



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2012

(UNAUDITED)



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The condensed interim consolidated financial statements of First Majestic Silver Corp. (the "Company") are the responsibility of the Company's management. The condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and reflect management's best estimates and judgment based on information currently available.

Management has developed and maintains a system of internal controls to ensure that the Company's assets are safeguarded, transactions are authorized and properly recorded, and financial information is reliable.

The Board of Directors is responsible for ensuring management fulfills its responsibilities. The Audit Committee reviews the results of the condensed interim consolidated financial statements prior to their submission to the Board of Directors for approval.

The condensed interim consolidated financial statements have not been audited.

"Keith Neumeyer"

Keith Neumeyer
President & CEO
August 13, 2012

"Raymond Polman"

Raymond Polman, CA
Chief Financial Officer
August 13, 2012

First Majestic Silver Corp.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 AND 2011

(tabular amounts are expressed in thousands of United States dollars, except share and per share amounts - unaudited)

	Note	Three Months Ended June 30,		Six Months Ended June 30,	
		2012	2011	2012	2011
Revenues	6	\$ 54,774	\$ 68,040	\$ 112,589	\$ 123,306
Cost of sales		18,456	18,112	35,149	34,931
Gross margin		36,318	49,928	77,440	88,375
Depletion, depreciation and amortization		5,259	3,134	10,712	5,938
Mine operating earnings		31,059	46,794	66,728	82,437
General and administrative expense	7	5,095	3,346	9,512	7,538
Share-based payments		2,405	1,772	5,230	3,661
Acquisition costs	26	781	-	781	-
Accretion of decommissioning liabilities		99	112	202	231
Foreign exchange (gain) loss		(492)	284	(217)	309
Operating earnings		23,171	41,280	51,220	70,698
Investment and other (loss) income	8	(3,627)	381	1,954	3,856
Finance costs		(468)	(388)	(867)	(506)
Earnings before income taxes		19,076	41,273	52,307	74,048
Income taxes					
Current income tax (recovery) expense		(3,072)	9,445	1,777	13,668
Deferred income tax expense		6,827	1,235	8,851	5,917
		3,755	10,680	10,628	19,585
Net earnings for the period		\$ 15,321	\$ 30,593	\$ 41,679	\$ 54,463
Earnings per common share					
Basic		\$ 0.14	\$ 0.30	\$ 0.39	\$ 0.54
Diluted		\$ 0.14	\$ 0.29	\$ 0.39	\$ 0.51
Weighted average shares outstanding					
Basic	9	105,798,950	103,396,753	105,619,499	101,633,552
Diluted	9	107,651,504	107,279,976	107,786,650	106,528,441

APPROVED BY THE BOARD OF DIRECTORS

Keith Neumeyer (signed)

Director

Douglas Penrose (signed)

Director

The accompanying notes are an integral part of the condensed interim consolidated financial statements

First Majestic Silver Corp.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 AND 2011

(tabular amounts are expressed in thousands of United States dollars - unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net earnings for the period attributable to equity holders of the Company	\$ 15,321	\$ 30,593	\$ 41,679	\$ 54,463
Other comprehensive income				
Available for sale investments:				
Unrealized (loss) gain on fair value of investments	(741)	1,721	(3,478)	1,634
Currency translation (loss) gain	(216)	226	170	719
Other comprehensive (loss) income	(957)	1,947	(3,308)	2,353
Total comprehensive income for the period	\$ 14,364	\$ 32,540	\$ 38,371	\$ 56,816

The accompanying notes are an integral part of the condensed interim consolidated financial statements

First Majestic Silver Corp.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 AND 2011

(tabular amounts are expressed in thousands of United States dollars - unaudited)

	Note	Three Months Ended June 30,		Six Months Ended June 30,	
		2012	2011	2012	2011
OPERATING ACTIVITIES					
Net earnings for the period		\$ 15,321	\$ 30,593	\$ 41,679	\$ 54,463
Adjustments for:					
Share-based payments		2,405	1,772	5,230	3,661
Depletion, depreciation and amortization		5,259	3,134	10,712	5,938
Accretion of decommissioning liabilities		99	112	202	231
Loss (gain) from derivative financial instruments and fair value through profit or loss marketable securities		3,682	(320)	(1,793)	(3,545)
Current income tax (recovery) expense		(3,072)	9,445	1,777	13,668
Deferred income taxes		6,827	1,235	8,851	5,917
Finance costs		468	388	867	506
Unrealized foreign exchange (loss) gain and other		(373)	7	210	523
Operating cash flows before movements in working capital and income taxes		30,616	46,366	67,735	81,362
Net change in non-cash working capital items	22	(3,996)	(2,959)	4,554	(3,188)
Income taxes paid		(3,442)	(5,458)	(10,585)	(5,802)
Cash generated by operating activities		23,178	37,949	61,704	72,372
INVESTING ACTIVITIES					
Expenditures on mineral property interests		(18,536)	(6,355)	(40,744)	(11,582)
Acquisition of property, plant and equipment		(14,592)	(12,360)	(25,472)	(16,815)
Decrease (increase) in deposits on long-term assets		244	(6,657)	(5,652)	(10,418)
Realized (loss) gain of derivative financial instruments		(3,607)	186	(2,044)	3,411
Proceeds from disposal of marketable securities		315	-	2,803	-
Investment in marketable securities		(350)	-	(10,349)	-
Cash used in investing activities		(36,526)	(25,186)	(81,458)	(35,404)
FINANCING ACTIVITIES					
Proceeds from exercise of stock options and share warrants		1,181	4,974	3,705	22,911
Payment of lease obligations, net of proceeds		(1,405)	(566)	(2,714)	(892)
Finance costs paid		(468)	(388)	(867)	(506)
(Repayment of) proceeds from debt facility		(125)	2,280	(773)	2,280
Proceeds from lease financing		-	-	-	2,474
Payment of other long-term liabilities		-	(39)	-	(76)
Cash (used in) generated by financing activities		(817)	6,261	(649)	26,191
Effect of exchange rate on cash held in foreign currencies		(278)	330	109	656
(Decrease) increase in cash and cash equivalents		(14,165)	19,024	(20,403)	63,159
Cash and cash equivalents, beginning of period		85,333	85,624	91,184	41,163
Cash and cash equivalents, end of period		\$ 70,890	\$ 104,978	\$ 70,890	\$ 104,978

Supplemental cash flow information

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The accompanying notes are an integral part of the condensed interim consolidated financial statements

First Majestic Silver Corp.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT JUNE 30, 2012 AND DECEMBER 31, 2011

(tabular amounts are expressed in thousands of United States dollars - unaudited)

	Note	June 30, 2012	December 31, 2011
Assets			
Current assets			
Cash and cash equivalents		\$ 70,890	\$ 91,184
Trade and other receivables	10	16,430	15,593
Income taxes receivable		9,461	9,734
Inventories	11	19,426	14,661
Other financial assets	12	10,528	4,865
Prepaid expenses and other	13	2,147	1,535
Total current assets		128,882	137,572
Non-current assets			
Mining interests	14	197,368	157,865
Property, plant and equipment	15	163,464	129,040
Deferred tax assets		8,883	8,331
Deposits on long-term assets	16	11,813	10,504
Total assets		\$ 510,410	\$ 443,312
Liabilities and Equity			
Current liabilities			
Trade and other payables	17	\$ 23,895	\$ 22,433
Other financial liabilities		-	383
Debt facilities		-	784
Current portion of lease obligations	18	7,476	4,269
Income taxes payable		2,932	-
Total current liabilities		34,303	27,869
Non-current liabilities			
Lease obligations	18	13,402	9,825
Decommissioning liabilities		6,487	6,123
Deferred tax liabilities		59,010	48,897
Total liabilities		113,202	92,714
Shareholders' equity			
Share capital	19(a)	278,426	273,304
Equity reserves	20	27,653	27,844
Retained earnings		91,129	49,450
Total equity		397,208	350,598
Total liabilities and equity		\$ 510,410	\$ 443,312
Contingent liabilities (Note 24)			
Subsequent events (Note 25)			

The accompanying notes are an integral part of the condensed interim consolidated financial statements

First Majestic Silver Corp.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011

(tabular amounts are expressed in thousands of United States dollars, except share amounts - unaudited)

	Share Capital				Equity Reserves				Retained earnings	Total equity
	Shares	Amount	To be issued	Total	Share-based payment	Available for sale revaluation	Foreign currency translation	Total equity reserves	(Accumulated deficit)	
Balance at December 31, 2010	97,560,417	\$ 239,525	\$ 245	\$ 239,770	\$ 25,170	\$ 18	\$ 621	\$ 25,809	\$ (54,124)	\$ 211,455
Net earnings	-	-	-	-	-	-	-	-	54,463	54,463
Share-based payment	-	-	-	-	3,661	-	-	3,661	-	3,661
Other comprehensive income	-	-	-	-	-	1,634	719	2,353	-	2,353
Shares issued for:										
Exercise of options	1,540,800	6,017	-	6,017	-	-	-	-	-	6,017
Exercise of warrants	4,806,593	16,894	-	16,894	-	-	-	-	-	16,894
Conversion of shares to be issued (Note 19(c))	25,000	12	(12)	-	-	-	-	-	-	-
Transfer of equity reserve upon exercise of options and warrants	-	3,242	-	3,242	(3,242)	-	-	(3,242)	-	-
Balance at June 30, 2011	103,932,810	\$ 265,690	\$ 233	\$ 265,923	\$ 25,589	\$ 1,652	\$ 1,340	\$ 28,581	\$ 339	\$ 294,843
Balance at December 31, 2011	105,135,372	\$ 273,094	\$ 210	\$ 273,304	\$ 27,394	\$ 1,127	\$ (677)	\$ 27,844	\$ 49,450	\$ 350,598
Net earnings	-	-	-	-	-	-	-	-	41,679	41,679
Share-based payment, net of related tax benefits	-	-	-	-	4,534	-	-	4,534	-	4,534
Other comprehensive (loss) income	-	-	-	-	-	(3,478)	170	(3,308)	-	(3,308)
Shares issued for:										
Exercise of options	753,575	3,705	-	3,705	-	-	-	-	-	3,705
Conversion of shares to be issued (Note 19(c))	250	1	(1)	-	-	-	-	-	-	-
Transfer of equity reserve upon exercise of options and warrants	-	1,417	-	1,417	(1,417)	-	-	(1,417)	-	-
Balance at June 30, 2012	105,889,197	\$ 278,217	\$ 209	\$ 278,426	\$ 30,511	\$ (2,351)	\$ (507)	\$ 27,653	\$ 91,129	\$ 397,208

The accompanying notes are an integral part of the condensed interim consolidated financial statements

First Majestic Silver Corp.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars - unaudited)

1. NATURE OF OPERATIONS

First Majestic Silver Corp. (the “Company” or “First Majestic”) is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia. The Company is in the business of silver production, development, exploration, and acquisition of mineral properties with a focus on silver production in Mexico. The Company’s shares trade on the New York Stock Exchange under the symbol “AG” and on the Toronto Stock Exchange under the symbol “FR”.

The Company’s head office, principal address and registered and records office is located at 925 West Georgia Street, Suite 1805, Vancouver, British Columbia, Canada, V6C 3L2.

2. BASIS OF PREPARATION

Statement of Compliance

These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standard (“IAS”) 34, “*Interim Financial Reporting*” using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and the Interpretations of the IFRS Interpretations Committee (“IFRIC”) and using the accounting policies consistent with those in the audited consolidated financial statements as at and for the year ended December 31, 2011. As these condensed interim consolidated financial statements do not include all disclosures for annual consolidated financial statements, they should be read in conjunction with the Company’s audited consolidated financial statements as at and for the year ended December 31, 2011.

Statement of Consolidation and Presentation

These condensed interim consolidated financial statements have been prepared on an historical cost basis except for certain items that are measured at fair value including derivative financial instruments and available for sale investments. All dollar amounts presented are in United States dollars unless otherwise specified. The accounting policies in Note 3 of the Company’s audited consolidated financial statements as at and for the year ended December 31, 2011 have been applied in preparing these condensed interim consolidated financial statements.

These condensed interim consolidated financial statements incorporate the financial statements of the Company and its controlled subsidiaries. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: Corporación First Majestic, S.A. de C.V. (“Corporación”), First Silver Reserve Inc. (“First Silver”), First Majestic Plata, S.A. de C.V., Minera El Pilón, S.A. de C.V., Minera La Encantada, S.A. de C.V., First Majestic Del Toro, S.A. de C.V., Majestic Services S.A. de C.V., Minera Real Bonanza, S.A. de C.V., Servicios Minero-Metalúrgicos e Industriales, S.A. de C.V., Mantenimiento Central Para Equipo Minero, S.A. de C.V., Administración y Servicios Integrales ASI, S.A. de C.V., 0915623 B.C. Ltd., FMS Investment Coöperatie U.A., FMS Investco B.V., FMS Trading AG and FMS Capital AG. First Silver underwent a wind-up and distribution of its assets and liabilities to the Company in December 2007 but First Silver has not been dissolved for legal purposes pending the outcome of litigation. Intercompany balances and transactions, income and expenses are eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of condensed interim consolidated financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions about future events that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management’s best knowledge of the amount, events or actions, actual results may differ from these estimates.

First Majestic Silver Corp.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Critical judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the condensed interim consolidated financial statements include: economic recoverability and probability of future economic benefits of exploration; evaluation and development costs; and commencement of commercial production and production levels intended by management.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments include: impairment of property, plant and equipment and mining interests; depreciation and amortization rates for property, plant and equipment and depletion rates for mining interests; estimated reclamation and closure costs; mineral reserve estimates; inventory valuation; valuation of share-based payments; and income taxes.

4. RECENT ACCOUNTING PRONOUNCEMENTS

Financial instruments

The IASB intends to replace IAS 39 – *Financial Instruments: Recognition and Measurement* (“IAS 39”) in its entirety with IFRS 9 – *Financial Instruments* (“IFRS 9”) in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39, and is effective for annual periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company will evaluate the impact the final standard will have on its consolidated financial statements when issued.

Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 - *Consolidated Financial Statements* (“IFRS 10”) and IFRS 12 - *Disclosure of Interests in Other Entities* (“IFRS 12”). IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 12 outlines the disclosure requirements for interests in subsidiaries and other entities to enable users to evaluate the risks associated with interests in other entities and the effects of those interests on an entity’s financial position, financial performance and cash flows. IFRS 10 and IFRS 12 are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted if adopted along with IFRS 11, IFRS 12, IAS 27 (revised) and IAS 28 (revised). The Company is evaluating the impact of these new standards on its consolidated financial statements.

Joint Arrangements

In May 2011, the IASB issued IFRS 11 - *Joint Arrangements* (“IFRS 11”), which provides guidance on accounting for joint arrangements. IFRS 11 classifies joint arrangements as either joint operations or joint ventures, depending on the rights and obligations of the parties involved. An entity accounts for a joint operation by recognizing its portion of the assets, liabilities, revenues and expenses. A joint venture is accounted for using the equity method and proportionate consolidation is no longer permitted. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company does not anticipate these new standards to have a significant impact on its consolidated financial statements.

Fair Value Measurement

In May 2011, the IASB issued IFRS 13 - *Fair Value Measurement* (“IFRS 13”). This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 sets out a single IFRS framework for measuring fair value and outlines disclosure requirements about fair value measurements. IFRS 13 is effective for annual periods on or after January 1, 2013, with earlier application permitted. This IFRS is to be applied prospectively as of the beginning of the annual period in which it is initially applied and the disclosure requirements do not need to be applied in comparative periods before initial application. The Company is currently assessing the impact of this standard on its financial statements.

First Majestic Silver Corp.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

4. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

Items of Other Comprehensive Income

In June 2011, the IASB issued an amendment to IAS 1 (“amendments to IAS1”) – *Presentation of Items of Other Comprehensive Income*. The amendments to IAS1 require items of other comprehensive income (“OCI”), along with their tax effects, to be grouped into those that will and will not subsequently be reclassified to profit or loss. The measurement and recognition of items of profit or loss and OCI are not affected by the amendments. This amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The Company does not anticipate this amendment to have a material impact on its consolidated financial statements.

5. SEGMENTED INFORMATION

The Company has three operating segments located in Mexico, two development projects in Mexico, one retail market segment in Canada and one silver trading segment in Europe. All of the Company’s operations are within the mining industry and its major products are silver doré and lead-silver concentrate. Transfer prices between business segments are set on an arm’s-length basis in a manner similar to transactions with third parties.

An operating segment is defined as a component of the Company:

- That engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity’s chief operating decision maker; and
- for which discrete financial information is available.

Management evaluates segment performance based on mine operating earnings as other expenses are not generally allocated to the segments. Significant information relating to the Company’s reporting operating segments is summarized in the table below:

	Three Months Ended June 30, 2012					Three Months Ended June 30, 2011				
	Revenue	Cost of sales	Depletion, depreciation and amortization	Mine operating earnings (loss)	Capital expenditures	Revenue	Cost of sales	Depletion, depreciation and amortization	Mine operating earnings (loss)	Capital expenditures
Mexico										
San Martin	\$ 4,885	\$ 2,841	\$ 644	\$ 1,400	\$ 7,449	\$ 9,780	\$ 3,473	\$ 480	\$ 5,827	\$ 5,693
La Parrilla	16,974	6,299	2,343	8,332	14,199	15,994	4,173	983	10,838	15,224
La Encantada	22,682	9,118	2,272	11,292	11,116	42,926	10,569	1,379	30,978	5,457
Del Toro	-	-	-	-	14,495	-	-	-	-	2,430
La Luz	-	-	-	-	524	-	-	-	-	733
Canada										
Coin Sales	608	664	-	(56)	-	9,100	8,444	-	656	-
Europe										
Silver Sales	42,734	32,916	-	9,818	-	-	-	-	-	-
Corporate and Eliminations	(33,109)	(33,382)	-	273	880	(9,760)	(8,547)	292	(1,505)	182
Consolidated	\$ 54,774	\$ 18,456	\$ 5,259	\$ 31,059	\$ 48,663	\$ 68,040	\$ 18,112	\$ 3,134	\$ 46,794	\$ 29,719

	Six Months Ended June 30, 2012					Six Months Ended June 30, 2011				
	Revenue	Cost of sales	Depletion, depreciation and amortization	Mine operating earnings (loss)	Capital expenditures	Revenue	Cost of sales	Depletion, depreciation and amortization	Mine operating earnings (loss)	Capital expenditures
Mexico										
San Martin	\$ 10,949	\$ 5,661	\$ 1,604	\$ 3,684	\$ 11,299	\$ 19,316	\$ 6,782	\$ 826	\$ 11,708	\$ 7,496
La Parrilla	37,688	12,617	4,679	20,392	28,928	26,041	7,490	1,836	16,715	19,244
La Encantada	41,535	16,572	4,429	20,534	18,845	77,016	20,604	2,763	53,649	9,335
Del Toro	-	-	-	-	23,477	-	-	-	-	3,816
La Luz	-	-	-	-	921	-	-	-	-	1,031
Canada										
Coin and Doré Sales	1,798	1,994	-	(196)	-	18,448	16,656	-	1,792	-
Europe										
Silver Sales	82,874	60,917	-	21,957	-	-	-	-	-	-
Corporate and Eliminations	(62,255)	(62,612)	-	357	1,554	(17,515)	(16,601)	513	(1,427)	231
Consolidated	\$ 112,589	\$ 35,149	\$ 10,712	\$ 66,728	\$ 85,024	\$ 123,306	\$ 34,931	\$ 5,938	\$ 82,437	\$ 41,153

First Majestic Silver Corp.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

5. SEGMENTED INFORMATION (continued)

	At June 30, 2012		At December 31, 2011	
	Total assets	Total liabilities	Total assets	Total liabilities
Mexico				
San Martin	\$ 79,378	\$ 18,200	\$ 69,288	\$ 19,734
La Parrilla	147,492	43,346	116,651	13,358
La Encantada	121,213	26,309	127,491	21,929
Del Toro	57,926	1,184	31,795	1,685
La Luz	25,083	682	23,313	659
Canada				
Coin and Doré Sales	547	58	728	139
Europe				
Silver Sales	38,323	6,985	30,483	4,484
Corporate and Eliminations	40,448	16,438	43,563	30,726
Consolidated	\$ 510,410	\$ 113,202	\$ 443,312	\$ 92,714

6. REVENUES

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Gross revenue from payable ounces of silver equivalents	\$ 58,233	\$ 69,741	\$ 119,920	\$ 126,668
Less: refining & smelting, net of intercompany eliminations	(3,459)	(1,701)	(7,331)	(3,362)
Revenues	\$ 54,774	\$ 68,040	\$ 112,589	\$ 123,306

7. GENERAL AND ADMINISTRATIVE EXPENSES

The general and administrative expenses of the Company are comprised of the following:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Corporate administration	\$ 1,507	\$ 911	\$ 2,630	\$ 2,106
Salaries and benefits	1,639	1,268	3,709	3,198
Audit, legal and professional fees	1,501	710	2,263	1,340
Filing and listing fees	149	303	346	601
Directors fees and expenses	158	84	325	161
Depreciation	141	70	239	132
	\$ 5,095	\$ 3,346	\$ 9,512	\$ 7,538

8. INVESTMENT AND OTHER (LOSS) INCOME

The Company's investment and other (loss) income is comprised of the following:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
(Loss) gain from investment in derivative and fair value through profit or loss ("FVTPL") marketable securities	\$ (3,682)	\$ 320	\$ 1,793	\$ 3,545
Interest income and other	55	61	161	311
	\$ (3,627)	\$ 381	\$ 1,954	\$ 3,856

First Majestic Silver Corp.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

9. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share for the three and six months ended June 30, 2012 and 2011 are based on the following:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net income for the period attributable to equity holders of the Company	\$ 15,321	\$ 30,593	\$ 41,679	\$ 54,463
Weighted average number of shares on issue - basic	105,798,950	103,396,753	105,619,499	101,633,552
Adjustments for:				
Share options	1,852,554	3,806,350	2,167,151	3,677,569
Warrants	-	76,873	-	1,217,320
Weighted average number of shares on issue - diluted ⁽¹⁾	107,651,504	107,279,976	107,786,650	106,528,441
Earnings per share - basic	\$ 0.14	\$ 0.30	\$ 0.39	\$ 0.54
Earnings per share - diluted	\$ 0.14	\$ 0.29	\$ 0.39	\$ 0.51

(1) Weighted average number of shares excludes 1,894,500 (2011 – 32,500) anti-dilutive options.

10. TRADE AND OTHER RECEIVABLES

Trade and other receivables of the Company are comprised of:

	June 30, 2012	December 31, 2011
Trade receivables	\$ 5,827	\$ 6,269
Value added taxes and other taxes recoverable	9,960	8,872
Loan receivable from supplier and other	643	452
	\$ 16,430	\$ 15,593

The Company does not hold any collateral for any receivable amounts outstanding at June 30, 2012 and December 31, 2011. Trade and other receivables include \$572,000 (December 31, 2011 - \$557,000) in value added taxes recoverable that have been outstanding for more than one year. The Company expects full recovery of the amounts outstanding and therefore no impairment has been recorded against these receivables.

11. INVENTORIES

	June 30, 2012	December 31, 2011
Finished product - doré and concentrates	\$ 340	\$ 799
Work in process	3,902	4,027
Stockpile	2,064	409
Materials and supplies	12,710	8,934
Silver coins and bullion including in-process shipments	410	492
	\$ 19,426	\$ 14,661

The amount of inventories recognized as an expense during the period is equivalent to cost of sales for the period and no inventory write-downs were recorded or reversed during the periods presented.

First Majestic Silver Corp.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

12. OTHER FINANCIAL ASSETS

	June 30, 2012	December 31, 2011
Marketable securities - available for sale	\$ 2,177	\$ 4,865
Marketable securities - fair value through profit or loss	6,647	-
Derivatives	1,704	-
	\$ 10,528	\$ 4,865

The Company holds various investments designated as available for sale ("AFS") marketable securities with total fair value of \$2,177,000 (December 31, 2011 - \$4,865,000) and cost of \$4,494,000 (December 31, 2011 - \$3,713,000) as at June 30, 2012. Changes in fair value on AFS marketable securities are recognized in other comprehensive income or loss, unless there is objective evidence of impairment.

As at June 30, 2012, the Company has 574,000 units of Sprott Physical Silver Trust (PSLV) with fair value of \$6,647,000, which were acquired at a cost of \$13.20 per unit. These trust units are classified as fair value through profit or loss ("FVTPL") marketable securities, with changes in fair value recorded through profit or loss. During the three and six months ended June 30, 2012, the Company recognized a loss of \$1,168,000 (2011 - \$nil) and \$549,000 (2011 - \$nil), respectively, related to its FVTPL marketable securities.

The Company also carries a long position on silver futures, expiring in September 2012, equivalent to 500,000 ounces of silver at an average price of \$27.01 at June 30, 2012. Derivatives of \$1,704,000 (December 31, 2011 - \$nil) reflects an unrealized gain of \$304,000 at June 30, 2012 and deposits for the margin requirement to hold the silver futures. For the three months ended June 30, 2012, the Company recorded a loss of \$2,514,000 (2011 - loss of \$358,000) related to silver futures. For the six months ended June 30, 2012, the Company recorded a gain of \$2,342,000 (2011 - loss of \$3,583,000).

13. PREPAIDS EXPENSES AND OTHER

The Company's prepaid expenses and other are comprised of:

	June 30, 2012	December 31, 2011
Prepayments to suppliers and contractors	\$ 1,769	\$ 1,138
Deposits	378	397
	\$ 2,147	\$ 1,535

14. MINING INTERESTS

The Company's mining interest is composed of the following:

	June 30, 2012	December 31, 2011
Producing properties	\$ 112,638	\$ 91,116
Exploration properties (non-depletable)	84,730	66,749
	\$ 197,368	\$ 157,865

First Majestic Silver Corp.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

14. MINING INTERESTS (continued)

Producing properties are allocated as follows:

Producing properties	La Encantada	La Parrilla	San Martin	Total
	Silver Mine	Silver Mine	Silver Mine	
Cost				
At December 31, 2010	\$ 17,512	\$ 27,452	\$ 38,337	\$ 83,301
Additions	8,305	15,869	3,571	27,745
Change in decommissioning liabilities	(25)	(525)	164	(386)
Transfer from exploration properties	1,472	4,394	5	5,871
At December 31, 2011	\$ 27,264	\$ 47,190	\$ 42,077	\$ 116,531
Additions	6,451	14,996	2,525	23,972
At June 30, 2012	\$ 33,715	\$ 62,186	\$ 44,602	\$ 140,503
Accumulated depletion and amortization				
At December 31, 2010	\$ (4,200)	\$ (3,829)	\$ (12,531)	\$ (20,560)
Depletion and amortization	(1,840)	(1,573)	(1,442)	(4,855)
At December 31, 2011	\$ (6,040)	\$ (5,402)	\$ (13,973)	\$ (25,415)
Depletion and amortization	(628)	(1,047)	(775)	(2,450)
At June 30, 2012	\$ (6,668)	\$ (6,449)	\$ (14,748)	\$ (27,865)
Carrying value				
At December 31, 2011	\$ 21,224	\$ 41,788	\$ 28,104	\$ 91,116
At June 30, 2012	\$ 27,047	\$ 55,737	\$ 29,854	\$ 112,638

Exploration properties are allocated as follows:

Exploration properties	La Encantada	La Parrilla	San Martin	Del Toro	La Luz	Total
	Silver Mine	Silver Mine	Silver Mine	Silver Mine	Silver Project	
Cost						
At December 31, 2010	\$ 2,935	\$ 7,790	\$ 15,432	\$ 11,640	\$ 19,122	\$ 56,919
Exploration and evaluation expenditures	2,057	2,274	3,008	10,472	1,242	19,053
Proceeds from option payment (f)	-	-	(3,400)	-	-	(3,400)
Change in decommissioning liabilities	-	-	-	-	48	48
Transfer to producing properties	(1,472)	(4,394)	(5)	-	-	(5,871)
At December 31, 2011	\$ 3,520	\$ 5,670	\$ 15,035	\$ 22,112	\$ 20,412	\$ 66,749
Exploration and evaluation expenditures	2,482	1,085	3,913	10,317	624	18,421
Proceeds from option payment (f)	-	-	(440)	-	-	(440)
At June 30, 2012	\$ 6,002	\$ 6,755	\$ 18,508	\$ 32,429	\$ 21,036	\$ 84,730

(a) La Encantada Silver Mine, Coahuila State

The La Encantada Silver Mine is a producing underground mine located in northern Mexico 708 kilometres north east of Torreon, Coahuila and is accessible via a 1.5 hour flight from Torreon, Coahuila. The La Encantada Silver Mine consists of a 4,000 tpd cyanidation plant which achieved commercial production on April 1, 2010, a 1,000 tpd flotation plant (currently in care-and-maintenance), a village with 180 houses as well as administrative offices, laboratory, general store, hospital, schools, church, airstrip and all the infrastructure required for such an operation. The mine is comprised of 4,076 hectares of mining rights and surface land ownership of 1,343 hectares. The closest town, Muzquiz, is 225 km away via mostly paved road. The Company owns 100% of the La Encantada Silver Mine.

First Majestic Silver Corp.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

14. MINING INTERESTS (continued)

(b) La Parrilla Silver Mine, Durango State

The La Parrilla Silver Mine, located approximately 65 kilometres southeast of the city of Durango, Mexico, is a group of producing underground operations consisting of the Rosarios / La Rosa and La Blanca mines which are inter-connected through underground workings, and the San Marcos and the Quebradillas mines which are connected via gravel road ways. La Parrilla includes a 2,000 tpd processing plant consisting of the new 1,000 tpd cyanidation and 1,000 tpd flotation circuits, buildings, offices and associated infrastructure. The Company owns 100% of the La Parrilla Silver Mine.

There is a net smelter royalty ("NSR") agreement of 1.5% of sales revenue associated with the Quebradillas Mine, with a maximum payable of \$2.5 million. The Company has an option to purchase the NSR at any time for an amount of \$2.0 million. For the three and six months ended June 30, 2012, the Company paid royalties of \$243,000 (2011 - \$44,000) and \$425,000 (2011 - \$71,000), respectively. As at June 30, 2012, the cumulative total of royalties paid to date for the Quebradillas NSR is \$1,114,000.

(c) San Martin Silver Mine, Jalisco State

The San Martin Silver Mine is a producing underground mine located adjacent to the town of San Martin de Bolaños, in northern Jalisco State, Mexico, 290 km north east of Guadalajara, Mexico, and is owned 100% by the Company. The mine comprises approximately 7,841 hectares of mineral rights, 1,300 hectares of surface rights surrounding the mine, and another 104 hectares of surface rights where the 950 tpd cyanidation plant and 500 tpd flotation plant (currently in care and maintenance), mine buildings, offices and related infrastructure. During 2011, several improvements were made including the installation of a new ball mill, replacing an older and smaller mill, the replacement of the filter presses in the Merrill-Crowe circuit, and the addition of two new induction furnaces.

(d) Del Toro Silver Mine, Zacatecas State

The Del Toro Silver Mine is located 60 km to the southeast of the Company's La Parrilla Silver Mine and consists of 405 contiguous hectares of mining claims, including the Dolores area, plus an additional 129 hectares of surface rights covering the area surrounding the San Juan mine. The Del Toro operation represents the consolidation of two old silver mines, the Perseverancia and San Juan mines, which are approximately one kilometre apart. Del Toro was previously an operating division of the Company's First Majestic Plata, S.A. de C.V. subsidiary. During the second quarter of 2012, assets of Del Toro were transferred into a newly formed subsidiary, First Majestic Del Toro, S.A. de C.V., to better isolate its operating results from the La Parrilla Mine as the plant begins production in late 2012. First Majestic owns 100% of the Del Toro Silver Mine.

(e) La Luz Silver Project, San Luis Potosi State

The La Luz Silver Project, is located 25 km west of the town of Matehuala in San Luis Potosi State, Mexico, near the village of Real de Catorce and was acquired in November 2009, through the acquisition of Normabec Mining Resources Ltd. ("Normabec"). The Company owns 100% of the La Luz Silver Project and all of the associated mining claims of what was historically known as the Santa Ana mine and consists of 36 mining concessions covering 4,977 hectares, with estimated historical production of 230 million ounces between 1773 and 1990.

First Majestic Silver Corp.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

14. MINING INTERESTS (continued)

(f) Jalisco Group of Properties, Jalisco State

The Company also owns the Jalisco Group of Properties which consist of 5,240 hectares of mining claims in Jalisco State, Mexico. On April 15, 2011, a definitive agreement was entered into with Sonora Resources Corp. (the "Optionee") whereby the Optionee has an option to acquire up to 90% in the Jalisco Group of Properties (the "Properties") located in Jalisco State, Mexico. The Optionee issued 10 million shares of common stock with a fair value of \$3.4 million to the Company and is committed to spend \$3 million over the first three years to earn a 50% interest and \$5 million over five years to earn a 70% interest. In order to obtain a 90% interest, the Optionee is required to complete a bankable feasibility study within seven years. First Majestic will retain a 10% free carried interest and a 2.375% NSR. The fair value of common shares received from the Optionee was recorded in other financial assets with a corresponding reduction in the carrying value of the San Martin mining interests during the period.

In May 2012, the Company received an additional two million common shares of the Optionee, valued at \$440,000 as a result of their failure to file a registration statement qualifying the original 10 million shares of common stock issued for free trading. The fair value of the common shares received from the Optionee was recorded as a reduction in the carrying value of mining interest in the second quarter of 2012.

15. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are composed of the following:

	Land and Buildings	Machinery and equipment	Assets under construction	Other	Total
Cost					
At December 31, 2010	\$ 14,953	\$ 67,032	\$ 2,731	\$ 2,078	\$ 86,794
Additions	5,722	25,066	34,671	1,675	67,134
At December 31, 2011	\$ 20,675	\$ 92,098	\$ 37,402	\$ 3,753	\$ 153,928
Additions	5,108	20,662	15,321	1,540	42,631
Transfers	14,092	13,998	(28,090)	-	-
At June 30, 2012	\$ 39,875	\$ 126,758	\$ 24,633	\$ 5,293	\$ 196,559
Accumulated depreciation and amortization					
At December 31, 2010	\$ (3,485)	\$ (9,801)	\$ -	\$ (1,125)	\$ (14,411)
Depreciation and amortization	(1,846)	(7,501)	-	(1,130)	(10,477)
At December 31, 2011	\$ (5,331)	\$ (17,302)	\$ -	\$ (2,255)	\$ (24,888)
Depreciation and amortization	(2,016)	(5,597)	-	(594)	(8,207)
At June 30, 2012	\$ (7,347)	\$ (22,899)	\$ -	\$ (2,849)	\$ (33,095)
Carrying value					
At December 31, 2011	\$ 15,344	\$ 74,796	\$ 37,402	\$ 1,498	\$ 129,040
At June 30, 2012	\$ 32,528	\$ 103,859	\$ 24,633	\$ 2,444	\$ 163,464

(1) Included in land and buildings is \$4,809,000 (December 31, 2011 - \$4,181,000) of land properties which are not subject to depreciation.

(2) Included in property, plant and equipment is \$22,794,000 (December 31, 2011 - \$14,789,000) of equipment under finance lease.

First Majestic Silver Corp.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Mining assets, including land and buildings, machinery and equipment, assets under construction and other assets above are allocated as follow:

	La Encantada Silver Mine	La Parrilla Silver Mine	San Martin Silver Mine	Del Toro Silver Mine	La Luz Silver Project	Corporate	Total
Cost							
At December 31, 2010	\$ 51,788	\$ 19,546	\$ 11,068	\$ 1,944	\$ 1,357	\$ 1,091	\$ 86,794
Additions	13,949	37,808	8,215	5,061	1,316	785	67,134
At December 31, 2011	\$ 65,737	\$ 57,354	\$ 19,283	\$ 7,005	\$ 2,673	\$ 1,876	\$ 153,928
Additions	9,912	12,847	4,861	13,160	297	1,554	42,631
At June 30, 2012	\$ 75,649	\$ 70,201	\$ 24,144	\$ 20,165	\$ 2,970	\$ 3,430	\$ 196,559
Accumulated depreciation and amortization							
At December 31, 2010	\$ (4,224)	\$ (5,539)	\$ (4,006)	\$ -	\$ (37)	\$ (605)	\$ (14,411)
Depreciation and amortization	(6,385)	(2,846)	(917)	-	(36)	(293)	(10,477)
At December 31, 2011	\$ (10,609)	\$ (8,385)	\$ (4,923)	\$ -	\$ (73)	\$ (898)	\$ (24,888)
Depreciation and amortization	(3,776)	(3,376)	(795)	-	(16)	(244)	(8,207)
At June 30, 2012	\$ (14,385)	\$ (11,761)	\$ (5,718)	\$ -	\$ (89)	\$ (1,142)	\$ (33,095)
Carrying value							
At December 31, 2011	\$ 55,128	\$ 48,969	\$ 14,360	\$ 7,005	\$ 2,600	\$ 978	\$ 129,040
At June 30, 2012	\$ 61,264	\$ 58,440	\$ 18,426	\$ 20,165	\$ 2,881	\$ 2,288	\$ 163,464

16. DEPOSITS ON LONG-TERM ASSETS

The Company's deposits on long-term assets are comprised of the following:

	June 30, 2012	December 31, 2011
Deposits on equipment	\$ 9,870	\$ 6,006
Deposits on equipment under finance leases	368	2,812
Deposits on services	1,575	1,686
	\$ 11,813	\$ 10,504

17. TRADE AND OTHER PAYABLES

The Company's trade and other payables are primarily comprised of amounts outstanding for purchases relating to mining operations, exploration and evaluation activities and corporate office expenses. The normal credit period for these purchases is between 30 to 90 days.

Trade payables and accrued liabilities are comprised of the following items:

	June 30, 2012	December 31, 2011
Trade payables	\$ 9,766	\$ 6,512
Accrued liabilities	14,091	15,903
Unearned revenue	38	18
	\$ 23,895	\$ 22,433

First Majestic Silver Corp.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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18. LEASE OBLIGATIONS

The Company has entered into leases for various mining and plant equipment. These leases have terms of 36 to 48 months with interest rates ranging from 7.9% to 9.1%. Assets under finance leases are pledged as security against the lease obligation.

The following is a schedule of future minimum lease payments under the finance leases:

	June 30, 2012	December 31, 2011
Less than one year	\$ 8,881	\$ 5,238
More than one year but not more than five years	14,417	10,795
	23,298	16,033
Less: future finance charges	(2,420)	(1,939)
Present value of minimum lease payments	\$ 20,878	\$ 14,094
Included in the financial statements as:		
Current portion of lease obligations	7,476	4,269
Lease obligations	13,402	9,825
Present value of minimum lease payments	\$ 20,878	\$ 14,094

19. SHARE CAPITAL

(a) Authorized and issued capital

The Company has unlimited authorized common shares with no par value. The movement in the Company's issued and outstanding capital during the period is as follows:

	Shares	Amount	Shares to be issued	Total
Balance at December 31, 2010	97,560,417	\$ 239,525	\$ 245	\$ 239,770
Shares issued for:				
Exercise of options	2,449,750	10,428	-	10,428
Exercise of warrants	5,118,093	17,943	-	17,943
Conversion of shares to be issued (Note 19(c))	7,112	35	(35)	-
Transfer of equity reserve upon exercise of options and warrants	-	5,163	-	5,163
Balance at December 31, 2011	105,135,372	\$ 273,094	\$ 210	\$ 273,304
Shares issued for:				
Exercise of options	753,575	3,705	-	3,705
Conversion of shares to be issued (Note 19(c))	250	1	(1)	-
Transfer of equity reserve upon exercise of options	-	1,417	-	1,417
Balance at June 30, 2012	105,889,197	\$ 278,217	\$ 209	\$ 278,426

First Majestic Silver Corp.

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19. SHARE CAPITAL (continued)

(b) Stock options

Under the terms of the Company's Stock Option Plan, the maximum number of shares reserved for issuance under the 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 granted prior to May 19, 2011 are subject to vesting with 25% vesting upon issuance and 25% vesting each six months thereafter. All stock options granted thereafter are subject to vesting with 25% vesting on first anniversary from the date of grant, and 25% vesting each six months thereafter.

The following table summarizes the information about stock options outstanding and exercisable at June 30, 2012:

Exercise prices (CAD\$)	Options Outstanding			Options Exercisable		
	Number of Options	Weighted Average Exercise Price (CAD\$/Share)	Weighted Average Remaining Life (Years)	Number of Options	Weighted Average Exercise Price (CAD\$/Share)	Weighted Average Remaining Life (Years)
2.01 - 3.00	183,850	2.05	1.82	183,850	2.05	1.82
3.01 - 4.00	1,122,500	3.63	0.86	1,122,500	3.63	0.86
4.01 - 5.00	781,600	4.30	0.52	781,600	4.30	0.52
10.01 - 20.03	3,019,100	15.34	3.61	1,304,475	13.01	2.50
	5,107,050	10.60	2.47	3,392,425	7.31	1.47

As of June 30, 2012, incentive stock options represent 5% (December 31, 2011 - 5%) of issued and outstanding common capital. The aggregate intrinsic values of vested share options (the market value less the exercise value) at June 30, 2012 and December 31, 2011 were \$24.9 million (CAD\$25.4 million) and \$40.1 million (CAD\$40.8 million), respectively.

The changes in stock options issued during the six months ended June 30, 2012 and the year ended December 31, 2011 are as follows:

	Six Months Ended June 30, 2012		Year Ended December 31, 2011	
	Number of Options	Weighted Average Exercise Price (CAD\$/Share)	Number of Options	Weighted Average Exercise Price (CAD\$/Share)
Balance, beginning of the period	4,934,375	8.31	6,464,875	5.61
Granted	1,045,000	17.96	939,500	16.13
Exercised	(753,575)	4.90	(2,449,750)	4.15
Expired	(118,750)	16.57	(20,250)	12.44
Balance, end of the period	5,107,050	10.60	4,934,375	8.31

During the six months ended June 30, 2012, 753,575 (June 30, 2011 – 1,540,800) stock options were exercised. The weighted average closing share price at date of exercise for the six months ended June 30, 2012 was CAD\$18.38 (2011 - CAD\$18.21).

During the six months ended June 30, 2012, 1,045,000 (2011 – 42,500) stock options were granted for an aggregate fair value of CAD\$8,218,000 (2011 – CAD\$394,000).

First Majestic Silver Corp.

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(tabular amounts are expressed in thousands of United States dollars- unaudited)

19. SHARE CAPITAL (continued)

(b) Stock options (continued)

The fair value of employee stock options granted is estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	Six Months Ended June 30,	
	2012	2011
Weighted average fair value at grant date (\$)	8.82	9.28
Expected dividend yield (%)	-	-
Average risk-free interest rate (%)	1.22	1.77
Expected life (years)	3.4	3.0
Expected volatility (%)	65	78
Forfeiture rate (%)	5.00	5.00

The expected volatility assumption is based on the historical and implied volatility of the Company's Canadian dollar common share price on the Toronto Stock Exchange. The risk-free interest rate assumption is based on yield curves on Canadian government zero-coupon bonds with a remaining term equal to the stock options' expected life.

(c) Share capital to be issued

On June 5, 2006, pursuant to the acquisition of First Silver and the San Martin mine, First Majestic and First Silver entered into a business combination agreement whereby First Majestic acquired the 36.25% remaining minority interest in securities of First Silver resulting in First Silver becoming a wholly owned subsidiary of First Majestic.

At June 30, 2012, the prior shareholders of First Silver had yet to exchange 98,530 shares (December 31, 2011 – 99,030 shares) of First Silver, exchangeable for 49,265 shares (December 31, 2011 – 49,515 shares) of First Majestic resulting in a remaining value of shares to be issued of \$209,000 (December 31, 2011 - \$210,000). During the six months ended June 30, 2012, a total of 250 (2011 – 2,500) shares were redeemed by prior shareholders of First Silver.

Any certificate formerly representing First Silver shares not duly surrendered on or prior to September 14, 2012 shall cease to represent a claim or interest of any kind or nature, including a claim for dividends or other distributions against First Majestic or First Silver by any former First Silver shareholder. After such date, all First Majestic shares to which the former First Silver shareholder was entitled shall be deemed to have been cancelled.

First Majestic Silver Corp.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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20. EQUITY RESERVES

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Available for sale revaluation reserve (a)		
Balance at beginning of period	\$ 1,127	\$ 18
(Loss) gain on available for sale securities	(3,478)	1,634
Balance at end of period	(2,351)	1,652
Share-based payments reserve (b)		
Balance at beginning of period	27,394	25,170
Share-based payments recognized in profit and loss, and related tax benefit	4,534	3,661
Reclassified to share capital for exercise of stock options and warrants	(1,417)	(3,242)
Balance at end of period	30,511	25,589
Foreign currency translation reserve (c)		
Balance at beginning of period	(677)	621
Currency translation gain	170	719
Balance at end of period	(507)	1,340
Total equity reserves per statement of financial position	\$ 27,653	\$ 28,581

- (a) The available for sale reserve principally records the fair value gains or losses related to available-for-sale financial instruments.
- (b) The share-based payments reserve records the cumulative amount recognized under IFRS 2 in respect of options granted but not exercised to acquire shares of the Company and related tax benefits of \$696,000.
- (c) The foreign currency translation reserve represents exchange differences arising on the translation of non-US dollar functional currency operations within the Company into the US dollar presentation currency.

21. FINANCIAL INSTRUMENTS

(a) Capital risk management

The Company's objective when managing capital is to maintain its ability to continue as a going concern while at the same time maximizing growth of its business and providing returns to its shareholders' investments. The Company's overall strategy with respect to capital risk management remains unchanged from the prior year ended December 31, 2011.

The capital of the Company consists of equity, comprising issued capital, share capital to be issued, equity reserves and retained earnings, debt facilities, net of cash and cash equivalents as follows:

	June 30, 2012	December 31, 2011
Equity	\$ 397,208	\$ 350,598
Debt facilities	-	784
Less: cash and cash equivalents	(70,890)	(91,184)
	\$ 326,318	\$ 260,198

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Company's Board of Directors.

First Majestic Silver Corp.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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21. FINANCIAL INSTRUMENTS

(b) Financial risk management

There are no significant changes in financial risk management compared to the Company's consolidated financial statements for the year ended December 31, 2011, except for the following:

i) 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 to support its expansion plans. As at June 30, 2012, the Company has outstanding trade payables of \$9.8 million (December 31, 2011 - \$6.5 million) which are generally payable in 90 days or less and accrued liabilities of \$14.1 million (December 31, 2011 - \$15.9 million) which are generally payable within 12 months. The Company believes it has sufficient cash on hand to meet operating requirements as they arise for at least the next 12 months. The Company's liabilities and commitments have maturities which are summarized below:

	Payments Due By Period				
	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Trade and other payables	\$ 23,895	\$ 23,895	\$ -	\$ -	\$ -
Finance lease obligations	23,298	8,881	14,094	323	-
Decommissioning liabilities	7,725	-	-	-	7,725
Total Obligations	\$ 54,918	\$ 32,776	\$ 14,094	\$ 323	\$ 7,725

ii) Currency Risk

Financial instruments that impact the Company's net earnings or other comprehensive income due to currency fluctuations include Canadian dollar and Mexican peso denominated assets and liabilities. The sensitivity of the Company's net earnings and other comprehensive income due to changes in the exchange rate between the Canadian dollar and the Mexican peso against the U.S. dollar is included in the table below:

					June 30, 2012		December 31, 2011	
	Cash and cash equivalents	Trade and other receivables	Trade and other payables	Net assets (liabilities) exposure	Effect of +/- 10% change in currency	Net assets (liabilities) exposure	Effect of +/- 10% change in currency	
Canadian dollar	\$ 14,246	\$ 289	\$ (2,219)	\$ 12,316	\$ 1,232	\$ 40,787	\$ 4,079	
Mexican peso	1,046	8,632	(12,829)	(3,151)	(315)	(7,433)	(549)	
	\$ 15,292	\$ 8,921	\$ (15,048)	\$ 9,165	\$ 917	\$ 33,354	\$ 3,530	

First Majestic Silver Corp.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

22. SUPPLEMENTAL CASH FLOW INFORMATION

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net change in non-cash working capital items:				
Increase in trade and other receivables	\$ (1,999)	\$ (297)	\$ (837)	\$ (2,180)
Increase in inventories	(1,113)	(1,166)	(4,765)	(1,510)
(Increase) decrease in prepaid expenses and other	(1,178)	(3,318)	1,688	(4,010)
(Decrease) increase in trade and other payables	(10,961)	1,832	(3,544)	3,699
Increase (decrease) in taxes payable	11,255	(10)	12,012	813
	\$ (3,996)	\$ (2,959)	\$ 4,554	\$ (3,188)
Non-cash investing and financing activities:				
Transfer of share-based payments reserve upon exercise of options and warrants	\$ 451	\$ 1,715	\$ 1,413	\$ 3,242
Assets acquired by finance lease	(6,405)	(1,726)	(9,497)	(4,200)

The Company had no cash equivalents as at June 30, 2012 and 2011.

23. VENDOR LIABILITY AND INTEREST

In May 2006, First Majestic acquired a controlling interest in First Silver for \$50,776,000. The purchase price was payable to the seller (the "Seller") in three instalments ("the Agreement"). The first instalment of \$25,388,000, for 50% of the purchase price, was paid upon closing on May 30, 2006. An additional 25% instalment of \$12,694,000 was paid on May 30, 2007. The final 25% instalment of \$12,694,000, together with accrued interest of \$872,000 was paid into a trust account of the Company and First Silver in May 2008, and a Letter of Credit deposited in court, pending the outcome of the claims.

In November 2007, an action was commenced by the Company and First Silver against the Seller who was previously a director, President & Chief Executive Officer of First Silver. The Company and First Silver alleged that, while holding the positions of director, President and Chief Executive Officer, the Seller engaged in a course of deceitful and dishonest conduct in breach of his fiduciary and statutory duties owed to First Silver, which resulted in the Seller acquiring a mine which was First Silver's right to acquire. These allegations are denied by the Seller but management believes that there are substantial grounds to this claim.

On March 14, 2008, the Seller filed a Counterclaim in the Action against the Company in which he claimed for unpaid amounts and interest arising out of the Agreement. As of July 16, 2009, the claimed unpaid amount, together with interest calculated at the contractual interest rate of 6% amounted to \$14,160,000.

On July 16, 2009, an Order was granted by the Court, with the consent of all parties, under which the Seller obtained a judgment in the amount of \$14,160,000. The Company agreed that \$13,566,000 under the Letter of Credit would be paid into the Seller's lawyer's trust account (the "Trust Funds") in partial satisfaction of the Judgment. The Consent Order requires that the Trust Funds be held pending the outcome of the Action. In his counterclaim, the Seller is also seeking, among other things, interest at 6% compounded annually and calculated daily on the Trust Funds and reimbursements of all costs and expenses, including his legal fees, incurred by the Seller in pursuing his claims against the Company. The trial commenced in the Supreme Court of British Columbia, Vancouver, British Columbia in April 2012 and adjourned in June 2012. Additional trial dates are scheduled in November 2012 and January 2013 as the trial did not complete during the previously scheduled dates. The Consent Order does not affect the standing of the Company's claims for relief against the Seller in the Action. The Trust Funds could potentially become accessible to the Company in the event of a favourable outcome to the litigation. However, the outcome of this litigation is not presently determinable and no amounts are recognized in the consolidated statement of financial position.

First Majestic Silver Corp.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

24. CONTINGENT LIABILITIES

Due to the size, complexity and nature of the Company's operations, various legal and tax matters arise in the ordinary course of business. The Company would accrue for such items when a liability is both probable and the amount can be reasonably estimated. In the opinion of management, these matters will not have a material effect on the condensed interim consolidated financial statements of the Company.

During 2011, Minera El Pílon, S.A. de C.V., a subsidiary of the Company, received tax assessments from the Mexican tax authority for fiscal years 2004 to 2007 relating to various tax treatments with a maximum potential remittance of approximately \$5.6 million (75.7 million Mexican pesos). The Company is currently defending the tax treatments amounting to \$3.2 million (43.4 million Mexican pesos) related to 2007 via the administrative appeal process and believes it has a strong defense against the claims. The tax reassessments for 2004 to 2006 amounting to \$2.4 million (32.3 million Mexican pesos) were pursued through tax court, pledged with certain properties of the San Martin Mine as guarantees. In July 2012, the Company successfully won its appeal for the 2004 tax reassessment of \$0.7 million (10.0 million Mexican pesos). Final resolutions for 2005 and 2006 tax years are expected by September 2012. The Company believes it is probable that it will defend itself successfully in all claims and therefore has not recorded a provision for the potential tax exposure relating to these assessments.

25. SUBSEQUENT EVENTS

Subsequent to June 30, 2012:

- a) On July 3, 2012, the Company completed the arrangement to acquire all of the issued and outstanding common shares of Silvermex Resources Inc. ("Silvermex") for total consideration of \$137.0 million. Upon closing of the transaction, a total of 9,451,654 common shares of the Company and 338,295 replacement warrants were issued. As the transaction was completed subsequent to the quarter ended June 30, 2012, financial and operating results of Silvermex were not included in the Company's condensed interim consolidated financial statements for the quarter and year to date ended June 30, 2012. See note 26 for details;
- b) In July 2012, the Company successfully won its appeal for the 2004 tax reassessment of \$0.7 million (10.0 million Mexican pesos). Final resolutions for 2005 and 2006 tax years are expected by September 2012. See note 24 for details;
- c) A total of 65,000 options were granted with an average exercise price of CAD\$14.58 expiring in July 2017; and
- d) A total of 27,375 options were exercised for gross proceeds of CAD\$237,000.

Pursuant to the above subsequent events, the Company has 115,368,226 common shares outstanding as at the date on which these condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors.

26. ACQUISITION OF SILVERMEX RESOURCES INC.

On July 3, 2012, the Company completed the plan of arrangement (the "Arrangement") previously announced on April 3, 2012 to acquire all of the issued and outstanding common shares of Silvermex Resources Inc. The total consideration was valued at \$137.0 million (CAD\$138.7 million) at the acquisition date.

The acquisition strengthens First Majestic's position, adding the La Guitarra Mine as the Company's fourth producing asset with additional growth potential. La Guitarra will further diversify production and cash flow across the Company's robust portfolio of producing mines and development projects in Mexico.

First Majestic Silver Corp.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

26. ACQUISITION OF SILVERMEX RESOURCES INC. (continued)

Total transaction costs for the acquisition are estimated to be \$2.0 million, of which \$781,000 have been incurred and expensed in the current period.

As the transaction was completed subsequent to the quarter ended June 30, 2012, financial and operating results of Silvermex were not included in the Company's condensed interim consolidated financial statements for the quarter and year to date ended June 30, 2012.

Total consideration for the acquisition and preliminary purchase price allocation, in accordance with IFRS 3 - *Business Combinations*, are estimated as follows:

Consideration:	
9,451,654 First Majestic common shares	\$ 136,317
338,295 First Majestic replacement warrants	646
Cash paid (264.4 million Silvermex shares x CAD\$0.0001 per share)	27
Total consideration	\$ 136,990
Allocation of purchase price	
Cash	\$ 8,482
Other net working capital	(311)
Mining interests	116,567
Property, plant and equipment	11,221
Goodwill	22,955
Deposit on long-term assets	485
Decommissioning liabilities	(1,967)
Deferred tax liabilities	(20,442)
	\$ 136,990

Goodwill was recognized as a result of the requirement under IFRS to record deferred tax liability on the excess of the fair value of the acquired assets over their corresponding tax bases, with the corresponding offset recorded as goodwill.

As at the date these condensed interim consolidated financial statements were issued, the allocation of the purchase price is based on preliminary estimates and has not been finalized. The Company is currently in the process of determining the fair values of identifiable assets acquired and liabilities assumed, measuring the associated deferred income tax assets and liabilities and potential goodwill. The actual fair values of the assets and liabilities may differ materially from the amounts disclosed in the preliminary purchase price allocation and are subject to change.

27. APPROVAL OF FINANCIAL STATEMENTS

The condensed interim consolidated financial statements of First Majestic Silver Corp. for the three and six months ended June 30, 2012 were approved and authorized for issue by the Board of Directors on August 13, 2012.



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE QUARTER ENDED JUNE 30, 2012

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited condensed interim consolidated financial statements of First Majestic Silver Corp. ("First Majestic" or "the Company") for the three and six months ended June 30, 2012 and audited consolidated financial statements for the year ended December 31, 2011, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein. All dollar amounts are expressed in United States ("US") dollars and tabular amounts are expressed in thousands of dollars unless otherwise indicated. All information contained in this MD&A is current as of August 13, 2012 unless otherwise stated.

Forward-Looking Statements

Certain information contained herein constitutes forward-looking statements. Forward-looking statements are frequently characterized by words such as "plan", "expect", "forecast", "project", "intend", "believe", "anticipate", "outlook" 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 operating costs and expenses, uncertainties related to the necessity of financing, 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 other than as required by securities laws. The reader is cautioned not to place undue reliance on forward-looking statements.

Qualified Persons

Leonel Lopez, C.P.G., P.G. of Pincock Allen & Holt is the independent Qualified Person for the Company. Ramon Davila, Ing., the Company's Chief Operating Officer and Florentino Muñoz, Ing., the Company's Chief Geologist, are also certified Qualified Persons. Leonel Lopez has reviewed the technical information reported in the 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. Ramon Davila has reviewed this MD&A for QP technical disclosures. All National Instrument 43-101 technical reports can be found on the Company's website at www.firstmajestic.com or on SEDAR at www.sedar.com.

Additional information on the Company, including the Company's Annual Information Form, is also available on SEDAR at www.sedar.com and on the Company's website at www.firstmajestic.com.

2012 SECOND QUARTER HIGHLIGHTS

	Second Quarter 2012	Second Quarter 2011	Change	First Quarter 2012	Change
Operating					
Silver Equivalent Ounces Produced	2,102,222	1,843,830	14%	2,007,219	5%
Silver Ounces Produced (excluding equivalent ounces from by-products)	1,917,248	1,780,379	8%	1,826,803	5%
Payable Silver Ounces Produced ⁽¹⁾	1,888,132	1,761,697	7%	1,766,160	7%
Total Cash Costs per Ounce ⁽²⁾	\$8.83	\$8.32	6%	\$8.96	-1%
Total Production Cost per Tonne ⁽²⁾	\$26.97	\$30.03	-10%	\$29.24	-8%
Average Revenue per Payable Equivalent Ounces Sold (\$/eq. oz.) ⁽²⁾	\$28.69	\$39.08	-27%	\$32.79	-13%
Financial					
Revenues (\$ millions)	\$54.8	\$68.0	-19%	\$57.8	-5%
Mine Operating Earnings (\$ millions)	\$31.1	\$46.8	-34%	\$35.7	-13%
Net Earnings (\$ millions)	\$15.3	\$30.6	-50%	\$26.4	-42%
Operating Cash Flows Generated Before Movements in Working Capital (\$ millions)	\$30.6	\$46.4	-34%	\$37.1	-17%
Cash and Cash Equivalents at June 30 and March 31 (\$ millions)	\$70.9	\$105.0	-32%	\$85.3	-17%
Working Capital at June 30 (\$ millions)	\$94.6	\$100.9	-6%	\$108.3	-13%
Shareholders					
Earnings Per Share ("EPS") - Basic	\$0.14	\$0.30	-51%	\$0.25	-42%
Cash Flow Per Share ⁽²⁾	\$0.29	\$0.45	-35%	\$0.35	-17%
Weighted Average Shares Outstanding for the Periods Ended June 30	105,798,950	103,396,753	2%	105,440,048	0%

(1) Payable Silver Ounces Produced is equivalent to Silver Ounces Produced less metal deductions from smelters and refineries.

(2) The Company reports non-GAAP measures which include Total Cash Costs per Ounce, Total Production Cost per Tonne, Average Revenue per Payable Equivalent Ounces Sold and Cash Flow Per Share Before Movements in Working Capital. These measures are widely used in the mining industry as a benchmark for performance, but do not have a standardized meaning and may differ from methods used by other companies with similar descriptions. See Reconciliation to IFRS on pages 16 and 17.

- Adjusted EPS (a non-GAAP measure) for the three months ended June 30, 2012 was \$0.19, after removing \$0.8 million in acquisition costs for Silvermex, \$1.1 million in legal fees for the First Silver trial and \$3.6 million in losses from investment in silver futures and marketable securities.
- Increased silver equivalent production by 14% compared to the second quarter of 2011 and though average silver prices fell 27%, the Company managed to limit the reduction of revenues to only 19% compared to the second quarter of 2011.
- Increased silver equivalent production by 5% compared to the first quarter of 2012 and though average silver prices fell 13% compared to the prior quarter, the Company managed to limit the reduction of revenues to only 5% compared to the first quarter of 2012.
- Produced 2,102,222 of silver equivalent ounces compared to 1,843,830 silver equivalent ounces produced in the second quarter of 2011. Produced 1,917,248 ounces of silver compared to 1,780,379 ounces of silver produced in the second quarter of 2011.
- Continued to focus on cost control in a lower silver price market. Production costs per tonne decreased 10% to \$26.97 per tonne compared to \$30.03 per tonne in the second quarter of 2011, reflecting efficiencies from economies of scale as a result of 28% increase in tonnes of ore milled during the second quarter of 2012.
- In July 2012, the Company completed the acquisition of Silvermex Resources Inc. ("Silvermex"), whereby First Majestic acquired all of the issued and outstanding common shares of Silvermex. Total consideration for the transaction is valued at approximately \$137.0 million at the date of acquisition. Silvermex's La Guitarra Silver Mine, located in the State of Mexico, has now become First Majestic's fourth operating mine and is expected to contribute 0.4 million silver equivalent ounces of production to the Company's consolidated production in the second half of 2012.
- Cash cost per ounce for the second quarter of 2012 was \$8.83, an increase of 6% compared to \$8.32 in the second quarter of 2011. Cash cost per ounce was higher primarily due to a 17% decrease in consolidated head grades compared to the second quarter of 2011.
- Generated revenues of \$54.8 million for the quarter ended June 30, 2012, a decrease of \$13.3 million or 19% compared to \$68.0 million in the second quarter of 2011, due to a decrease of 27% in average realized silver prices.
- Recognized mine operating earnings of \$31.1 million compared to \$46.8 million in the second quarter of 2011, a decrease of \$15.7 million or 34%, due to lower revenues and higher depreciation, depletion and amortization expense.

- Cash flows from operations before movements in non-cash working capital and income taxes in the second quarter of 2012 decreased by 34% to \$30.6 million (\$0.29 per share) compared to \$46.4 million (\$0.45 per share) in the second quarter of 2011.
- Silvermex Resources Inc. and its predecessors published NI 43-101 Technical Reports relating to the La Guitarra mine on September 22, 2006, May 15, 2007, June 25, 2008 and most recently on January 29, 2010. These Technical Reports have not been approved by the Company and the Company did not rely on these reports in making its decision to acquire Silvermex and (indirectly) the La Guitarra Silver Mine. The reports are currently under review by management of the Company and its Qualified Persons, particularly with respect to the assumptions and the risks regarding those assumptions used in the previous mining studies. Specifically, management is of the opinion that there are risks when relying on the ability to permit the La Guitarra mine as an open pit mine in light of its proximity to a popular recreation area in Mexico. Management is having its own Qualified Persons review the preferred mining options and the opportunities for mitigating risks to developing a successful mining operation. The results of this review may result in a revised mine plan which may necessitate the filing of a new Technical Report. Until then, management recommends caution when relying on the previously filed technical reports relating to the La Guitarra Silver Mine.

REVIEW OF OPERATING RESULTS

Selected Production Results on a Mine-by-Mine Basis for the Past Eight Quarters

Production Highlights	2012			2011			2010		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	
Ore processed/tonnes milled									
La Encantada	382,172	337,940	369,310	366,308	333,710	314,712	319,908	295,328	
La Parrilla	169,786	147,938	121,109	89,972	77,363	74,503	78,537	76,618	
San Martin	63,841	72,305	74,584	73,879	71,004	67,291	68,730	62,275	
Consolidated	615,799	558,183	565,003	530,159	482,077	456,506	467,175	434,221	
Silver ounces produced									
La Encantada	1,022,094	846,391	1,076,096	1,020,467	1,133,654	1,136,419	1,049,811	1,160,468	
La Parrilla	690,954	719,143	628,836	449,771	395,716	319,405	395,161	402,760	
San Martin	204,200	261,269	252,725	238,627	251,009	313,384	312,360	260,142	
Consolidated	1,917,248	1,826,803	1,957,657	1,708,865	1,780,379	1,769,208	1,757,332	1,823,370	
Silver equivalent ounces produced									
La Encantada	1,041,292	861,506	1,092,189	1,029,336	1,139,336	1,138,624	1,050,911	1,163,887	
La Parrilla	843,307	860,739	738,919	511,301	443,304	363,648	448,592	483,608	
San Martin	217,623	284,974	270,420	251,133	261,190	323,094	328,484	273,003	
Consolidated	2,102,222	2,007,219	2,101,528	1,791,770	1,843,830	1,825,366	1,827,987	1,920,498	
Cash cost per ounce									
La Encantada	\$ 8.35	\$ 9.69	\$ 7.49	\$ 8.04	\$ 7.61	\$ 7.17	\$ 7.71	\$ 6.23	
La Parrilla	\$ 8.35	\$ 8.14	\$ 8.22	\$ 7.90	\$ 8.84	\$ 10.66	\$ 7.06	\$ 7.09	
San Martin	\$ 12.75	\$ 8.67	\$ 9.70	\$ 10.74	\$ 10.72	\$ 9.85	\$ 8.87	\$ 10.52	
Consolidated	\$ 8.83	\$ 8.96	\$ 8.01	\$ 8.39	\$ 8.32	\$ 8.26	\$ 7.78	\$ 7.03	
Production cost per tonne									
La Encantada	\$ 21.30	\$ 23.27	\$ 20.78	\$ 21.46	\$ 24.09	\$ 23.80	\$ 23.30	\$ 22.62	
La Parrilla	\$ 33.46	\$ 38.87	\$ 42.46	\$ 41.32	\$ 45.88	\$ 42.60	\$ 38.07	\$ 38.74	
San Martin	\$ 43.66	\$ 38.64	\$ 38.64	\$ 37.20	\$ 40.67	\$ 45.34	\$ 43.05	\$ 45.10	
Consolidated	\$ 26.97	\$ 29.24	\$ 27.47	\$ 26.86	\$ 30.03	\$ 30.04	\$ 28.70	\$ 28.68	

Consolidated Production Results for the Three and Six Months Ended June 30, 2012 and 2011

Quarter Ended June 30,		CONSOLIDATED FIRST MAJESTIC RESULTS	Year to Date Ended June 30,	
2012	2011		2012	2011
615,799	482,077	Ore processed/tonnes milled ⁽³⁾	1,173,982	938,583
164	198	Average silver grade (g/t)	171	205
59%	58%	Recovery (%)	58%	58%
1,917,248	1,780,379	Total silver ounces produced	3,744,051	3,549,587
-	-	Pre-commercial silver ounces produced ⁽³⁾	28,639	-
1,917,248	1,780,379	Commercial silver ounces produced	3,715,412	3,549,587
1,888,132	1,761,697	Payable silver ounces produced ⁽¹⁾	3,654,292	3,513,008
533	337	Gold ounces produced	1,144	688
3,005,209	1,392,132	Pounds of lead produced	6,181,871	2,580,044
1,423,890	26,103	Pounds of zinc produced	2,744,616	26,103
4,628	1,755	Tonnes of iron ore produced	9,224	2,137
2,102,222	1,843,830	Total production - ounces silver equivalent	4,109,441	3,669,196
\$8.83	\$8.32	Total cash cost per ounce ⁽¹⁾⁽³⁾	\$8.90	\$8.29
\$8.80	\$8.22	Total production cost per ounce ⁽¹⁾⁽²⁾⁽³⁾	\$8.94	\$8.02
\$26.97	\$30.03	Total production cost per tonne ⁽¹⁾⁽²⁾⁽³⁾	\$28.05	\$30.03
13,627	8,456	Underground development (m)	27,870	15,205
35,965	12,446	Diamond drilling (m)	65,159	18,239

(1) The Company reports non-GAAP measures which include production costs per tonne, production costs per ounce and cash cost (including smelting and refining charges) per ounce of payable silver, in order to manage and evaluate operating performance at each of the Company's mines. These measures, established by the Silver Institute (Production Cost Standards, June 2011), are widely used in the silver mining industry as a benchmark for performance, but do not have a standardized meaning. See Reconciliation to IFRS on page 16.

(2) Total production cost per ounce and total production cost per tonne includes mining, processing and direct overhead at the mill site and does not include smelting and refining, transportation and other selling costs.

(3) The cyanidation circuit for the La Parrilla mill expansion project was commissioned effective March 1, 2012. During the quarter ended March 31, 2012, the net margin of \$0.6 million (Net Revenue of \$1.0 million less Costs of Sales of \$0.4 million) in connection with the sale of 30,456 ounces of silver equivalent during the pre-operating period was recorded as a reduction of construction in progress. The tables above include the production from the cyanidation circuit expansion, however, average silver grade, recovery, total cash costs per ounce, production cost per ounce and total production cost per tonne are based on production excluding pre-commercial stage production of 9,118 tonnes of ore processed and 30,456 ounces of silver equivalent during the quarter ended March 31, 2012.

Production

Total production for the second quarter of 2012 was 2,102,222 ounces of silver equivalents consisting of 1,917,248 ounces of silver, 533 ounces of gold, 3,005,209 pounds of lead, 1,423,890 pounds of zinc and 4,628 tonnes of iron ore. Silver equivalent production increased by 14% compared to the 1,843,830 ounces of silver equivalents produced in the second quarter of 2011, which consisted of 1,780,379 ounces of silver, 337 ounces of gold, 1,392,132 pounds of lead, 26,103 pounds of zinc and 1,755 tonnes of iron ore. Compared to the first quarter of 2012, production increased by 5% from 2,007,219 ounces of silver equivalents, which consisted of 1,826,803 ounces of silver, 3,176,662 pounds of lead, 611 ounces of gold, 1,320,726 pounds of zinc and 4,596 tonnes of iron ore. The increase in production was primarily due to a 10% increase in mill throughput, as La Parrilla's cyanidation circuit had its first full quarter of commercial production and the installation of an additional ball mill at La Encantada. Production increased in spite of challenges at each mine, such as drought conditions at San Martin, lower grades from the open pit at La Parrilla and lower grades from the #1 tailings dam at La Encantada.

No production from Silvermex was included in First Majestic's second quarter operations as the acquisition was completed on July 3, 2012, after the quarter was closed.

Cash Cost per Ounce

Total cash costs per ounce (including smelting, refining, transportation and other selling costs, and by-product credits), which is a non-GAAP measure and a standard of the Silver Institute, for the second quarter of 2012 was \$8.83 per ounce of silver compared to \$8.32 in the second quarter of 2011 and \$8.96 in the first quarter of 2012.

Cash cost per ounce for the second quarter consists of production costs of \$8.80, transportation, smelting and refining costs of \$2.28, royalty cost of \$0.10, net of by-product credits of \$2.35. Production costs per ounce

increased \$0.58 per ounce compared to the second quarter of 2011, primarily due to lower average head grades. Transportation, smelting and refining costs increased by \$0.81 per ounce on average in the second quarter of 2012 compared to the second quarter of 2011, due to an increase in shipments of concentrates from the new La Parrilla flotation circuit, which increased from 1,825 tonnes of concentrates in the second quarter of 2011 to 4,982 tonnes in the second quarter of 2012. Smelting and refining costs per ounce for these concentrates was \$5.43 per ounce in the current quarter. By-product credits have increased by \$0.98 per ounce compared to the second quarter of 2011 due to higher lead and zinc production from the new La Parrilla flotation plant.

Head Grades and Recoveries

The overall average head grade for the second quarter of 2012 was 164 grams per tonne ("g/t"), a 7% decrease compared to 177 g/t in the first quarter. At the La Encantada mine, fresh ore was mixed with tailings from the tailing dam #1 which has lower grades compared to tailing dam #2 but has demonstrated historically better recoveries at the mill. At the La Parrilla mine, the increase in production from oxides ore came from the open pit which has lower head grades than the underground oxide ore. In order to try to compensate for the lower head grades, the ore processed from combined operations during the second quarter of 2012 was 615,799 tonnes, representing a 10% increase in throughput compared to the first quarter of 2012.

Combined recoveries for all mines in the second quarter was 59%, an increase from 57% in the first quarter of 2012. Since installing a new ball mill at La Encantada in mid-April, recoveries have been consistently improving due to a higher proportion of fresh ore being processed and a better mixture with the tailings of dam #1. Although tailings of dam #1 have lower grades, they resulted in historically better recoveries. These factors resulted in an increase in La Encantada's recoveries from 43% in the first quarter to 49% in the second quarter. Efforts are continuing to optimize the recoveries at La Encantada, which reached 55% for several days in the month of June. Under ideal conditions, with a revised mix of fresh ore and tailings, this plant should be able to achieve 60% recovery rates, based on 78% recoveries for fresh ore and 50% recoveries for tailings. Management is also continuing with a number of metallurgical studies and pilot tests, which are expected to further improve recoveries. The SO₂ pilot plant demonstrated that recoveries could be improved but management concluded it would be uneconomical at current silver prices due to the high costs of reagents and transportation, and as a result other alternatives are being evaluated.

Development and Exploration

The underground development in all of the Company's operations and projects continued aggressively with the objective of preparing the different areas within the mines for future expanded production. A total of 13,627 metres of underground development were completed in the second quarter of 2012 compared to 14,243 metres completed in the first quarter of 2012 and 8,456 metres in the second quarter of 2011. In the first half of 2012, a total of 27,870 metres of underground development were completed compared to 15,205 metres in the first half of 2011. Total development in the second quarter increased 61% compared to the same quarter of the prior year in order to maintain the pace for increased fresh ore production rates at La Encantada and expanded production at La Parrilla. At the San Martin mine, new veins are being explored and development is focusing on preparing these new areas for production. At the Del Toro mine, the various ore bodies are being prepared for production which is expected to commence in the fourth quarter of 2012.

Diamond drilling programs are progressing aggressively on a companywide basis during the second quarter of 2012 with 35,965 metres from 140 holes consisting primarily of definition drilling and surface exploration drilling, representing a 23% increase from the 29,194 metres drilled in the first quarter of 2012. A total of 65,159 metres of diamond drilling were completed in the first half of 2012, an increase of 257% compared to 18,239 metres in the first half of 2011. A significant project is underway at Del Toro to define the ore bodies at the San Juan and Perseverancia mines to support production planning. In addition, new exploration areas are being evaluated to continue to extend the life of the Del Toro mine. Currently, the Company has a total of 21 diamond drill rigs operating on its properties.

During the quarter ended June 30, 2012, the Company spent \$18.5 million on its mineral properties and a further \$14.6 million on plant and equipment. This compares to \$6.4 million invested in mineral properties and \$12.4 million in plant and equipment in the second quarter of 2011. The increase in capital expenditures was primarily attributed to the mill expansion at the La Parrilla Silver Mine, underground development at Del Toro, and the equipment purchased for the new Del Toro processing plant. The Company is also aggressively increasing its exploration and development programs to prepare for additional mill expansions and to drive further resource upgrades.

La Encantada Silver Mine, Coahuila, Mexico

Production Results for the Three and Six Months Ended June 30, 2012 and 2011

Quarter Ended June 30,		LA ENCANTADA RESULTS	Year to Date Ended June 30,	
2012	2011		2012	2011
382,172	333,710	Ore processed/tonnes milled	720,112	648,422
169	208	Average silver grade (g/t)	175	216
49%	51%	Recovery (%)	46%	50%
1,022,094	1,133,654	Total silver ounces produced	1,868,485	2,270,073
1,016,983	1,127,985	Payable silver ounces produced ⁽¹⁾	1,859,009	2,258,722
63	24	Gold ounces produced	82	50
4,628	1,755	Tonnes of iron ore produced	9,224	2,137
1,041,292	1,139,336	Total production - ounces silver equivalent	1,902,798	2,277,960
\$8.35	\$7.61	Total cash cost per ounce ⁽¹⁾	\$8.97	\$7.39
\$8.01	\$7.13	Total production cost per ounce ⁽¹⁾⁽²⁾	\$8.62	\$6.87
\$21.30	\$24.09	Total production cost per tonne ⁽¹⁾⁽²⁾	\$22.23	\$23.95
3,535	2,721	Underground development (m)	7,456	5,558
5,451	3,493	Diamond drilling (m)	11,489	4,534

(1) The Company reports non-GAAP measures which include production costs per tonne, production costs per ounce and total cash cost (including smelting and refining charges) per ounce of payable silver, in order to manage and evaluate operating performance at each of the Company's mines. These measures, established by the Silver Institute (Production Cost Standards, June 2011), are widely used in the silver mining industry as a benchmark for performance, but do not have a standardized meaning. See Reconciliation to IFRS on page 16.

(2) Total production cost per ounce and total production cost per tonne includes mining, processing and direct overhead at the mill site and does not include smelting and refining, transportation and other selling costs.

The La Encantada Silver Mine is a producing underground mine located in northern Mexico 708 kilometres north east of Torreon, Coahuila and is accessible via a 1.5 hour flight from Torreon, Coahuila. The La Encantada Silver Mine consists of a 4,000 tpd cyanidation plant, a 1,000 tpd flotation plant (currently in care-and-maintenance except for the crushing, grinding and thickener areas), a village with 180 houses as well as administrative offices, laboratory, general store, hospital, schools, church, airstrip and all the infrastructure required for such an operation. The mine is comprised of 4,076 hectares of mining rights and surface land ownership of 1,343 hectares. The closest town, Muzquiz, is 225 kilometres away via mostly-paved road. The Company owns 100% of the La Encantada Silver Mine.

With adjustments made to the tailings screening intake systems, and to the tailings filter presses, the plant, initially inaugurated with a capacity of 3,500 tpd, has been able to consistently achieve in excess of 4,000 tpd processing throughput and was re-rated to 4,000 tpd. Average throughput for the first half of 2012 was 4,236 tpd. Since the installation of the additional ball mill, the plant has reached a maximum intake level of 2,000 tpd of fresh ore during the months of May and June, offset by reducing the intake proportion of the tailings feed.

A total of 1,041,292 equivalent ounces of silver were produced by the La Encantada plant during the second quarter of 2012, which was an increase of 21% compared with the 861,506 equivalent ounces of silver produced in the preceding quarter, primarily attributable to higher fresh ore input, and a decrease of 9% compared to the 1,139,336 equivalent ounces of silver produced in the second quarter of 2011.

Tonnes milled in the second quarter increased 13% to 382,172 tonnes processed compared to 337,940 tonnes processed in the first quarter of 2012 and increased 15% compared to the 333,710 tonnes processed in the second quarter of 2011. The average head grade decreased 6% to 169 g/t compared to 181 g/t in the first quarter of 2012 and decreased 18% compared to 208 g/t in the second quarter of 2011, summarized as follows:

	Q2 2012	Q1 2012	Change	Q2 2011	Change
Tonnes Milled					
Fresh ore	135,593	78,817	72%	84,525	60%
Tailings	246,579	259,123	-5%	249,185	-1%
Total	382,172	337,940	13%	333,710	15%
% Tonnes Milled					
Fresh ore	35%	23%	52%	25%	40%
Tailings	65%	77%	-16%	75%	-14%
Grades					
Fresh ore	259	293	-12%	257	1%
Tailings	120	147	-18%	192	-38%
Average	169	181	-6%	208	-18%

Efforts are continuing to optimize the recoveries at La Encantada, which increased from 43% in the first quarter of 2012 to 49% in the current quarter. On April 19, 2012, a third ball mill was successfully installed and became fully operational on May 1st, bringing the fresh ore mill capacity to 1,800 tpd, an increase of approximately 80% when compared to the first quarter of 2012. The Company is also processing lower grade but coarser tailings from the #1 tailings dam because the silver is proving easier to separate from the manganese in the coarser tailings and because of lower manganese content in general in the #1 tailings dam. The increase in the ratio of ore processed from the mine relative to ore from the old tailings assisted in improving overall grades and recoveries at the processing plant, as did the processing of the lower grade and lower manganese content from the #1 tailings dam. Silver recoveries in the month of June reached 55% for several days at the mill and it is anticipated that these increased levels will continue for the remainder of the year, due to the increased ratio of fresh ore versus the old tailings. Management is also continuing with a number of metallurgical studies and pilot tests, which are expected to further improve recoveries later in the year.

Continuing with the underground mine development program from 2011 to increase the blending of fresh ore with tailings, a total of 3,535 metres were developed in the second quarter of 2012 compared to 2,721 metres of development completed in the second quarter of 2011, an increase of 30%. During the first six months of 2012, a total of 7,456 metres were developed, an increase of 34% compared to 5,558 metres developed in the first half of 2011. Underground development is currently focused on areas within the mine which contain lower levels of manganese to assist in higher recovery rates. The primary areas of focus have been the San Francisco vein and the Milagros Breccia pipe and the new 990 chimney. Once fully developed in the third quarter, these areas are anticipated to come into production and to contribute to an overall higher grade and recovery for La Encantada.

Due to the extensive underground exploration program underway, a new breccia pipe adjacent to the chimney at level 990 was discovered in the second quarter. This new discovery is currently being tested and preliminary results are proving positive for additional silver reserves. Three diamond drill rigs are active at La Encantada, two on surface and one underground, with the objective of defining additional Reserves and Resources. A new NI 43-101 Technical Report will be released during the first quarter of 2013.

A total of 5,451 metres of diamond drilling were completed in the second quarter of 2012 compared to 6,038 metres in the first quarter of 2012. During the first six months of 2012, a total of 11,489 metres of diamond drilling and a total 7,456 metres of underground development have been completed.

La Parrilla Silver Mine, Durango, Mexico

Production Results for the Quarter Ended June 30, 2012 and 2011

Quarter Ended June 30,		LA PARRILLA RESULTS	Year to Date Ended June 30,	
2012	2011		2012	2011
169,786	77,363	Ore processed/tonnes milled ⁽³⁾	317,724	151,866
166	208	Average silver grade (g/t)	175	196
76%	76%	Recovery (%)	79%	75%
690,954	395,716	Total silver ounces produced	1,410,097	715,121
-	-	Pre-commercial silver ounces produced ⁽³⁾	28,639	-
690,954	395,716	Commercial silver ounces produced	1,381,458	715,121
667,969	383,957	Payable silver ounces produced ⁽¹⁾	1,331,281	692,714
226	62	Gold ounces produced	360	162
3,005,209	1,392,132	Pounds of lead produced	6,181,871	2,580,044
1,423,890	26,103	Pounds of zinc produced	2,744,616	26,103
843,307	443,304	Total production - ounces silver equivalent	1,704,046	806,952
\$8.35	\$8.84	Total cash cost per ounce ⁽¹⁾⁽³⁾	\$8.23	\$9.65
\$8.50	\$9.24	Total production cost per ounce ⁽¹⁾⁽²⁾	\$8.31	\$9.70
\$33.46	\$45.88	Total production cost per tonne ⁽¹⁾⁽²⁾	\$35.89	\$44.27
5,247	3,390	Underground development (m)	10,286	5,434
6,816	2,764	Diamond drilling (m)	12,385	5,157

(1) The Company reports non-GAAP measures which include production costs per tonne, production costs per ounce and total cash cost (including smelting and refining charges) per ounce of payable silver, in order to manage and evaluate operating performance at each of the Company's mines. These measures, established by the Silver Institute (Production Cost Standards, June 2011), are widely used in the silver mining industry as a benchmark for performance, but do not have a standardized meaning. See Reconciliation to IFRS on page 16.

(2) Total production cost per ounce and total production cost per tonne includes mining, processing and direct overhead at the mill site and does not include smelting and refining, transportation and other selling costs.

(3) The cyanidation circuit for the La Parrilla mill expansion project was commissioned effective March 1, 2012. During the quarter ended March 31, 2012, the net margin of \$0.6 million (Net Revenue of \$1.0 million less Costs of Sales of \$0.4 million) in connection with the sale of 30,456 ounces of silver equivalent during the pre-operating period was recorded as a reduction of construction in progress. The tables above include the production from the cyanidation circuit expansion, however, average silver grade, recovery, total cash costs per ounce, production cost per ounce and total production cost per tonne are based on production excluding pre-commercial stage production of 9,118 tonnes of ore processed and 30,456 ounces of silver equivalent during the quarter ended March 31, 2012.

The La Parrilla Silver Mine, located approximately 65 kilometres southeast of the city of Durango, Mexico, is a complex of producing underground operations consisting of the Rosarios / La Rosa and La Blanca mines which are inter-connected through underground workings, and the San Marcos, Vacas and Quebradillas mines which are connected via above-ground gravel road ways. The total mining concessions consist of 69,460 hectares and the Company owns 45 hectares and leases an additional 69 hectares of surface rights, for a total of 114 hectares of surface rights. The Company owns 100% of the La Parrilla Silver Mine.

La Parrilla includes a 2,000 tpd dual processing plant consisting of new 1,000 tpd cyanidation and 1,000 tpd flotation circuits, buildings, offices and associated infrastructure. The cyanidation circuit was commissioned effective March 1, 2012, and the plant, including flotation and cyanidation circuits, is currently operating at a combined capacity of 2,040 tpd. At the newly designed run rate of 2,000 tpd, it is anticipated that La Parrilla will produce in the range of 3.0 to 3.2 million ounces of silver equivalent annually.

A total of 30,456 silver equivalent ounces from the cyanidation circuit prior to commissioning were capitalized in the quarter ended March 31, 2012.

The new tailings filters were installed and became fully operational at the end of the second quarter. These tailing filters reduce the need for new water intake by re-circulating over 80% of the water back into the milling process. The end result from the tailings filter is a dry tailings paste which requires a smaller land footprint compared to slurry, or wet tailing ponds. In addition, the risk of groundwater contamination is virtually eliminated. La Parrilla is now the second operation of First Majestic that utilizes this new environmentally friendly technology.

During a ceremony held on July 28, 2012, the Governor of the State of Durango, Jorge Herrera Caldera, inaugurated the new Central Laboratory at La Parrilla. This laboratory is in the ISO certification process and will provide centralized services, including certified assays and metallurgical studies, to all the mines and projects of the consolidated First Majestic group of companies. At the same time, the Governor acted as witness in a public ceremony culminating with the Company signing an Agreement with the La Parrilla community as part of our Sustainable Development program in which First Majestic has contributed with the paving of streets, supply of potable water, garbage collection and some other public works.

Total production at the La Parrilla Silver Mine was 843,307 equivalent ounces of silver in the second quarter of 2012, which was a decrease of 2% compared to the first quarter of 2012, and an increase of 90% compared to the second quarter of 2011. The composition of the silver equivalent production in the second quarter of 2012 consisted of 690,954 ounces of silver, 226 ounces of gold, 3,005,209 pounds of lead and 1,423,890 pounds of zinc. This compares with a composition of 719,143 ounces of silver, 134 ounces of gold, 3,176,662 pounds of lead and 1,320,726 pounds of zinc produced in the first quarter of 2012, and 395,716 ounces of silver, 62 ounces of gold, 1,392,132 pounds of lead, and 26,103 pounds of zinc in the second quarter of 2011.

In the second quarter of 2012, a total of 169,786 tonnes of ore were processed at La Parrilla, representing an increase of 15% when compared with the 147,938 tonnes processed in the first quarter of 2012, and an increase of 119% when compared with the 77,363 tonnes processed in the second quarter of 2011. During the quarter, 80,756 tonnes of oxide ore with an average grade of 147 g/t were extracted from the open pit area at the Quebradillas mine compared to 59,103 tonnes of oxide ore with an average grade of 151 g/t in the first quarter of 2012. Recovery levels of silver in the second quarter were 76% compared to 81% in the first quarter of 2012 and 76% in the second quarter of 2011. Lead and zinc concentrates are now grading at approximately 1.9% for lead and 1.8% for zinc. Silver recoveries for flotation were 85% compared to 89% in the previous quarter, this decline was due to an adjustment done in the flotation area to improve the quality of the lead concentrates. Silver recoveries for cyanidation were 65% due to additional ore being produced at the open pit operation with lower grade and the effects of an area that has a high content of silica impacting the final recoveries, consistent with the previous quarter.

A total of 5,247 metres of underground development were completed in the second quarter of 2012, compared to 5,039 metres in the first quarter of 2012. In the first six months of 2012, a total of 10,286 metres were developed, an increase of 89% compared to 5,434 metres in the first six months of 2011. As part of the mine's expansion program, an extensive underground development program and a new ramp system is under construction including a new production shaft. Once completed in 2013, an underground rail system connecting the different operations to the shaft will be constructed and is expected to be completed by early 2014. This investment is intended to improve logistics, transportation of ore and is expected to ultimately reduce cash costs.

A total of 6,816 metres of diamond drilling were completed in the second quarter of 2012 compared to 5,569 metres of diamond drilling in the first quarter and 2,764 metres in the second quarter of 2011. A total of 12,385 metres of diamond drilling were completed year to date, an increase of 140% compared to 5,157 metres completed in the first half of 2011. Currently, there are five diamond drill rigs operating at La Parrilla, four are on surface and one is underground. More than 25,000 metres of drilling are planned for 2012 representing the continuation of an aggressive investment in exploration at La Parrilla, both at La Parrilla's underground mines and in the La Parrilla regional area. The focus during this expanded exploration program will be the Rosarios, Quebradillas, Vacas, San Marcos, and La Blanca mines and the Cerro Santiago, Viboras, San Nicolas, Sacramento areas plus the first ever regional exploration program undertaken on this very large 69,460 hectare property. The aggressive regional mapping program started in 2011 and was concluded in late March and defined a broad regional exploration program covering the entire property with favourable results on a number of anomalies. The exploration program has also indicated the continuation of the Rosario vein system both at depth and along strike which is connecting the San Marcos vein with the Rosario vein system. Following the conclusion of a regional geophysics program in the second quarter, a regional exploration drill program designed to target all the geological anomalies in far reaching areas within La Parrilla's large 69,460 hectare land package will commence for the first time. These regional anomalies, never explored by modern techniques, will be drilled during the second half of 2012. The results of this exciting program are expected to be released in late 2012 in an updated NI 43-101 Technical Report.

San Martin Silver Mine, Jalisco, Mexico

Production Results for the Quarter Ended June 30, 2012 and 2011

Quarter Ended June 30,		SAN MARTIN RESULTS	Year to Date Ended June 30,	
2012	2011		2012	2011
63,841	71,004	Ore processed/tonnes milled	136,146	138,295
133	141	Average silver grade (g/t)	138	159
75%	78%	Recovery (%)	77%	80%
204,200	251,009	Total silver ounces produced	465,469	564,393
203,180	249,755	Payable silver ounces produced ⁽¹⁾	464,002	561,572
244	251	Gold ounces produced	702	476
217,623	261,190	Total production - ounces silver equivalent	502,597	584,284
\$12.75	\$10.72	Total cash cost per ounce ⁽¹⁾	\$10.46	\$10.24
\$13.71	\$11.56	Total production cost per ounce ⁽¹⁾⁽²⁾	\$12.03	\$10.57
\$43.66	\$40.67	Total production cost per tonne ⁽¹⁾⁽²⁾	\$41.00	\$42.94
2,172	1,944	Underground development (m)	4,698	3,441
12,066	4,488	Diamond drilling (m)	21,271	6,142

(1) The Company reports non-GAAP measures which include production costs per tonne, production cost per ounce and total cash cost (including smelting and refining charges) per ounce of payable silver, in order to manage and evaluate operating performance at each of the Company's mines. These measures, established by the Silver Institute (Production Cost Standards, June 2011), are widely used in the silver mining industry as a benchmark for performance, but do not have a standardized meaning. See Reconciliation to IFRS on page 16.

(2) Total production cost per tonne includes mining, processing and direct overhead at the mill site and does not include smelting and refining, transportation and other selling costs.

The San Martin Silver Mine is a producing underground mine located adjacent to the town of San Martin de Bolaños, in northern Jalisco State, Mexico, 290 kilometres north east of Guadalajara, Mexico, and is owned 100% by the Company. The mine comprises approximately 7,841 hectares of mineral rights, 1,300 hectares of surface rights surrounding the mine, and another 104 hectares of surface rights where the 950 tpd cyanidation plant and 500 tpd flotation plant (currently in care and maintenance), mine buildings, offices and related infrastructure.

In the second quarter of 2012, a total of 63,841 tonnes were processed at the San Martin Silver Mine, representing a decrease of 12% when compared to the 72,305 tonnes milled in the first quarter of 2012 and 10% compared to the 71,004 tonnes milled in the second quarter of 2011. The average head grade was 133 g/t in the second quarter of 2012, compared to the 142 g/t in the first quarter of 2012 and 141 g/t in the second quarter of 2011.

During the quarter, the Bolaños Mining District experienced drought conditions causing a shortage of water which had a negative effect on expected production of approximately 80,000 ounces in the quarter. Total production of 217,623 ounces of silver equivalent in the second quarter of 2012 was 24% lower than the 284,974 ounces of silver equivalent produced in the first quarter of 2012 and 17% lower than the 261,190 equivalent ounces of silver produced in the second quarter of 2011. These conditions have now returned to normal due to the recent seasonal rains that have come to the area.

The ounces of silver equivalent in the second quarter of 2012 consisted of 204,200 ounces of silver and 244 ounces of gold. This compares with 261,269 ounces of silver and 458 ounces of gold produced in the first quarter of 2012 and 251,009 ounces of silver and 251 ounces of gold in the second quarter of 2011. Silver recovery levels in the second quarter of 2012 was 75%, compared to 79% in the first quarter of 2012 and 78% in the second quarter of 2011.

During the quarter, severe drought conditions throughout much of Mexico and parts of the southern United States have left many communities, farming areas, cattle ranches and mining operations without normal water supplies. Second quarter production results at San Martin were lower, by approximately 80,000 ounces, due to the local Bolaños river, which supplies water to the region becoming completely dry. The Company acted quickly to assist the town of San Martin de Bolaños by building a 10 kilometre pipeline from a water source near the mine. The excess water was used for the milling operations, which is now back to normal conditions. In addition, the seasonal rains have begun in the region resulting in the Bolaños River now being full of water relieving the need for the pipeline which can now be used as a back-up system for the future.

Over two years ago, First Majestic anticipated the importance of water conservation in Mexico. The Company's first mitigation effort was the installation of the tailings filtration system at the La Encantada operations which resulted in over 80% of the water being re-used in the milling operations. Due to the successful retention of water from the application of these filters, this same application was added to the recent expansion at the La Parrilla Silver Mine. These new filters are now fully operational, and are now saving over 80% of the water previously used at La Parrilla. In addition, the Del Toro Silver Mine, which has been under construction now for 15 months, will also be using the same tailings filtration system, and the San Martin mill is planning to install the same technology in 2013.

As part of the Sustainable Development Program, the Company has also signed an agreement with the town of San Martin de Bolaños to complete the construction of a sewage treatment facility which was abandoned several years ago. This facility is expected to be operational within six months, saving water and preserving the environment.

Due to the benefits for the communities and the Company resulting from First Majestic's conservation methods, the Company has adopted a policy of installing tailings filtration systems and sewage water treatment facilities at each of its mining operations.

Two new large leaching tanks are currently under construction replacing some older and smaller tanks. This program is part of First Majestic's regular campaign of improving operations by replacing older equipment with newer and more efficient systems with less environmental footprint. Further improvements are scheduled which will include new clarification filters and tailings filters to recirculate water and improve environmental conditions.

During the quarter, a total of 12,066 metres of diamond drilling were completed compared with 9,205 metres of drilling in the previous quarter. During the first six months of 2012, a total of 21,271 metres of diamond drilling were completed, an increase of 246% compared with 6,142 metres in the first six months of 2011. Five drill rigs are currently active within the San Martin property focusing on the La Esperanza, Los Blancos, Pinalillo, La Huichola, Rosarios and Condesa veins which are returning positive results. In addition, a new North/South system of veins has been discovered and is in the process of being defined.

For 2012, the focus will be to develop additional ounces within the Zuloaga, La Esperanza and Rosarios/Huichola vein systems. The early results of the exploration drilling program at the Rosarios/Huichola veins have returned very positive results; showing the definition of a new North/South system of veins that were previously unknown. Five drill rigs are currently active within the San Martin property, two underground and three on surface. The Company is planning to release a new NI 43-101 Technical Report prior to the end of 2012.

La Guitarra Silver Mine, Mexico State, Mexico

Pursuant to completion of the acquisition of Silvermex Resources Inc. (see "Acquisition of Silvermex Resources Inc.") on July 3, 2012, the 100% owned La Guitarra Silver Mine has become the Company's fourth producing asset in Mexico.

The La Guitarra Silver Mine is located in the Temascaltepec Mining District in the State of Mexico, approximately 130 kilometres south west from Mexico City. The 100% owned surface rights position covers 397 square kilometres and over 15 kilometres of strike length.

First Majestic management has been following developments at the La Guitarra mine for over five years. An aggressive exploration program is being evaluated to be developed in the multiple areas of interest covered by the 39,714 hectares of mining claims within the Temascaltepec mining District.

The La Guitarra mine consists of two underground operation centers and a flotation mill with a capacity of 350 tpd, producing approximately 800,000 ounces of silver equivalent per year. The Company plans to maintain production levels at current levels of 350 tpd for the remainder of 2012. A development program is being defined to prepare the mine for a first ramp up stage in which, by the first quarter of 2013, throughput is planned to reach 500 tpd through the flotation circuit. No production from the La Guitarra mine was included in the Company's operating results in the first half of 2012.

Subsequent to the completion of the acquisition, concentrates being produced at La Guitarra are being shipped to La Parrilla for further leaching in the cyanidation process, where the La Parrilla processing plant is converting this production into doré bars to reduce smelting and refining costs and to improve La Guitarra's economics.

Silvermex Resources Inc. and its predecessors published NI 43-101 Technical Reports relating to the La Guitarra mine on September 22, 2006, May 15, 2007, June 25, 2008 and most recently on January 29, 2010. These Technical Reports have not been approved by the Company and the Company did not rely on these reports in making its decision to acquire Silvermex and (indirectly) the La Guitarra Silver Mine. The reports are currently under review by management of the Company and its Qualified Persons, particularly with respect to the assumptions and the risks regarding those assumptions used in the previous mining studies. Specifically, management is of the opinion that there are risks when relying on the ability to permit the La Guitarra mine as an open pit mine in light of its proximity to a popular recreation area in Mexico. Management is having its own Qualified Persons review the preferred mining options and the opportunities for mitigating risks to developing a successful mining operation. The results of this review may result in a revised mine plan which may necessitate the filing of a new Technical Report. Until then, management recommends caution when relying on the previously filed technical reports relating to the La Guitarra Silver Mine.

Permitting for a 1,000 tpd cyanidation processing facility will commence in the next few months with an anticipated commencement of construction in the third quarter of 2013. At 1,000 tpd through cyanidation, production would be expected to reach 2 million ounces of silver doré annually.

Two drill rigs are currently active at the La Guitarra mine, one on surface and one underground.

DEVELOPMENT AND EXPLORATION PROJECTS

Del Toro Silver Mine, Zacatecas, Mexico

The Del Toro Silver Mine is located 60 kilometres to the southeast of the Company's La Parrilla Silver Mine and consists of 405 contiguous hectares of mining claims plus an additional 129 hectares of surface rights covering the area surrounding the San Juan mine where construction of a 4,000 tpd flotation / cyanidation plant is currently underway. The Del Toro operation represents the consolidation of three historical silver mines, the Perseverancia, San Juan and Dolores mines, which are approximately one and three kilometres apart, respectively.

During the quarter, the Del Toro Silver Mine, which was a division of the Company's First Majestic Plata, S.A. de C.V. subsidiary, was transferred into a newly formed subsidiary of the Company, First Majestic Del Toro, S.A. de C.V., to better isolate its operating results from the La Parrilla mine as the plant begins production in late 2012. First Majestic owns 100% of the Del Toro Silver Mine.

The Company was granted a permit for a 1,000 tpd flotation mill and is currently undergoing re-permitting for a 4,000 tpd dual processing operation. The current plans involve scaling up the plant capacity over a three year period commencing at 1,000 tpd in the fourth quarter of 2012, expanding to 2,000 tpd by the fourth quarter of 2013 and finally reaching 4,000 tpd by the middle of 2014. The permitting process is continuing with the Mexican government authorities to complete the permitting process for the cyanidation circuit and enlarged processing facilities. Approval for the permit is expected in the third quarter of 2012. During the second quarter, the Company issued a Preliminary Economic Assessment and an updated NI 43-101.

Construction of the new milling facility is well underway and currently on schedule. After the completion of the platform construction at the mill site, foundations were poured at the crushing, flotation and thickener areas in the second quarter. In addition, mechanical installation also began at the crushing, flotation and thickener areas. Construction of the sewage water treatment plant for the town of Chalchihuites was completed during the first quarter and was tested during the second quarter. Once the mill construction is completed, the Company is looking forward to being able to recirculate the waste water from the area back into a collection facility for treating and reuse, not only saving the environment but also conserving water in the region. Also, 95% of the required equipment for the flotation circuit and 65% of the equipment for the cyanidation circuit has been ordered and is in the process of being delivered. The new 115,000 KW power line from the town of Vicente Guerrero and Chalchihuites is in the permitting process.

In order to prepare Del Toro for production, an extensive development program was launched in late 2010 consisting of constructing three access ramps into ore bodies 1, 2 and 3 at San Juan, an access ramp into the Perseverancia chimney and an access ramp in Dolores. These access ramps have also allowed for the construction of crosscuts for drilling to further define additional Reserves and Resources.

To date, the main ramp into the San Juan mine is now at level 10, which will be the first production level of this mine. This ramp is now 2,173 metres in length and close to 258 metres in vertical distance from surface. This main ramp will be used for ore haulage during the first production stage, prior to the shaft being completed in 2013, and will act as an access to the three main ore bodies which will be developed during 2012. To date, access has been completed to ore body 1 and ore body 2 at San Juan and access to ore body 3 is still in development with 186 metres developed during the second quarter. Development at the San Juan mine for preparation for the upcoming production stage also continued during the quarter, including a new pump station, new powder magazines and the initial work of a new underground shop.

At the Perseverancia mine, development of the access ramp was re-initiated in 2011 and to date has reached 825 metres in length, to gain access to the chimneys. While developing this ramp, a new vein was discovered which was named the "San Nicolas vein". This vein has been correlated to old mine workings 1,000 metres to the north-east from the Perseverancia mine. The discovery of the San Nicolas vein has opened a new development area and to date 1,251 metres of development has been completed in an access ramp on two different levels, 50 metres apart. Two drill rigs were assigned to this area and are currently drilling with the intent of defining the possible connection of the San Juan and Perseverancia ore bodies. Three holes have been completed and the results appear very favourable, pending results from the final assays. Underground development is continuing into the very prospective Perseverancia mine which is turning out to be very successful. The San Nicolas discovery was

intersected in November 2011 due to this focus. The Company will be releasing a newly updated NI 43-101 Technical Report before the end of the third quarter to include some of this new resource and improved grade and metallurgical results.

At the Dolores mine, over 1,638 metres have been developed to date in different workings including a ramp that is providing access to the main Dolores and Chalchihuites veins on two levels.

Total underground development at Del Toro in the second quarter amounted to 2,673 metres compared to 2,757 metres in the previous quarter. In the first six months of 2012, a total of 5,430 metres were developed compared to 772 metres in the first half of 2011. This development program will continue over the next twelve months to support planned production levels while construction of the new processing plant is underway.

During the quarter, thirty holes were completed for a total of 11,632 metres. In the first six months of 2012, a total of 20,014 metres of diamond drilling were completed compared to 2,405 metres in the first half of 2011. Six drill rigs are currently active at site, with three on surface and three underground. Drilling continues in order to infill previous holes, and test for additional resources and to upgrade previously defined measured and indicated resources.

The Company has plans to invest an estimated \$58.5 million in construction of the phase one flotation circuit, equipment and underground development of which \$23.8 million has been spent during the first half of 2012. In addition, the Company anticipates it may be required to make some prepayment deposits for long lead time equipment related to the phase 2 cyanidation project in 2013, however the amount of the deposits is not determinable at this time.

La Luz Silver Project, San Luis Potosi, Mexico

The La Luz Silver Project, is located 25 kilometres west of the town of Matehuala in San Luis Potosi State, Mexico, near the village of Real de Catorce and was acquired in November 2009, through the acquisition of Normabec Mining Resources Ltd. ("Normabec"). As a result of the acquisition of Normabec, and its wholly owned subsidiary Minera Real Bonanza, S.A. de C.V., the Company owns 100% of the La Luz Silver Project and all of the associated mining claims of what was historically known as the Santa Ana mine and consists of 36 mining concessions covering 4,977 hectares, with estimated historical production of 230 million ounces between 1773 and 1990. After the acquisition of Normabec, the Company transferred Mineral Real Bonanza into the consolidated group in Mexico under the Company's wholly owned subsidiary, Corporación First Majestic, SA de CV, and proceeded to wind up Normabec in December 2011.

In November 2010, the Company agreed to acquire the 3% net smelter royalty ("NSR"), the surface rights of the property, the buildings located thereon covering the location of the previous mining operations, and all technical and geological information collected pertaining to the area, for consideration of \$3.0 million. Consideration for the purchase consisted of a cash payment of \$1.1 million and \$1.5 million in shares of the Company (152,798 shares) in November 2010, and \$0.4 million which was paid in January 2011. All payments in cash and shares have been completed fulfilling the Company's objectives in acquiring all the necessary land and buildings for the La Luz Silver Project. The Company continued with the process of obtaining final approval for the purchase of 100 hectares of surface rights which were purchased during the fourth quarter of 2011 in order to secure an area where the plant and mine access are planned to be located.

To date, the Baseline Study and the Geo-hydrologic Study have been completed. The Environmental Impact Statement, the Risk Study and the Change of Use of Land Studies are expected to be presented to government authorities in the second half of 2012. A metallurgical test is underway to define the final flow sheet diagram for a flotation plant which is required for final permitting. There has been opposition from indigenous people and non-government organizations ("NGOs"), which are being addressed by the Company. Contrary to independent reports regarding the La Luz project, the Company has no plans to do any mining above ground, no plans for open pit mining, and has no plans for the use of cyanide in any of its processing activities on or around the La Luz project.

The permit for the restoration of the old historic buildings at the Santa Ana Hacienda has been received and the construction of the previously announced Thematic and Cultural Park which will include a mining museum has

begun. To date, \$0.9 million has been invested and is expect to be completed in 2014. In addition, cleaning of the impressive underground workings is underway to rehabilitate this historic mine for public access. This new cultural facility and mining museum will form a “Sustainable Development Project” which will provide permanent long term jobs to the local communities.

Jalisco Group of Properties, Jalisco, Mexico

The Company acquired a group of mining claims totalling 5,240 hectares located in various mining districts located in Jalisco State, Mexico. During 2008, surface geology and mapping began with the purpose of defining future drill targets; however, exploration has since been discontinued as the Company focuses its capital investment on other higher priority projects, including the Del Toro Silver Mine and La Luz Silver Project.

In January 2011, the Company granted an option to acquire up to 90% in the Jalisco Group of Properties (the “Properties”) to Sonora Resources Corp. (the “Optionee”) whereby the Optionee issued 10 million shares of common stock with a fair value of \$3.4 million. The Optionee has committed to spend \$3 million over the first three years to earn a 50% interest and \$5 million over five years to earn a 70% interest. In order to obtain a 90% interest, the Optionee is required to complete a bankable feasibility study within seven years. First Majestic will retain a 10% free carried interest and a 2.375% NSR. The fair value of common shares received from the Optionee was recorded in other financial assets with a corresponding reduction in the carrying value of the San Martin mining interests in the second quarter of 2011.

In May 2012, the Company received an additional two million common shares of the Optionee, valued at \$440,000 as a result of their failure to file a registration statement qualifying the original 10 million shares of common stock issued for free trading. The fair value of the common shares received from the Optionee was recorded as a reduction in the carrying value of mining interest in the second quarter of 2012.

Rosario Silver Project and Other Silvermex Exploration Properties

Pursuant to the acquisition of Silvermex, the Company acquired numerous exploration stage properties from the transaction. Management is reviewing the exploration program for the Rosario and San Juan properties in the Sinaloa, Mexico area to commence during 2013. The Company is assessing the other properties acquired to define if these additional properties fit within the Company's portfolio.

NON-GAAP MEASURES

TOTAL CASH COST PER OUNCE FOR THE QUARTER AND YEAR TO DATE ENDED JUNE 30, 2012 AND 2011

“Total cash cost per ounce” is a measure developed by precious metals companies in an effort to provide a comparable standard; however, there can be no assurance that our reporting of this non-GAAP measure is similar to that reported by other mining companies. Total cash costs per ounce is a measure used by the Company to manage and evaluate operating performance at each of the Company’s operating mining units, and is widely reported in the silver mining industry as a benchmark for performance, but does not have a standardized meaning and is disclosed in addition to IFRS measures. The following tables provide a detailed reconciliation of these measures to our cost of sales, as reported in our condensed interim consolidated financial statements.

(expressed in thousands of U.S. dollars, except ounce and per ounce amounts)	Three Months Ended June 30, 2012				Three Months Ended June 30, 2011			
	San Martin	La Parrilla	La Encantada	Total	San Martin	La Parrilla	La Encantada	Total
Cost of sales (as reported)				\$ 18,456				\$ 18,112
Add (Deduct): Cost of sales for Vancouver, Europe and intercompany elimination				(198)				103
Cost of sales (mine)	\$ 2,841	\$ 6,299	\$ 9,118	\$ 18,258	\$ 3,473	\$ 4,173	\$ 10,569	\$ 18,215
Add: Third party smelting and refining	91	2,907	462	3,460	87	1,458	480	2,025
Deduct: By-product credits	(382)	(3,594)	(457)	(4,433)	(387)	(1,795)	(225)	(2,407)
Deduct: Employee benefits	-	-	(703)	(703)	(460)	(160)	(2,533)	(3,153)
Inventory changes	91	15	248	354	(26)	(114)	294	154
Other non-cash costs	(47)	(53)	(172)	(272)	(9)	(166)	(4)	(179)
Total cash cost (A)	\$ 2,594	\$ 5,574	\$ 8,496	\$ 16,664	\$ 2,678	\$ 3,396	\$ 8,581	\$ 14,655

Tonnes processed	63,841	169,786	382,172	615,799	71,004	77,363	333,710	482,077
Total ounces of silver produced	204,200	690,954	1,022,094	1,917,248	251,009	395,716	1,133,654	1,780,379
Deduct: Metal deduction ounces	1,020	22,985	5,111	29,116	1,254	11,759	5,669	18,682
Payable ounces of silver produced (B)	203,180	667,969	1,016,983	1,888,132	249,755	383,957	1,127,985	1,761,697

Mining cost per ounce	\$ 4.09	\$ 2.94	\$ 1.80	\$ 2.45	\$ 4.11	\$ 3.38	\$ 1.12	\$ 2.04
Milling cost per ounce	7.34	4.37	5.35	5.22	4.93	4.06	5.02	4.80
Indirect cost per ounce	2.28	1.19	0.86	1.13	2.52	1.80	0.99	1.38
Total production cost per ounce	\$ 13.71	\$ 8.50	\$ 8.01	\$ 8.80	\$ 11.56	\$ 9.24	\$ 7.13	\$ 8.22
Transport and other selling costs cost per ounce	0.48	0.60	0.34	0.45	0.36	0.48	0.25	0.32
Smelting and refining costs cost per ounce	0.45	4.35	0.45	1.83	0.35	3.80	0.43	1.15
Royalties per ounce	0.00	0.27	0.00	0.10	-	-	-	-
By-product credits cost per ounce	(1.89)	(5.37)	(0.45)	(2.35)	(1.55)	(4.68)	(0.20)	(1.37)
Total cash cost per ounce (A/B)	\$ 12.75	\$ 8.35	\$ 8.35	\$ 8.83	\$ 10.72	\$ 8.84	\$ 7.61	\$ 8.32
Mining cost per tonne	\$ 13.03	\$ 11.56	\$ 4.79	\$ 7.51	\$ 14.47	\$ 16.77	\$ 3.80	\$ 7.45
Milling cost per tonne	23.36	17.20	14.23	15.99	17.36	20.13	16.97	17.53
Indirect cost per tonne	7.27	4.70	2.29	3.47	8.84	8.98	3.32	5.05
Total production cost per tonne	\$ 43.66	\$ 33.46	\$ 21.30	\$ 26.97	\$ 40.67	\$ 45.88	\$ 24.09	\$ 30.03

(expressed in thousands of U.S. dollars, except ounce and per ounce amounts)	Six Months Ended June 30, 2012				Six Months Ended June 30, 2011			
	San Martin	La Parrilla	La Encantada	Total	San Martin	La Parrilla	La Encantada	Total
Cost of sales (as reported)				\$ 35,149				\$ 34,931
Add (Deduct): Cost of sales for Vancouver, Europe and intercompany elimination				(299)				(55)
Cost of sales (mine)	\$ 5,661	\$ 12,617	\$ 16,572	\$ 34,850	\$ 6,782	\$ 7,490	\$ 20,604	\$ 34,876
Add: Third party smelting and refining	145	6,370	815	7,330	167	2,790	939	3,896
Deduct: By-product credits	(1,095)	(7,678)	(871)	(9,644)	(591)	(3,154)	(300)	(4,045)
Deduct: Employee benefits	-	-	(928)	(928)	(710)	(162)	(4,571)	(5,443)
Inventory changes	199	(227)	1,279	1,251	122	(71)	21	72
Other non-cash costs	(57)	(107)	(215)	(379)	(21)	(208)	(7)	(236)
Total cash cost (A)	\$ 4,853	\$ 10,975	\$ 16,652	\$ 32,480	\$ 5,749	\$ 6,685	\$ 16,686	\$ 29,120

Tonnes produced	136,146	308,606	720,112	1,164,864	138,295	151,866	648,422	938,583
Total ounces of silver produced	465,469	1,381,458	1,868,485	3,715,412	564,393	715,121	2,270,073	3,549,587
Deduct: Metal deduction ounces	1,467	50,177	9,476	61,120	2,821	22,407	11,351	36,579
Payable ounces of silver produced (B)	464,002	1,331,281	1,859,009	3,654,292	561,572	692,714	2,258,722	3,513,008

Mining cost per ounce	\$ 3.72	\$ 2.82	\$ 1.77	\$ 2.40	\$ 3.99	\$ 3.42	\$ 1.11	\$ 2.03
Milling cost per ounce	6.30	4.31	5.96	5.40	4.36	4.38	4.87	4.69
Indirect cost per ounce	2.01	1.18	0.89	1.14	2.22	1.90	0.89	1.30
Total production cost per ounce	\$ 12.03	\$ 8.31	\$ 8.62	\$ 8.94	\$ 10.57	\$ 9.70	\$ 6.87	\$ 8.02
Transport and other selling costs cost per ounce	0.48	0.62	0.38	0.48	0.42	0.47	0.23	0.31
Smelting and refining costs cost per ounce	0.31	4.79	0.44	2.01	0.30	4.03	0.42	1.11
Royalties per ounce	-	0.28	-	0.10	-	-	-	-
By-product credits cost per ounce	(2.36)	(5.77)	(0.47)	(2.63)	(1.05)	(4.55)	(0.13)	(1.15)
Total cash cost per ounce (A/B)	\$ 10.46	\$ 8.23	\$ 8.97	\$ 8.90	\$ 10.24	\$ 9.65	\$ 7.39	\$ 8.29
Mining cost per tonne	\$ 12.69	\$ 12.17	\$ 4.56	\$ 7.53	\$ 16.21	\$ 15.61	\$ 3.87	\$ 7.58
Milling cost per tonne	21.47	18.59	15.39	16.95	17.71	19.99	16.95	17.56
Indirect cost per tonne	6.84	5.13	2.28	3.57	9.02	8.67	3.13	4.89
Total production cost per tonne	\$ 41.00	\$ 35.89	\$ 22.23	\$ 28.05	\$ 42.94	\$ 44.27	\$ 23.95	\$ 30.03

Note - The table above does not include 28,639 silver ounces of pre-commercial production from the La Parrilla cyanidation circuit expansion project during the six months ended June 30, 2012, which were produced at a cost of \$442,000.

AVERAGE REALIZED PRICE PER OUNCE OF SILVER SOLD FOR THE QUARTER AND YEAR TO DATE ENDED JUNE 30, 2012 AND 2011

Revenues are presented as the net sum of invoiced revenues related to delivered shipments of silver doré bars, and concentrates, including associated metal by-products of gold, lead, zinc and iron ore after having deducted refining and smelting charges, and after elimination of intercompany shipments of silver, silver being minted into coins, ingots and bullion products.

The following is an analysis of the gross revenues prior to refining and smelting charges, and shows deducted smelting and refining charges to arrive at the net reportable revenue for the period per IFRS. Gross revenues are divided into shipped payable ounces of silver to calculate the average realized price per ounce of silver sold.

Revenue Analysis (expressed in thousands of dollars, except ounce and per ounce amounts)	Quarter Ended June 30,		Year to Date Ended June 30,	
	2012	2011	2012	2011
Net Revenues as reported	\$ 54,774	\$ 68,040	\$ 112,589	\$ 123,306
Add back: Smelting and Refining Charges	3,459	1,701	7,331	3,362
Gross Revenues	58,233	69,741	119,920	126,668
Payable equivalent silver ounces sold	2,030,050	1,784,397	3,911,548	3,530,523
Average consolidated gross revenue per payable equivalent silver ounces sold	\$ 28.69	\$ 39.08	\$ 30.66	\$ 35.88
Average market price per ounce of silver per COMEX	\$ 29.45	\$ 38.42	\$ 31.03	\$ 35.08

(1) The La Parrilla cyanidation mill expansion project was inaugurated and achieved commercial stage of production on March 1, 2012. Therefore, sales receipts of \$1.0 million in the six months ended June 30, 2012 in connection with the sale of 30,456 silver equivalent ounces of concentrates during the pre-operating period were recorded as a reduction of capital in the construction in progress account and were excluded from the above revenue analysis.

CASH FLOW PER SHARE

Cash Flow per Share is determined based on operating cash flows before movements in working capital and income taxes, as illustrated in the Condensed Interim Consolidated Statements of Cash Flow, divided by the weighted average shares outstanding during the period.

ADJUSTED EARNINGS PER SHARE ("Adjusted EPS")

The Company uses the financial measure "Adjusted EPS" to supplement information in its consolidated financial statements. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, the Company and certain investors and analysts use this information to evaluate the Company's performance. The presentation of Adjusted EPS is not meant to be a substitute for Earnings Per Share presented in accordance with IFRS, but rather should be evaluated in conjunction with such IFRS measure.

ADDITIONAL GAAP MEASURES

The Company uses additional financial measures which should be evaluated in conjunction with IFRS. It is intended to provide additional information and should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS. The following additional GAAP measures are used:

- *Gross margin* represents the difference between revenues and cost of sales, excluding depletion, depreciation and amortization. Management believes that this presentation provides useful information to investors to evaluate the Company's operating performance on a cash basis in order to assess the Company's ability to generate operating cash flow.
- *Mine operating earnings* represents the difference between gross margin and depletion, depreciation and amortization. Management believes that mine operating earnings provides useful information to investors because mine operating earnings excludes expenses not directly associated with commercial production.
- *Operating cash flows before movements in working capital and income taxes* represents cash flows generated from operations before changes in non-cash working capital and income taxes paid. Management believes that this measure allows investors to evaluate the Company's pre-tax cash flows generated from operations adjusted for fluctuations in non-cash working capital items due to timing issues and the Company's ability to service its debt, if any.

The terms described above do not have a standardized meaning prescribed by IFRS, and therefore the Company's definitions are unlikely to be comparable to similar measures presented by other companies.

REVIEW OF FINANCIAL RESULTS

For the quarter ended June 30, 2012 compared to the quarter ended June 30, 2011 (in \$000's, except for share amounts):

	For Quarter Ended June 30, 2012	For Quarter Ended June 30, 2011	
Revenues	\$ 54,774	\$ 68,040	(1)
Cost of sales	18,456	18,112	(2)
Gross margin	36,318	49,928	
Depletion, depreciation and amortization	5,259	3,134	(3)
Mine operating earnings	31,059	46,794	(4)
General and administrative	5,095	3,346	(5)
Share-based payments	2,405	1,772	(6)
Acquisition costs	781	-	(7)
Accretion of decommissioning liabilities	99	112	
Foreign exchange (gain) loss	(492)	284	(8)
Operating earnings	23,171	41,280	(9)
Investment and other (loss) income	(3,627)	381	(10)
Finance costs	(468)	(388)	
Earnings before income taxes	19,076	41,273	
Current income tax (recovery) expense	(3,072)	9,445	
Deferred income tax expense	6,827	1,235	
Income tax expense	3,755	10,680	(11)
Net earnings for the period	\$ 15,321	\$ 30,593	(12)
Earnings per share (basic)	\$ 0.14	\$ 0.30	(12)
Earnings per share (diluted)	\$ 0.14	\$ 0.29	

- Revenues for the quarter ended June 30, 2012 decreased by \$13,266,000 or 19% to \$54,774,000 from \$68,040,000 in the second quarter of 2011. Despite a 14% increase in silver equivalent production compared to the second quarter of 2011, revenue decreased as a result of lower silver prices, as average revenue per payable equivalent ounces sold decreased by 27% from the second quarter of 2011. In addition, higher smelting and refining costs related to increased concentrate output from the expanded La Parrilla flotation circuit also reduced net revenues.
- Cost of sales in the second quarter was \$18,456,000, which is comparable to \$18,112,000 in the second quarter of 2011. Additional cost of sales related to a 14% increase in production was mostly offset by a favourable 15% depreciation of the average exchange rate for the Mexican peso against the U.S. dollar when compared to the same quarter of the prior year.
- Depletion, depreciation and amortization increased from \$3,134,000 in the second quarter of 2011 to \$5,259,000 in the second quarter of 2012, an increase of \$2,125,000 or 68%. The increase was due to incremental depreciation expense from the new La Parrilla cyanidation and flotation circuits, as well as higher depletion expense from a 28% increase in tonnage of ore milled.
- Mine operating earnings in the second quarter of 2012 were \$31,059,000, a decrease of \$15,735,000 when compared to \$46,794,000 for the same quarter in the prior year. Despite a 14% production growth while maintaining cost of sales at similar levels as last year, mine operating earnings decreased due to lower silver and metal by-product prices and increase in depletion, depreciation and amortization expenses compared to the second quarter of 2011.
- General and administrative expenses for the quarter increased by \$1,749,000 or 52% compared to the same quarter in the prior year due to \$1.1 million in legal litigation fees related to the First Silver trial during the quarter, higher professional fees, additional administrative expenses for new European subsidiaries and increase in salaries and employee benefits required to remain competitive in the market for qualified personnel.

6. Share-based payments expense for the quarter increased by \$633,000 or 36% compared to the same quarter in the prior year. The increase was primarily due to more stock options granted in the first half of 2012 compared to the same period of the prior year. The Company's higher share price at time of the grant compared to the prior year also contributed to the increase in the Company's share-based payments expense.
7. During the quarter ended June 30, 2012, the Company incurred acquisition costs of \$781,000 related to the acquisition of Silvermex. The transaction, completed subsequent to the quarter, was valued at \$137.0 million and total transaction costs estimated for the acquisition are approximately \$2.0 million.
8. Foreign exchange gain for the quarter was \$492,000 compared to a loss of \$284,000 in the second quarter of 2011. The foreign exchange gain for the quarter primarily reflects the effect of the strengthening of the US dollar during the three months ended June 30, 2012 on the Company's monetary liabilities that are not denominated in US dollars.
9. Operating earnings decreased by \$18,109,000 or 44% to \$23,171,000 for the quarter ended June 30, 2012, compared to operating earnings of \$41,280,000 for the quarter ended June 30, 2011, due to decrease in mine operating earnings and higher share-based payments, general and administrative expenses and acquisition costs.
10. During the quarter ended June 30, 2012, the Company recognized an investment loss of \$3,627,000 compared to an investment income of \$381,000 in the same quarter in the prior year. The investment loss is primarily attributed to a net loss of \$2,514,000 on the Company's investment in silver futures and \$1,168,000 on mark-to-market of investment in marketable securities.
11. During the quarter ended June 30, 2012, the Company recorded an income tax expense of \$3,755,000 compared to an income tax expense of \$10,680,000 in the quarter ended June 30, 2011. The decrease in income tax expense was attributed to a decrease in the effective tax rate from 26% in the second quarter of 2011 to 20% in the current quarter, as well as the effects of favourable foreign exchange rate during the period.
12. As a result of the foregoing, net earnings for the period attributable to equity holders of the Company for the quarter ended June 30, 2012 decreased 50% to \$15,321,000 or basic earnings per share of \$0.14 compared to net earnings of \$30,593,000 or \$0.30 per common share in the quarter ended June 30, 2011.

For the year to date ended June 30, 2012 compared to the year to date ended June 30, 2011 (in \$000's, except for share amounts):

	Year to Date Ended June 30, 2012	Year to Date Ended June 30, 2011	
Revenues	\$ 112,589	\$ 123,306	(1)
Cost of sales	35,149	34,931	(2)
Gross margin	77,440	88,375	
Depletion, depreciation and amortization	10,712	5,938	(3)
Mine operating earnings	66,728	82,437	(4)
General and administrative	9,512	7,538	(5)
Share-based payments	5,230	3,661	(6)
Acquisition costs	781	-	(7)
Accretion of decommissioning liabilities	202	231	
Foreign exchange (gain) loss	(217)	309	(8)
Operating earnings	51,220	70,698	(9)
Investment and other income	1,954	3,856	(10)
Finance costs	(867)	(506)	
Earnings before income taxes	52,307	74,048	
Current income tax expense	1,777	13,668	
Deferred income tax expense	8,851	5,917	
Income tax expense	10,628	19,585	(11)
Net earnings for the period	\$ 41,679	\$ 54,463	(12)
Earnings per share (basic)	\$ 0.39	\$ 0.54	(12)
Earnings per share (diluted)	\$ 0.39	\$ 0.51	

- Revenues for the year to date ended June 30, 2012 decreased by \$10,717,000 or 9% to \$112,589,000 from \$123,306,000 in the same period of the prior year. Despite an increase of 11% in total commercial production, revenues decreased due to a 15% decrease in average realized silver price to \$30.66 per ounce in the year to date ended June 30, 2012. In addition, higher smelting and refining costs related to increased concentrate output from the expanded La Parrilla flotation circuit also reduced net revenues.
- Cost of sales for the year to date ended June 30, 2012 was \$35,149,000, comparable to \$34,931,000 in the same period of 2011. Additional costs associated with an 11% increase in commercial production but were offset by 11% depreciation of the Mexican peso against the U.S. dollar, resulting in lower cost of sales.
- Depletion, depreciation and amortization increased by \$4,774,000 or 80% to \$10,712,000 for the year to date ended June 30, 2012, primarily due to higher depletion expense attributed to a 25% increase in tonnage of ore milled. Depreciation expense also increased upon successful commissioning of the La Parrilla flotation circuit in the fourth quarter of 2011 and cyanidation circuit in first quarter of 2012 resulting in full quarter of depreciation expense in the second quarter.
- Mine operating earnings decreased by \$15,709,000 or 19% to \$66,728,000 for the year to date ended June 30, 2012, compared to \$82,437,000 for the same period in the prior year. This is primarily due to the \$10,717,000 decrease in revenues and higher depletion, depreciation and amortization expenses.
- General and administrative expenses for the year to date ended June 30, 2012 increased by \$1,974,000 or 26% compared to the same period of the prior year due to \$1.1 million in legal litigation fees related to the First Silver trial, higher professional fees, additional administrative expenses for the new European subsidiaries and increase in salaries and employee benefits.
- Share-based payments expense for the year to date ended June 30, 2012 increased by \$1,569,000 or 43% compared to the same period of the prior year. The increase was primarily due to more stock options granted in the first half of 2012 compared to the same period of the prior year. The Company's higher share price at time of grant compared to the prior years also contributed to the increase in the Company's share-based payments expense.
- During the quarter ended June 30, 2012, the Company incurred acquisition costs of \$781,000 related to the acquisition of Silvermex. The transaction, completed subsequent to the quarter, was valued at \$137.0 million and total transaction costs estimated for the acquisition are approximately \$2.0 million.

8. Foreign exchange gain for the year to date ended June 30, 2012 was \$217,000 compared to a loss of \$309,000 in the same period of 2011. The foreign exchange gain for the current period primarily reflects the effect of the weakening of non-US dollar currencies during the three months ended June 30, 2012 on the Company's monetary liabilities that are not denominated in US dollars.
9. Operating earnings decreased by \$19,478,000 or 28% to \$51,220,000 for the year to date ended June 30, 2012, compared to operating earnings of \$70,698,000 for the year to date ended June 30, 2011, due to the decrease in mine operating earnings associated with lower revenue and higher depletion, depreciation and amortization expense.
10. During the year to date ended June 30, 2012, investment income was \$1,954,000 compared to investment and other income of \$3,856,000 in the same period of the prior year. The income is primarily attributed to gain of \$2,342,000 on silver futures contracts and \$549,000 loss on mark-to-market adjustments of marketable securities.
11. During the year to date ended June 30, 2012, the Company recorded an income tax expense of \$10,628,000 compared to \$19,585,000 in the same period of 2011. The decrease in income tax expense was attributed to a decrease in the effective tax rate to 20% for the six months ended June 30, 2012, compared to 26% for the same period of 2011, as well as effects of favourable foreign exchange rate during the period.
12. As a result of the foregoing, net earnings for the period attributable to equity holders of the Company for the year to date ended June 30, 2012 was \$41,679,000, or basic earnings per share of \$0.39 compared to net earnings of \$54,463,000 or \$0.54 per common share for the same period of 2011.

SUMMARY OF QUARTERLY RESULTS

The following table presents selected financial information for each of the most recent eight quarters:

Financial Highlights	2012			2011			2010	
	Q2 ⁽¹⁾	Q1 ⁽²⁾	Q4 ⁽³⁾	Q3 ⁽⁴⁾	Q2 ⁽⁵⁾	Q1 ⁽⁶⁾	Q4 ⁽⁷⁾	Q3 ⁽⁸⁾
Revenue	\$ 54,774	\$ 57,815	\$ 60,801	\$ 61,407	\$ 68,040	\$ 55,266	\$ 40,092	\$ 32,614
Cost of sales	\$ 18,456	\$ 16,693	\$ 16,383	\$ 15,473	\$ 18,112	\$ 16,819	\$ 12,977	\$ 14,195
Depletion, depreciation and amortization	\$ 5,259	\$ 5,453	\$ 6,035	\$ 3,467	\$ 3,134	\$ 2,804	\$ 3,131	\$ 2,545
Mine operating earnings	\$ 31,059	\$ 35,669	\$ 38,383	\$ 42,467	\$ 46,794	\$ 35,643	\$ 23,984	\$ 15,874
Net earnings after tax	\$ 15,321	\$ 26,358	\$ 21,339	\$ 27,772	\$ 30,593	\$ 23,870	\$ 13,654	\$ 10,059
Basic earnings per share	\$ 0.14	\$ 0.25	\$ 0.20	\$ 0.27	\$ 0.30	\$ 0.24	\$ 0.14	\$ 0.11
Diluted earnings per share	\$ 0.14	\$ 0.24	\$ 0.20	\$ 0.26	\$ 0.29	\$ 0.23	\$ 0.13	\$ 0.10

Notes:

1. In the quarter ended June 30, 2012, mine operating earnings decreased \$4,610,000 or 13% compared to the quarter ended March 31, 2012. The decrease was primarily attributed to \$3,041,000 or 5% decrease in revenue due to a 13% decrease in average revenue per ounce of silver sold, partially offset by 5% increase in production. Net earnings after tax decreased \$11,037,000 compared to the prior quarter, primarily due to an investment loss of \$3,627,000 during the quarter compared to an investment gain of \$5,581,000 in the previous quarter. The investment loss was related to loss on silver futures and marketable securities during the current quarter.
2. In the quarter ended March 31, 2012, mine operating earnings decreased \$2,714,000 or 7% compared to the quarter ended December 31, 2011. The decrease was primarily attributed to \$2,986,000 or 5% decrease in revenue due to 2% less ounces of silver equivalents sold compared to the previous quarter. Net earnings after tax increased \$5,019,000 compared to the prior quarter, primarily due to an investment income of \$5,581,000 from a gain on silver futures and marketable securities during the current quarter and a lower effective tax rate due to the new global tax structure that the Company established in late 2011.
3. In the quarter ended December 31, 2011, mine operating earnings decreased by \$4,084,000 or 10% compared to the quarter ended September 30, 2011. The decrease was primarily attributed to 18% decrease in average realized silver price and increase in depletion, depreciation and amortization expense related to higher mill throughput and commencement of depreciation for La Parrilla's flotation circuit after it was successfully

commissioned on October 1, 2011. Net earnings after tax decreased from the prior quarter by \$6,433,000 or 23% compared to the prior quarter, primarily due to an unrealized loss of \$4,083,000 on silver futures.

4. In the quarter ended September 30, 2011, sales revenues decreased by \$6,633,000 compared to the quarter ended June 30, 2011. The decrease was primarily attributed to 1% decrease in average realized silver price and 9% decrease in ounces of silver equivalents sold. Net earnings after taxes decreased by \$2,821,000 or 9% in the quarter ended September 30, 2011 compared to the quarter ended June 30, 2011, primarily due to a loss of \$1.5 million on derivative instrument and a one-time cost of \$0.7 million related to restructuring of the union labour agreement at the San Martin Silver Mine.
5. In the quarter ended June 30, 2011, sales revenues increased by \$12,774,000 compared to the quarter ended March 31, 2011. The increase was primarily attributed to a 20% increase in average realized silver price. Net earnings after taxes increased by \$6,723,000 or 28% in the quarter ended June 30, 2011 compared to the quarter ended March 31, 2011, primarily due to \$11,151,000 increase in mine operating earnings, offset by a \$1,775,000 increase in income taxes and lower investment income.
6. In the quarter ended March 31, 2011, sales revenues increased by \$15,174,000 compared to the quarter ended December 31, 2010. The increase was primarily due to the 30% increase in silver price. Net earnings after taxes increased 10,216,000 or 75% in the quarter ended March 31, 2011, compared to the quarter ended December 31, 2010, primarily due to \$11,659,000 increase in mine operating earnings.
7. In the quarter ended December 31, 2010, sales revenues increased by \$7,478,000 compared to the quarter ended September 30, 2010. The increase was primarily due to the increase in silver price, partially offset by a 9.6% decrease in silver equivalent ounces sold related to a slowdown in the holiday season. Net earnings after taxes increased \$3,599,000 or 36% in the quarter ended December 31, 2010, compared to the quarter ended September 30, 2010, due to an \$8,110,000 increase in mine operating earnings, which was partially offset by increases in non-cash share-based payments and deferred income tax expenses.
8. In the quarter ended September 30, 2010, sales revenues increased by \$5,158,000 compared to the quarter ended June 30, 2010. The increase was primarily due to a 15% increase, or 245,549 equivalent ounces of silver sold after intercompany eliminations, in the third quarter of 2010 as compared to the second quarter of 2010, and an increase in silver price during the quarter. Net earnings after taxes decreased \$919,000 or 8% in the quarter ended September 30, 2010, compared to the quarter ended June 30, 2010, mainly due to \$2,890,000 increase in deferred income tax expense due to utilization of certain loss carryforwards during the period.

2012 PRODUCTION OUTLOOK

This section of the MD&A provides management's production forecasts for the remainder of 2012. These are forward-looking estimates and subject to the cautionary note regarding the risks associated with relying on forward-looking statements at the beginning of this MD&A.

Following the recent Silvermex acquisition, the Company's 2012 production guidance has been adjusted for the additional production from the La Guitarra Silver Mine as well as other operational improvements at the existing operations. The Company now expects to produce between 8.4 to 8.7 million pure silver ounces, up from the previous 2012 guidance of 8.2 to 8.7 million silver ounces. Total silver equivalent production is now expected to be between 9.2 to 9.5 million ounces, up from the previous guidance of 8.8 to 9.3 million equivalent ounces.

Furthermore, grades, recoveries and costs in the first half of 2012 were reviewed and analyzed in detail to establish more precise guidance for the second half of the 2012 fiscal year. Based on lower projected head grades for the remainder of the year, the Company expects full year cash cost to be \$8.84, a modest 2% increase from \$8.61 from the previous 2012 guidance. The revised economic and operating assumptions are listed in the table below with the expected costs per tonne and total cash costs per ounce for the remainder of 2012. Actual results may vary based on production throughputs, grades, recoveries and changes in economic circumstances.

OPERATING PARAMETERS	First Half Actual	Second Half Outlook	2012 Revised Outlook	2012 Prior Outlook
La Encantada				
Total Tonnes Processed ('000s)	720	737 - 778	1,457 - 1,498	1,231 - 1,300
Operating Days	170	178	348	342
Grade (g/t)	175	180	177	207
Recovery (%)	46	56	51	51
Ag Ounces from Production ('000s)	1,868	2,388 - 2,521	4,256 - 4,389	4,193 - 4,426
Total Equivalent Ounces Production ('000s)	1,903	2,388 - 2,521	4,291 - 4,424	4,193 - 4,426
La Parrilla				
Total Tonnes Processed ('000s)	318	319 - 336	637 - 654	579 - 611
Operating Days	171	177	348	330
Grade (g/t)	175	166	171	183
Recovery (%)	79	77	78	77
Ag Ounces from Production ('000s)	1,410	1,314 - 1,387	2,724 - 2,797	2,671 - 2,819
Total Equivalent Ounces Production ('000s)	1,704	1,601 - 1,692	3,305 - 3,396	3,063 - 3,234
San Martin				
Total Tonnes Processed ('000s)	136	145 - 153	281 - 290	279 - 294
Operating Days	163	170	333	330
Grade (g/t)	138	140	139	140
Recovery (%)	77	80	79	80
Ag Ounces from Production ('000s)	465	523 - 552	988 - 1,017	1,003 - 1,059
Total Equivalent Ounces Production ('000s)	503	558 - 589	1,061 - 1,092	1,064 - 1,123
Del Toro				
Total Tonnes Processed ('000s)	n/a	27 - 29	27 - 29	74 - 78
Operating Days	n/a	30	30	82
Grade (g/t)	n/a	176	176	197
Recovery (%)	n/a	76	76	80
Ag Ounces from Production ('000s)	n/a	120 - 127	120 - 127	383 - 404
Total Equivalent Ounces Production ('000s)	n/a	175 - 185	175 - 185	489 - 516
La Guitarra				
Total Tonnes Processed ('000s)	n/a	57 - 60	57 - 60	n/a
Operating Days	n/a	180	180	n/a
Grade (g/t)	n/a	225	225	n/a
Recovery (%)	n/a	88	88	n/a
Ag Ounces from Production ('000s)	n/a	321 - 339	321 - 339	n/a
Total Equivalent Ounces Production ('000s)	n/a	385 - 410	385 - 410	n/a
Consolidated				
Total Tonnes Processed ('000s)	1,174	1,285 - 1,356	2,459 - 2,531	2,162 - 2,283
Grade (g/t)	171	174	172	191
Recovery (%)	58	65	62	63
Ag Ounces from Production ('000s)	3,744	4,666 - 4,926	8,411 - 8,670	8,251 - 8,709
Total Equivalent Ounces Production ('000s)	4,109	5,107 - 5,397	9,217 - 9,507	8,810 - 9,299
Total Cash Costs per Payable Silver Ounce	\$8.90	\$8.79	\$8.84	\$8.61
Total Production Cost per Payable Silver Ounce	\$8.94	\$8.88	\$8.91	\$8.62
Total Production Cost per Tonne	\$28.05	\$31.80	\$29.90	\$32.38

Assumptions used for costs, equivalent ounces and by-product credits for 2012 second half outlook:

MXP/USD foreign exchange rate: 13.85; Price of Silver \$27.50/oz, Gold \$1,600/oz, Lead \$0.85/lb, Zinc \$0.85/lb

LIQUIDITY

At June 30, 2012, the Company had cash and cash equivalents of \$70.9 million and working capital of \$94.6 million, compared to cash and cash equivalents of \$91.2 million and working capital \$109.7 million at December 31, 2011. Cash and cash equivalents decreased by \$14.2 million during the quarter as a result of \$33.1 million invested in property, plant and equipment, and mineral property interests, \$3.6 million realized loss on derivative investments, offset by \$23.2 million generated from operating activities and proceeds of \$1.2 million from exercise of stock options.

During the second quarter, the Company expended \$18.5 million on mineral properties and \$14.6 million on property, plant and equipment on a cash basis compared to \$6.4 million expended on mineral properties and \$12.4 million expended on property, plant and equipment in the second quarter of 2011. The significant increase in capital expenditures is primarily related to the additional investments in the mill expansion at La Parrilla and the development of Del Toro, all financed by additional operational cash flows.

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 liquidity risk and there are no restrictions on the ability of the Company to use these funds to meet its obligations.

With \$70.9 million in cash and cash equivalents at June 30, 2012, the Company believes it has sufficient funds to meet current operating and capital requirements. The Company has plans to invest an estimated \$58.5 million in construction of Del Toro's phase one flotation circuit during 2012, of which \$23.8 million has been spent during the first half of 2012. Capital requirements for the remaining two quarters of 2012 include \$34.7 million earmarked for the Del Toro capital project, inclusive of exploration and development costs. Should the Company adopt additional expansion plans or if the price of silver was to drop significantly, the Company would need to consider its funding requirements relative to the funds available in treasury at such time, including expected cash flows from operations, to determine whether additional sources would be required. As at the date of this MD&A, the Company has approximately \$60.1 million in cash and cash equivalents in treasury.

MANAGEMENT OF RISKS AND UNCERTAINTIES

The Company thoroughly examines the various financial instruments and 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, commodity price risk, and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors.

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 to support its expansion plans. As at June 30, 2012, the Company has outstanding trade payables of \$9.8 million (December 31, 2011 - \$6.5 million) which are generally payable in 90 days or less and accrued liabilities of \$14.1 million (December 31, 2011 - \$15.9 million) which are generally payable within 12 months. The Company believes it has sufficient cash on hand to meet operating requirements as they arise for at least the next 12 months. The Company's liabilities and commitments have maturities which are summarized below:

	Payments Due By Period				
	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Trade and other payables	\$ 23,895	\$ 23,895	\$ -	\$ -	\$ -
Finance lease obligations	23,298	8,881	14,094	323	-
Decommissioning liabilities	7,725	-	-	-	7,725
Purchase obligations and commitments ⁽¹⁾	23,017	23,017	-	-	-
Total Obligations	\$ 77,935	\$ 55,793	\$ 14,094	\$ 323	\$ 7,725

(1) Purchase obligations and commitments primarily consist of committed purchase orders and contracts related to construction of the Del Toro Silver Mine.

Currency Risk

Financial instruments that impact the Company's net earnings or other comprehensive income due to currency fluctuations include Canadian dollar and Mexican peso denominated assets and liabilities. The sensitivity of the Company's net earnings and other comprehensive income due to changes in the exchange rate between the Canadian dollar and the Mexican peso against the U.S. dollar is included in the table below:

	June 30, 2012				December 31, 2011			
	Cash and cash equivalents	Trade and other receivables	Trade and other payables	Net assets (liabilities) exposure	Effect of +/- 10% change in currency	Net assets (liabilities) exposure	Effect of +/- 10% change in currency	
Canadian dollar	\$ 14,246	\$ 289	\$ (2,219)	\$ 12,316	\$ 1,232	\$ 40,787	\$ 4,079	
Mexican peso	1,046	8,632	(12,829)	(3,151)	(315)	(7,433)	(549)	
	\$ 15,292	\$ 8,921	\$ (15,048)	\$ 9,165	\$ 917	\$ 33,354	\$ 3,530	

OFF-BALANCE SHEET ARRANGEMENTS

At June 30, 2012, the Company had no material off-balance sheet arrangements such as 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, other than contingent liabilities and vendor liability and interest, as disclosed in this MD&A and the condensed interim consolidated financial statements and the related notes.

During 2011, the Company pledged certain properties of the San Martin Silver Mine as guarantees as part of the requirement for its tax appeal process with the Mexican tax authority (see note 24 of the condensed interim consolidated financial statements).

RELATED PARTY TRANSACTIONS

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. During the quarter ended June 30, 2012, there were no significant transactions with related parties outside of the ordinary course of business.

SUBSEQUENT EVENTS

Subsequent to June 30, 2012:

- On July 3, 2012, the Company completed the arrangement to acquire all of the issued and outstanding common shares of Silvermex Resources Inc. ("Silvermex") for total consideration of \$137.0 million. Upon closing of the transaction, a total of 9,451,654 common shares of the Company and 338,295 replacement warrants were issued. As the transaction was completed subsequent to the quarter ended June 30, 2012, financial and operating results of Silvermex were not included in the Company's condensed interim consolidated financial statements for the quarter and year to date ended June 30, 2012. See "Acquisition of Silvermex Resources Inc." for details;
- In July 2012, the Company successfully won its appeal for the 2004 tax reassessment of \$0.7 million (10.0 million Mexican pesos). Final resolutions for 2005 and 2006 tax years are expected by September 2012. See note 24 of condensed interim consolidated financial statements for details;
- A total of 65,000 options were granted with an average exercise price of CAD\$14.58 expiring in July 2017; and
- A total of 27,375 options were exercised for gross proceeds of CAD\$237,000.

Pursuant to the above subsequent events, the Company had 115,368,226 common shares outstanding as at the date on which these condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors.

ACQUISITION OF SILVERMEX RESOURCES INC.

On July 3, 2012, the Company completed the plan of arrangement (the "Arrangement") previously announced on April 3, 2012 to acquire all of the issued and outstanding common shares of Silvermex Resources Inc. ("Silvermex"). The total consideration was valued at \$137.0 million (CAD\$138.7 million) at the acquisition date.

The acquisition strengthens First Majestic's position as one of the world's leading silver producers and adds the La Guitarra Silver Mine as the Company's fourth producing asset with additional growth potential. La Guitarra will further diversify production and cash flow across the Company's robust portfolio of producing mines and development projects in Mexico.

Total consideration for the acquisition and the preliminary purchase price allocation, in accordance with IFRS 3, "Business Combinations", are estimated as follows:

Consideration:		
9,451,654 First Majestic common shares	\$	136,317
338,295 First Majestic replacement warrants		646
Cash paid (264.4 million Silvermex shares x CAD\$0.0001 per share)		27
Total consideration	\$	136,990
Allocation of purchase price		
Cash	\$	8,482
Other net working capital		(311)
Mining interests		116,567
Property, plant and equipment		11,221
Goodwill		22,955
Deposit on long-term assets		485
Decommissioning liabilities		(1,967)
Deferred tax liabilities		(20,442)
	\$	136,990

Goodwill was recognized as a result of the requirement under IFRS to record deferred tax liability on the excess of the fair value of the acquired assets over their corresponding tax bases, with the corresponding offset recorded as goodwill.

Total transaction costs for the acquisition are estimated to be \$2.0 million, of which \$781,000 have been incurred and expensed in the second quarter.

As the transaction was completed subsequent to the quarter, financial and operating results of Silvermex were not included in the Company's condensed interim consolidated financial statements for the quarter and year to date ended June 30, 2012.

As at the date these condensed interim consolidated financial statements were issued, the allocation of the purchase price is based on preliminary estimates and has not been finalized. The Company is currently in the process of determining the fair values of identifiable assets acquired and liabilities assumed, measuring the associated deferred income tax assets and liabilities and potential goodwill. The actual fair values of the assets and liabilities may differ materially from the amounts disclosed in the preliminary purchase price allocation and are subject to change.

CRITICAL JUDGEMENTS AND ESTIMATES

The preparation of condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions about future events that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results may differ from these estimates.

Critical judgments exercised in applying accounting policies and assumptions and estimation uncertainties that have the most significant effect on the amounts recognized in the condensed interim consolidated financial statements are outlined as follows. Detail explanation of these critical judgments and estimates were included in note 3 of the Company's audited consolidated financial statements as at December 31, 2011.

- Economic recoverability and probability of future economic benefits of exploration, evaluation and development costs
- Commencement of commercial production and production levels intended by management
- Functional currency
- Impairment of property, plant and equipment assets and mining interests
- Depreciation and amortization rate for property, plant and equipment and depletion rate for mineral interests
- Estimated reclamation and closure costs
- Mineral reserve estimates
- Inventory valuation
- Valuation of share-based payments
- Income taxes

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure Controls and Procedures

The Company's management, with the participation of its President and Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures. Based upon the results of that evaluation, the Company's President and Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in reports it files is recorded, processed, summarized and reported, within the appropriate time periods and is accumulated and communicated to management, including the President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting

The Company's management, with the participation of its President and Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in the rules of the United States Securities and Exchange Commission and the Canadian Securities Administrators. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS as issued by the IASB. The Company's internal control over financial reporting includes policies and procedures that:

- maintaining records that accurately and fairly reflect, in reasonable detail, the transactions and dispositions of assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary for preparation of financial statements in accordance with IFRS;
- provide reasonable assurance that the Company's receipts and expenditures are made only in accordance with authorizations of management and the Company's Directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's consolidated financial statements.

The Company's internal control over financial reporting may not prevent or detect all misstatements because of inherent limitations. Additionally, projections of any evaluation of effectiveness for future periods are subject to

the risk that controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with the Company's policies and procedures.

There has been no change in the Company's internal control over financial reporting during the three months ended June 30, 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations of Controls and Procedures

The Company's management, including the President and Chief Executive Officer and Chief Financial Officer, believes that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, may not prevent or detect all misstatements because of inherent limitations. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any control system also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

OTHER MD&A REQUIREMENTS

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 year ended December 31, 2011 and the unaudited condensed interim consolidated financial statements for the quarter ended June 30, 2012.