



CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED
SEPTEMBER 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 SEPTEMBER 30, 2008 (UNAUDITED) AND DECEMBER 31, 2007

	<u>September 30, 2008</u>	<u>December 31, 2007</u>
	<u>\$</u>	<u>\$</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 4)	29,350,523	12,835,183
Accounts receivable	3,246,709	3,365,054
Other receivables (Note 5)	9,173,503	6,600,195
Inventories (Note 6)	5,454,520	2,908,880
Prepaid expenses and advances	2,739,536	1,044,753
	<u>49,964,791</u>	<u>26,754,065</u>
MINING INTERESTS (Note 7)		
Producing properties	37,839,927	25,167,945
Exploration properties	120,882,722	102,462,552
Plant and equipment	43,473,378	28,903,950
	<u>202,196,027</u>	<u>156,534,447</u>
CORPORATE OFFICE EQUIPMENT (Note 7)	383,479	432,309
DEPOSITS ON LONG-TERM ASSETS AND OTHER	<u>93,405</u>	<u>1,282,030</u>
	<u>252,637,702</u>	<u>185,002,851</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	17,036,721	8,532,702
Vendor liability and interest (Note 8)	13,940,237	13,541,125
Current portion of arrangement liability	-	388,836
Current portion of capital lease obligations	3,145,301	2,061,464
Employee profit sharing payable	19,549	177,624
Income and other taxes payable	605,302	926,946
	<u>34,747,110</u>	<u>25,628,697</u>
FUTURE INCOME TAXES	36,045,263	31,848,682
CAPITAL LEASE OBLIGATIONS	742,309	1,245,194
OTHER LONG TERM LIABILITIES	852,927	1,207,332
ASSET RETIREMENT OBLIGATIONS (Note 14)	<u>2,977,276</u>	<u>2,290,313</u>
	<u>75,364,885</u>	<u>62,220,218</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 9)	196,648,345	145,699,783
SHARE CAPITAL TO BE ISSUED	276,495	9,286,155
CONTRIBUTED SURPLUS	22,431,842	17,315,001
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	(8,145,888)	(15,186,207)
DEFICIT	<u>(33,937,977)</u>	<u>(34,332,099)</u>
	<u>177,272,817</u>	<u>122,782,633</u>
	<u>252,637,702</u>	<u>185,002,851</u>
CONTINUING OPERATIONS (Note 1)		
COMMITMENTS (Note 13)		
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 INCOME (LOSS)
FOR THE PERIODS ENDED SEPTEMBER 30, 2008, AND 2007 (UNAUDITED)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Revenue (Note 10)	10,817,211	10,288,478	35,218,282	31,293,444
Cost of sales	7,977,801	6,146,418	22,124,612	20,654,074
Amortization and depreciation	455,028	726,023	2,119,459	1,760,684
Depletion	623,746	1,814,046	2,208,952	4,855,323
Accretion of reclamation obligation	41,088	112,624	136,930	244,729
Mine operating earnings	1,719,548	1,489,367	8,628,329	3,778,634
General and administrative	1,521,567	1,725,831	5,753,772	5,332,986
Stock based compensation	1,035,864	723,992	2,814,696	2,418,868
	2,557,431	2,449,823	8,568,468	7,751,854
Operating (loss) income	(837,883)	(960,456)	59,861	(3,973,220)
Interest and other expenses	(223,639)	(212,794)	(789,338)	(962,200)
Investment and other income	331,929	674,446	1,113,379	1,113,467
Foreign exchange gain (loss)	72,816	166,416	605,850	204,467
Write off of mineral properties	-	(1,703,591)	-	(1,703,591)
Income (loss) before taxes	(656,777)	(2,035,979)	989,752	(5,321,077)
Income tax (recovery) - current	(519,549)	299,117	186,385	1,539,081
Income tax (recovery) - future	237,017	(265,014)	409,245	(922,668)
Income tax (recovery) expense	(282,532)	34,103	595,630	616,413
NET INCOME (LOSS) FOR THE PERIOD	(374,245)	(2,070,082)	394,122	(5,937,490)
Other Comprehensive Income				
Translation adjustment	(3,811,597)	(12,872,500)	7,431,319	(20,548,377)
Unrealized loss on available for sale asset	(211,000)	-	(391,000)	-
COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	(4,396,842)	(14,942,582)	7,434,441	(26,485,867)
EARNINGS (LOSS) PER COMMON SHARE				
BASIC	\$ (0.01)	\$ (0.04)	\$ 0.01	\$ (0.11)
DILUTED	N/A	N/A	\$ -	N/A
WEIGHTED AVERAGE SHARES OUTSTANDING				
BASIC	73,839,538	58,837,500	62,527,430	54,968,138
DILUTED	91,309,778	75,129,062	79,997,670	71,259,700

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 NINE MONTHS ENDED SEPTEMBER 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	(27,101,978)	(19,191,476)	105,289,599
Net loss	-	-	-	-	-	-	(5,937,490)	(5,937,490)	(5,937,490)
Other comprehensive income (loss):									
Translation adjustment	-	-	-	-	-	(20,548,377)	-	(20,548,377)	(20,548,377)
Total comprehensive loss								(26,485,867)	(26,485,867)
Shares issued for:									
Exercise of options	967,500	2,102,550	-	-	-	-	-	-	2,102,550
Exercise of warrants	1,102,500	2,861,875	-	-	-	-	-	-	2,861,875
First Silver arrangement	1,625	7,865	(7,865)	-	-	-	-	-	-
Acquisition of La Encantada	382,582	2,000,904	-	-	-	-	-	-	2,000,904
Conversion of special warrants	6,883,000	32,138,643	-	(32,138,643)	-	-	-	-	-
Special warrants issued	-	-	-	32,138,643	-	-	-	-	32,138,643
Stock option expense during the period	-	-	-	-	2,418,868	-	-	-	2,418,868
Warrants issued during the period	-	(2,917,000)	-	-	3,250,444	-	-	-	333,444
Transfer of contributed surplus upon exercise of stock options	-	877,600	-	-	(877,600)	-	-	-	-
Balance at September 30, 2007	61,035,837	140,539,056	9,286,155	-	16,512,148	(12,637,875)	(33,039,468)	(45,677,343)	120,660,016
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	-	-	-	-	-	-	394,122	394,122	394,122
Other comprehensive income:									
Translation adjustment	-	-	-	-	-	7,431,319	-	7,431,319	7,431,319
Unrealized loss on Other asset	-	-	-	-	-	(391,000)	-	(391,000)	(391,000)
Total comprehensive income								7,434,441	7,434,441
Shares issued for:									
Exercise of options	436,650	1,398,566	-	-	-	-	-	-	1,398,566
Exercise of warrants	7,500	31,875	-	-	-	-	-	-	31,875
First Silver arrangement	1,861,500	9,009,660	(9,009,660)	-	-	-	-	-	-
Public offering, net of issue costs	8,500,000	40,144,471	-	-	-	-	-	-	40,144,471
Stock option expense during the period	-	-	-	-	2,814,696	-	-	-	2,814,696
Warrants issued during the period	-	-	-	-	2,666,135	-	-	-	2,666,135
Transfer of contributed surplus upon exercise of stock options	-	363,990	-	-	(363,990)	-	-	-	-
Balance at September 30, 2008	73,847,810	196,648,345	276,495	-	22,431,842	(8,145,888)	(33,937,977)	(42,083,865)	177,272,817

(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 \$391,000

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

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net income (loss) for the period	(374,245)	(2,070,082)	394,122	(5,937,490)
Adjustment for items not affecting cash				
Depletion	623,746	1,814,046	2,208,952	4,855,323
Depreciation	455,028	726,023	2,119,459	1,760,684
Stock-based compensation	1,035,864	723,992	2,814,696	2,418,868
Accretion of reclamation obligation	41,088	112,624	136,930	244,729
Write-down of Other assets	-	-	240,000	-
Write-down of mineral property interests	-	1,703,591	-	1,703,591
Future income taxes	237,017	(265,014)	409,245	(922,668)
Other	(411,034)	(360,388)	(307,948)	(728,684)
	1,607,464	2,384,792	8,015,456	3,394,353
Net change in non-cash working capital items				
(Increase) decrease in accounts receivable and Other receivables	(1,862,280)	(335,768)	(2,454,963)	(1,933,547)
(Increase) decrease in inventory	(1,750,957)	125,199	(2,545,640)	(100,804)
(Increase) decrease in prepaid expenses and advances	(720,941)	569,269	(1,694,783)	(1,700,702)
Increase (decrease) in accounts payable and accrued liabilities	1,609,809	433,461	8,504,019	(1,017,161)
Increase (decrease) in employee profit sharing payable	(244,983)	48,205	(158,075)	185,320
Increase (decrease) in taxes receivable and payable	(744,381)	(64,227)	(321,644)	762,147
Increase in vendor liability and interest	-	-	399,112	-
	(2,106,269)	3,160,931	9,743,482	(410,394)
INVESTING ACTIVITIES				
Expenditures on mineral property interests (net of accruals)	(11,283,988)	(7,202,913)	(23,821,246)	(16,138,025)
Additions to plant and equipment (net of accruals)	(8,498,145)	(2,499,792)	(14,491,198)	(6,456,524)
Decrease (increase) in deposits on long term assets and other	5,031,931	(59,384)	1,188,625	(1,658,123)
Increase in Restricted Cash securitizing Vendor Liability (Note 8)	(13,939,295)	-	(13,939,295)	-
Acquisition costs of Minera La Encantada less cash acquired	-	-	-	(3,798,896)
	(28,689,497)	(9,762,089)	(51,063,114)	(28,051,568)
FINANCING ACTIVITIES				
Issuance of common shares and warrants net of issue costs	24,200	145,000	40,168,671	4,964,425
Issuance of special warrants, net of issue costs	-	34,559	2,666,135	32,138,643
Payment of short-term vendor liability	-	-	-	(13,341,380)
Payment of short-term Arrangement liability	(388,836)	(388,836)	(388,836)	(388,836)
Payment of liability for acquisition of Desmin	-	-	-	(1,165,300)
Exercise of options	267,978	-	1,398,566	-
Exercise of warrants	-	-	31,875	-
	(96,658)	(209,277)	43,876,411	22,207,552
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(30,892,424)	(6,810,435)	2,556,779	(6,254,410)
EFFECT OF EXCHANGE RATE CHANGES ON CASH HELD IN FOREIGN CURRENCY	78,933	818,708	19,266	(155,994)
CASH AND CASH EQUIVALENTS - BEGINNING OF THE PERIOD	46,224,719	17,452,035	12,835,183	17,870,712
UNRESTRICTED CASH	15,411,228	11,460,308	15,411,228	11,460,308
RESTRICTED CASH (Note 4)	13,939,295	-	13,939,295	-
CASH AND CASH EQUIVALENTS - END OF THE PERIOD	29,350,523	11,460,308	29,350,523	11,460,308
CASH AND CASH EQUIVALENTS IS COMPRISED OF:				
Cash	227,099	991,617	227,099	991,617
Short term deposits and Restricted Cash	29,123,424	10,468,691	29,123,424	10,468,691
	29,350,523	11,460,308	29,350,523	11,460,308
Interest paid	144,471	78,150	156,136	895,384
Income taxes paid	-	34,103	221,108	616,413
NON-CASH FINANCING AND INVESTING ACTIVITIES (NOTE 15)				

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

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)

1. DESCRIPTION OF BUSINESS AND CONTINUING OPERATIONS

First Majestic Silver Corp. (the "Company" or "First Majestic") is in the business of 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".

These consolidated financial statements have been prepared on the going concern basis which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. During and subsequent to the three months ended September 30, 2008, there has been a significant decline in the spot and forward prices of silver and other commodities and access to the capital markets has significantly tightened. In addition, \$13.9 million of the Company's cash is restricted pending the outcome of the litigation described in Note 8. Ultimately, the Company's ability to continue as a going concern is dependent on maintaining sustained profitable operations and/or obtaining funds from other sources as required for capital developments. If the Company were unable to continue as a going concern, then material adjustments would be required to the carrying value of assets and liabilities and the balance sheet classifications used.

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, S.A. de C.V. 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.

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)

3. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES (continued)

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.

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 \$7.7 million as at September 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 September 30, 2008, the Company has outstanding accounts payable and accrued liabilities of \$17 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.

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)

3. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES (continued)

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 filed on July 22, 2008 an irrevocable Letter of Credit with the Supreme Court of British Columbia as security for this matter.

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 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.

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)

3. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES (continued)

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

	Reasonably possible changes			
	\$US		Peso/\$CDN	Market
	Denominated	\$US /Peso	Exchange	interest
	Silver Commodity	Exchange Rate	Rate	rate
Price				
+/-	+/-	+/-	+/-	
10%	10%	10%	25 basis	
			points	
Impact on Quarterly Operations				
Net Income ⁽¹⁾	\$ 1,382,672	\$ 858,963	\$ 541,788	\$ 73,376

(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 and capital lease obligations 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 8.

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

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.

Correction of Error Relating to Stockpile Inventory

During the three months ended September 30, 2008, the Company corrected an error with respect to the treatment of stockpile inventory. During mining production, the Company builds up stockpile inventory from ore that is mined but has not been treated in the milling process. Under Canadian GAAP, these mining costs are capitalized as stockpile inventory and will be expensed as the ore is processed and sold.

Previously, the Company did not record stockpile inventory on this basis and therefore such costs were expensed as costs of production in the period they were incurred.

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)

3. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES (continued)

This cumulative error has been corrected in the quarter ended September 30, 2008. If the error was corrected in the previous periods and was applied in the previous quarters ended March 31, 2008 and June 30, 2008, the effect would be to increase the inventory by \$608,744 and \$444,243 respectively; reduce cost of sales and increase operating earnings by \$608,774 and \$444,243 respectively, and increase net income for the periods by \$438,296 and \$319,855 respectively. There is no impact on the basic and diluted earnings per common share for the quarters ended March 31, 2008 and June 30, 2008. The Company has concluded that this error did not have a material impact on the Company's prior 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.

Comparative Figures

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

4. RESTRICTED CASH

On July 22, 2008, the Company secured its outstanding vendor liability (See Note 8) by entering into a Letter of Credit facility for \$13,940,237, secured by cash and liquid short term investments. The Letter of Credit is revolving with annual expiry on July 22nd. The cash and short term investments earn market rates of interest from which 0.5% per annum cost of the Letter of Credit is deducted and the net interest remitted to the Company. The Restricted Cash is segregated from operating cash as the funds are not accessible by the Company pending the litigation described in Note 8.

5. OTHER RECEIVABLES

Details of the components of other receivables are as follows:

	September 30, 2008	December 31, 2007
	\$	\$
Value added taxes recoverable	7,700,846	4,467,782
Other taxes recoverable	815,784	1,286,967
Interest receivable	376,892	16,325
Advances to employees	63,923	11,288
Advances to suppliers	216,058	421,535
Other	-	396,298
	<u>9,173,503</u>	<u>6,600,195</u>

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)

6. INVENTORIES

Inventories consist of the following:

	September 30, 2008	December 31, 2007
	\$	\$
Finished product (silver dore and concentrates)	1,000,055	1,321,004
Ore in process	195,829	246,289
Stockpile	2,044,186	-
Materials and supplies	2,214,450	1,341,587
	5,454,520	2,908,880

During the quarter ended September 30, 2008, the Company recognized stockpile inventory consisting of 569,271 equivalent ounces of silver due to a correction of error regarding stockpile inventory as described in Note 3.

7. MINING INTERESTS

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

	September 30, 2008			December 31, 2007		
	Cost	Accumulated depreciation and depletion	Net	Cost	Accumulated depreciation and depletion	Net
	\$	\$	\$	\$	\$	\$
Mining properties	172,543,337	13,820,688	158,722,649	138,832,672	11,202,175	127,630,497
Plant and equipment	49,155,744	5,682,366	43,473,378	31,133,655	2,229,705	28,903,950
	221,699,081	19,503,054	202,196,027	169,966,327	13,431,880	156,534,447

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)

7. MINING INTERESTS (continued)

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

	September 30, 2008			December 31, 2007		
	Depletable \$	Non- Depletable \$	Total \$	Plant and Equipment \$	Total \$	Total \$
MEXICO						
Producing properties						
La Encantada (a)	5,200,492	-	5,200,492	17,789,609	22,990,101	10,086,394
La Parrilla (b)	15,476,425	-	15,476,425	17,761,538	33,237,963	24,517,121
San Martin (c)	17,163,010	-	17,163,010	7,922,231	25,085,241	19,468,380
	37,839,927	-	37,839,927	43,473,378	81,313,305	54,071,895
Exploration properties						
La Encantada (a)	-	2,303,022	2,303,022	-	2,303,022	1,728,689
La Parrilla (b)	-	9,306,635	9,306,635	-	9,306,635	4,717,254
San Martin (c) (1)	-	95,737,999	95,737,999	-	95,737,999	87,749,359
Candamena	-	-	-	-	-	700,000
Del Toro (d) (2)	-	12,151,635	12,151,635	-	12,151,635	6,804,780
Cuitaboca (e)	-	1,383,431	1,383,431	-	1,383,431	762,470
	-	120,882,722	120,882,722	-	120,882,722	102,462,552
	37,839,927	120,882,722	158,722,649	43,473,378	202,196,027	156,534,447

- (1) 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).
(2) The ore from Del Toro is processed via the La Parrilla Silver Mine.

A summary of plant and equipment is as follows:

	September 30, 2008			December 31, 2007		
	Cost \$	Accumulated Depreciation \$	Net Book Value \$	Cost \$	Accumulated Depreciation \$	Net Book Value \$
La Encantada Silver Mine	18,873,920	1,084,311	17,789,609	9,451,422	301,669	9,149,753
La Parrilla Silver Mine	20,105,281	2,343,743	17,761,538	14,763,264	1,063,330	13,699,934
San Martin Silver Mine	10,176,542	2,254,311	7,922,231	6,918,969	864,706	6,054,263
Used in Mining Operations	49,155,743	5,682,365	43,473,378	31,133,655	2,229,705	28,903,950
Corporate office equipment	577,878	194,399	383,479	528,865	96,556	432,309
	49,733,621	5,876,764	43,856,857	31,662,520	2,326,261	29,336,259

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)

7. MINING INTERESTS (continued)

Details by specific assets are as follows:

	September 30, 2008			December 31, 2007		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	\$	\$	\$	\$	\$	\$
Land	2,331,658	-	2,331,658	2,309,428	-	2,309,428
Automobile	366,003	102,582	263,421	266,020	41,256	224,764
Buildings	6,644,270	375,893	6,268,377	5,971,902	182,714	5,789,188
Machinery and equipment	29,480,540	4,639,457	24,841,083	21,898,609	1,922,611	19,975,998
Computer equipment	552,891	214,316	338,575	372,549	91,386	281,163
Office equipment	642,787	468,814	173,973	219,127	62,625	156,502
Leasehold improvements	309,844	75,702	234,142	308,183	25,669	282,514
Construction in progress	9,405,628	-	9,405,628	316,702	-	316,702
	49,733,621	5,876,764	43,856,857	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 7(b) La Parrilla US\$	Note 7(d) Del Toro US\$	Note 7(e) Cuitaboca US\$	Total US\$
Paid as at December 31, 2007	2,251,000	5,760,000	550,000	8,561,000
Payable February 21, 2008 (Note 7(b))	145,200	-	-	145,200
Payable February 22, 2008 (Note 7(b))	154,400	-	-	154,400
Paid as at March 31, 2008	2,251,000	5,825,000	550,000	8,626,000
Paid as at June 30, 2008	2,251,000	5,825,000	725,000	8,801,000
Payable August 21, 2008 (Note 7(b))	217,800	-	-	217,800
Payable August 22, 2008 (Note 7(b))	231,600	-	-	231,600
Paid as at September 30, 2008	2,251,000	5,825,000	725,000	8,801,000
Payable as at September 30, 2008	749,000	-	-	749,000
Payable November 25, 2008	-	-	200,000	200,000
Payable in Q4 2008	-	-	200,000	200,000
Payable in 2009 and beyond	-	-	1,575,000	1,575,000
Total Future Option Payments - Total	749,000	-	1,775,000	2,524,000

(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. The Company owns 100% of the La Encantada Silver Mine.

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)

7. MINING INTERESTS (continued)

(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.

On November 6, 2008, the Company renegotiated repayment terms to the optionor regarding the outstanding payments as at September 30, 2008. In regards to the aggregate of US\$299,600 payable on February 21st and 22nd, 2008, the Company is planning to make four quarterly payments starting on January 30, 2009 in the amount of US\$74,900 per quarter plus interest calculated at a rate of the three month LIBOR plus 3% and IVA. In regards to the aggregate of US\$449,400 payable on August 21st and 22nd, 2008, the Company is planning to make four quarterly payments starting on February 27, 2009 in the amount of US\$112,350 plus interest calculated at a rate of the three month LIBOR plus 3% and IVA. There is a net smelter royalty (“NSR”) of 1.5% of sales revenue to a maximum of US\$2,500,000 and an option to purchase the NSR at any time for US\$2,000,000. The Company has paid US\$69,000 relating to royalties.

(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.

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)

7. MINING INTERESTS (continued)

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 was paid 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 September 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.

8. 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, the first anniversary of the closing. The final 25% instalment of \$13,341,380 was due on May 30, 2008, 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 claim has been made 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.

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)

9. 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 9(c)).

(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 nine months ended September 30, 2008, are as follows:

	Nine Months Ended September 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	1,557,500	3.95	2.94 years	2,680,000	4.50	3.83 years
Exercised	(436,650)	3.20	0.51 years	(1,407,500)	2.15	0.22 years
Forfeited or expired	(268,350)	4.47	1.37 years	(432,500)	4.32	0.34 years
Balance, end of the period	6,745,000	4.06	2.38 years	5,892,500	4.04	2.75 years

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)

9. SHARE CAPITAL (continued)

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

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	665,000	665,000	December 6, 2009
5.50	200,000	200,000	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	22,500	September 24, 2010
3.98	20,000	7,500	October 17, 2010
4.45	720,000	360,000	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	25,000	February 21, 2011
4.65	100,000	50,000	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
3.62	735,000	183,750	August 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
3.62	100,000	25,000	August 28, 2013
	6,745,000	4,584,375	

During the nine months ended September 30, 2008, the Company granted stock options to directors, officers and employees to purchase 1,557,500 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, \$2,814,696 has been recorded as an expense in the nine month period ended September 30, 2008 relating to all stock options.

The weighted average fair value of stock options issued at the date of grant was \$1.22 per share during the nine month period ended September 30, 2008 (2007 - \$1.88).

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:

	Nine Months Ended September 30, 2008	Year Ended December 31, 2007
Risk-free interest rate	2.9%	4.0%
Estimated volatility	53.8%	56.3%
Expected life	1.9 years	1.7 years
Expected dividend yield	0%	0%

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)

9. SHARE CAPITAL (continued)

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 nine months ended September 30, 2008 are as follows:

	Nine Months Ended September 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	1.48 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	0.75 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 was estimated at \$0.56 per unit using the Black Scholes Option Pricing 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 was estimated at \$0.28 per ½ unit using the Black Scholes Option Pricing Model.

The following table summarizes the share purchase warrants outstanding at September 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	

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)

10. REVENUES

Details of the components of revenue are as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007 (1)	2008	2007 (1)
	\$	\$	\$	\$
Gross revenues - silver dore bars and concentrates	13,853,479		44,390,294	
Less: refining, smelting and transportation charges	(3,036,268)		(9,172,012)	
Net revenue	10,817,211	10,288,478	35,218,282	31,293,444

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

11. RELATED PARTY TRANSACTIONS

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

- a) incurred \$197,359 for the nine month period ended September 30, 2008 and \$77,086 for the quarter ended September 30, 2008 (nine months ended September 30, 2007 - \$138,389; quarter ended September 30, 2007 - \$42,907) 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 \$215,624 for the nine month period ended September 30, 2008 and \$76,519 for the quarter ended September 30, 2008 (nine months ended September 30, 2007 - \$144,180; quarter ended September 30, 2007 - \$48,519) 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 \$6,618,301 of service fees during the nine month period ended September 30, 2008 and \$2,411,178 for the quarter ended September 30, 2008 (nine months ended September 30, 2007 - \$1,286,556; quarter ended September 30, 2007 - \$532,960) 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, \$3,075,105 were unpaid at September 30, 2008 (September 30, 2007 - \$483,477).
- d) incurred \$7,365 for the nine month period ended September 30, 2008 (nine months ended September 30, 2007 - \$254,742) to a director of the Company as a finder's fees upon the completion of certain option agreements relating to Del Toro.

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
FOR THE PERIODS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)

12. 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. The El Pilon operations consist of the San Martin Silver Mine, the San Martin property, the Cuitaboca Silver Project and the Jalisco Group of Properties. The First Majestic Plata operations consist of the La Parrilla Silver Mine, the Del Toro Silver Mine, the La Parrilla properties and the Del Toro properties. The La Encantada operations consist of the La Encantada Silver Mine and the La Encantada property.

These reportable operating segments are summarized in the table below.

Three Months Ended September 30, 2008					
	El Pilon operations	First Majestic Plata operations	La Encantada operations	Corporate and other eliminations	Total
	\$	\$	\$	\$	\$
Silver sales	3,588,564	4,138,741	3,360,423	(270,517)	10,817,211
Cost of sales	3,253,495	2,861,629	2,133,194	(270,517)	7,977,801
Amortization and depreciation	424,080	(44,733)	83,320	33,449	496,116
Depletion	359,679	97,789	166,278	-	623,746
Operating income (loss)	(448,690)	1,224,056	977,632	(2,590,881)	(837,883)
Net interest and other income (expense)	(752,680)	(1,540,785)	(7,872)	2,482,443	181,106
Income tax (recovery) expense	475,250	(683,293)	(1,164,753)	1,090,264	(282,532)
Net income (loss)	(1,594,761)	366,564	2,134,512	(1,280,560)	(374,245)
Capital expenditures	2,980,550	5,575,209	9,143,135	28,506	17,727,400
Total assets	130,472,670	61,756,284	29,037,518	31,371,230	252,637,702

Three Months Ended September 30, 2007					
	El Pilon operations	First Majestic Plata operations	La Encantada operations	Corporate and other eliminations	Total
	\$	\$	\$	\$	\$
Silver sales	3,353,172	3,165,202	3,770,104	-	10,288,478
Cost of sales	2,140,731	1,876,656	1,707,121	421,910	6,146,418
Amortization and depreciation	288,877	323,861	237,912	(12,003)	838,647
Depletion	1,314,256	242,059	257,731	-	1,814,046
Operating income (loss)	(778,016)	(2,373,403)	1,451,770	739,193	(960,456)
Net interest and other income (expense)	46,378	28,404	(19,915)	(1,130,390)	(1,075,523)
Income tax (recovery) expense	(64,979)	-	99,082	-	34,103
Net income (loss)	(632,203)	(2,325,769)	1,416,445	(528,555)	(2,070,082)
Capital expenditures	1,869,213	6,260,326	8,578,969	239,978	16,948,486
Total assets	117,378,826	45,123,515	19,607,702	1,380,979	183,491,022

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)

12. SEGMENTED INFORMATION (continued)

Nine Months Ended September 30, 2008

	El Pilon operations \$	First Majestic Plata operations \$	La Encantada operations \$	Corporate and other eliminations \$	Total \$
Silver sales	9,141,672	13,194,466	13,152,661	(270,517)	35,218,282
Cost of sales	7,511,173	8,689,128	6,194,828	(270,517)	22,124,612
Amortization and depreciation	923,353	859,744	376,307	96,985	2,256,389
Depletion	1,108,659	516,635	583,658	-	2,208,952
Operating income (loss)	(401,513)	3,128,959	5,997,869	(8,665,454)	59,861
Net interest and other income (expense)	(583,668)	(859,539)	(31,791)	2,404,889	929,891
Income tax (recovery) expense	37,411	67,593	5,683	484,943	595,630
Net income (loss)	(1,022,592)	2,201,827	5,960,395	(6,745,508)	394,122
Capital expenditures	9,901,475	18,654,249	12,787,627	49,011	41,392,362
Total assets	130,472,670	61,756,284	29,037,518	31,371,230	252,637,702

Nine Months Ended September 30, 2007

	El Pilon operations \$	First Majestic Plata operations \$	La Encantada operations \$	Corporate and other eliminations \$	Total \$
Silver sales	12,757,589	7,276,514	11,259,341	-	31,293,444
Cost of sales	9,950,617	5,342,033	5,361,424	-	20,654,074
Amortization and depreciation	869,901	528,150	544,012	63,350	2,005,413
Depletion	4,197,368	361,266	296,689	-	4,855,323
Operating income (loss)	(3,669,187)	(2,862,466)	4,389,622	(1,831,189)	(3,973,220)
Net interest and other income (expense)	(149,746)	(1,292,843)	8,991	85,741	(1,347,857)
Income tax (recovery) expense	(284,734)	-	901,147	-	616,413
Net income (loss)	(3,131,338)	(3,215,527)	3,563,156	(3,153,781)	(5,937,490)
Capital expenditures	2,490,859	14,604,264	13,222,448	374,312	30,691,883
Total assets	117,378,826	45,123,515	19,607,702	1,380,979	183,491,022

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)

13. COMMITMENTS

The Company is obligated to make certain payments as described in Note 7, 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 8, 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.

14. ASSET RETIREMENT OBLIGATIONS

	Nine Months ended September 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	473,832	(3,493,413)
Interest accretion	147,814	208,448
Effect of translation of foreign currencies	65,317	(628,607)
	<u>2,977,276</u>	<u>2,290,313</u>

Asset retirement obligations allocated by mineral properties are as follows:

	Anticipated Date	September 30, 2008 \$	December 31, 2007 \$
La Encantada Silver Mine	2037	587,482	307,271
La Parrilla Silver Mine	2032	638,827	360,000
San Martin Silver Mine	2013	1,750,967	1,623,042
		<u>2,977,276</u>	<u>2,290,313</u>

During the period ended September 30, 2008, the Company reassessed its reclamation obligations at each of its mines based on updated rehabilitation and closure plans. The total undiscounted amount of estimated cash flows required to settle the Company's estimated obligations is \$6.4 million (US\$ 6.1 million), which has been discounted using a credit adjusted risk free rate of 8.5%, of which \$2.1 million of the reclamation obligation relates to the La Parrilla Silver Mine, \$2.0 million of the obligation relates to the San Martin Silver Mine, and \$2.3 million 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
FOR THE PERIODS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)

15. OTHER NON-CASH FINANCING AND INVESTING ACTIVITIES

	Three Months ended September 30,		Nine Months ended September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Fair value of warrants issued for acquisition of La Encantada (Note 9)	-	-	-	333,443
Fair value of warrants issued upon conversion of special warrants	-	2,917,000	-	2,917,000
Fair value of warrants upon completion of public offering	-	-	2,666,135	-
Issuance of shares for First Silver Arrangement (Note 9)	24,200	-	9,009,660	7,865
Issuance of shares for acquisition of La Encantada	-	-	-	2,000,904
Transfer of contributed surplus to common shares for options exercised (Note 9)	100,583	22,000	363,990	877,600
Conversion of special warrants to common shares	-	32,138,643	-	32,138,643
Reclassification of plant and equipment to mineral property interest	-	-	-	-
Assets acquired by capital lease	-	-	1,989,227	-

16. SUBSEQUENT EVENTS

Subsequent to September 30, 2008:

- (a) On October 8, 2008, the Company granted 200,000 stock options exercisable at a price of \$1.60 per share expiring on October 8, 2011.
- (b) On October 14, 2008, 25,000 stock options exercisable at a price of \$4.32 per share expiring on December 6, 2009, 50,000 stock options exercisable at a price of \$4.45 per share expiring on October 30, 2010 and 12,500 stock options exercisable at a price of \$4.67 per share expiring on July 4, 2011 were forfeited.
- (c) On October 17, 2008, the Company granted 125,000 stock options exercisable at a price of \$1.27 per share expiring on October 17, 2011.
- (d) On October 17, 2008, 100,000 stock options exercisable at a price of \$3.28 per share expired.
- (e) On October 30, 2008, 10,000 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 30, 2010 were forfeited.
- (f) On November 9, 2008, 240,000 stock options exercisable at a price of \$2.10 per share expired.
- (g) On November 10, 2008, the Company granted 240,000 stock options exercisable at a price of \$1.44 per share expiring on November 10, 2013.
- (h) On November 10, 2008, 3,441,500 warrants exercisable at a price of \$6.50 per warrant expired. As a result, the warrants trading under the symbol "FR.WT" have been de-listed from the TSX.

SCHEDULE "A"
FIRST MAJESTIC SILVER CORP.
CONSOLIDATED SCHEDULE OF MINERAL PROPERTY INTERESTS
FOR THE NINE MONTHS ENDED SEPTEMBER 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	-	-	-	195,420	-	278,915
Filing fees	-	-	5,968	-	-	-	5,968
Mine exploration costs	8,304,078	6,488,596	4,838,016	-	152,498	3,990,367	23,773,555
Reports and assays	-	-	-	-	96,748	1,165	97,913
	8,387,573	6,488,596	4,843,984	-	444,666	3,991,532	24,156,351
Acquisition costs during the period (net)	307,539	-	66,723	-	176,296	9,690	560,248
Less: Reclassification of proceeds on sale to other receivable	-	-	-	(700,000)	-	-	(700,000)
Less: depletion	(713,234)	(1,108,659)	-	-	-	(648,827)	(2,470,720)
Cumulative translation adjustment	1,296,332	6,448,848	436,147	-	-	1,512,761	9,694,088
Less : ARO accretion (Note 14)	(29,590)	(91,251)	-	-	-	(26,973)	(147,814)
Balance, end of the period	24,783,060	112,901,009	12,151,635	-	1,383,432	7,503,513	158,722,649

(See Note 7)

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 7)



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE QUARTER ENDED SEPTEMBER 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 México. The common shares and warrants of the Company trade on the Toronto Stock Exchange under the symbols "FR", 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 nine months ended September 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, the San Martin Silver Mine and the Del Toro 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 November 13, 2008, unless otherwise stated.

FINANCIAL PERFORMANCE AND HIGHLIGHTS

- Sales revenues for the quarter (after smelting charges) were \$10.8 million; an increase of 5% compared to \$10.3 million for the quarter ended September 30, 2007. Gross revenues for the quarter, prior to smelting charges were \$13.9 million.
- Mine operating earnings for the quarter amounted to \$1.7 million, compared to \$1.5 million for the quarter ended September 30, 2007. Mine operating earnings for the nine months ended September 30, 2008, amounted to \$8.6 million, compared to \$3.8 million for the nine months ended September 30, 2007.
- The Company generated an operating loss of \$0.8 million for the quarter, compared to an operating loss of \$1 million for the quarter ended September 30, 2007. Mine operating earnings for the nine months ended September 30, 2008 amounted to \$59,861 compared to a loss of \$4.0 million for the nine months ended September 30, 2007.
- Direct cash costs per ounce of silver (see Non-GAAP measures below) were negatively impacted in the current quarter by an extremely wet and stormy rainy season in México, with a cost per ounce of US\$7.65 overall compared to US\$4.84 in Q2 of 2008, and US\$6.73 for the quarter ended September 30, 2007.
- Total quarterly production consisted of 840,918 ounces of silver equivalents, including 719,399 ounces of silver, 536 ounces of gold, and 1,518,271 pounds of lead. The Company sold 850,461 ounces of silver equivalent in the quarter, and 2,574,637 ounces of silver equivalent for the nine months ended September 30, 2008, resulting in a decrease of 7% and an increase of 6%, respectively, over the 911,916 ounces of silver equivalent sold in the quarter ended September 30, 2007, and 2,427,935 ounces of silver equivalent sold for the nine months ended September 30, 2007.
- The Company generated a net loss after taxes of \$0.4 million for the quarter ended September 30, 2008, compared to a net loss after taxes of \$2.1 million for the quarter ended September 30, 2007. The Company generated a net income after taxes of \$0.4 million for the nine months ended September 30, 2008, compared to a net loss after taxes of \$5.9 million for the nine months ended September 30, 2007. The net loss after taxes for this quarter was after deducting a non-cash stock-based compensation expense of \$1.0 million (2007 - \$0.7 million). The net loss after taxes for the nine months ended September 30, 2008 was after deducting a non-cash stock-based compensation expense of \$2.8 million (2007 - \$2.4 million).
- In the quarter, the Company invested \$10.2 million in capital expenditures on its mineral properties, and a further \$7.5 million on additions to plant and equipment. For the nine months ended September 30, 2008, the Company invested \$25.4 million in capital expenditures on its mineral properties, and \$16 million 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 September 30		CONSOLIDATED FIRST MAJESTIC RESULTS	Year to date September 30	
2008	2007		2008	2007
170,298	165,549	Ore processed/tonnes milled	542,691	457,958
196	215	Average silver grade (g/tonne)	282	218
67%	71%	Recovery (%)	55%	72%
719,399	810,106	Silver ounces produced	2,724,578	2,301,785
536	436	Gold ounces produced	1,258	1,558
31,034	23,163	Equivalent ounces from gold	69,175	78,809
1,518,271	942,844	Pounds of lead produced	5,363,719	1,816,992
90,485	106,957	Equivalent ounces from lead	342,363	167,739
0	0	Pounds of zinc produced	401,297	0
0	0	Equivalent ounces from zinc	22,979	0
840,918	940,225	Total production - ounces silver equiv.	3,159,095	2,552,872
850,461	911,916	Ounces of silver equivalents sold	2,574,637	2,427,935
7.65	6.73	Total USD cash cost per ounce ^{(1) (2)}	5.70	6.68
8,876	5,220	Underground development (m)	22,045	14,932
26,666	9,983	Diamond drilling (m)	57,246	29,081
49.42	38.01	Total USD production cost per tonne ⁽²⁾	45.27	40.51

Quarter ended September 30		LA PARRILLA RESULTS	Year to date September 30	
2008	2007		2008	2007
51,822	55,540	Ore processed/tonnes milled	179,771	126,274
213	202	Average silver grade (g/tonne)	300	196
65%	67%	Recovery (%)	57%	68%
241,128	241,341	Silver ounces produced	985,525	540,671
275	112	Gold ounces produced	567	284
15,999	6,012	Equivalent ounces from gold	31,485	14,553
737,908	603,486	Pounds of lead produced	3,082,015	980,744
43,334	68,103	Equivalent ounces from lead	199,341	94,761
0	0	Pounds of zinc produced	0	0
0	0	Equivalent ounces from zinc	0	0
300,461	315,456	Total production - ounces of silver equiv.	1,216,352	649,985
319,900	296,974	Ounces of silver equivalents sold	1,092,142	576,192
9.51	8.67	Total USD cash cost per ounce ⁽¹⁾	4.99	8.58
4,347	1,699	Underground development (m)	8,900	4,937
18,160	9,144	Diamond drilling (m)	37,276	25,353
56.13	46.55	Total USD production cost per tonne	43.46	41.59

(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.

(2) Cash Costs do not include smelting, production costs per tonne include smelter charges.

Quarter ended September 30		SAN MARTIN RESULTS	Year to date September 30	
2008	2007		2008	2007
56,071	60,004	Ore processed/tonnes milled	184,440	183,793
127	173	Average silver grade (g/tonne)	185	175
89%	81%	Recovery (%)	66%	84%
190,603	269,955	Silver ounces produced	724,240	865,393
261	324	Gold ounces produced	691	1,274
15,035	17,151	Equivalent ounces from gold	37,690	64,256
3,265	5,934	Pounds of lead produced	164,393	42,615
224	1,452	Equivalent ounces from lead	11,616	3,484
0	0	Pounds of zinc produced	401,297	0
0	0	Equivalent ounces from zinc	22,979	0
205,862	288,558	Total production - ounces of silver equiv.	796,524	933,133
208,651	276,104	Ounces of silver equivalents sold	582,838	920,123
11.54	9.20	Total US cash cost per ounce ⁽¹⁾	9.76	9.34
2,297	2,095	Underground development (m)	7,757	5,936
5,844	641	Diamond drilling (m)	14,029	2,787
45.04	46.03	Total USD production cost per tonne ⁽²⁾	40.82	47.25

Quarter ended September 30		LA ENCANTADA RESULTS	Year to date September 30	
2008	2007		2008	2007
62,406	50,005	Ore processed/tonnes milled	178,481	147,891
244	279	Average silver grade (g/tonne)	367	290
62%	67%	Recovery (%)	48%	65%
287,668	298,810	Silver ounces produced	1,014,813	895,720
0	0	Gold ounces produced	0	0
0	0	Equivalent ounces from gold	0	0
777,099	333,424	Pounds of lead produced	2,117,312	793,633
46,927	37,401	Equivalent ounces from lead	131,406	69,494
0	0	Pounds of zinc produced	0	0
0	0	Equivalent ounces from zinc	0	0
334,595	336,211	Total production - ounces of silver equiv.	1,146,219	965,214
321,910	338,838	Ounces of silver equivalents sold	1,092,142	931,620
3.52	2.92	Total US cash cost per ounce ⁽¹⁾⁽²⁾	3.50	3.02
2,232	1,426	Underground development (m)	5,388	4,059
2,662	198	Diamond drilling (m)	5,941	942
47.78	18.92	Total USD production cost per tonne ⁽²⁾⁽³⁾	51.69	31.20

(1) The Company reports non-GAAP measures which include Direct Costs Per Tonne and Direct Cash Cost per ounce of payable silver (prior to smelting charge) 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.

(2) Cash Costs do not include smelting, production costs per tonne include smelter charges.

(3) Cash Costs for La Encantada included selling costs of US\$7.37 at June 30, 2007 on a year to date basis, however after acquisition of Minera La Encantada, a NSR was reversed causing a credit to selling costs of US\$5.26 in Q3 of 2007.

Cash Costs Reconciliation
For the Periods Ended September 30, 2008

		Three Months Ended September 30, 2008				Year to Date September 30, 2008											
		San Martin		La Parrilla		La Encantada		Q3-2008		San Martin		La Parrilla		La Encantada		Q3-2008	
DIRECT MINING EXPENSES(MMI)	US\$	2,945,664	3,087,046	2,097,866	8,130,577	7,894,996	8,406,011	5,382,419	21,683,426								
Profit Sharing	US\$	-	-	(234,538)	(234,538)	-	-	-	-								
Other Selling Costs (Transport, etc.)	US\$	11,933	49,792	50,248	111,973	80,202	175,410	189,596	445,208								
THIRD PARTY SMELTING	US\$	326,178	615,287	1,968,496	2,909,962	460,437	2,897,843	5,678,251	9,036,531								
BYPRODUCT CREDITS	US\$	(758,098)	(843,345)	(1,134,791)	(2,736,234)	(907,079)	(3,665,790)	(2,023,928)	(6,596,797)								
Less Profit Sharing		-	-	234,538	234,538	-	-	-	-								
TOTAL CASH COSTS	US\$	2,525,678	2,908,781	2,981,819	8,416,278	7,528,557	7,813,473	9,226,338	24,568,368								
CASH COST PER OUNCE PRODUCED	US\$/OZ	13.25	12.06	10.37	11.70	10.40	7.93	9.09	9.02								
SMELTING CASH COST PER OUNCE	US\$/OZ	(1.71)	(2.55)	(6.84)	(4.04)	(0.64)	(2.94)	(5.60)	(3.32)								
DIRECT MINING EXPENSES CASH COST	US\$/OZ	11.54	9.51	3.52	7.65	9.76	4.99	3.50	5.70								
TONNES PRODUCED	TONNES	56,071	51,822	62,406	170,299	184,440	179,771	178,481	542,692								
OUNCES OF SILVER PRODUCED	OZ	190,603	241,128	287,668	719,399	724,239	985,526	1,014,813	2,724,578								
OUNCES OF SILVER EQ. PRODUCED	OZ EQ.	15,259	59,333	46,927	121,519	72,394	239,432	137,376	449,202								
TOTAL OZ OF SILVER EQ. PRODUCED	OZ EQ.	205,862	300,461	334,595	840,918	796,633	1,224,958	1,152,189	3,173,780								
MINING	\$/Tonne	23.07	27.16	12.93	20.60	19.66	18.29	10.73	16.27								
MILLING	\$/Tonne	18.43	26.26	7.78	16.91	12.58	22.33	6.00	13.65								
INDIRECT	\$/Tonne	11.03	6.15	12.91	10.23	10.62	6.20	13.47	10.09								
SELLING COSTS	\$/Tonne	0.21	0.96	0.81	0.66	0.43	0.98	1.06	0.82								
SMELTER COSTS	\$/Tonne	5.82	11.87	31.54	17.09	2.50	16.12	31.81	16.65								
BY PRODUCT CREDITS	\$/Tonne	(13.52)	(16.27)	(18.18)	(16.07)	(4.92)	(20.39)	(11.34)	(12.16)								
DIRECT COST PER TONNE	\$/Tonne	45.04	56.13	47.78	49.42	40.82	43.46	51.69	45.27								
RECONCILIATION:																	
Cash Costs	US\$	2,525,678	2,908,781	2,981,819	8,416,278	7,528,557	7,813,473	9,226,338	24,568,368								
Inventory changes	US\$	(277,024)	(553,227)	1,17,851	(712,399)	(587,600)	(663,147)	469,782	(780,965)								
Byproduct credits	US\$	758,098	843,345	1,134,791	2,736,234	907,079	3,665,790	2,023,928	6,596,797								
Smelting	US\$	(326,178)	(615,287)	(1,968,496)	(2,909,962)	(460,437)	(2,897,843)	(5,678,251)	(9,036,531)								
Other	US\$						224,411		224,411								
Cost of Sales - Calculated	US\$	2,680,574	2,583,612	2,265,965	7,530,151	7,387,598	8,142,685	6,041,797	21,572,080								
Average CDN/US Exchange Rate					0.9439	0.9835	0.9672	0.9753	0.9750								
Reported Cost of Sales - CDN	CDN\$				7,977,801	7,511,174	8,418,612	6,194,826	22,124,612								

REVIEW OF MINING OPERATING RESULTS

Production in the third quarter ending September 30, 2008 amounted to 840,918 equivalent ounces of silver representing a 34% decrease over 1,271,141 equivalent ounces in the prior quarter and a decrease of 11% over the equivalent ounces in the same quarter of the previous year due primarily to operational difficulties associated with a very heavy rainy season affecting all of the Company's operations.

The equivalent silver production for the quarter consisted of 719,399 ounces of silver, representing a decrease of 35% over the 1,109,821 ounces in the previous quarter, and a decrease in lead production to 1,518,271 pounds compared to 1,987,551 pounds of lead produced in the previous quarter, a decrease of 24%. Production of gold was 536 ounces in the quarter compared to 482 ounces in the prior quarter representing an increase of 11%.

In this quarter, the production from the Del Toro mine totalled 9,949 tonnes of ore extracted from test mining and exploration work, with a head grade of 205 g/t of silver, which was sent to the La Parrilla mill. During the third quarter, the overall recoveries of silver from the three different mills reflected a decrease from 70% to 67%. The overall average silver head grade in the quarter for the three mines decreased to 196 g/t of silver compared to the previous quarter of 230 g/t of silver which was a result of the higher use of stocks with lower grade.

The Company's aggressive development program continued in the quarter 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 8,876 metres of development was completed in the quarter compared with 7,161 metres of development completed in the previous quarter representing an increase of 24%. 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.

Due to a sharp decline in silver prices, cash management is a priority for the Company. The Company's revised mine development plan for 2008 includes the completion of 25,000 metres of underground development across its operations and projects, a reduction from its prior target of 46,000 metres. Furthermore, the 22 drill rigs which were operating in the third quarter (seven rigs at La Parrilla, and three at the Del Toro properties, nine rigs at San Martin and three rigs at La Encantada) have been scaled back to four rigs, one each at the three primary mines and an additional rig at the Del Toro. All four remaining rigs are operating underground to assist in mining activities to upgrade Resources to Reserves for future mining. Prior to scaling back drilling, 26,666 metres of diamond drilling was completed during the quarter, covering a total of 107 holes, which compared with the previous quarter's 20,325 metres, shows an increase of 31% for a total of 57,246 metres drilled in the first nine months of the year. The Company's revised plan for 2008 includes a reduction from 82,000 metres to the completion of 60,000 metres of diamond drilling across its operations and projects.

The Company has reviewed the purchasing of mining equipment with Sandvik and has requested a change in terms and deferral of the delivery schedule for new equipment. The original agreement was for 20 pieces of equipment ordered in 2008, of which nine pieces have been received. The Company is renegotiating the terms on the remaining 11 pieces of equipment to defer the deliveries of those equipment. Also, in regards to other capital expenditures, the Company is in the process of reviewing all its projects to reduce capital expenditures in light of the current economic realities in the commodities markets.

MINING PROPERTY UPDATES

La Parrilla Silver Mine, Durango, México

During the third quarter of 2008, an unusually heavy rain season affected the operations at the La Parrilla mine, mainly in the handling at the crushing stage and on the haulage of ore, this situation produced lower than expected tonnages, and discontinuities of operations at the mill.

The most important activities undertaken in the quarter were: the continuous underground development at the different areas within the La Parrilla property; which included the preparation of Levels 7 and 8 at the Rosarios/La Rosa area where there was a change in the mining method to long hole drilling with 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.

The Company maintained its focus on increasing recoveries with mill improvements in 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 third quarter of 2008, production from the La Parrilla mill was 51,822 tonnes which, when compared to the production of 72,650 tonnes in the previous quarter, shows a decrease of 29%. The average head grade of silver at the mill in the third quarter of 2008 was 213 g/t which compared with 243 g/t in the second quarter of 2008, showing a decrease of 12%. Recoveries of silver were virtually unchanged from 66% in the second quarter to 65% in the third quarter of 2008.

Total silver production in the quarter was 300,461 ounces of silver equivalent, representing a 34% decrease from the 456,688 ounces in the previous quarter. The composition of the silver equivalent production in the third quarter of 2008 included 241,128 ounces of silver, 275 ounces of gold and 737,908 pounds of lead.

Reserve and Resource development at La Parrilla continued to be a priority in the quarter. Diamond drilling and underground development continued to define additional Reserves and Resources at the different areas of the La Parrilla property. Seven drill rigs were active during the quarter, drilling a total of 57 diamond drill holes totalling 18,160 metres, which when compared with 10,569 metres in the previous quarter represents an increase of 72%. The Company is scheduled to release an updated NI 43-101 Resource estimate prior to year end and has now reduced this drill program to one on surface drill rig. The primary focus of drilling during this quarter continued to confirm 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 4,347 metres of underground development was completed in the third quarter of 2008 which when compared with the 2,505 metres in the second quarter of 2008 shows an increase of 74%. Underground development in the third quarter was focusing on the La Rosa/Rosario, La Blanca, San Marcos, Quebradillas and San José areas, with the objective of increasing total Reserves and developing new production areas

San Martin Silver Mine, Jalisco, México

At the San Martin, the metallurgical parameters required in the flotation circuit are still being refined and improved. During the third quarter, the Company made the decision to temporarily suspend the production of concentrates due to the economics of the revised smelting charges from the Peñoles smelter, and decided to focus all of the production feed toward oxide ore through the cyanidation circuit, where upgrade activities are continuing. Upgrades in the cyanidation circuit include 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. Other upgrades include the construction of a new thickener, new clarifiers and new filter presses to complete the expansion of the cyanidation process from 800 tpd to 1,000 tpd, of which the Company has almost completed at the time of this filing.

Production at the San Martin mine during the quarter ended September 30, 2008 was 56,071 tonnes, representing a 28% decrease compared to the 78,151 tonnes in the previous quarter ended June 30, 2008. This lower performance was due to the storms that affected the mine area and the loss of access to three of the five levels of the mine on two different occasions with a total lost time of 10 days plus the effort to regain access to the mine. Also, the effect of the rainy season was felt at the processing plant area where the tailings dam required reinforcement which was completed within a three day period.

Other damages originated by the storms was the loss of an estimated of 10,000 tonnes of stock piles of sulphide ore at the Rosario-Condesa mine.

In order to try to recover the losses, the mill was fed with ore from stockpiles creating a reduction of the average head grade to 127 g/t during the current quarter, representing a 24% decrease from 168 g/t during the previous quarter.

Combined recoveries of silver in the quarter were 89%, compared to 85% in the previous quarter, resulting in total production of 205,862 equivalent ounces of silver, which is 47% lower than the 386,891 ounces in the second quarter of 2008. The equivalent ounces of silver consisted of 190,603 ounces of silver, 261 ounces of gold, and 3,265 pounds of lead.

During the third quarter of 2008, a total of 5,844 metres of diamond drilling was completed consisting of 27 holes. This is compared to 7,255 metres drilled in the second quarter amounting to a 19% decrease.

During the third quarter, a total of 2,297 metres of underground development was completed compared with 2,896 metres developed in the previous quarter. 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 where old workings continue to be rehabilitated. Additional exploration work, with some 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, México

During the third quarter of 2008, construction continued on the 3,500 tpd cyanidation plant. Earth and rock removal in the site preparation are 90% complete, foundations for the leaching tanks are 90% complete and assembly is proceeding with eight of the leaching tanks. The foundations for the primary and intermediate thickeners are complete and the assembly of the primary thickener is well in process. Also, the construction work for the new tailings dam is in process. All equipment has been acquired and is in the process of being delivered. To date, the Company has expended US\$8.0 million of its capital on the plant and the Company estimates commissioning is expected to be completed at the end of the first quarter of 2009.

At the La Encantada mine several modifications were completed to increase the mill capacity from 800 to 1,000 tpd, which was completed in the last 15 days of October 2008, and which is expected to deliver a proportionate increase in production in the fourth quarter of 2008.

Production in the third quarter was 62,406 tonnes, almost unchanged from the second quarter of 2008. The average head grade of silver was 244 g/t, a decrease of 16% compared to the 290 g/t achieved in the previous quarter due to lower high grade ore tonnage coming from the mine during this quarter, and problems with the rainy season made it difficult to feed the ore through the mill. A total of 334,595 equivalent ounces of silver were produced during the third quarter, which represents a decrease of 22% from the 427,562 equivalent ounces of silver in the previous quarter. Silver production consisted of 287,668 ounces of silver, a decrease of 23% versus the 374,163 ounces in the previous quarter and 777,099 pounds of lead, a decrease of 7% from the 836,425 pounds in the previous quarter.

Mine development continued with a total of 2,232 metres of development completed in the third quarter aimed at several targets including the San Javier/Milagros Breccias, Azul y Oro and the new Buenos Aires areas. This compares to 1,761 metres of development completed in the previous quarter showing an increase of 27%. The purpose of the ongoing underground development program is to increase production levels in 2008, confirm additional Reserves and Resources, and for exploration and exploitation purposes going forward.

Underground diamond drilling continued with a total of 12 holes completed in the third quarter consisting of 2,662 metres compared with 2,501 metres drill in the previous quarter. 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.

Del Toro Silver Mine, Zacatecas, México (previously referred to as Chalchihuites Group of Properties)

Del Toro is an advanced stage development project that has undergone an aggressive drilling program since 2005 to explore the various areas of interest within the Del Toro property holdings; namely the San Juan & Perseverancia areas. From that time to September 2008, a total of 64 drill holes have been completed for a total of 13,698 metres drilled. In addition, the Company completed underground mine workings for development and exploration totalling 1,795 metres in declines, drifts, ramps and raises. During the quarter ended September 30, 2008, the Company completed diamond drilling of 3,754 metres with a total of 11 holes and 810 metres in development of declines, drifts, ramps and raises.

On October 9, 2008, the Company released an updated NI 43-101 compliant Resource estimate where a total Resource of 56,913,000 silver equivalents ounces was defined consisting of Measured and Indicated Resources of 20,943,000 ounces of silver equivalents, and a further total Inferred Resources of 35,970,000 ounces of silver equivalents. The cut off date used for this prior Resource measurement was July 31, 2008. Results from hole SSJ-08 were not received in time to be included in the NI 43-101 Technical Report announced on October 10, 2008.

On October 28, 2008, the Company announced additional drill results from hole SSJ-08 and the ongoing drilling program at the Del Toro. Holes SSJ-04 and SSJ-08 represent the discovery of a third deeper massive sulphide Orebody which is 25 metres below the two other ore bodies discovered by previous drilling. It is anticipated that hole SSJ-08 will add significantly to the NI 43-101 Resource estimate dated October 9th, 2008 prepared by Pincock Allen & Holt, Lakewood, Colorado (PAH).

For the quarter ended September 30, 2008, a total of four drill rigs were operating at Del Toro, two on surface at San Juan, one underground at Perseverancia, and one underground at San Juan. A mine contractor with a crew of 48 people are developing both the San Juan and Perseverancia areas. An underground diamond drill is operating on a permanent basis and will remain while the other three rigs have been removed due to cost savings measures.

The Perseverancia area is presently being upgraded and rehabilitated to increase production from the high grade chimney areas. During the third quarter, 37 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 and third 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.

At the San Juan, 14,787 tonnes of ore were extracted from test mining and exploration work, during the third quarter of which 9,949 tonnes were shipped to the La Parrilla mill where they were processed, compared to 18,582 tonnes extracted and 17,369 tonnes shipped to La Parrilla where they were processed during the second quarter of 2008.

EXPLORATION PROPERTY UPDATES

Cuitaboca Silver Project, Sinaloa, México

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, México, 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.

In October 2008, in an effort to reduce costs, the Company temporarily halted its activities at the Cuitaboca project. Further exploration and development consisting of 2,000 metres of direct drifting along the vein and commencing a diamond drill program at both the Colateral and Mojardina veins is being deferred until silver commodity prices recover and/or funds can be allocated to this project. Road construction will be deferred for access to the La Lupita, Los Sapos, Chapotal, and Santa Eduwiges veins.

During the third quarter, permitting of the road was completed, explosive permits were received and development began at the Santa Eduwiges vein. The Company completed another five kilometres 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 40 kilometres.

Jalisco Group of Properties, Jalisco, México

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, México. 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 Etzatlán, Jalisco where the Company owns 787 hectares. During 2008, surface geology and mapping began with the purpose of defining future drill targets, however, exploration has been discontinued pending an improvement in market conditions.

Candameña Mining District property, Chihuahua, México

On August 2008, the Company after having made numerous unsuccessful attempts to assist Prospector Consolidated Resources Inc. ("Prospector") in the transfer of the rights to the Candameña property, and having advised Prospector that the Underlying Agreements with the Candameña property owners were in breach and likely to revert to their underlying owners, the Company negotiated the full return of the mining rights to their respective property owners.

The Company has now completely disposed of its interest in these properties and has no further obligations to the Candameña property owners or to Prospector regarding their failed attempt at acquiring the property rights from First Majestic.

RESULTS OF OPERATIONS

Three and nine months ended September 30, 2008 compared to three and nine months ended September 30, 2007.

Revenue increased to \$10,817,211 for the three months ended September 30, 2008 compared to the \$10,288,478 for the three months ended September 30, 2007, an increase of 5%. This increase is due primarily to marginally higher commodity prices this year relative to the prior year.

Revenue increased to \$35,218,282 for the nine months ended September 30, 2008 compared to the \$31,293,444 for the nine months ended September 30, 2007, an increase of 13%. This increase is due primarily to the ramping up of production at the La Parrilla Silver Mine offset by a reduction of production at the San Martín. Also contributing to an increase in revenue is an increase in the average commodity prices from US\$13.12 in 2007 to US\$16.63 in 2008 (27% increase) on a year to date basis. The increase in commodity prices has not fully been realized in the net revenues due to a significant 137% increase in smelting charges, predominantly affecting concentrates sold to the Peñoles smelter.

Mine operating earnings for the three months ended September 30, 2008 were \$1,719,548, an increase of \$230,181 over the \$1,489,367 of mine operating earnings for the three months ended September 30, 2007. This increase in mine earnings is primarily due to a decrease in depletion of \$1,190,300 due to increased mine life in 2008 relative to 2007, related to updated NI 43-101 reserve calculations received at the beginning of 2008, and a decrease in depletion, depreciation and amortization of \$647,995 due to the impact of applying the new Canadian GAAP inventory rules (see financial statements note 3 "Inventories") which require the inventorying of a portion of

period costs for depletion, depreciation and amortization based on the production during the period that remains in inventory at the end of the period.

Mine operating earnings for the nine months ended September 30, 2008 was \$8,628,329, an increase of \$4,849,695 over the \$3,778,634 of mine operating earnings for the nine months ended September 30, 2007, due primarily to the increase in 146,702 ounces of production sold in the three quarters ended September 2008 versus 2007, and an average price of silver increase of approximately US\$3.50 for 2008 compared to 2007. Also contributing to the increase in mine operating earnings are a reduction of \$2,646,371 in depletion for 2008 due to the revised longer mine life related to updated NI 43-101 reports with larger mine reserves and a reduction of amortization due to the inventory effect of inventorying a portion of amortization due to the adoption of the new Canadian GAAP inventory rules per section 3031 (see financial statements Note 3).

An operating loss of \$837,883 was generated after general and administrative costs and stock based compensation, for the three months ended September 30, 2008, compared to an operating loss of \$960,456 for the three months ended September 30, 2007. The reduced loss is primarily due to increased mine operating earnings for 2008 compared to 2007.

An operating income of \$59,861 was generated after general and administrative costs and stock based compensation, for the nine months ended September 30, 2008, compared to a loss of \$3,973,220 for the nine months ended September 30, 2007. The increased operating income is primarily due to increased mine operating earnings of \$4,849,695, less an increase of general and administrative expenses ("G&A") and stock based compensation ("SBC") of \$816,614 for 2008 compared to 2007. The increase of G&A and SBC is due to an increase in staffing to address higher work loads.

The loss before income taxes \$656,777 for the three months ended September 30, 2008, is an improvement of \$1,379,202 compared to the loss before taxes of \$2,035,979 in the same period in the prior year, due primarily to the higher mine operating earnings, and to a \$1,703,591 write down taken in the same quarter of the prior year.

The income before taxes of \$989,752 for the nine months ended September 30, 2008, was an improvement of \$6,310,829 compared to the \$5,321,077 loss before taxes for the same period in the prior year, due primarily an increase of \$4,849,695 in mine operating earnings, and the write off of \$1,703,591 in the same period in the prior year.

The net loss after taxes for the three months ended September 30, 2008, was \$374,245 (\$0.01 loss per share) compared to a net loss after taxes of \$2,070,082 (\$0.04 per share) for the three months ended September 30, 2007, due primarily to increased mine operating earnings of \$230,181 and the write off of \$1,703,591 in the same period in the prior year.

The net income after taxes for the nine months ended September 30, 2008, was \$394,122 (\$0.01 per share) compared to a net loss after taxes of \$5,937,490 (\$0.11 per share) for the nine months ended September 30, 2007, due primarily to an increase in mine operating earnings of \$4,849,695 from 2007 to 2008, and the write off of \$1,703,591 in the same period of the prior year.

In the third quarter of 2008, the share prices of mining stocks continued to be very volatile and were under considerable downward pressure in sustained turbulent markets. In this environment, our market capitalization fell below book value at the end of the period. We have performed a limited review to assess whether there are facts and circumstances that indicate potential impairment of our mining operations. Specifically, we have considered the expected future commodity prices, exchange rates, planned and achieved capacity increases and our mining units primarily affected by the crisis. Management judged that there was no indication to diverge from the assumptions about the mid-to-long term performance of the mining operations that were used in the preceding mineral property impairment review at the year end of 2007, and concluded that there was no indication of a potential impairment for our Mexican mining operations as of September 30, 2008. However, the ongoing challenging conditions in the financial markets, the commodity markets, and the related uncertainty about the future business environment make an assessment of the mid-to-long term performance by using estimates and

assumptions extremely difficult. Our annual mineral property impairment test will be performed in the fourth quarter of 2008 based on updated NI 43-101 Reserves and Resources, and financial plans currently under development. The continuation of the global liquidity crisis, the commodity market volatility and its wider implications for the operating environment of our mining operations could result in an impairment of mineral properties in the future.

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 (2) \$	Property write downs \$	Note
Year ended December 31, 2008	Q3	10,817,211	(374,245)	(0.01)	1,035,864	0	
	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	
	Q3	10,288,478	(2,070,082)	(0.04)	723,992	1,703,591	3
	Q2	10,846,344	(729,658)	(0.01)	775,532	0	
	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	4

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) Stock Based Compensation - the net losses are affected significantly by 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:

- (3) 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.
- (4) 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.

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\$)

As required by Canadian GAAP, revenues are presented as the net invoiced revenues for delivered shipments of silver doré bars, and silver concentrates, including metal by-products of gold, lead and zinc, after having deducted refining, smelting and transportation charges. The following analysis provides the gross revenues prior to refining, smelting and shipping charges, and shows deducted smelting, refining and transportation charges to arrive at the net reportable revenue for the period per Canadian GAAP. Gross revenues are deducted by shipped ounces of equivalent silver to calculate the average realized price per ounce of silver sold.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008 \$	2007 (1) \$	2008 \$	2007 (1) \$
Gross revenues - silver dore bars and concentrates	13,853,479		44,390,294	
Less: refining, smelting and transportation charges	(3,036,268)		(9,172,012)	
Net revenue	10,817,211	10,288,478	35,218,282	31,293,444
Equivalent ounces of silver sold	850,461	911,916	2,574,637	2,427,935
Average gross revenue per ounce sold (\$CDN)	16.29		17.24	
Average exchange rate in the period (\$US/\$CDN)	1.0418		1.0186	
Average gross revenue per ounce sold (\$US)	15.64		16.93	

(Note 1 - certain numbers for smelting charges are not available on a comparative basis, in 2007 the Company recorded revenues net of settlement deductions which consisted of charges of 0.5% of gross metal values for dore shipments and 5% for concentrate shipments. In 2008, the Company includes these charges in refining and smelting charges)

LIQUIDITY

At September 30, 2008, the Company had working capital of \$15,217,681 and cash and cash equivalents of \$29,350,523 compared to working capital of \$1,125,368 and cash and cash equivalents of \$12,835,183 at December 31, 2007. Current liabilities at September 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 this amount has been secured via posting a letter of credit with the courts, secured by restricted cash of the same amount. Also included in current liabilities is the current portion of capital lease obligations of \$3,145,301. The Company has taken actions to reduce its rate of spending on exploration and development expenditures, reducing the number of drill rigs deployed from 22 early in the year to four by the end of October 2008. Although the Company has expended US\$8.0 million on its capital expansion at La Encantada, this is expected to be a US\$21.5 million capital expansion, capable of 3,500 tonnes per day capacity. As the Company had not projected the current decline in silver prices from an average of US\$17.43 for the first two quarters of 2008, to the October 2008 average of US\$10.44, the Company is exploring a number of financing alternatives to ensure it has sufficient capital to complete its capital expansion and to meet all of its obligations. However there is no assurance that sufficient funds will be available on favourable terms, or at all.

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.

During the quarter ended September 30, 2008, the Company made investments on its mineral properties of \$10,179,431 (September 30, 2007 - \$16,138,025), and on plant and equipment further expenditures of \$7,547,969 (September 30, 2007 - \$6,456,524).

CAPITAL RESOURCES

The consolidated financial statements have been prepared on the going concern basis which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. During and subsequent to the three months ended September 30, 2008, there has been a significant decline in the spot and forward prices of silver and other commodities, and access to the capital markets has significantly tightened. In addition, \$13.9 million of the Company's cash has been restricted pending the outcome of litigation. Although the Company recorded net income of \$394,122 for the nine months ended September 30 2008, it also incurred exploration, development and plant expenditures of \$41.4 million for the nine months ended September 30, 2008 (\$17.7 million for the three months ended September 30 2008), to further expand its productive capacity. In order to continue these development expenditures at planned levels the Company will require additional funds from lenders or shareholders and such funds may not be available on favourable terms or at all. Ultimately, the Company's ability to continue as a going concern is dependent on achieving sustained profitable operations and/or obtaining funds from other sources as required for capital developments. If the Company were unable to continue as a going concern, then material adjustments would be required to the carrying value of assets and liabilities and the balance sheet classifications used.

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 of \$13,940,237 to the Supreme Court of British Columbia as security for this matter and has pledged cash and/or short term investments of the same amount as security.

The Company is obligated to make certain mineral property future option payments of US\$ 1,775,000 to retain access to its Cuitaboca properties, and a further US\$749,000 for its La Parrilla 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

Due to a sharp decline in silver prices, cash management is a priority for the Company. The 22 drill rigs which were operating in the third quarter (seven rigs at La Parrilla, and three at the Del Toro properties, nine rigs at San Martin and three rigs at La Encantada) have been scaled back to four rigs, one each at the three primary mines, plus an additional one at the Del Toro silver project, all rigs operating underground to further define reserves and upgrade resources to reserves. The Company has reviewed the purchasing of mining equipment from Sandvik and has requested a deferral of the delivery schedule for new equipment. The original agreement was for 20 pieces of equipment ordered in 2008, of which nine pieces have been received. The Company is renegotiating the terms on the remaining 11 pieces of equipment to defer the deliveries of those equipment. With respect to other capital expenditures, the Company is in the process of reviewing all its projects to reduce capital expenditures in light of the current economic realities in the commodities markets.

The Company's focus in the first three quarters of 2008 has been on executing its plan to make continuing improvements at each mine, and to achieve production and resource targets for 2008. The Company has defined a global Resource of 241 million ounces of Silver equivalents. Each of the Company's NI 43-101 Reports will be updated by year end and are expected to show substantial increases.

The Company was negatively impacted by a very bad rainy season in México in the third quarter of 2008; however, the Company is now operating at full capacity in the fourth quarter and is focused on reducing its operating costs, and managing its resources effectively. First Majestic will continue to focus on building long term sustainable mining operations.

OFF-BALANCE SHEET ARRANGEMENTS

At September 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 September 30, 2008, the Company:

- a) incurred \$197,359 for the nine month period ended September 30, 2008 and \$77,086 for the quarter ended September 30, 2008 (nine months ended September 30, 2007 - \$138,389; quarter ended September 30, 2007 - \$42,907) 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 \$215,624 for the nine month period ended September 30, 2008 and \$76,519 for the quarter ended September 30, 2008 (nine months ended September 30, 2007 - \$144,180; quarter ended September 30, 2007 - \$48,519) to a director and Chief Operating Officer for management and other services related to the mining operations of the Company in México pursuant to a consulting agreement.
- c) incurred \$6,618,301 of service fees during the nine month period ended September 30, 2008 and \$2,411,178 for the quarter ended September 30, 2008 (nine months ended September 30, 2007 - \$1,286,556; quarter ended September 30, 2007 - \$532,960) to a mining services company sharing our premises in Durango México for the management and payment of mining contractors performing services for the Company in México at all three mines. An employee of the Company is a shareholder of the mining services company. Of the fees, \$3,075,105 were unpaid at September 30, 2008 (September 30, 2007 - \$483,477).
- d) incurred \$7,365 for the nine month period ended September 30, 2008 (nine months ended September 30, 2007 - \$254,742) to a director of the Company as a finder's fees upon the completion of certain option agreements relating to Del Toro.

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.

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 and resources expected to be converted to 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 country 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 September 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, México 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 México. Management has reviewed its IETU obligations and its consolidated tax position at September 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

Correction of Error Relating to Stockpile Inventory

During the three months ended September 30, 2008, the Company corrected an error with respect to the treatment of stockpile inventory. During mining production, the Company builds up stockpile inventory from ore that is mined but has not been treated in the milling process. Under Canadian GAAP, these mining costs are capitalized as stockpile inventory and will be expensed as the ore is processed and sold.

Previously, the Company did not record stockpile inventory on this basis and therefore such costs were expensed as costs of production in the period they were incurred.

This cumulative error has been corrected in the quarter ended September 30, 2008. If the error was corrected in the previous periods and was applied in the previous quarters ended March 31, 2008 and June 30, 2008, the effect would be to increase the inventory by \$608,744 and \$444,243 respectively; reduce cost of sales and increase operating earnings by \$608,774 and \$444,243 respectively, and increase net income for the periods by \$438,296 and \$319,855 respectively. There is no impact on the basic and diluted earnings per common share for the quarters ended March 31, 2008 and June 30, 2008. The Company has concluded that this error did not have a material impact on the Company's prior results of operations or financial position.

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.

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 November 13, 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
2.45	550,000	550,000	December 16, 2008
3.28	12,500	12,500	June 13, 2009
4.32	630,000	630,000	December 6, 2009
5.50	200,000	200,000	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	22,500	September 24, 2010
3.98	20,000	13,750	October 17, 2010
4.45	660,000	495,000	October 30, 2010
4.34	50,000	37,500	November 1, 2010
4.42	25,000	18,750	November 12, 2010
4.34	200,000	100,000	December 5, 2010
4.42	50,000	25,000	February 21, 2011
4.65	100,000	50,000	March 25, 2011
4.19	30,000	15,000	April 26, 2011
4.02	100,000	25,000	May 15, 2011
4.30	450,000	450,000	June 19, 2011
4.67	130,000	32,500	July 4, 2011
4.15	300,000	75,000	July 28, 2011
3.62	735,000	183,750	August 28, 2011
1.60	200,000	50,000	October 8, 2011
1.27	125,000	31,250	October 17, 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
3.62	100,000	25,000	August 28, 2013
1.44	240,000	60,000	November 10, 2013
	6,862,500	4,515,000	

	Nine Months Ended September 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	1,557,500	3.95	2.94 years	2,680,000	4.50	3.83 years
Exercised	(436,650)	3.20	0.51 years	(1,407,500)	2.15	0.22 years
Forfeited or expired	(268,350)	4.47	1.37 years	(432,500)	4.32	0.34 years
Balance, end of the period	6,745,000	4.06	2.38 years	5,892,500	4.04	2.75 years

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

	Nine Months Ended September 30, 2008			Year Ended December 31, 2007		
	Number of Warrants	Weighted	Average Number	Number of Warrants	Weighted	Average Number
		Average Exercise Price (\$)	of Periods to Expiry		Average Exercise Price (\$)	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	1.48 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	0.75 years	5,845,240	5.66	0.89 years

The following table summarizes the share purchase warrants outstanding at November 13, 2008:

Exercise Price	Warrants	Expiry Dates
\$	Outstanding	
4.25	2,204,949	November 27, 2008
6.81	191,291	March 20, 2009
7.00	4,887,500	March 25, 2010
	7,283,740	

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 third 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 new automated internal controls proposed when its new accounting information systems were adopted in the first quarter of 2008. The risk of material error is mitigated by extensive management review of financial reports and various account reconciliations and analyses. A remediation plan has been prepared and is being addressed, and new senior accounting staff has been hired to implement additional controls. Although significant advances have been made, it is expected that specific internal control weakness may require one to two quarters of work effort to become fully effective 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 parallel with establishing detailed controls over the new systems in order to mitigate specific weaknesses while ensuring the fair presentation of its quarterly financial statements. Management expects to finalize the implementation of its internal control remediation plan prior to the end of 2008, and will continue to monitor and report on the status of the internal control remediation plan until management has determined that the systems of internal control are fully effective and dependable.

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 September 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 September 30, 2008.