

FIRSTGROWTH EXPLORATION & DEVELOPMENT SERVICES CORP.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2008

FIRSTGROWTH EXPLORATION & DEVELOPMENT SERVICES CORP.
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FIRSTGROWTH EXPLORATION & DEVELOPMENT SERVICES CORP.
INTERIM CONSOLIDATED BALANCE SHEET
(unaudited)

	As at	
	June 30 2008	December 31 2007
ASSETS		
CURRENT		
Cash	\$ 115,988	\$ 2,803,021
Accounts receivable and accrued income (net of allowances) (Note 3)	6,188,048	3,673,363
Marketable securities	429,109	437,109
Inventory	459,243	88,124
Prepaid expenses and deposits	458,897	146,219
Total current assets	<u>7,651,285</u>	<u>7,147,836</u>
OTHER		
Investments (Note 5)	1,447,763	1,447,763
Property and equipment (Note 6)	14,470,812	14,399,774
Seismic data library (Note 7)	708,895	752,099
Deferred charges	7,647	7,647
Goodwill	146,381	146,381
	<u>\$ 24,432,783</u>	<u>\$ 23,901,500</u>
LIABILITIES		
CURRENT		
Bank indebtedness (Note 8)	\$ 1,960,158	\$ 62,864
Accounts payable and accrued liabilities	2,200,633	1,559,808
Debentures payable (Note 10)	-	585,316
Current portion of long-term debt (Note 9)	755,803	730,995
	<u>4,916,594</u>	<u>2,938,983</u>
Long-term debt, net of current portion included above (Note 8)	2,221,494	2,604,951
Debentures payable (Note 9)	2,612,999	2,559,835
	<u>9,751,087</u>	<u>8,103,769</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 12)	15,261,031	15,213,506
Equity component of convertible debentures (Note 10)	164,017	204,992
Warrants (Note 13)	2,567,326	2,573,876
Contributed surplus (Note 15)	1,590,433	1,510,551
Accumulated other comprehensive income	281,974	281,974
Deficit	(5,183,085)	(3,987,168)
	<u>14,681,696</u>	<u>15,797,731</u>
	<u>\$ 24,432,783</u>	<u>\$ 23,901,500</u>

Subsequent Events (Note 17)
Contingencies (Note 11)

APPROVED ON BEHALF OF THE BOARD

Director

Director

FIRSTGROWTH EXPLORATION & DEVELOPMENT SERVICES CORP.
INTERIM CONSOLIDATED STATEMENT OF LOSS
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
REVENUE	\$ 3,567,817	\$ 4,412,744	\$ 6,830,384	\$ 9,449,724
COST OF SALES	2,535,407	3,627,047	4,479,801	6,886,806
	<u>1,032,410</u>	<u>785,697</u>	<u>2,350,583</u>	<u>2,562,918</u>
EXPENSES				
Accretion	20,912	23,332	53,164	23,332
Advertising and promotion	73,396	169,276	159,504	238,532
Amortization	872,980	200,041	1,640,216	881,727
Bad debts	25,000	-	25,000	-
Consulting and professional services	84,364	107,981	230,419	216,150
Directors' fees	18,000	-	36,000	-
Office, rent and other	80,360	51,987	152,165	84,900
Insurance	53,720	38,300	106,873	96,497
Interest and bank charges	41,506	79,139	64,586	172,933
Interest on long-term debt	136,949	149,713	247,727	177,658
Management salary and fees	110,514	63,031	218,814	184,771
Professional fees	116,919	105,398	157,517	116,466
Salaries, wages and benefits	240,233	160,302	388,294	271,703
Stock based compensation (forfeiture of stock options)	54,916	739,683	79,882	667,935
Transfer agent and registrar fees	7,464	46,588	18,937	117,205
	<u>1,937,233</u>	<u>1,934,771</u>	<u>3,579,098</u>	<u>3,249,809</u>
INCOME (LOSS) FROM OPERATIONS	<u>(904,823)</u>	<u>(1,149,074)</u>	<u>(1,228,515)</u>	<u>(686,891)</u>
OTHER INCOME (EXPENSES)				
Interest	3,532	9,858	25,656	20,463
Gain on sale of marketable securities	6,942	-	6,942	-
Loss on sale of equipment	-	(1,080)	-	(1,080)
	<u>10,474</u>	<u>8,778</u>	<u>32,598</u>	<u>19,383</u>
INCOME (LOSS) BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	(894,349)	(1,140,296)	(1,195,917)	(667,508)
PROVISION FOR INCOME TAXES				
Current	-	-	-	(130,338)
(LOSS) BEFORE NON-CONTROLLING INTEREST	(894,349)	(1,140,296)	(1,195,917)	(797,846)
NON-CONTROLLING INTEREST IN SUBSIDIARY	-	7,629	-	1,152
NET (LOSS)	(894,349)	(1,132,667)	(1,195,917)	(796,694)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	33,760,659	29,735,541	33,760,659	26,942,960
BASIC AND DILUTED (LOSS) PER SHARE	<u>\$ (0.03)</u>	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>	<u>\$ (0.03)</u>

See accompanying notes to the financial statements

FIRSTGROWTH EXPLORATION & DEVELOPMENT SERVICES CORP.
INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS, DEFICIT AND
ACCUMULATED OTHER COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
CONSOLIDATED STATEMENT OF DEFICIT				
DEFICIT, beginning of period	(4,288,736)	(419,559)	(3,987,168)	(755,532)
NET (LOSS)	(894,349)	(1,132,667)	(1,195,917)	(796,694)
DEFICIT, end of year	(5,183,085)	(1,552,226)	(5,183,085)	(1,552,226)
CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS				
NET INCOME (LOSS)	(894,349)	335,973	(1,195,917)	(796,694)
OTHER COMPREHENSIVE INCOME				
Unrealized fair value increase on available-for-sale investments	-	-	-	-
COMPREHENSIVE LOSS	(894,349)	335,973	(1,195,917)	(796,694)
ACCUMULATED OTHER COMPREHENSIVE INCOME, BEGINNING OF YEAR	281,974	-	281,974	-
OTHER COMPREHENSIVE INCOME	-	-	-	-
ACCUMULATED OTHER COMPREHENSIVE INCOME, END OF YEAR	281,974	-	281,974	-

See accompanying notes to the financial statements

FIRSTGROWTH EXPLORATION & DEVELOPMENT SERVICES CORP.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
OPERATING ACTIVITIES				
Net (loss)	\$ (894,349)	\$ (1,132,816)	(1,195,917)	\$ (796,843)
Add: items not involving cash				
Non-controlling interest in subsidiary	-	(7,629)	-	(1,152)
Amortization	872,980	200,041	1,640,216	881,727
Stock-based compensation	54,916	739,683	79,882	667,935
Accretion	20,912	23,332	53,164	23,332
Gain on sale of marketable securities	(6,942)	-	(6,942)	-
Loss on sale of equipment	-	1,080	-	1,080
	<u>47,517</u>	<u>(176,309)</u>	<u>570,403</u>	<u>776,079</u>
Changes in non-cash working capital items:				
Increase in accounts receivable	(1,421,912)	(1,276,416)	(2,514,685)	(2,908,008)
Increase in work in progress	(149,821)	(576,210)	(371,119)	(576,210)
Increase (decrease) in accounts payable and accrued liabilities	144,825	(81,734)	640,825	(121,443)
Decrease (Increase) in prepaid expenses and deposits	(124,694)	842,088	(312,678)	812,118
Decrease in income taxes payable	-	-	-	130,338
	<u>(1,504,085)</u>	<u>(1,268,581)</u>	<u>(1,987,254)</u>	<u>(1,887,126)</u>
Net cash used in operating activities				
FINANCING ACTIVITIES				
Bank indebtedness	533,898	(713,936)	1,897,294	643,306
Issuance of common shares and warrants	-	1,966,378	-	6,393,268
Convertible debenture, including equity component	(585,316)	618,503	(585,316)	2,474,503
Long-term debt (net)	(167,129)	606,528	(358,649)	515,026
	<u>(218,547)</u>	<u>2,477,473</u>	<u>953,329</u>	<u>10,026,103</u>
Net cash provided by financing activities				
INVESTING ACTIVITIES				
Purchases of property and equipment	(174,528)	(2,032,253)	(1,668,050)	(7,205,483)
Proceeds on sale of marketable securities	14,942	-	14,942	-
	<u>(159,586)</u>	<u>(2,032,253)</u>	<u>(1,653,108)</u>	<u>(7,205,483)</u>
Net cash used in investing activities				
Increase in cash for the period	(1,882,218)	(823,361)	(2,687,033)	933,494
Cash and equivalents, beginning of period	1,998,206	1,996,077	2,803,021	239,222
Cash and equivalents, end of period	\$ 115,988	\$ 1,172,716	\$ 115,988	\$ 1,172,716

See accompanying notes to the financial statements

FIRSTGROWTH EXPLORATION & DEVELOPMENT SERVICES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2008

1. NATURE OF OPERATIONS

FirstGrowth Exploration & Development Service Corp. (“FirstGrowth”), a company established under the policies of the TSX Venture Exchange Inc. was incorporated on February 10, 2005 pursuant to the Business Corporations Act of British Columbia and was listed on the TSX Venture Exchange (the “TSX”) August 2, 2005. Effective October 27, 2006, FirstGrowth purchased a 98.63% interest in Kinetex Inc. (“Kinetex”) (hereinafter together referred to as the “Company”). On October 9, 2007, FirstGrowth completed the takeover of Kinetex by purchasing the remaining 1.37% non-controlling interest.

The Company provides geophysical services which include digital seismic imaging, data acquisition, processing and archiving to the oil and gas and mining industries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and include the accounts of the Company and the activity of its wholly-owned subsidiary, Kinetex Inc. and Kinetex’ wholly-owned subsidiary, Kinetex Geosciences Inc. from the acquisition date, after the elimination of intercompany transactions and balances.

Measurement uncertainty (use of estimates)

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts or revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is provided where considered necessary. Amortization is based on the estimated useful lives of property and equipment, and the seismic data library.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Cash

Cash includes balances with banks and short-term deposits with original maturities of three months or less. Bank borrowings are considered to be financing activities.

FIRSTGROWTH EXPLORATION & DEVELOPMENT SERVICES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Property and equipment

Property and equipment are initially recorded at cost. Amortization is provided annually at rates calculated to write-off the assets over their estimated useful lives. Amortization is calculated on a declining balance basis at the following rates:

Equipment and exploration equipment	20%
Automotive	30%
Computer software and equipment	30%
Furniture and fixtures	20%

Property and equipment are amortized at half rates in the year of addition.

Leasehold improvements are written off over the initial term of the leases on a straight-line basis.

Seismic data library

Management has established guidelines regarding its annual charge for the amortization of its seismic data library. Amortization is provided for based on projected revenues over a five year period for the particular data. Amortization is charged as revenue is recognized. Management periodically reviews the carrying value of each seismic data with its estimated revenue and, if appropriate, the carrying value is reduced to its estimated net realizable value.

Intangible assets

Intangible assets recognized separately from goodwill and not subject to amortization are recorded at cost, less any provision for permanent impairment. The Company assesses impairment based on the estimated undiscounted future cash flows expected from the intangible assets. Impairment is measured by comparing the book value of the intangible assets against the estimated undiscounted cash flows, and any permanent impairment is included in earnings.

Goodwill

Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. When the carrying amount of the reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is recorded in the statement of income. Based on its review, management does not believe that any impairment has occurred.

Future income taxes

The Company follows the asset and liability method of accounting for future income taxes. Under this method, future income tax assets and liabilities are recognized based on temporary differences between the carrying amount of balance sheet items and their

FIRSTGROWTH EXPLORATION & DEVELOPMENT SERVICES CORP.
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FOR THE SIX MONTHS ENDED JUNE 30, 2008

corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

Revenue recognition

Seismic data processing and acquisition revenue is recognized on the completed contract basis for contracts of less than a one month duration. Revenue is recognized on a percentage of completion basis for contracts of a duration greater than one month.

Loss per share

Basic loss per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. The dilutive effect of convertible securities is reflected in diluted loss per share by application of the "if converted" method. The dilutive effect of outstanding options and their equivalents is reflected in diluted loss per share by application of the treasury stock method. This method assumes the proceeds from the exercise of dilutive options and warrants are used to purchase common shares at the weighted average market price during the period.

Inventory

Inventory consists of work in progress and is valued at the lower of cost and net realizable value.

Stock-based compensation

The Company has a stock option plan whereby options to acquire common shares of the Company are granted to directors, officers and employees. The Company recognizes compensation expense based on the fair value of the options on the date of grant. The fair value of the option is recognized over the vesting period of the options and is included in expenses with a corresponding credit to contributed surplus. The contributed surplus balance is reduced as options are exercised and the amount initially recorded for the options in contributed surplus is credited to share capital.

Financial instruments

In accordance with the new CICA accounting standards 3855 and 3861, all financial instruments, including embedded derivatives, must initially be recognized at fair value on the balance sheet and classified into the following categories: financial assets and financial liabilities held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets, and other financial liabilities. Subsequent measurements of the financial instruments are based on their classification. Unrealized

FIRSTGROWTH EXPLORATION & DEVELOPMENT SERVICES CORP.
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gains and losses on held for trading financial instruments are recognized in earnings. Unrealized gains and losses on available-for-sale financial assets are recognized in other comprehensive income and are transferred to income when the instrument is settled. The other categories of financial instruments are recognized at amortized cost using the effective interest rate method. Investment transactions are made on the trade date and any transaction costs with respect to financial instruments are expensed in the period incurred.

The company's financial instruments are listed as follows, according to their classification:

- a) Cash is classified as held-for-trading and is measured at fair value;
- b) Accounts receivable is classified as loans and receivables and are measured at amortized cost;
- c) Bank indebtedness, accounts payable and accrued liabilities, shareholders loans, long-term debt and convertible debentures payable are classified as other financial liabilities and are measured at amortized costs; and
- d) Investments and marketable securities are classified as available-for-sale and measured at fair value or cost if they do not have a quoted price in an active market.

Recent Accounting Pronouncements

CICA 3031 – Inventories

This section replaces CICA Section 3030 and applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008. The new section is harmonized with International Accounting Standards and provides additional guidance on measurement and disclosure requirements for inventories. The Company does not expect the adoption of this section to have a material impact on its operations or financial position, but that this section will lead to additional disclosures in the financial statements.

CICA 1535 – Capital Disclosures

The new section establishes standards for disclosing information regarding an entity's capital and how it is managed. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company believes that this section will lead to additional disclosures in the financial statements.

CICA 3862 – Financial Instruments – Disclosure and CICA 3863 – Financial Instruments Presentation

Both sections establish new levels of disclosure required for financial instruments in the financial statements. The section is effective for annual periods beginning on or after October 1, 2007.

FIRSTGROWTH EXPLORATION & DEVELOPMENT SERVICES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2008

3. ACCOUNTS RECEIVABLE

	June 30, 2008	December 31, 2007
Trade receivables	6,353,048	2,524,250
Allowance for doubtful accounts	(165,000)	(140,000)
Unbilled revenue	-	1,289,113
	6,188,048	3,673,363

4. NOTES RECEIVABLE

Notes receivable consist of non-interest bearing demand debentures totaling \$105,901 (2007 - \$ 105,901) which were issued to employees through an Employee Investors Program.

5. INVESTMENTS

	June 30, 2008	December 31, 2007
	\$	\$
Cash surrender value of life insurance policy	53,000	53,000
Investment in Cacique Petroleum Ltd., a related party	228,363	228,363
Notes receivable	1,166,400	1,166,400
	1,447,763	1,447,763

The cash surrender value has been recorded at fair value. The investment in Cacique Petroleum Ltd. and the notes receivable have been recorded at cost as there is no active market from which to determine fair value. The notes receivable will be realized through the issuance by Life Sciences Institute Inc. of 525,000 common shares and a convertible debenture. The note is non-interest bearing and due on demand.

**FIRSTGROWTH EXPLORATION & DEVELOPMENT SERVICES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2008**

6. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	June 30, 2008 Net book value	December 31, 2007
Automotive	808,752	310,451	498,301	610,545
Computer equipment	115,618	33,540	82,078	44,528
Computer software	16,520	6,053	10,467	11,124
Equipment	7,555,829	1,954,378	5,601,451	6,120,107
Exploration equipment	10,233,287	2,324,772	7,908,515	7,519,218
Furniture and fixtures	24,154	2,842	21,312	3,817
Leasehold improvements	408,574	59,886	348,688	90,435
	19,162,734	4,691,922	14,470,812	14,399,774

Exploration equipment includes assets under capital lease with a cost of \$1,238,805 (2007 - \$1,238,805) and accumulated amortization of \$357,888 (2007 - \$260,008)

7. SEISMIC DATA LIBRARY

	Cost	Accumulated Amortization	June 30, 2008 Net book value	December 31, 2007
Seismic data library	864,097	155,202	708,895	752,099

8. BANK INDEBTEDNESS

The Company has credit facilities totaling \$8,778,000 from the HSBC Bank Canada. The credit facilities are as follows:

Operating Loan - \$2,000,000 – Interest Rate Prime + .75% (demand)
 Project Loan - \$2,000,000 – Interest Rate Prime + 1.0% (demand)
 Term Loan - \$2,273,000 – Interest Rate Prime + 1.0% (non- revolving – blended
 monthly payment \$53,500)
 Equipment lease financing - \$855,000 (demand revolving)
 Master Card Facility - \$150,000
 Letter of Credit Facility -\$1,500,000 (demand facility)

In addition to its guarantee FirstGrowth postponed its shareholder loans to Kinetex Inc. in favour of the HSBC Bank Canada.

Refer to Note 17 Subsequent events.

FIRSTGROWTH EXPLORATION & DEVELOPMENT SERVICES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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9. LONG-TERM DEBT

	June 30, 2008	December 31, 2007
	\$	\$
Term loan repayable to HSBC in blended monthly instalments of \$53,500, bearing interest at HSBC's prime lending rate plus 1%. The loan is secured by a general security agreement. FirstGrowth has provided a postponement of claim on the shareholder's loan.	2,139,839	2,392,111
Capital financial lease in the original amount of \$1,000,000 repayable to the HSBC Bank Canada over a 48 month term with monthly payments of \$22,408 including interest at 6.47% with a buyout at the end of the lease of \$103,832 repayable over 4 months at \$25,958 per month.	837,458	943,835
	2,977,297	3,335,946
Less: current portion	755,803	730,995
	2,221,494	2,604,951

Obligations under capital lease

Minimum payments on the capital lease are as follows:

	June 30 2008
	\$
2008	134,448
2009	268,869
2010	268,869
2011	<u>246,022</u>
Total minimum lease payments	918,208
Less amount representing interest	<u>(80,750)</u>
	837,458

Principal payments required for the term loan:

2008	237,357
2009	525,128
2010	563,202
2011	604,036
2012	<u>210,116</u>
	\$ 2,139,839

FIRSTGROWTH EXPLORATION & DEVELOPMENT SERVICES CORP.
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10. DEBENTURES PAYABLE

The Company separated the liability and equity components of the convertible debentures. The Company determined the fair value of the liability component of the convertible debentures by calculating the present value of the associated cash flows, using discount rates that reflect the Company's underlying rate of borrowing for non-convertible debt. The fair value of shares at the issue date of the convertible debentures was determined using the residual value approach. The resulting pro-rata fair value of the liability components of the debentures will be accreted to their liability component face values over the terms of the secured notes through the recording of interest expense until such dates at which the underlying notes are paid in full.

The equity components have been recorded as an increase to shareholders' equity.

The debenture financing consisted of two separate placements. The first financing of 8% convertible debentures was paid out in full in the second quarter of 2008.

The second financing consists of 2.7 million transferable debentures having a face value of \$1 each. These debentures mature on April 17, 2011 and bear interest at the rate of 10% per annum payable on each anniversary of the issuance of the debentures on April 17, 2007. Each debenture is convertible into "debenture units" at the price of \$1.25 per debenture unit during the period April 17, 2007 to April 17, 2008, at the price of \$1.40 per debenture unit during the period April 18, 2008 to April 17, 2009, at the price of \$1.55 per debenture unit during the period April 18, 2009 to April 17, 2010 and at the price of \$1.75 per debenture unit during the period April 18, 2010 to April 17, 2011. Each debenture unit consists of one common share of the company and ½ of one transferable share purchase warrant. Each warrant will entitle the holder to purchase one additional common share until the maturity date at a price of \$1.75.

Refer to Note 17 Subsequent events

8% debentures

	Face value	Liability Component Carrying value	Equity component fair value
Balance at January 1, 2007	\$ 816,000	\$ 778,944	\$ 55,163
Conversion	(224,000)	(202,130)	(14,188)
Accretion	-	8,502	-
Balance, December 31, 2007	592,000	585,316	40,975
Accretion	-	5,670	-
Balance, March 31, 2008	592,000	590,986	40,975
Redemption	(592,000)	(590,986)	(40,975)
Balance, June 30, 2008	\$ -	\$ -	\$ -

FIRSTGROWTH EXPLORATION & DEVELOPMENT SERVICES CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2008

10% debentures

	Face value	Liability Component Carrying value	Equity component fair value
Balance, April 17, 2007	\$ 2,700,000	2,535,983	164,017
Accretion	-	23,852	-
Balance, December 31, 2007	2,700,000	2,559,835	164,017
Accretion	-	26,582	-
Balance, March 31, 2008	2,700,000	2,586,417	164,017
Accretion	-	26,582	-
Balance, June 30, 2008	\$ 2,700,000	2,612,999	164,017

11. CONTINGENCIES

The Company had been named as defendant in four lawsuits. These lawsuits are at an early stage and as litigation is subject to many uncertainties, it is not possible to predict the ultimate outcome of these lawsuits or to estimate the loss, if any, which may result. There has been no provision made in the accounts for these lawsuits and the Company continues to vigorously defend its position.

12. SHARE CAPITAL

Authorized
 Unlimited common shares without par value

Issued

	Shares #	Amount \$
Balance January 1, 2007	23,314,000	6,153,760
Shares issued for cash from brokered private placement	6,135,711	6,442,496
Shares issued for cash from non-brokered private placement	4,000,000	4,200,000
Shares to brokerage agents-exercise of brokers' warrants	31,849	68,667
Shares issued from conversion of 8% debenture	179,200	224,000
Shares to directors/officers under the stock option plan	99,900	171,508
Share issue costs	-	(470,749)
Warrants	-	(1,576,176)

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Balance December 31, 2007	33,760,659	15,213,506
No activity during the period	-	-
Balance, March 31, 2008	33,760,659	15,213,506
Reversal of equity component of debenture paid out in full		40,975
Warrants cancelled	-	6,550
Balance June 30, 2008	33,760,659	15,261,031

In accordance with the policies of the TSX, 8,309,808 issued shares will be held pursuant to a three year escrow agreement dated August 7, 2007 upon the Company's graduation to Tier 1 Status on the TSX Venture Exchange. The required number of issued shares held in escrow decreased to 5,482,356 effective April 25, 2008.

13. WARRANTS

	Number of Warrants	Fair Value	Weighted average exercise price per share	Weighted average years to expiry Date
Outstanding, January 1, 2007	2,570,250	1,017,907	1.75	1.22
Granted during the year	3,085,500	490,443	1.75	.69
	3,050,210	432,009	1.75	.76
	89,600	6,550	1.75	
	4,000,000	594,512	1.75	1.12
	214,068	34,023	1.75	.69
	208,975	29,598	1.75	.76
Exercised during the year	(44,250)	(20,207)	1.75	
Cancelled during the year	(24,000)	(10,959)	1.75	
Outstanding, December 31, 2007	13,150,353	2,573,876	1.75	.74
No activity during the period	-	-		
Outstanding, March 31, 2008	13,150,353	2,573,876	1.75	.74
Expired during the period	(89,600)	(6,550)	1.75	
Outstanding, June 30, 2008	13,060,753	2,567,326	1.75	.74

14. STOCK OPTIONS

On June 14, 2007, the Company amended its incentive stock option plan to provide an incentive to its directors, officers, employees and technical consultants. The maximum number of shares by percentage which may be issued under the incentive stock option plan will not exceed 20% of the issued and outstanding common shares. Under the current plan the total options cannot exceed 5,322,724.

Canaccord Capital Corporation, brokerage agent, was given the option to purchase 94,500 units of the Company at a price of \$ 1.00 per unit until September 28, 2008. Each

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unit consists of one common share and one non-transferable share purchase warrant. Each warrant entitles the Agent to purchase an additional common share of the Company at \$ 1.75 until September 28, 2008.

Refer to Note 17 Subsequent events.

The following table summarizes the information about stock options outstanding and exercisable at June 30, 2008:

	Number of options	Weighted average exercise price	Weighted average years to expiry
Balance, January 1, 2007	2,396,425	.16	3.92
Granted to employees and consultants	775,000	1.10	1.10
Granted to directors and officers	1,000,000	1.10	4.51
Directors and officers options exercised	(102,400)	1.00	
Directors and officers options cancelled	(100,100)	1.00	
Employees and consultants options cancelled	(110,000)	1.00	
Outstanding, December 31, 2007	3,858,925	1.02	3.01
Granted to employees and consultants	436,075	1.10	3.47
Employees and consultants options forfeited	(200,000)	1.10	
Outstanding, March 31, 2008	4,095,000	1.02	3.06
Granted to employees and consultants	650,000	.60	4.92
Employees and consultants options forfeited	(692,500)	1.10	
Outstanding, June 30, 2008	4,052,500	.95	3.36

As at June 30, 2008, 1,726,669 (2007 – 1,843,925) options had not vested.

The Company uses the Black-Scholes option valuation model to value the stock options granted. The Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The model requires management to make estimates which are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values.

For the purposes of the calculation, the following weighted average assumptions were used under the Black-Scholes option pricing model for 2007:

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	Directors Employees	Brokerage Agent
Risk free interest rate	4.17%	3.95%
Expected dividend yield	0	0
Expected stock price volatility	28-71%	28-71%
Expected life of options	5 years	1 year

For the purposes of the calculation, the following weighted average assumptions were used under the Black-Scholes option pricing model for 2008:

	Directors Employees	Brokerage Agent
Risk free interest rate	4.17%	3.95%
Expected dividend yield	0	0
Expected stock price volatility	28-71%	28-71%
Expected life of options	5 years	1 year

15. CONTRIBUTED SURPLUS

	\$
Balance, January 1, 2007	706,626
Stock options granted to directors, employees and consultants	877,244
Directors, employees and consultants options exercised	(73,319)
Balance, December 31, 2007	1,510,551
Stock options granted to directors, employees and consultants	65,139
Directors, employees and consultants options forfeited	(40,173)
Balance, March 31, 2008	1,535,517
Stock options granted to directors, employees and consultants	124,933
Directors, employees and consultants options forfeited	(70,017)
Balance, June 30, 2008	1,590,433

16. RELATED PARTY TRANSACTIONS

During the two quarters ended June 30, 2008, pursuant to management services agreements with 2 of its directors/officers, the Company paid \$120,000 (2007 - \$51,000) in management fees to a company controlled by Gil Schneider, Chief Executive Officer and Vern Stromkins, Chief Financial Officer. Also during the two quarters ended June 30, 2008 fees paid to the aforementioned company for security and filing fees in the amount of \$5,390 (2007 - \$1,170). Security and filing fees charged were in line with fees generally charged for this service. Rental and other expense payments and consulting fees of \$15,378 (2007 - \$3,600) were paid to a company in which director Bill Calsbeck has a minority interest, for shared premises during the first two quarters of 2008. Fees of \$30,000 (2007 - \$10,500) were also paid to Travis Schneider, operating as Corporate Communication Services, to provide internal corporate communications during the first

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two quarters of 2008. The Directors also received \$36,000 (2007 - nil) in directors' fees during the first two quarters of 2008. In the first two quarters of 2008 \$1,185 was paid to company controlled by Vern Stromkins, Chief Financial Officer, for building materials related to making leasehold improvements.

17. SUBSEQUENT EVENTS

On July 2, 2008, Kinetex renegotiated the credit facilities with HSBC Bank Canada and increased them to \$11,695,000. The new credit facilities are as follows:

Operating Loan - \$3,000,000 –Interest Rate Prime + .75% (demand)
Project Loan - \$2,000,000 –Interest Rate Prime + 1.0% (demand)
Term Loan - \$2,190,000 –Interest Rate Prime + 1.0% (non- revolving – blended
monthly payment \$53,500)
Additional Term Loan - \$2,000,000 (non-revolving-to be amortized over 60 months upon
drawdown)
Equipment lease financing - \$855,000 (non-revolving)
Master Card Facility - \$150,000
Letter of Credit Facility -\$1,500,000 (demand facility)
In addition to its guarantee FirstGrowth postponed its shareholder loans to Kinetex Inc. in
favour of the HSBC Bank Canada.

On July 23, 2008, the MasterCard facility was increased to \$250,000 bringing the overall credit facility to \$11,795,000.

On July 2, 2008, the 10% convertible debenture conversion prices and retraction rights were changed to the following:

Each debenture is convertible into “debenture units” at the price of \$0.80 per debenture unit during the period April 18, 2008 to April 17, 2009, at the price of \$1.40 per debenture unit during the period April 18, 2009 to April 17, 2010 and at the price of \$1.55 per debenture unit during the period April 18, 2010 to April 17, 2011. In exchange for reducing the conversion prices, the debenture holder has agreed to extend its retraction rights from any time following the second year from the date of the issuance of the debenture to any time following the third year from the date of issuance of the debenture.

On July 30, 2008, the date of the Annual General Meeting, approval was given by the shareholders to reduce the stock option exercise prices from the current \$1.00 and \$1.10 to \$0.60 for all options held by the directors. Similar approval was given by the directors to reduce the stock option exercise price for options held by outside consultants from \$1.10 to \$0.60.

At the same Annual General Meeting, the board of directors obtained shareholder approval to increase the number of available options under its 20% Stock Option Plan to purchase common shares from 5,322,724 to 6,752,131.

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On August 6, 2008, the company received proceeds amounting to \$177,250 from an insurance claim pertaining to a fire on a job site in Manitoba.

18. PREMISES AND VEHICLE LEASES

Kinetex Inc., entered into a premises' lease with the landlord, Klukas Holdings to occupy premises and property in Calgary, Alberta for a period of 3 years beginning May 1, 2007. The monthly rental payment for the first year is \$2,750. The lease agreement contains an option to renew for an additional three years.

Additionally, if the tenant completes leasehold improvements on the leased property in excess of \$350,000 before the end of the initial term of the lease, the renewal period will be extended to 6 years.

Kinetex Inc. entered into a premises' lease with the landlord, Inmobiliaria Ospina & CIA, LTDA. to occupy premises and property in Bogota, Columbia for a period of 3 years beginning May 1, 2008. The monthly rental payment is \$3,080.

The Company entered into a premises' lease with the landlord, Shon Investments to occupy premises in Cathedral Place Office Tower in Vancouver, British Columbia for a period of five years beginning August 1, 2008. The monthly rental payment for the first two years is \$6,767 and for the subsequent three years is \$7,000.

Operating lease obligations for the balance of the lease terms on the premises and vehicles are as follows:

2008	\$ 153,684
2009	191,822
2010	109,411
2011	103,632
2012	84,000
2013	14,000

19. ECONOMIC DEPENDENCE

The Company purchased 90% (2007 – 90%) of its recording equipment from ION Geophysical Corporation (“ION”), a developer, manufacturer and marketer of seismic equipment. On February 25, 2008, the Company entered into a strategic multi-year business relationship with ION.

The Company is not dependant upon any one client for its revenue.

20. COMPARATIVES

Certain comparative figures have been reclassified, where applicable, to conform to the presentation used in the current quarter.