lupita, Los Sapos, Chapotal, Colateral-Jesus Maria, Mojardina and Santa Eduwiges.

During the second quarter, the Company completed another kilometre of road construction to access the Mojardina and Eduwiges veins which are the second and third veins scheduled to be accessed. Total road construction since mid-2006 consists of 35 kms.

During the second quarter of 2008, the mining contractor mobilized equipment and the required manpower, and the development work at the Colateral vein was reinitiated with a total of 110 meters completed during the quarter, the main objective of this development was to continue confirming the resources on the Colateral vein and the development of a crosscut for underground diamond drilling, also. Explosive permits have now been received which will allow for the development at the Santa Eduwiges vein expected to be initiated in the third quarter of 2008.

The Company intends to advance the current exploration program, increasing the development and exploration efforts by completing 2,000 metres of direct drifting along the vein and commencing a diamond drill program at both the Colateral and Mojardina veins during 2008. Road construction will also be continued to extend access to the La Lupita, Los Sapos, Chapotal, and Santa Eduwiges veins where additional exploration work will be carried out. Also in order to improve the access and infrastructure to the project a new access road was projected and permitting is expected to be completed during the third quarter in order to initiate the construction immediately.

Jalisco Group of Properties, Jalisco, Mexico

As a result of the Company's acquisition of Minera El Pilon, the Company acquired a group of mining claims totalling 5,131 hectares located in various mining districts located in Jalisco State, Mexico. During the second half of 2007, a team of geologists visited these mining claims to initially focus on the evaluation of the geological potential at the prolific mining district of Etzatlan, Jalisco where the Company owns 787 hectares. During 2008, surface geology and mapping will continue with the purpose of defining future drill targets.

Candameña Mining District property, Chihuahua, Mexico

On August 14, 2007, the Company entered into an agreement with Prospector Consolidated Resources Inc. ("Prospector") whereby Prospector had the right to acquire a 100% interest in the Company's option to the Candameña Mining District Property by paying \$50,000 and issuing two million of its common shares to the Company upon regulatory approval. The Company received \$50,000 in August 2007, and Prospector assumed all option commitments to the underlying property vendors effective August 2007. Prospector received regulatory approval and the Company received two million shares of Prospector in March 2008. In September 2007, management wrote down the carrying value of its receivable on sale of the option on the Candameña property by \$1,703,591 to \$700,000, reflecting the cash received and estimated proceeds on disposal of two million shares of Prospector. In March 2008, the Company wrote down the remaining receivable on Candameña to \$460,000, reflecting the market value of the Prospector Resources shares on the date it received those shares.

Since March 2008 management has made numerous unsuccessful attempts to assist Prospector in the transfer or the rights to the Candameña property. On May 28, 2008 we advised Prospector that we specifically disclaim any future responsibility to make the necessary payments to the Candameña property owners unless the funds were provided by Prospector. Furthermore, the Company advised Prospector that the Underlying Agreements with the Candameña property owners were in breach for non-payment and that if payments were not provided that the properties would likely revert to their underlying owners. On May 14, 2008 the TSX Venture Exchange issued a Cease Trade Order to Prospector and Prospector has not been able to remedy the Cease Trade or to raise the necessary funds to make required payments to the underlying property owners. Subsequent to May 14, 2008, the underlying owners have approached the Company to assist with returning the properties to them. Management has revalued its investment downward through Other Comprehensive Income with a \$180,000 charge in the six months ended June 30, 2008 to reflect a decline in the market value of its investment in Prospector from \$460,000 to a market value of \$280,000.

RESULTS OF OPERATIONS

Three and six months ended June 30, 2008 compared to three and six months ended June 30, 2007.

Revenue increased to \$11,436,889 for the three months ended June 30, 2008 compared to the \$10,846,344 for the three months ended June 30, 2007, an increase of 5%. This increase is due primarily to the ramping up of production at the La Parrilla Silver Mine and La Encantada Silver Mines. Production increased 20% in the second quarter relative to the first quarter, but a significant US\$1.9 million increase in smelting charges reduced the net revenues received on settlements from Peñoles. The average trading price of silver in the quarter was US\$17.17 whereas for the same quarter in 2007, the average trading price of silver was US\$13.34, an increase of 29%.

Revenue increased to \$24,401,071 for the six months ended June 30, 2008 compared to the \$21,004,966 for the six months ended June 30, 2007, an increase of 16%. This increase is due primarily to the ramping up of production at the La Parrilla Silver Mine and La Encantada Silver Mine, and an increase of the average trading price of silver for the six months ended June 30 relative to the period of the prior year from US\$13.33 in 2007 to US\$17.43 in 2008.

Mine operating earnings for the three months ended June 30, 2008 was \$2,180,671, an increase of \$1,092,374 over the \$1,088,297 of mine operating earnings for the three months ended June 30, 2007. This is due to an increase in production from 852,721 equivalent ounces in 2007 to 1,109,821 equivalent ounces in 2008, combined with an increase in the average trading price of silver.

Mine operating earnings for the six months ended June 30, 2008 was \$6,908,781, an increase of \$4,513,112 over the \$2,395,669 of mine operating earnings for the three months ended June 30, 2007, due primarily to the increases in production, average price of silver and increases in the margin on sales, except for the current quarter's US\$1.9 million reduction in net sales which was the result of a smelter charge increase imposed by Peñoles.

An operating loss of \$590,270 was generated after general and administrative costs and stock based compensation, for the three months ended June 30, 2008, compared to a loss of \$1,523,928 for the three months ended June 30, 2007. Interest and other expense includes approximately \$206,000 of 6% simple interest for three months on the vendor and arrangement liabilities associated with the purchase of First Silver and interest expense associated with capital leases with Sandvik Financial.

An operating income of \$897,744 was generated after general and administrative costs and stock based compensation, for the six months ended June 30, 2008, compared to a loss of \$3,012,765 for the six months ended June 30, 2007.

The loss before income taxes turned to a pre-tax profit of \$369,761 for the three months ended June 30, 2008, an improvement of \$1,439,347 compared to the same period in the prior year, due to the higher mine operating earnings.

The loss before income taxes turned to a pre-tax profit of \$1,646,529 for the six months ended June 30, 2008, an improvement of \$4,931,628 compared to the same period in the prior year, due to the higher mine operating earnings.

The net income after income taxes was \$768,367 (\$0.01 per share) compared to a loss of \$3,867,410 (\$0.07 per share) for the same period in the prior year, due primarily to increased mine operating earnings.

SUMMARY OF QUARTERLY RESULTS

The following table presents selected financial information for each of the last eight quarters.

	Quarter	Net sales revenues \$	Net Income (loss) after taxes \$	Basic and diluted net income (loss) per common share \$	Stock based compensation (3) \$	Property Write Downs \$	Notes:
Year Ended December 31, 2008	Q2	11,436,889	(296,956)	0.00	670,616	0	1
	Q1	12,964,182	1,065,323	0.02	1,108,216	0	
Year ended December 31, 2007	Q4	11,631,477	(1,771,511)	(0.03)	1,446,821	0	2
	Q3	10,288,478	(2,070,082)	(0.04)	723,992	1,703,591	2, 4
	Q2	10,846,344	(729,658)	(0.01)	775,532	0	2
	Q1	10,158,621	(3,137,751)	(0.06)	919,344	0	
Transition year ended December 31, 2006	Q2	8,138,284	(3,893,758)	(0.09)	1,400,603	774,254	5
	Q1	4,616,681	(3,694,434)	(0.09)	158,289	2,086,258	6

Notes:

- (1) In the quarter ended June 30, 2008, the Company had a revision to its smelting charges imposed, resulting in an incremental charge and reduction of net sales of \$1.9 million (US\$1,852,830) in the quarter. Management is reviewing its alternatives to adopt new technologies and new agents, the effect of which is intended to reduce some of the impact of increased smelting charges in the future.
- (2) During the quarter ended September 30, 2007, the Company changed its accounting policy with respect to the treatment of underground mining costs whereby it commenced capitalizing development costs associated with ramp and stope investments to access new ore. Previously these costs were expensed. This change has been applied on a retroactive basis with the following effect:
 - a. Cost of production, net loss and comprehensive loss for the three months ended June 30, 2007 have each been reduced by \$421,910
 - b. Cost of production, net loss and comprehensive loss for the three months ended September 30, 2007 have each been reduced by \$1,378,324
 - c. Cost of production, net loss and comprehensive loss for the three months ended December 31, 2007 have each been reduced by \$600,762
- (3) Stock Based Compensation - the net losses are affected by significantly varying stock based compensation amounts in each quarter. Stock based compensation results from the issuance of stock options in any given period, as well as factors such as vesting and the volatility of the Company's stock, and is a calculated amount based on the *Black-Scholes Option Pricing Model* of estimating the fair value of stock option issuances.

Write downs of mineral properties – net losses are impacted by managements' decision not to pursue certain mineral properties. The write downs relate to the following properties:

- (4) In the quarter ended September 30, 2007, management elected not to proceed with the acquisitions of the Candameña Mining District and accordingly, included a \$1,703,591 one time write down of the carrying value of the Candameña mineral property to its estimated proceeds from disposal.
- (5) In the quarter ended December 31, 2006, management elected not to proceed with the acquisitions of five of the Chalchihuites Group Properties (Beatriz, Esmeraldita, Nueva India, Tayoltita and Verdiosa) and accordingly, the historical investments in these properties totalling \$688,766 were written off during the quarter in addition to other exploration costs of \$85,488.

- (6) In the quarter ended September 30, 2006, management elected not to proceed with the acquisitions of the Dios Padre Silver Project and the La Candelaria Silver Project, and as a result wrote down the carrying values of the properties by \$1,895,107 and \$191,151, respectively.

The results for the eight most recent quarters include the consolidation of operating results of the San Martin mine since June 1, 2006, and the La Encantada mine since November 1, 2006. Accordingly, the sales revenues have increased significantly with these acquisitions.

Revenues Per Canadian GAAP (expressed in CDN\$)

Per Canadian GAAP, revenues are stated as invoiced revenues for delivered shipments of silver dore bars, and silver concentrates, including metal by-products of gold and lead, after having deducted refining, smelting and transportation charges. The following analysis provides the gross value of revenues prior to refining, smelting and shipping charges, which results in the net reportable revenue for the period. Gross revenues are used to calculate the average realized price per equivalent ounce of silver sold. Certain of the smelting charges in the comparative year omitted 5% and 0.5% deductions for smelting of concentrates and have been omitted to prevent distorted comparative comparisons in the current period relative to the prior period.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007 (1)	2008	2007 (1)
	\$	\$	\$	\$
Gross revenues - silver dore bars and concentrates	15,905,718		30,536,815	
Less: refining, smelting and transportation charges	(4,468,829)		(6,135,744)	
Net revenue	11,436,889	10,846,344	24,401,071	21,004,966
Equivalent Ounces of silver sold	892,406	801,324	1,911,896	1,470,772
Average gross revenue per ounce sold	17.82		15.97	

(Note 1 - certain numbers for smelting charges are not available on a comparative basis)

LIQUIDITY

At June 30, 2008, the Company had working capital of \$26,272,426 and cash and cash equivalents of \$46,224,719 compared to working capital of \$1,125,368 and cash and cash equivalents of \$12,835,183 at December 31, 2007. Current liabilities at June 30, 2008 includes the long-term vendor liability and associated interest relating to the acquisition of First Silver in the amount of \$13,940,237, and the current portion of a liability relating to the First Silver Arrangement in the amount of \$388,836, as well as the current portion of capital lease obligations of \$4,046,328.

On April 4, 2008, the Company completed the issuance of an aggregate of 637,500 common share purchase warrants pursuant to the exercise of the over-allotment option granted to the Underwriters in connection with the public offering of 8,500,000 units of First Majestic which closed on March 25, 2008. The Additional Warrants were sold to the Underwriters at an issue price of \$0.56 per Additional Warrant. Each Additional Warrant entitles the holder to acquire one additional common share at a price of \$7.00 until March 25, 2010. The gross proceeds to First Majestic from the exercise of the Over-allotment Option is \$357,000.

Funds surplus to the Company's short-term operating needs are invested in highly liquid short-term investments with maturities of three months or less. The funds are not exposed to any liquidity risk and there are no restrictions on the ability of the Company to meet its obligations. The Company has no exposure and has not invested any of its treasuries in any asset backed commercial paper securities. The Company has chosen not to hedge any of its production of silver and has not invested in any futures contracts for the purpose of hedging against commodity prices or currency volatility.

During the quarter ended June 30, 2008, the Company made investments on its mineral properties of \$8,943,735 (June 30, 2007 - \$6,018,998), and on plant and equipment further expenditures of \$3,153,042 (June 30, 2007 - \$1,508,205), and \$2,150,613 on deposits on new mining equipment (June 30, 2007 - \$1,598,739).

CAPITAL RESOURCES

As a result of the \$34,415,000 private placement in 2007, and the March 2008 public offering of \$45,475,000, as well as the Company's ability to earn cash flow from its ongoing operations, the Company currently has approximately \$46 million of cash in treasury and considers that it has sufficient cash flow to meet its existing obligations and to address its capital expansion plans going forward.

The Company has an obligation regarding its purchase of First Silver Reserve ("FSR") to make a final instalment payment of \$13,341,380, due on May 30, 2008, and to make simple interest payments at 6% per annum, payable quarterly on the outstanding vendor balance. In November 2007, an action was commenced by the Company and FSR against the previous majority shareholder of FSR ("Majority Shareholder"), who was a previous director, President & Chief Executive Officer of FSR, and a company he controls, whereby the Company and FSR allege that while holding the positions of director, President and Chief Executive Officer of FSR, he engaged in a course of deceitful and dishonest conduct in breach of his fiduciary and statutory duties owed to FSR, which resulted in FSR not acquiring a mine. Management believes that there are substantial grounds to this claim, however, the outcome of this litigation is not presently determinable.

Pending resolution of the litigation set out above the Company has withheld payment of quarterly instalments of interest due on November 30, 2007, February 29, 2008 and May 30, 2008 totalling \$598,857 to the previous Majority Shareholder, and has maintained a reserve of cash in the amount of such instalments. The Company anticipates withholding payments of the final instalment and interest, combined to a total of \$13,940,237 due May 30, 2008 until such litigation has been resolved, and such date is presently not determinable. The Company has filed as security on July 22, 2008 an irrevocable Letter of Credit to the Supreme Court of British Columbia as security for this matter.

The Company is obligated to make certain mineral property future option payments of US\$ 1,775,000 to retain access to its Cuitaboca properties.

Future costs to retire assets including dismantling, remediation and ongoing treatment and monitoring of sites are recognized and recorded as liabilities at fair value as at the date the liabilities are incurred. The remediation liability is accreted over time to the estimated amount ultimately payable through periodic charges to earnings. Future site restoration costs are capitalized as part of the carrying value of the related mineral properties at their initial values and amortized over the mineral properties useful lives based on a units-of-production method. The present value of the Company's reclamation liabilities may be subject to change based on management's current estimates, changes in the remediation technology or changes to the applicable laws and regulations. Such changes will be recorded in the accounts of the Company as they occur.

2008 OUTLOOK

As the Company's Reserves and Resources continue to grow, the Company continues to focus on expansions of its mills and operational output. In 2008, management at First Majestic is focusing on executing its business plan by continuing the ongoing improvements at each mine, and achieving production and resource targets for 2008. The Company is targeting 5 million ounces of silver equivalent production for 2008, and continued increases in NI 43-101 compliant silver Resources. As at the latest NI 43-101 Reports, the Company has defined a global Resource of 184 million ounces of Silver equivalents. Twenty two drill rigs are presently focused on Resource development. Each of the Company's NI 43-101 Reports will be updated by year end and are expected to show substantial increases. The Company's primary focus is to build long term sustainable mining operations, and shareholders can be assured management at First Majestic is very focused on growth and profitable mining operations.

Improvements made to date in 2008 include:

La Parrilla Silver Mine

Within the mill, two new filter presses were delivered and installed. Construction of two new leaching tanks in the cyanidation circuit and one additional thickener commenced. Recoveries and capacity are expected to improve once these new tanks come online in the third quarter. At the mine, preparation of the lower levels within the Rosarios area and the addition of a long hole drilling machine is allowing for an increase in production from the sulphides area. Seven drill rigs are presently active which are focusing on drilling out NI 43-101 compliant Resources. A new updated NI 43-101 report is expected to be released prior to year end.

San Martin Silver Mine

Within the mine, productivity improvements were accomplished by making adjustments in the mining method in order to reduce development and improve the use of the underground fleet of equipment. In addition, a new portable screen was installed at the mine in order to take advantage of some of the backfill and dumps which was proven that once screened this material is economic and is being mixed at the mill. In order to achieve certification as a "clean industry" at the mill, reinforcement of older leaching tanks is in process, construction of a complete spillage control system was completed, a new dust collector within the crushing area was installed and a fumes control system was installed within the smelter area. Also, the flotation circuit continues to be expanded and improved with the installation of the two new thickeners and filters. Once completed, it is anticipated that a higher quality concentrate will be produced. Nine drill rigs are presently exploring and developing Resources at San Martin. An updated NI 43-101 is expected to be released prior to year end.

La Encantada Silver Mine

Several additional pieces of underground equipment were added within the first six months and improvements in the underground electric installations were completed. Three drill rigs commenced drilling during the period from underground and are showing good signs of early successes. In addition to exploration successes during the quarter, development has been going well with several new areas within the mine being opened for production. Within the mill, the replacement of the secondary crusher was completed and an upgrade to the flotation cells have allowed a better quality of the lead concentrate production which has helped to compensate the increase in smelting costs. An updated NI 43-101 is expected to be released prior to year end.

In Summary

Equally as important to increasing production is costs savings. 2008 still represents a year of high expenses as a result of the present growth underway. In addition, the Company was negatively impacted from higher smelting costs during the quarter. Management is pleased by the many improvements in costs which can be seen in the second quarter, however, further improvements in profitability can be made and are expected going forward as smelting costs are reduced and expenses come down. It's important to note that one of the primary drivers of costs savings is the use of new equipment. The Company is now in the third year of a major fleet expansion and replacement program with Sandvik. In order to increase mining efficiencies and tonnages, 21 pieces of underground equipment were ordered for 2008. Nine pieces have been received of which three were delivered in this quarter. These new pieces of equipment include scoop-trams, underground trucks and jumbos. These same efficiencies can be seen in mill operations as new components replace older components.

In 2008, other improvements that are either underway or in the planning stage, include: the mill expansion underway at La Encantada was launched during the second quarter; an extensive regional geophysics program was also completed at the La Encantada during the quarter; mining method changes were implemented in the second quarter at the San Martin to increase tonnage and reduce the cost per tonne; expansion of the San Martin mill in the final planning stage; the Del Toro Silver Mine (previously referred to as Chalchihuites) is undergoing an extensive underground development program including diamond drilling in order to release the first NI 43-101 compliant Resource estimate in the third quarter; also, at the Cuitaboca project the exploration and development program is continuing which is anticipated to result in the release of a NI 43-101 report by year end.

The Company anticipates that silver prices will continue to be volatile but will continue their upward trends. We expect all three producing mines to produce positive cash flows from production, as well as positive mine operating earnings during 2008.

OFF-BALANCE SHEET ARRANGEMENTS

At June 30, 2008, the Company had no material off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that generate financing, liquidity, market or credit risk to the Company.

RELATED PARTY TRANSACTIONS:

During the period ended June 30, 2008, the Company:

- (a) incurred \$120,273 (six months ended June 30, 2007 - \$95,482) for management services provided by the President & CEO and/or a corporation controlled by the President & CEO of the Company pursuant to a consulting agreement.
- (b) incurred \$139,105 (six months ended June 30, 2007 - \$95,661) to a director and Chief Operating Officer for management and other services related to the mining operations of the Company in Mexico pursuant to a consulting agreement.
- (c) incurred \$4,207,123 of service fees during the period (six months ended June 30, 2007 - \$753,597) to a mining services company sharing our premises in Durango Mexico for the management and payment of mining contractors performing services for the Company in Mexico at all three mines. An employee of the Company is a shareholder of the mining services company. Of the fees, \$1,635,365 were unpaid at June 30, 2008 (June 30, 2007 - \$281,132).

Amounts paid to related parties were incurred in the normal course of business and measured at the exchange amount, which is the amount agreed upon by the transacting parties and on terms and conditions similar to non-related parties.

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PROPOSED TRANSACTIONS

The board of directors of the Company is not aware of any proposed transactions involving any proposed assets, businesses, business acquisitions or dispositions which may have an effect on the financial condition, results of operations and cash flows.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in Canada requires companies to establish accounting policies and to make estimates that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgments about matters that are inherently uncertain.

All of the Company's significant accounting policies and the estimates derived therefrom are included in Note 2 to the annual consolidated financial statements for period ended December 31, 2007. While all of the significant accounting policies are important to the Company's consolidated financial statements, the following accounting policies, and the estimates derived therefrom, have been identified as being critical:

- Carrying Values of Property, Plant and Equipment and Other Mineral Property Interests;
- Depletion and Depreciation of Property, Plant and Equipment;
- Reclamation and Remediation Obligations;
- Income Taxes; and
- Stock Based Compensation.

Carrying Values of Property, Plant and Equipment and Other Mineral Property Interests

The Company reviews and evaluates its mineral properties for impairment at least annually or when events and changes in circumstances indicate that the related carrying amounts may not be recoverable. Impairment is considered to exist if the total estimated future undiscounted cash flows are less than the carrying amount of the assets. Estimated undiscounted future net cash flows for properties in which a mineral resource has been identified are calculated using estimated future production, commodity prices, operating and capital costs and reclamation and closure costs. Undiscounted future cash flows for exploration stage mineral properties are estimated by reference to the timing of exploration and/or development work, work programs proposed, the exploration results achieved to date and the likely proceeds receivable if the Company sold specific properties to third parties. If it is determined that the future net cash flows from a property are less than the carrying value, then an impairment loss is recorded with a charge to operations, to the extent the carrying value exceeds discounted estimated future cash flows.

The estimates used by management are subject to various risks and uncertainties. It is reasonably possible that changes in estimates could occur which may affect the expected recoverability of the Company's investments in mining projects and other mineral property interests.

Depletion and Depreciation of Property, Plant and Equipment

Property, plant and equipment comprise one of the largest components of the Company's assets and, as such, the amortization of these assets has a significant effect on the Company's financial statements. On the commencement of commercial production, depletion of each mining property is provided on the unit-of-production basis using estimated reserves as the depletion basis. The mining plant and equipment and other capital assets are depreciated, following the commencement of commercial production, over their expected economic lives using either the unit-of-production method or the straight-line method (over two to 20 years), as appropriate.

Capital projects in progress are not depreciated until the capital asset has been put into operation.

The reserves are determined based on a professional evaluation using accepted international standards for the assessment of mineral reserves. The assessment involves the study of geological, geophysical and economic data and the reliance on a number of assumptions. The estimates of the reserves may change, based on additional knowledge gained subsequent to the initial assessment. This may include additional data available from continuing exploration, results from the reconciliation of actual mining production data against the original reserve estimates, or the impact of economic factors such as changes in the price of commodities or the cost of components of production. A change in the original estimate of reserves would result in a change in the rate of depletion and depreciation of the related mining assets or could result in impairment resulting in a write-down of the assets.

Reclamation and Remediation Obligations

The Company has obligations for site restoration and decommissioning related to its mining properties. The Company, using mine closure plans or other similar studies that outline the requirements planned to be carried out, estimates the future obligations from mine closure activities. Because the obligations are dependent on the laws and regulations of the county in which the mines operate, the requirements could change resulting from amendments in those laws and regulations relating to environmental protection and other legislation affecting resource companies.

The Company recognizes liabilities for statutory, contractual or legal obligations associated with the retirement of mining property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement cost is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of production method or the straight-line method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability

is increased for the passage of time and adjusted for changes to the amount or timing of the underlying cash flows needed to settle the obligation.

As the estimate of obligations is based on future expectations, in the determination of closure provisions, management makes a number of assumptions and judgments. The closure provisions are more uncertain the further into the future the mine closure activities are to be carried out. Actual costs incurred in future periods related to the disruption to date could differ materially from the discounted future value estimated by the Company at June 30, 2008.

Income Taxes

Future income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values, using the enacted or substantially enacted, as applicable, income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is reviewed quarterly and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

The determination of the ability of the Company to utilize tax loss carry-forwards to offset future income tax payable requires management to exercise judgment and make assumptions about the future performance of the Company.

Management executed a corporate restructuring for tax purposes that became effective January 1, 2008, enabling on a limited basis to consolidate its tax losses of certain subsidiaries against the taxable incomes of other subsidiaries. Co-incident with the tax consolidation, Mexico introduced an alternative minimum tax known as the IETU, effective January 1, 2008, to attempt to limit certain companies from avoiding paying taxes on their cash earnings in Mexico. Management has reviewed its IETU obligations and its consolidated tax position at June 30, 2008, and management is required to assess whether the Company is “more likely than not” to benefit from these tax losses prior to recording a benefit from the tax losses.

Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses.

Stock-Based Compensation

The Company uses the *Black-Scholes Option Pricing Model*. Option pricing models require the input of subjective assumptions including the expected price volatility. Changes in the input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company’s stock options granted during the year.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Capital Disclosures and Financial Instruments- Disclosures and Presentation

During the quarter, the Company adopted three new presentation and disclosure standards that were issued by the Canadian Institute of Chartered Accountants: Handbook Section 1535, Capital Disclosures (“Section 1535”), Handbook Section 3862, Financial Instruments – Disclosures (“Section 3862”) and Handbook Section 3863, Financial Instruments – Presentation (“Section 3863”).

Section 1535 requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements and carrying forward unchanged its presentation requirements

for financial instruments. Sections 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Section 3064 International Financial Reporting Standards (“IFRS”)

In 2006, the Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for public-listed companies to use IFRS, replacing Canada’s own GAAP. The transition date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for all the periods ended January 1, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Fair Values of Financial Instruments

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, currency risk, interest rate risk and other price risks. Where material, these risks are reviewed and monitored by the Board of Directors.

Capital Risk Management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through a suitable debt and equity balance appropriate for an entity of the Company’s size and status. The Companies overall strategy remains unchanged from 2007.

The capital structure of the Company consists of equity attributable to common shareholders, comprising of issued capital, contributed surplus, retained earnings and accumulated other comprehensive income.

Credit Risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its contractual obligations. The Company’s credit risk relates primarily to trade receivables in the ordinary course of business and value added tax and other receivables. The Company sells exclusively to one international organization with a strong credit rating, payments receivable are scheduled, routine and received within sixty days of submission; therefore, the balance of overdue trade receivables owed to the Company in the ordinary course of business is not significant. The Company has a Mexican value added tax receivable of \$6.2 million as at June 30, 2008 a significant portion of which is past due. The Company expects to recover the full amount. Therefore, the Company is not exposed to significant credit risk and overall the Company’s credit risk has not changed significantly from the prior year.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they arise. The Company has in place a planning and budgeting process to help determine the funds required to support the Company’s normal operating requirements on an ongoing basis and its expansion plans. The Company does not have any committed loan facilities to meet its business requirements.

As at June 30, 2008, the Company has outstanding accounts payable and accrued liabilities of \$16.2 million, which are generally payable in 90 days or less.

On March 25, 2008, the Company completed a public offering with a syndicate of underwriters who purchased 8,500,000 Units at an issue price of \$5.35 per Unit for net proceeds to the Company of \$42,973,875. Although the Company does not have a history of operating profits, the Company believes it has sufficient cash on hand to meet operating requirements as they arise.

The Company has an obligation regarding its purchase of First Silver Reserve (“FSR”) to make a final instalment payment of \$13,341,380, due on May 30, 2008, and to make simple interest payments at 6% per annum, payable quarterly on the outstanding vendor balance. In November 2007, an action was commenced by the Company and FSR against the previous majority shareholder of FSR (“Majority Shareholder”), who was a previous director, President & Chief Executive Officer of FSR, and a company he controls, whereby the Company and FSR allege that while holding the positions of director, President and Chief Executive Officer of FSR, he engaged in a course of deceitful and dishonest conduct in breach of his fiduciary and statutory duties owed to FSR, which resulted in FSR not acquiring a mine. Management believes that there are substantial grounds to this claim, however, the outcome of this litigation is not presently determinable.

Pending resolution of the litigation set out above the Company has withheld payment of quarterly instalments of interest due on November 30, 2007, February 29, 2008 and May 30, 2008 totalling \$598,857 to the previous Majority Shareholder, and has maintained a reserve of cash in the amount of such instalments. The Company anticipates withholding payments of the final instalment and interest, combined to a total of \$13,940,237 due May 30, 2008 until such litigation has been resolved, and such date is presently not determinable. The Company has filed as security on July 22, 2008 an irrevocable Letter of Credit to the Supreme Court of British Columbia as security for this matter.

The Company’s overall liquidity risk has improved significantly from the prior year due to the March 25th financing and due to the achievement of net income for the six months ended June 30, 2008.

Currency Risk

Financial instruments that impact the Company’s net earnings or other comprehensive income due to currency fluctuations include: Mexican peso denominated cash and cash equivalents, accounts receivable, accounts payable, long-term investments. The sensitivity of the Company’s net earnings and other comprehensive income due to changes in the exchange rate between the Mexican peso and the Canadian dollar is summarized in the table below.

Commodity Price Risk

Movements in the spot price of silver have a direct and immediate impact on the Company’s income and the value of its silver-related financial instruments. The Company does not use other derivative instruments to hedge its Commodity price risk.

Interest Rate Risk

The Company is exposed to interest rate risk on its short term investments. The Company monitors its exposure to interest rates and has not entered into any derivative contracts to manage this risk.

Foreign Exchange Risk

The Company sells its silver doré and concentrates through Peñoles smelter to the global metals markets and receives advance payments denominated in US Currency based on the average selling price of silver in the month of sales. Settlements are paid in Mexican pesos based on the exchange rate of US dollars to Mexican pesos at the date of final settlement. The Company monitors its exposure to foreign exchange risks and has not entered into any derivative contracts to manage this risk.

The Company’s interest-bearing financial assets comprise cash and cash equivalents which bear interest at a mixture of fixed rates for pre-set periods of time. The company’s interest-bearing financial liabilities comprise fixed rate debt instruments and capital leases with terms to maturity ranging up to three years.

The sensitivity analyses below have been determined based on the exposure to equity price risks at June 30, 2008.

	Reasonably possible changes ⁽¹⁾			
	\$US Denominated Silver Commodity Price	\$US /Peso Exchange Rate	Peso/\$CDN Exchange Rate	Market interest rate
Impact on Quarterly Operations	10%	10%	10%	25 basis points
Net Income	\$ 1,590,600	\$ 1,062,000	\$ 544,400	\$ 115,562
Other Comprehensive Income	\$ -	\$ -	\$ 1,198,100	\$ -

(1) These sensitivities are hypothetical and should be used with caution, favourable hypothetical changes in the assumptions result in an increased amount and unfavourable hypothetical changes in the assumptions result in a decreased amount of net income and/or other comprehensive income.

OTHER MD&A REQUIREMENTS

- (a) Additional information relating to the Company may be found on or in:
- SEDAR at www.sedar.com,
 - the Company's Annual Information Form,
 - the Company's audited consolidated financial statements for the transition year ended December 31, 2007.
- (b) Outstanding Share Data as of the Report Date

As of August 12, 2008, the Company has the following securities outstanding:

Issued common shares: 73,847,810 common shares

Stock options chronologically:

Price \$	Options Outstanding	Options Exercisable	Expiry Dates
3.28	100,000	100,000	October 17, 2008
2.10	240,000	240,000	November 9, 2008
2.45	550,000	550,000	December 16, 2008
3.28	12,500	12,500	June 13, 2009
4.32	675,000	675,000	December 6, 2009
5.50	200,000	150,000	February 1, 2010
4.64	75,000	56,250	June 1, 2010
4.17	100,000	75,000	August 8, 2010
3.72	30,000	15,000	September 24, 2010
3.98	20,000	7,500	October 17, 2010
4.45	730,000	365,000	October 30, 2010
4.34	50,000	25,000	November 1, 2010
4.42	25,000	12,500	November 12, 2010
4.34	200,000	100,000	December 5, 2010
4.42	50,000	12,500	February 21, 2011
4.65	100,000	25,000	March 25, 2011
4.19	30,000	7,500	April 26, 2011
4.02	100,000	25,000	May 15, 2011
4.30	450,000	450,000	June 19, 2011
4.67	142,500	35,625	July 4, 2011
4.15	300,000	75,000	July 28, 2011
4.32	245,000	245,000	December 6, 2011
4.41	400,000	400,000	December 22, 2011
5.00	155,000	155,000	February 7, 2012
4.65	25,000	18,750	June 20, 2012
4.34	925,000	462,500	December 5, 2012
	5,930,000	4,295,625	

	Six Months Ended June 30, 2008			Year Ended December 31, 2007		
	Number of Shares	Weighted Average Exercise Price (\$)	Weighted Average Remaining Life	Number of Shares	Weighted Average Exercise Price (\$)	Weighted Average Remaining Life
Balance, beginning of the period	5,892,500	4.04	2.75 years	5,052,500	3.30	2.34 years
Granted	280,000	4.33	2.78 years	2,680,000	4.50	3.83 years
Exercised	(376,250)	3.00	0.43 years	(1,407,500)	2.15	0.22 years
Foreited or expired	(233,350)	4.48	1.31 years	(432,500)	4.32	0.34 years
Balance, end of the period	5,562,900	4.12	2.41 years	5,892,500	4.04	2.75 years

The changes in share purchase warrants for the six months ended June 30, 2008 are as follows:

	Six Months Ended June 30, 2008			Year Ended December 31, 2007		
	Number of Warrants	Weighted Average Exercise Price (\$)	Average Number of Periods to Expiry	Number of Warrants	Weighted Average Exercise Price (\$)	Average Number of Periods to Expiry
Balance, beginning of the period	5,845,240	5.66	0.89 years	8,766,271	4.02	1.12 years
Issued (i) (ii)	4,887,500	7.00	1.73 years	3,632,791	6.52	1.32 years
Exercised	(7,500)	4.25	0.86 years	(2,668,823)	2.58	0.33 years
Cancelled or expired	-	-	0.00 years	(3,884,999)	4.89	0.00 years
Balance, end of the period	10,725,240	6.27	1.00 years	5,845,240	5.66	0.89 years

The following table summarizes the share purchase warrants outstanding at June 30, 2008:

Exercise Price \$	Warrants Outstanding	Expiry Dates
6.50	3,441,500	November 10, 2008
4.25	2,204,949	November 27, 2008
6.81	191,291	March 20, 2009
7.00	4,887,500	March 25, 2010
	10,725,240	

Disclosure Controls and Procedures

The Company's officers and management are responsible for establishing and maintaining disclosure controls and procedures for the Company. These disclosure controls and procedures are designed to provide reasonable assurance that any information required to be disclosed by the Company under securities legislation is recorded, processed, summarized and reported within the applicable time periods and to ensure that required information is gathered and communicated to the Company's management so that decisions can be made about timely disclosure of that information.

This is the second reporting period subsequent to the January 1, 2008 implementation of new accounting information systems in the Company's Mexican operations. The Company chose to implement new systems to harmonize and automate the consolidated reporting process and to better prepare the Company for the additional reporting details required for multi-lingual and multicurrency record keeping and to introduce improved system based controls in response to NI 52-109 requirements and in advance of IFRS requirements.

Management has reviewed internal controls in detail in the second quarter of 2008 and noted weaknesses in internal controls related to education and adoption of the revised internal controls brought on when its new accounting information systems were adopted in the first quarter of 2008. The risk of material error is mitigated by detailed management review of financial reports and various account reconciliations and analyses. A remediation plan has been prepared and adopted in the second quarter of 2008, however, it is expected that it may require an additional quarter of execution to ensure that it is more efficient and will require less detailed review to ensure the fair presentation of financial statements on a quarterly basis. Management is continuing to rely significantly on substantive testing and detailed analyses in lieu of establishing detailed controls over the new systems in order to ensure the fair presentation of its quarterly financial statements. Management expects to finalize the implementation of its internal control remediation plan in Q3 of 2008, and will continue to refine its control procedures and internal training beyond Q3 to improve the efficiency of its financial reporting systems and related internal controls.

Based upon the recent evaluation of the effectiveness of the disclosure controls and procedures including consideration of detailed analyses to mitigate any exposure as a result of the weaknesses noted above. Regarding the Company's consolidated financial statements for the period ended June 30, 2008, and this MD&A, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the design and implementation of disclosure controls and procedures were effective as at and for the period ended June 30, 2008.