

**Minefinders Corporation Ltd.**

**Interim Consolidated Financial Statements -  
unaudited  
(Thousands of United States dollars)  
For the three and six months ended  
June 30, 2008 and 2007**

Investor Relations  
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**Minefinders Corporation Ltd.**  
**Consolidated Balance Sheets**  
(Thousands of United States dollars)

	<b>(unaudited)</b>	
	<b>June 30,</b>	December 31,
	<b>2008</b>	<b>2007</b>
<hr/>		
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 3,640	\$ 20,935
Receivables (Note 4)	6,239	10,431
Supply inventory	2,519	1,558
Prepaid expenses	233	456
	12,631	33,380
<b>Mineral property, plant and equipment</b> (Note 5)	203,392	160,181
	\$ 216,023	\$ 193,561
<hr/>		
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 10,267	\$ 4,532
<b>Long-term debt</b> (Note 6)	83,663	59,965
<b>Asset retirement obligations</b> (Note 7)	1,706	1,644
	95,636	66,141
<b>Shareholders' equity</b>		
Capital stock (Note 8)	174,861	172,319
Equity portion of convertible notes (Note 6)	27,366	27,366
Contributed surplus (Note 10)	22,502	18,797
Deficit	(109,411)	(96,131)
Accumulated other comprehensive income	5,069	5,069
	120,387	127,420
	\$ 216,023	\$ 193,561

**Commitments and Contingencies** (Note 11)

See accompanying notes to the unaudited interim consolidated financial statements.

**Minefinders Corporation Ltd.**  
**Consolidated Statements of Operations and Comprehensive Loss - unaudited**  
(Thousands of United States dollars, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
<b>Expenses</b>				
Office and administration	\$ 1,581	\$ 1,179	\$ 3,608	\$ 2,596
Amortization and accretion of asset retirement obligations	103	51	243	103
Exploration	1,572	2,174	3,108	3,157
Stock-based compensation – exploration (Note 10)	747	-	757	81
Stock-based compensation - administration (Note 10)	1,844	-	2,048	-
Accretion of convertible notes discount (Note 6)	1,348	1,186	2,698	2,352
	<u>7,195</u>	4,590	<u>12,462</u>	8,289
Interest on long-term debt (Note 6)	1,127	953	2,099	1,896
Financing fees	26	-	51	-
Foreign exchange gain	(214)	(4,244)	(745)	(4,068)
Write-off of acquisition costs	12	-	12	-
Gain on sale of assets	-	-	-	(6)
Interest income	(487)	(901)	(599)	(2,152)
<b>Net loss and comprehensive loss for the period</b>	<b>\$ 7,659</b>	<b>\$ 398</b>	<b>\$ 13,280</b>	<b>\$ 3,959</b>
<b>Loss per share – basic and diluted</b>	<b>\$ (0.15)</b>	<b>\$ (0.01)</b>	<b>\$ (0.27)</b>	<b>\$ (0.08)</b>
<b>Weighted average shares outstanding</b>	<b>49,615,345</b>	<b>48,671,945</b>	<b>49,579,652</b>	<b>48,496,942</b>

See accompanying notes to the unaudited interim consolidated financial statements.

**Minefinders Corporation Ltd.**  
**Consolidated Statement of Changes in Shareholders' Equity - unaudited**  
(Thousands of United States dollars)

	Capital stock	Equity portion of convertible notes	Contributed surplus	Deficit	Accumulated other comprehensive income	Total
<b>Balance, January 1, 2007,</b>	\$165,537	\$ 27,366	\$ 12,957	\$ (76,927)	\$ 5,069	\$134,002
Exercise of stock options for cash	6,782	-	-	-	-	6,782
Stock based compensation	-	-	5,840	-	-	5,840
Net loss	-	-	-	(19,204)	-	(19,204)
<b>Balance, December 31, 2007,</b>	172,319	27,366	18,797	(96,131)	5,069	127,420
Exercise of stock options for cash	2,156	-	-	-	-	2,156
Stock based compensation	-	-	3,705	-	-	3,705
Share-based payment	386	-	-	-	-	386
Net loss	-	-	-	(13,280)	-	(13,280)
<b>Balance, June 30, 2008</b>	<b>\$174,861</b>	<b>\$ 27,366</b>	<b>\$ 22,502</b>	<b>\$ (109,411)</b>	<b>\$ 5,069</b>	<b>\$120,387</b>

See accompanying notes to the unaudited interim consolidated financial statements.

**Minefinders Corporation Ltd.**  
**Consolidated Statements of Cash Flows - unaudited**  
(Thousands of United States dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
<b>Cash flows used in operating activities</b>				
Net loss for the period	\$ (7,659)	\$ (398)	\$ (13,280)	\$ (3,959)
Items not involving cash				
Amortization	103	51	243	103
Gain on sale of assets	-	-	-	(6)
Accretion of convertible notes discount	1,348	1,186	2,698	2,352
Unrealized foreign exchange (gain) loss	(35)	(4,244)	96	(4,068)
Stock option compensation	2,591	-	2,805	81
Acquisition costs written off	12	-	12	-
Net change in non-cash working capital balances				
Receivables	6,965	(2,064)	4,192	(4,054)
Supply inventory	(641)	-	(961)	-
Prepaid expenses	120	337	223	(135)
Accounts payable and accrued liabilities	(1,265)	(1,604)	(808)	(374)
	<u>1,539</u>	<u>(6,736)</u>	<u>(4,780)</u>	<u>(10,060)</u>
<b>Cash flows used in investing activities</b>				
Mineral property, plant and equipment	<u>(20,234)</u>	<u>(23,199)</u>	<u>(35,575)</u>	<u>(45,982)</u>
	<u>(20,234)</u>	<u>(23,199)</u>	<u>(35,575)</u>	<u>(45,982)</u>
<b>Cash flows provided by financing activities</b>				
Issue of common shares	1,815	-	2,156	1,851
Revolving credit facility	15,000	-	21,000	-
Financing charges	-	-	-	(142)
	<u>16,815</u>	<u>-</u>	<u>23,156</u>	<u>1,709</u>
<b>Effect of exchange rates on cash and cash equivalents</b>	<u>35</u>	<u>4,096</u>	<u>(96)</u>	<u>3,938</u>
<b>Decrease in cash and cash equivalents</b>	<u>(1,845)</u>	<u>(25,839)</u>	<u>(17,295)</u>	<u>(50,395)</u>
<b>Cash and cash equivalents, beginning of period</b>	<u>5,485</u>	<u>97,439</u>	<u>20,935</u>	<u>121,995</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 3,640</u>	<u>\$ 71,600</u>	<u>\$ 3,640</u>	<u>\$ 71,600</u>
<b>Supplemental Information</b>				
Non-cash investing and financing activities:				
Increase in asset retirement obligations included in mineral property, plant, and equipment	\$ -	\$ 355	\$ -	\$ 355
Stock-based compensation capitalized to mineral property, plant, and equipment	\$ 640	\$ 427	\$ 900	\$ 963
Share-based payment	\$ 386	\$ -	\$ 386	\$ -

See accompanying notes to the unaudited interim consolidated financial statements.

**Minefinders Corporation Ltd.**  
**Consolidated Schedules of Exploration Costs - unaudited**  
(Thousands of United States dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
<b>Dolores Mine Project</b>				
Assaying and drilling	\$ 251	\$ 548	\$ 535	\$ 846
Engineering and surveying	-	36	-	36
Equipment rentals and miscellaneous	-	6	4	70
Licenses and recording fees	-	-	-	2
Road building	-	8	-	87
Technical and professional services	272	285	525	418
Stock-based compensation (Note 10)	-	-	-	81
Other	-	27	-	52
Total Dolores Mine Project	<b>523</b>	910	<b>1,064</b>	1,592
<b>Other properties</b>				
Assaying and drilling	666	806	1,289	833
Engineering and surveying	25	2	29	2
Equipment rentals and miscellaneous	35	174	59	283
Licenses and recording fees	94	62	215	115
Technical and professional services	179	141	349	266
Stock-based compensation (Note 10)	747	-	757	-
Other	50	79	103	147
Total other properties	<b>1,796</b>	1,264	<b>2,801</b>	1,646
<b>Exploration costs incurred during the period</b>	<b>2,319</b>	2,174	<b>3,865</b>	3,238
<b>Cumulative balance, beginning of period</b>	<b>67,085</b>	58,344	<b>65,539</b>	57,280
<b>Cumulative balance, end of period</b>	<b>\$ 69,404</b>	\$ 60,518	<b>\$ 69,404</b>	\$ 60,518

See accompanying notes to the unaudited interim consolidated financial statements.

**Minefinders Corporation Ltd.**  
**Notes to the Interim Consolidated Financial Statements - unaudited**  
**(Thousands of United States dollars, except per share amounts)**

**For the three and six month periods ended June 30, 2008 and 2007**

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**1. Nature of Operations**

Minefinders Corporation Ltd. (the "Company") was organized on February 4, 1975 under the laws of the Province of Ontario and is engaged in the exploration, development, and acquisition of mineral deposits. These unaudited interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business.

The Company is in the final stages of construction of its 100% owned Dolores gold and silver project in Mexico and believes it has sufficient liquidity to complete construction. In these unaudited interim consolidated financial statements, development costs incurred in the construction of the Dolores Mine have been capitalized to mineral property, plant and equipment.

The Company expects that revenues from production will finance the operation of the Dolores Mine. The Company may have to raise additional funds over and above amounts raised to date to complete the acquisition, exploration and development of its mineral property interests and, while it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.

**2. Basis of Presentation**

The accompanying unaudited interim consolidated financial statements are stated in thousands of United States Dollars ("US Dollars") and have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") on a basis consistent with preparation of the December 31, 2007 audited annual consolidated financial statements, except as disclosed in Note 3 below.

These unaudited interim consolidated financial statements do not include all information and note disclosures required by GAAP for annual financial statements, and therefore should be read in conjunction with the December 31, 2007 audited consolidated financial statements.

Certain comparative figures have been reclassified to conform to current presentation.

**3. Changes in Accounting Policies**

- (a) Effective January 1, 2008, the Company adopted the new CICA guidelines of Section 1506, *Accounting Changes*, which establishes standards for changes in accounting policies, estimates, or errors. As a result of adopting this new standard, changes in accounting policies are only permitted when required by a primary source of GAAP or when the change will result in more reliable and more relevant information. In addition, changes in accounting policies must be applied retrospectively (unless doing so is impractical or is specified otherwise by a new standard), changes in estimates are to be recorded prospectively, and prior period errors are to be corrected retrospectively. There were no changes in accounting policies or estimates during the period, except for those new standards adopted and noted below.

**Minefinders Corporation Ltd.**  
**Notes to the Interim Consolidated Financial Statements - unaudited**  
**(Thousands of United States dollars, except per share amounts)**

**For the three and six month periods ended June 30, 2008 and 2007**

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**3. Changes in Accounting Policies - Continued**

- (b) Effective January 1, 2008, the Company adopted the new CICA guidelines of Section 1535, *Capital Disclosures*, which requires companies to disclose their objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, and whether the Company has complied with externally imposed capital requirements and, if it has not complied, the consequences of such non-compliance.

The Company's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Company considers the items included in the Consolidated Statement of Changes in Shareholders Equity as capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, sell assets to reduce debt or return capital to shareholders. The Company is not subject to externally imposed capital requirements.

- (c) Effective January 1, 2008, the Company adopted the new CICA guidelines of Section 3031, *Inventories*, which replaces Section 3030 of the same name. This standard harmonizes accounting for inventories under Canadian GAAP with International Financial Reporting Standards. Under this standard, inventories are measured at the lower of cost and net realizable value. Similar inventories within a consolidated group are to be measured using the same method, and the reversal of previous write-downs to net realizable value are required when there is a subsequent increase in the value of inventories.

The Company's inventory balance consists of supply inventory which is valued at the lower of cost and net realizable value. Cost is measured using the first-in, first out ("FIFO" method) as applicable. There were no supply inventories recognized as an expense during the period and no write-downs or reversals of past write-downs.

- (d) Effective January 1, 2008, the Company adopted the new CICA guidelines of Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. These standards replace CICA 3861, *Financial Instruments – Disclosure and Presentation*.

These standards increase the disclosures currently required, which will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk, and market risk. The quantitative disclosures must provide information about the extent to which the company is exposed to such risk, based on information provided internally to the entity's key management personnel.

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**(Thousands of United States dollars, except per share amounts)**

**For the three and six month periods ended June 30, 2008 and 2007**

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**For the three and six month periods ended June 30, 2008 and 2007**

**3. Changes in Accounting Policies – Continued**

*Foreign Currency Risk* – The Company's operations in Mexico, Canada and the United States make it subject to foreign currency fluctuations. The Company's operating expenditures are incurred in US dollars, Canadian dollars, and Mexican pesos, and the fluctuation of the US dollar in relation to these currencies will have an impact upon the profitability of the Company and may also affect the value of the Company's assets and the amount of shareholders' equity. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks.

Financial assets and liabilities denominated in currencies other than the US dollar are as follows:

	June 30, 2008		December 31, 2007	
	Financial Assets	Financial Liabilities	Financial Assets	Financial Liabilities
Canadian dollars	\$ 1,269	\$ 101	\$ 15,050	\$ 625
Mexican pesos	7,078	5,599	11,274	1,329
	<b>\$ 8,347</b>	<b>\$ 5,700</b>	<b>\$ 26,324</b>	<b>\$ 1,954</b>

Of the financial assets listed above, \$1,257 (December 31, 2007 - \$3,027) represents cash and cash equivalents held in Canadian dollars, and \$834 (December 31, 2007 - \$890) represents cash held in Mexican pesos. The remaining cash and cash equivalents are held in US dollars.

*Interest Rate Risk* – In respect of financial assets, the Company's policy is to invest cash in investment vehicles with floating rates of interest, and cash reserves are to be maintained in cash equivalents in order to maintain liquidity. Fluctuations in interest rates affect the fair value of cash equivalents.

In respect of financial liabilities, the convertible notes are not subject to interest rate risk given the fixed rate of 4.5% per annum. The revolving credit facility is subject to risk as amounts outstanding are subject to charges at a bank base rate or a LIBOR-based rate (plus 25 to 200 basis points depending on type of loan and financial and operating measures), payable according to the quoted rate term. The interest rate charged for the period was 4.68% per annum.

*Commodity Price Risk* – The value of the Company's mineral resource properties is related to the price of gold and silver, and the outlook for these minerals. The Company does not engage in any hedging to reduce its exposure to commodity risk.

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**For the three and six month periods ended June 30, 2008 and 2007**

**3. Changes in Accounting Policies - Continued**

Gold and silver prices have historically fluctuated significantly and are affected by numerous factors outside of the Company's control, including, but not limited to, industrial and retail demand, central bank lending, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand because of speculative hedging activities and certain other factors.

**4. Receivables**

Of the \$6,239 (December 31, 2007 - \$10,431) in receivables, \$5,838 is value added tax ("VAT") paid in Mexico on goods and services for the construction of the Dolores mine. The VAT receivable is refundable from the Mexican tax authorities.

**5. Mineral Property, Plant and Equipment**

Net carrying value at June 30, 2008 and December 31, 2007:

	Mineral Property Acquisition Costs	Development Costs	Plant and Equipment	Accumulated Amortization	June 30, 2008	December 31, 2007
Dolores Property, Mexico	\$ 9,675	\$ 157,548	\$ 38,573	\$ (2,975)	\$ 202,821	\$ 159,616
Northern Sonora, Mexico	327	-	62	(35)	354	359
Nevada Properties, United States	99	-	250	(203)	146	162
Other	-	-	195	(124)	71	44
	<b>\$ 10,101</b>	<b>\$ 157,548</b>	<b>\$ 39,080</b>	<b>\$ (3,337)</b>	<b>\$ 203,392</b>	<b>\$ 160,181</b>

Dolores development of \$157,548 (December 31, 2007 - \$129,310) represents mine development costs and plant and equipment purchased and under construction for use at the Dolores Mine. Amortization will commence when the Dolores mine begins operating and as the assets are put into service.

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**5. Mineral Property, Plant and Equipment - Continued**

Mineral properties, plant and equipment relate to the following:

***Mexican Properties***

*Dolores Property*

The Dolores Property is in the Madera Mining District, in the state of Chihuahua. In 2006, the Company unified seven of the nine claims resulting in three concessions totaling 27,700 hectares. The Company has a 100% interest in all three concessions. The property is subject to underlying net smelter return royalties ("NSR") totaling 3.25% on gold and 2% on silver. On February 23, 2006 the Board of Directors approved construction of a mine at the Dolores property. Construction commenced during the second quarter of 2006 and the first gold and silver production is expected in the third quarter of 2008.

*Northern Sonora Properties*

The Company has a 100% interest in the mineral rights to 14 mineral concessions totaling 28,300 hectares in the State of Sonora. The Company makes annual rent payments to the landowners, currently approximately \$174, escalating by 10% per annum. Should mines reach production on the properties, payments ranging from \$222 to \$500 will be due to these landowners.

***United States Properties***

The Company has a 100% interest (subject to NSR royalties of 3%) in the Dottie property, located in Nevada. In 2006, the Company acquired the 30 unpatented lode mining Wickes claims in Montana for \$2. In addition, the Company holds claims in the Oro Blanco project area of Arizona.

**Minefinders Corporation Ltd.**  
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**(Thousands of United States dollars, except per share amounts)**

**For the three and six month periods ended June 30, 2008 and 2007**

**6. Long-term Debt**

	<b>June 30, 2008</b>	December 31, 2007
Convertible Notes (a)	<b>\$ 62,663</b>	\$ 59,965
Scotia Capital Revolving Credit Facility (b)	<b>21,000</b>	-
	<b>\$ 83,663</b>	\$ 59,965

(a) In October 2006, the Company issued \$85,000 in 4.5% unsecured convertible senior notes (the "Notes") maturing on December 15, 2011, incurring a 3.5% underwriter's fee and other expenses, aggregating \$3,451 for net proceeds of \$81,549. Interest is payable semi-annually in arrears on June 15 and December 15 of each year, beginning June 15, 2007. The Notes are convertible into common shares at approximately \$10.88 per share. A total of 7,812,500 common shares are issuable upon conversion and additional shares may become issuable following the occurrence of certain corporate acts or events. This adjustment provision is designed to compensate the noteholders for any such occurrence that causes economic loss to them.

The Notes are classified as a liability, less the portion relating to the conversion feature net of related issue costs (\$27,366) which is classified as an equity component. As a result, the recorded liability to repay the Notes is lower than its face value. The equity component, representing the fair value of the conversion features, is determined using the Black-Scholes option pricing model. The assumptions used in calculating the equity component were a risk-free interest rate of 4.73%, expected term of 62 months and an expected volatility over the term of 55.5%. Using the effective interest rate method and the 14.26% rate implicit in the calculation, the difference of \$28,359, characterized as the note discount, is being charged to operations and added to the liability over the term of the Notes.

	<b>June 30, 2008</b>	December 31, 2007
Convertible notes, liability component		
<b>Balance, beginning of period</b>	<b>\$ 59,965</b>	\$ 55,065
Accretion of debt discount for the period	<b>2,698</b>	4,900
<b>Balance, end of period</b>	<b>\$ 62,663</b>	\$ 59,965
Convertible notes, equity component	<b>\$ 27,366</b>	\$ 27,366

**Minefinders Corporation Ltd.**  
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**6. Long-term Debt - Continued**

(b) On December 19, 2007, the Company signed an agreement for a \$50 million revolving three year term credit facility with the Bank of Nova Scotia. The facility is available for drawdown in US or Canadian dollars with repayment at any time at a bank base rate or a LIBOR-based rate (plus 25 to 200 basis points depending on type of loan and financial and operating measures), payable according to the quoted rate term. The facility is collateralized by a pledge of the Company's shares in its US and Mexican subsidiaries and by physical assets at the Dolores Mine. The carrying values of these pledged assets total \$205,340 which is comprised of supply inventories, mineral property, plant and equipment at Dolores. The Company must comply with terms in the agreement related to reporting requirements, conduct of business, insurance, notices, and must maintain certain covenants which take effect when the Dolores mine has been operational for two consecutive fiscal quarters. There have been no violations of any of the terms of the agreement since its inception.

As at June 30, 2008, a total of \$21,000 (December 31, 2007 – \$nil) has been drawn-down on the facility.

**7. Asset Retirement Obligations**

The Company's environmental permit requires that it reclaim any land it disturbs during the mine construction and mine operations. Although the timing and the amount of the actual expenditures are uncertain, the Company has estimated the present value of the future reclamation obligation arising from its activities to June 30, 2008 to be \$1,706 (December 31, 2007 - \$1,644). The undiscounted value of this liability is \$4,627 (December 31, 2007 - \$4,627). The present value of the future reclamation obligation assumes a discount rate of 7.65%, inflation rate of 2.5% and the commencement of reclamation activities after the life of the mine, which is estimated at 15.5 years.

	<b>June 30, 2008</b>	December 31, 2007
<b>Balance, beginning of period</b>	<b>\$ 1,644</b>	\$ 1,188
Liabilities incurred in the period	-	355
Accretion expense	<b>62</b>	101
<b>Balance, end of period</b>	<b>\$ 1,706</b>	\$ 1,644

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**8. Capital Stock**

Authorized

Unlimited number of common shares with no par value

	<u>Issued</u>	<u>Amount</u>
<b>Balance, December 31, 2006</b>	48,022,289	\$ 165,537
Exercise of stock options for cash	1,224,000	6,782
Exercise of stock options - cashless	<u>261,235</u>	<u>-</u>
<b>Balance, December 31, 2007</b>	49,507,524	\$ 172,319
Exercise of stock options for cash	240,000	2,156
Exercise of stock options - cashless	19,432	-
Share-based payment	<u>30,000</u>	<u>386</u>
<b>Balance, June 30, 2008</b>	<u>49,796,956</u>	<u>\$ 174,861</u>

**Minefinders Corporation Ltd.**  
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**(Thousands of United States dollars, except per share amounts)**

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**8. Capital Stock – Continued**

(a) Stock Options (all per share amounts are in Canadian dollars)

The number of shares available for grant under the Company's stock option plan (the "Plan") is 5,574,000. The term of options granted cannot exceed ten years. The vesting of each option is determined by the Board of Directors and the exercise price is the fair market value of the Company's shares at the date of grant. At June 30, 2008, 440,000 shares were available for future grants under the Plan.

	Number of Options	Weighted Average Exercise Price Cdn\$
<b>Outstanding at December 31, 2006</b>	4,497,000	\$ 7.73
Granted	1,430,000	9.87
Cancelled	(40,000)	10.94
Exercised for cash	(1,224,000)	5.82
Exercised-cashless	(465,000)	5.53
<b>Outstanding at December 31, 2007</b>	4,198,000	9.26
Granted	765,000	10.65
Exercised for cash	(240,000)	9.06
Exercised – cashless *	(35,000)	5.64
Cancelled	(50,000)	12.45
<b>Outstanding at June 30, 2008</b>	4,638,000	\$ 9.49

\* Of the 75,000 options exercised during the six months ended June 30, 2008, 35,000 vested options were exercised by the holders in exchange for the issue of 19,432 common shares by way of a cashless stock option exercise.

All options granted and outstanding as at June 30, 2008 were fully exercisable on the various grant dates except for 30,000 options with an exercise price of Cdn \$11.10 which vest on August 7, 2008. The weighted average grant-date fair value of options granted during the three and six months ended June 30, 2008 was Cdn \$3.18 and Cdn \$4.80 per option, respectively (three and six months ended June 30, 2007 – Cdn \$6.19 and Cdn \$6.08 per option, respectively).

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**Notes to the Interim Consolidated Financial Statements - unaudited**  
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**For the three and six month periods ended June 30, 2008 and 2007**

**8. Capital Stock - continued**

(a) Stock options - continued

At June 30, 2008 the following stock options were outstanding and exercisable, except for 30,000 options with a weighted average exercise price of Cdn \$11.10 unvested at that date.

Number	Exercise Price Cdn \$	Expiry Date
655,000	\$ 10.65	September 26, 2008
50,000	\$ 12.53	March 17, 2009
75,000	\$ 8.25	May 17, 2009
580,000	\$ 8.80	June 14, 2009
303,000	\$ 5.64	July, 12, 2010
930,000	\$ 9.00	May 15, 2011
80,000	\$ 8.76	November 1, 2011
5,000	\$ 10.94	January 19, 2012
95,000	\$ 12.46	March 12, 2012
1,100,000	\$ 9.57	September 5, 2012
100,000	\$ 11.10	February 7, 2013
<u>665,000</u>	<u>\$ 10.58</u>	<u>May 7, 2013</u>
<u>4,638,000</u>		

Subsequent to June 30, 2008, 10,000 stock options were exercised at a weighted average exercise price of \$10.65, and 25,000 stock options at an exercise price of \$9.57 were cancelled.

**9. Related Party Transactions**

Related party transactions for the six months ended June 30, 2008 not disclosed elsewhere in these consolidated financial statements were as follows:

- a. The directors were paid fees of \$91 (2007 - \$50).
- b. In 2007, certain legal services were provided by a law firm in which a director of the Company was a partner. The cost of these services was \$43.

Transactions with related parties were in the normal course of operations and were measured at the exchange value (the amount of consideration established and agreed to by the related parties).

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**10. Stock-based Compensation**

Stock-based compensation is determined using the Black-Scholes option pricing model. The Company granted 665,000 options during the three months ended June 30, 2008 (2007 – 50,000). The weighted average assumptions used in calculating the value of stock options granted were: risk-free interest rate – 3.13% (2007 – 4.53%), expected volatility – 50% (2007 – 51.4%) and expected life of the option – 56 months (2007 – 60 months). The Company also granted 100,000 options during the three months ended March 31, 2008 (2007 – 180,000). The weighted average assumptions used on calculating the value of stock options granted were: risk-free interest rate – 3.43%, expected volatility – 46% and expected life of the option – 55 months. For 2007, the weighted average assumption used on calculating the expense of options granted were: risk-free rate – 3.95%, expected volatility – 55% and expected life of the option – 60 months.

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
Stock-based compensation for the period:				
Charged to administration expense	\$ 1,844	\$ -	\$ 2,048	\$ -
Charged to exploration costs	747	-	757	81
Capitalized to mineral property, plant and equipment	640	427	900	963
	<b>\$ 3,231</b>	\$ 427	<b>\$ 3,705</b>	\$ 1,044

Total stock-based compensation was credited to contributed surplus.

**11. Commitments and Contingencies**

At June 30, 2008, the Company had remaining contractual commitments expected to be paid in 2008 of \$9,929 relating to equipment, engineering and construction at the Dolores Mine. In addition, there are royalty payments on the Dolores property consisting of 3.25% of gold and 2% of silver production.

The Company has also entered into operating leases for office premises that provide for minimum lease payments totaling \$143 over the next two years, excluding extensions.

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**12. United States Generally Accepted Accounting Principles**

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). These principles differ in some respects from United States generally accepted accounting principles ("US GAAP"). The effect of such differences on the Company's consolidated financial statements is set out below:

(a) Mineral properties and start-up activities

US GAAP requires that mineral exploration expenditures, including drilling and related costs incurred to convert existing resources to reserves or identify new inferred mineral resources, be charged to operations in the period incurred and the related cash flows be reported as operating activities. During fiscal 2007, the Company changed its accounting policy with respect to accounting for exploration expenditures under Canadian GAAP. Prior to 2007, mineral property acquisition and exploration expenditures were deferred until such time as the related property was brought into commercial production, abandoned or sold. Under the new policy, exploration expenditures are expensed as incurred while acquisition expenditures continue to be capitalized. This accounting change has been applied retroactively with restatement of prior periods. As a result of this change in accounting policy, there is no difference between the financial position, results of operations, and cash flows under Canadian GAAP and US GAAP arising from the accounting for mineral property expenditures for the periods presented with the exception of mineral property acquisition costs of \$9,676 previously expensed under US GAAP that remain capitalized to mineral property, plant and equipment under Canadian GAAP.

Under Canadian GAAP, start-up operating costs, net of associated revenues, incurred prior to reaching commercial production levels are capitalized. Under US GAAP, these start-up costs are expensed. At June 30, 2008, there is no difference between the financial position, results of operations, and cash flows under Canadian GAAP and US GAAP arising from this difference for the periods presented.

(b) Convertible notes

Under Canadian GAAP, the liability and equity components of the convertible notes are determined and separately classified on the consolidated balance sheets. The stated interest payments and the expense arising from adjusting the time value of the principal of the notes over time ("convertible notes discount expense") are presented separately in the consolidated statements of operations. As a result of the January 1, 2007 prospective adoption of Section 3855, "Financial Instruments – Recognition and Measurement" for Canadian GAAP accounting purposes, financing charges attributable to the liability component of the convertible notes are included in their carrying value.

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**12. United States Generally Accepted Accounting Principles – Continued**

(b) Convertible notes - Continued

Under US GAAP, the Company first analyzes the convertible debt instruments to determine if there are any embedded derivatives that must be bifurcated. There were none for these instruments. The convertible debt instruments are then accounted for in accordance with Emerging Issues Task Force Issue 00-27 which requires the Company to classify as equity any amounts representing a beneficial conversion feature. As the conversion price exceeds the fair value of the underlying common shares on the issue date, no beneficial conversion feature is recognized under US GAAP and the entire proceeds are classified as debt until such time as they are converted to equity. Accordingly, for US GAAP purposes, the convertible notes are presented on the consolidated balance sheets as a liability. No convertible notes discount expense is recognized and no deferred financing charges are allocated to equity. The total deferred financing charges are recorded as an asset.

Under Canadian GAAP, the Company has elected to expense interest on the convertible notes to earnings whereas under US GAAP this interest is capitalized to development costs to the extent the proceeds from the issue of the convertible notes are used in the development of the Dolores property. In addition, under Canadian GAAP interest on the convertible notes is classified as cash flow used in operating activities whereas under US GAAP this interest is classified as cash flow used in investing activities.

(c) Stock-based compensation

There is no difference between the financial position, results of operations, and cash flows under Canadian GAAP and US GAAP arising from the accounting for stock-based compensation for the periods presented. A cumulative adjustment (for the initial adoption of SFAS 123R under US GAAP) of \$3,438 is included in the net loss from inception to June 30, 2008 under US GAAP.

The total intrinsic value of options exercised in the three month period ended June 30, 2008 and 2007, was Cdn \$295 and Cdn \$2,036, respectively. The total intrinsic value of options exercised in the six month period ended June 30, 2008 and 2007 was Cdn \$678 and \$6,249, respectively. The total intrinsic value and weighted average contractual term of vested options at June 30, 2008 is Cdn \$4,623 and 2.8 years.

During the three and six month period ended June 30, 2008, \$421 and \$681, respectively, of stock based compensation related to development at Dolores was capitalized for Canadian GAAP and US GAAP (three and six months ended June 30, 2007 - \$427 and \$936 respectively).

Under US GAAP, stock-based compensation - administration of \$1,844 and \$2,048 for the three and six months ended June 30, 2008 would be included in office and administration expense. Similarly, stock-based compensation – exploration would be included in exploration expense.

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**12. United States Generally Accepted Accounting Principles – Continued**

The impact of the above on the financial statements is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
<b>Statements of Loss and Deficit</b>				
Net loss per Canadian GAAP	\$ (7,659)	\$ (398)	\$ (13,280)	(3,959)
Adjustments related to:				
Convertible notes discount	1,348	1,186	2,698	2,352
Interest on convertible notes	1,127	953	2,099	1,896
Amortization of deferred financing charges	(166)	(174)	(332)	(339)
	<u>2,309</u>	<u>1,965</u>	<u>4,465</u>	<u>3,909</u>
Net income (loss) per US GAAP	(5,350)	1,567	(8,815)	(50)
Foreign exchange adjustment	-	-	-	-
Comprehensive income (loss) per US GAAP	<u>\$ (5,350)</u>	<u>\$ 1,567</u>	<u>\$ (8,815)</u>	<u>\$ (50)</u>
Net earnings (loss) per share, basic and diluted	<u>\$ (0.11)</u>	<u>\$ 0.03</u>	<u>\$ (0.18)</u>	<u>\$ (0.00)</u>

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**12. United States Generally Accepted Accounting Principles – Continued**

<b>Balance Sheets</b>	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Assets per Canadian GAAP	<b>\$ 216,023</b>	\$ 193,561
Adjustment related to:		
Mineral properties	<b>(9,676)</b>	(9,676)
Capitalized interest	<b>6,641</b>	4,542
Convertible notes	<b>2,330</b>	2,662
Assets per US GAAP	<b>\$ 215,318</b>	\$ 191,089
Liabilities per Canadian GAAP	<b>\$ 95,636</b>	\$ 66,141
Adjustments related to:		
Convertible notes	<b>22,337</b>	25,035
Liabilities per US GAAP	<b>\$ 117,973</b>	\$ 91,176
Shareholders' equity per Canadian GAAP	<b>\$ 120,387</b>	\$ 127,420
Adjustments related to:		
Mineral properties	<b>(9,676)</b>	(9,676)
Convertible notes	<b>(13,366)</b>	(17,831)
Shareholders' equity per US GAAP	<b>\$ 97,345</b>	\$ 99,913

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**12. United States Generally Accepted Accounting Principles – Continued**

(d) Exploration stage company

The Company meets the definition of a development stage enterprise under Statement of Financial Accounting Standards No. 7, Accounting and Reporting by Development Stage Enterprises. As such, the following disclosure of the consolidated summarized statements of loss and deficit and cash flows since inception of the Company on February 4, 1975 (“inception”) are required under US GAAP:

**Consolidated summarized statement of loss and deficit – US GAAP**  
**For the period from inception to June 30, 2008**

Mineral exploration expenses	\$ (79,387)
Administrative and other costs	(37,143)
Interest income	<u>9,241</u>
Net loss from inception to June 30, 2008	
being the deficit accumulated during the exploration stage	<u>\$ (107,289)</u>

**Consolidated summarized statement of cash flows – US GAAP**  
**For the period from inception to June 30, 2008**

Cash flows used in operating activities	\$ (93,532)
Cash flows used in investing activities	(182,396)
Cash flows provided by financing activities	273,358
Effect of exchange rates on cash and cash equivalents	<u>6,210</u>
Cumulative increase in cash and cash equivalents from inception	
being Cash and Cash equivalents, June 30, 2008	<u>\$ 3,640</u>

(e) Income taxes

Effective January 1, 2007, for US GAAP accounting purposes, the Company has adopted FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109” (“FIN 48”). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 are to be applied to all tax positions upon initial adoption, with the cumulative effect adjustment reported as an adjustment to the opening balance of retained earnings. There is no effect on the Company’s June 30, 2008 consolidated financial statements resulting from the adoption of FIN 48.

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**12. United States Generally Accepted Accounting Principles – Continued**

(e) Income taxes - Continued

FIN 48 requires that interest expense and penalties related to unrecognized tax benefits be recognized in the Statement of Operations. FIN 48 allows recognized interest and penalties to be classified as either income tax expense or another appropriate expense classification. If the Company recognizes interest expense or penalties on future unrecognized tax benefits, they will be classified as income tax expense.

The Company files income tax returns in Canada, the United States and Mexico. Years ranging from 2001 through 2007, as applicable, are subject to examination by the taxing authorities in the respective jurisdictions where returns are filed.

(f) New accounting pronouncements

Effective January 1, 2008, for US GAAP accounting purposes, the Company has adopted SFAS No. 157, "Fair Value Measurement" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The statement only applies to fair value measurements that are already required. There is no material effect on the Company's June 30, 2008 consolidated financial statements resulting from the adoption of SFAS 157.

Effective January 1, 2008, for US GAAP accounting purposes, the Company has adopted SFAS No. 159, "Fair Value Option for Financial Assets and Liabilities" ("SFAS 159"). SFAS 159 permits entities to choose to measure various financial instruments and certain other items at fair value. There is no effect on the Company's June 30, 2008 consolidated financial statements resulting from the adoption of SFAS 157.