



CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

MARCH 31, 2009 (UNAUDITED)

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

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

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

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

FIRST MAJESTIC SILVER CORP.
CONSOLIDATED BALANCE SHEETS
AS AT MARCH 31, 2009 AND DECEMBER 31, 2008
(Expressed in Canadian dollars)

	March 31, 2009	December 31, 2008
	\$	\$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 4)	33,086,939	17,424,123
Marketable securities	80,500	50,375
Accounts receivable	2,614,199	2,116,325
Other receivables (Note 5)	6,106,086	7,212,693
Inventories (Note 6)	5,137,085	4,941,340
Prepaid expenses and other (Note 7)	1,730,003	2,123,881
	48,754,812	33,868,737
MINING INTERESTS (Note 8)		
Producing properties	52,047,892	49,933,735
Exploration properties	104,219,737	102,760,230
Plant and equipment	45,632,544	42,127,380
	201,900,173	194,821,345
CORPORATE OFFICE EQUIPMENT (Note 8)	448,297	483,050
DEPOSITS ON LONG-TERM ASSETS (Note 10)	2,634,903	1,986,517
	253,738,185	231,159,649
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	15,497,452	17,339,624
Unearned revenue on silver bullion sales	395,703	110,258
Vendor liability and interest (Note 9)	14,485,759	13,940,237
Vendor liability on mineral property (Note 8(b))	1,063,559	1,372,973
Current portion of capital lease obligations (Note 15)	3,010,446	1,584,477
Income and other taxes payable	70,259	557,634
	34,523,178	34,905,203
FUTURE INCOME TAXES	30,518,365	30,690,087
CAPITAL LEASE OBLIGATIONS (Note 15)	2,531,021	1,898,396
OTHER LONG TERM LIABILITIES	836,541	832,769
ASSET RETIREMENT OBLIGATIONS (Note 16)	5,428,194	5,304,369
	73,837,299	73,630,824
SHAREHOLDERS' EQUITY		
SHARE CAPITAL	215,516,214	196,648,345
SHARE CAPITAL TO BE ISSUED (Note 11(d))	276,495	276,495
CONTRIBUTED SURPLUS	25,039,805	23,297,258
ACCUMULATED OTHER COMPREHENSIVE LOSS	(22,394,443)	(23,216,390)
DEFICIT	(38,537,185)	(39,476,883)
	179,900,886	157,528,825
	253,738,185	231,159,649
CONTINUING OPERATIONS (Note 1)		
COMMITMENTS (Note 17)		

APPROVED BY THE BOARD OF DIRECTORS

(signed) Keith Neumeyer

Director

(signed) Douglas Penrose

Director

FIRST MAJESTIC SILVER CORP.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED MARCH 31, 2009 AND 2008
(Expressed in Canadian dollars, except share amounts)

	<u>March 31, 2009</u>	<u>March 31, 2008</u>
	\$	\$
Revenue (Note 12)	14,386,872	12,964,182
Cost of sales	8,298,813	6,517,056
Amortization and depreciation	858,837	787,179
Depletion	570,295	886,362
Accretion of reclamation obligation	116,039	45,475
Mine operating earnings	<u>4,542,888</u>	<u>4,728,110</u>
General and administrative	1,818,005	2,131,880
Stock-based compensation	896,739	1,108,216
	<u>2,714,744</u>	<u>3,240,096</u>
Operating income	<u>1,828,144</u>	<u>1,488,014</u>
Interest and other expenses	(360,206)	(338,827)
Investment and other income	289,843	137,393
Foreign exchange loss	(952,866)	(9,812)
Income before taxes	<u>804,915</u>	<u>1,276,768</u>
Income tax - current	83,703	438,404
Income tax (recovery) - future	(218,486)	(226,959)
Income tax (recovery) expense	<u>(134,783)</u>	<u>211,445</u>
NET INCOME FOR THE PERIOD	<u>939,698</u>	<u>1,065,323</u>
EARNINGS PER COMMON SHARE		
BASIC & DILUTED	<u>\$ 0.01</u>	<u>\$ 0.02</u>
WEIGHTED AVERAGE SHARES OUTSTANDING		
BASIC	<u>76,400,055</u>	<u>64,057,083</u>
DILUTED	<u>92,387,593</u>	<u>79,769,823</u>

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

FIRST MAJESTIC SILVER CORP.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME
FOR THE PERIODS ENDED MARCH 31, 2009 AND 2008
(Expressed in Canadian dollars, except share amounts)

	Share capital		To be issued	Contributed Surplus	Accumulated Other Comprehensive Income (Loss) ("AOCI") (1)	Deficit	Total AOCI and deficit	Total
	Shares	Amount						
Balance at December 31, 2007	63,042,160	145,699,783	9,286,155	17,315,001	(15,186,207)	(34,332,099)	(49,518,306)	122,782,633
Net income	-	-	-	-	-	1,065,323	1,065,323	1,065,323
Other comprehensive income:								
Translation adjustment	-	-	-	-	9,957,297	-	9,957,297	9,957,297
Total comprehensive income								11,022,620
Shares issued for:								
Exercise of options	376,250	1,130,588	-	-	-	-	-	1,130,588
Exercise of warrants	7,500	31,875	-	-	-	-	-	31,875
First Silver arrangement	1,856,500	8,985,460	(8,985,460)	-	-	-	-	-
Public offering, net of issue costs	8,500,000	40,273,174	-	2,380,000	-	-	-	42,653,174
Stock option expense during the period	-	-	-	1,037,352	-	-	-	1,037,352
Transfer of contributed surplus upon exercise of stock options	-	263,407	-	(263,407)	-	-	-	-
Balance at March 31, 2008	73,782,410	196,384,287	300,695	20,468,946	(5,228,910)	(33,266,776)	(38,495,686)	178,658,242
Balance at December 31, 2008	73,847,810	196,648,345	276,495	23,297,258	(23,216,390)	(39,476,883)	(62,693,273)	157,528,825
Net income	-	-	-	-	-	939,698	939,698	939,698
Other comprehensive income:								
Translation adjustment	-	-	-	-	799,151	-	799,151	799,151
Unrealized gain on marketable securities	-	-	-	-	22,796	-	22,796	22,796
Total comprehensive income								1,761,645
Shares issued for:								
Exercise of options	6,250	7,938	-	-	-	-	-	7,938
Public offering, net of issue costs (Note 11)	8,487,576	18,856,981	-	848,758	-	-	-	19,705,739
Stock option expense during the period	-	-	-	896,739	-	-	-	896,739
Transfer of contributed surplus upon exercise of stock options	-	2,950	-	(2,950)	-	-	-	-
Balance at March 31, 2009	82,341,636	215,516,214	276,495	25,039,805	(22,394,443)	(38,537,185)	(60,931,628)	179,900,886

(1) AOCI consists of the cumulative translation adjustment on self sustaining subsidiaries, except for the unrealized gain of \$22,796 on marketable securities classified as "available for sale".

FIRST MAJESTIC SILVER CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED MARCH 31, 2009 AND 2008
(Expressed in Canadian dollars)

	March 31, 2009	March 31, 2008
	\$	\$
OPERATING ACTIVITIES		
Net income for the period	939,698	1,065,323
Adjustment for items not affecting cash		
Depletion	570,295	886,362
Depreciation	858,837	821,269
Stock-based compensation	896,739	1,108,216
Accretion of reclamation obligation	116,039	45,475
Unrealized loss on futures contracts	850	-
Write-down of other assets	-	240,000
Future income taxes	(218,486)	(226,959)
Other income from derivative financial instruments	(267,667)	-
Unrealized foreign exchange and other	305,677	819,423
	<u>3,201,982</u>	<u>4,759,109</u>
Net change in non-cash working capital items		
Decrease (increase) in accounts receivable and other receivables	395,480	(719,595)
Increase in inventories	(536,133)	(475,855)
Increase in prepaid expenses and advances	(479,985)	(1,306,477)
Increase (decrease) in accounts payable and accrued liabilities	(2,338,209)	3,177,514
Increase in unearned revenue	267,872	-
Increase in employee profit sharing payable	-	5,575
Increase (decrease) in taxes receivable and payable	(158,024)	21,996
Decrease in vendor liability on mineral property	(350,560)	-
	<u>2,423</u>	<u>5,462,267</u>
INVESTING ACTIVITIES		
Expenditures on mineral property interests (net of accruals)	(1,847,474)	(4,592,740)
Additions to plant and equipment (net of accruals)	(1,585,659)	(3,002,972)
Decrease in silver futures contract deposits	688,293	-
Increase in deposits on long term assets and other	(380,708)	(1,692,693)
Increase in restricted cash securitizing vendor liability (Note 9)	(545,522)	-
	<u>(3,671,070)</u>	<u>(9,288,405)</u>
FINANCING ACTIVITIES		
Issuance of common shares and warrants, net of issue costs	19,713,677	43,815,637
Payment of capital lease obligations	(382,468)	-
	<u>19,331,209</u>	<u>43,815,637</u>
INCREASE IN CASH AND CASH EQUIVALENTS	15,662,562	39,989,499
EFFECT OF EXCHANGE RATE CHANGES ON CASH		
HELD IN FOREIGN CURRENCY	254	(5,498)
CASH AND CASH EQUIVALENTS - BEGINNING OF THE PERIOD	17,424,123	12,835,183
CASH AND CASH EQUIVALENTS - END OF THE PERIOD	33,086,939	52,819,184
CASH AND CASH EQUIVALENTS IS COMPRISED OF:		
Cash	18,517,588	3,022,290
Short-term deposits	83,592	49,796,894
Restricted cash (Note 9)	14,485,759	-
	<u>33,086,939</u>	<u>52,819,184</u>
Interest paid	42,368	5,833
Income taxes paid	-	78,555
NON-CASH FINANCING AND INVESTING ACTIVITIES (NOTE 18)		

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

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED MARCH 31, 2009 AND 2008

1. DESCRIPTION OF BUSINESS AND CONTINUING OPERATIONS

First Majestic Silver Corp. (the “Company” or “First Majestic”) is in the business of production, development, exploration, and acquisition of mineral properties with a focus on silver in Mexico. The Company’s shares and warrants trade on the Toronto Stock Exchange under the symbols “FR”, “FR.WT.A” and “FR.WT.B”, respectively.

These consolidated financial statements have been prepared on the going concern basis which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. On March 5, 2009, the Company completed a public offering with a syndicate of underwriters who purchased 8,487,576 units at an issue price of \$2.50 per unit for gross proceeds to the Company of \$21.2 million. Of the Company’s cash balance of \$33.1 million, \$14.5 million is restricted pending the outcome of the litigation described in Note 9. The Company’s ability to continue as a going concern is dependent primarily on the price of silver in global commodity markets, and on maintaining sustained, profitable operations and/or obtaining funds from other sources as required for capital developments. If the Company were unable to continue as a going concern, then material adjustments would be required to the carrying value of assets and liabilities and the balance sheet classifications used.

2. BASIS OF PRESENTATION

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”) with respect to the preparation of interim financial information. Accordingly, they do not include all the information and disclosures required by Canadian GAAP in the preparation of annual financial statements. Certain information and footnote disclosure normally included in consolidated financial statements prepared in accordance with GAAP have been omitted. The accounting policies, used in preparation of the accompanying unaudited interim consolidated financial statements, are the same as those described in our most recent annual consolidated financial statements. In the opinion of management, all adjustments of a normal recurring nature necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of results for the entire year. These interim financial statements should be read in conjunction with the Company’s latest audited consolidated financial statements for the year ended December 31, 2008.

The consolidated financial statements include the accounts of the Company and its direct wholly-owned subsidiaries: Corporación First Majestic, S.A. de C.V. (“CFM”) and First Silver Reserve Inc. (“First Silver”) as well as its indirect wholly-owned subsidiaries: First Majestic Plata, S.A. de C.V. (“First Majestic Plata”), Minera El Pilon, S.A. de C.V. (“El Pilon”), Minera La Encantada, S.A. de C.V. (“La Encantada”) and Majestic Services S.A. de C.V. (“Majestic”). 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 described in Note 9. Intercompany balances and transactions are eliminated on consolidation.

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED MARCH 31, 2009 AND 2008

3. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

The CICA issued the new Handbook Section 3064, "Goodwill and Intangible Assets", which establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard is effective for the Company beginning January 1, 2009.

The CICA issued the new Handbook Section 1582, "Business Combinations", Section 1601 "Consolidations" and Section 1602 "Non-controlling Interests" to harmonize with International Financial Reporting Standards ("IFRS"). Section 1582 specifies a number of changes including: an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure non-controlling interests at fair value, and a requirement to recognize acquisition related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. These new standards become effective beginning on or after January 1, 2011, but early adoption is permitted.

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for public companies to commence using IFRS, replacing Canada's own GAAP. The transition date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for all the periods ended after January 1, 2010.

We have begun planning our transition to IFRS but the impact on our consolidated financial position and results of operations has not yet been determined.

4. RESTRICTED CASH

On July 22, 2008, the Company secured its outstanding vendor liability (Note 9) by entering into a Letter of Credit facility for \$13,940,237, secured by cash and liquid short term investments. The Letter of Credit is revolving with annual expiry on July 22. The cash and short term investments earn market rates of interest from which the 0.5% per annum cost of the Letter of Credit is deducted and the net interest remitted to the Company. In addition, a further \$545,522 was paid into the Supreme Court of British Columbia in January 2009 and our Letter of Credit will be amended for a total Restricted Cash balance of \$14,485,759. The Restricted Cash is segregated from operating cash as the funds are not accessible by the Company pending the outcome of litigation described in Note 9.

5. OTHER RECEIVABLES

Details of the components of other receivables are as follows:

	March 31, 2009	December 31, 2008
	\$	\$
Value added taxes recoverable	5,459,566	6,109,943
Other taxes recoverable	49,643	406,536
Interest receivable	34,963	188,111
Advances to employees	120,986	67,240
Advances to suppliers	440,928	440,863
	6,106,086	7,212,693

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED MARCH 31, 2009 AND 2008

6. INVENTORIES

Inventories consist of the following:

	March 31, 2009	December 31, 2008
	\$	\$
Silver coins and bullion including in process shipments	1,205,816	572,149
Finished product - doré and concentrates	1,446,885	1,017,769
Ore in process	215,482	196,169
Stockpile	888,358	1,631,625
Materials and supplies	1,380,544	1,523,628
	5,137,085	4,941,340

7. PREPAID EXPENSES AND OTHER

Details of prepaid expenses and other are as follows:

	March 31, 2009	December 31, 2008
	\$	\$
Advances to suppliers and contractors	1,405,506	1,380,509
Deposits	255,542	252,941
Derivative financial instruments	68,955	490,431
	1,730,003	2,123,881

8. MINING INTERESTS

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

	March 31, 2009			December 31, 2008		
	Cost	Accumulated depreciation and depletion	Net	Cost	Accumulated depreciation and depletion	Net
	\$	\$	\$	\$	\$	\$
Mining properties	171,287,790	15,020,161	156,267,629	167,130,756	14,436,791	152,693,965
Plant and equipment	52,592,509	6,959,965	45,632,544	48,271,432	6,144,052	42,127,380
	223,880,299	21,980,126	201,900,173	215,402,188	20,580,843	194,821,345

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED MARCH 31, 2009 AND 2008

8. MINING INTERESTS (continued)

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

	March 31, 2009			December 31, 2008		
	Depletable \$	Non- Depletable \$	Subtotal \$	Plant and Equipment \$	Total \$	Total \$
MEXICO						
Producing properties						
La Encantada (a)	7,648,610	-	7,648,610	22,446,173	30,094,783	24,965,623
La Parrilla (b)	17,287,410	-	17,287,410	15,740,193	33,027,603	32,628,927
San Martin (c)	27,111,872	-	27,111,872	7,446,178	34,558,050	34,466,565
	52,047,892	-	52,047,892	45,632,544	97,680,436	92,061,115
Exploration properties						
La Encantada (a)	-	3,243,433	3,243,433	-	3,243,433	2,858,043
La Parrilla (b)	-	9,370,681	9,370,681	-	9,370,681	8,722,897
San Martin (c) (1)	-	76,748,046	76,748,046	-	76,748,046	77,582,247
Del Toro (d) (2)	-	12,455,122	12,455,122	-	12,455,122	11,881,557
Cuitaboca (e)	-	2,402,455	2,402,455	-	2,402,455	1,715,486
	-	104,219,737	104,219,737	-	104,219,737	102,760,230
	52,047,892	104,219,737	156,267,629	45,632,544	201,900,173	194,821,345

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

A summary of plant and equipment is as follows:

	March 31, 2009			December 31, 2008		
	Cost \$	Accumulated Depreciation \$	Net Book Value \$	Cost \$	Accumulated Depreciation \$	Net Book Value \$
La Encantada Silver Mine	23,889,082	1,442,909	22,446,173	19,541,421	1,221,301	18,320,120
La Parrilla Silver Mine	18,681,055	2,940,862	15,740,193	18,590,746	2,568,373	16,022,373
San Martin Silver Mine	10,022,372	2,576,194	7,446,178	10,139,265	2,354,378	7,784,887
Used in Mining Operations	52,592,509	6,959,965	45,632,544	48,271,432	6,144,052	42,127,380
Corporate office equipment	783,675	335,378	448,297	712,525	229,475	483,050
	53,376,184	7,295,343	46,080,841	48,983,957	6,373,527	42,610,430

Details by specific assets are as follows:

	March 31, 2009			December 31, 2008		
	Cost \$	Accumulated Depreciation \$	Net Book Value \$	Cost \$	Accumulated Depreciation \$	Net Book Value \$
Land	2,302,749	-	2,302,749	2,302,273	-	2,302,273
Automobile	428,447	163,873	264,574	427,817	140,703	287,114
Buildings	6,281,031	465,563	5,815,468	6,250,748	399,982	5,850,766
Machinery and equipment	27,637,285	5,809,706	21,827,579	27,744,172	5,053,327	22,690,845
Computer equipment	581,248	284,134	297,114	566,511	239,162	327,349
Office equipment	601,098	461,871	139,227	600,413	447,405	153,008
Leasehold improvements	320,304	110,196	210,108	320,304	92,949	227,355
Construction in progress	15,224,022	-	15,224,022	10,771,720	-	10,771,720
	53,376,184	7,295,343	46,080,841	48,983,958	6,373,528	42,610,430

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED MARCH 31, 2009 AND 2008

8. MINING INTERESTS (continued)

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

	Note 8(d) Del Toro US\$	Note 8(e) Cuitaboca US\$	Total US\$
Paid as at March 31, 2009	5,887,500	925,000	6,812,500
Payable May 25, 2009	-	250,000	250,000
Payable June 6, 2009	37,500	-	37,500
Payable as at June 30, 2009	37,500	250,000	287,500
Payable as at September 30, 2009	37,500	250,000	287,500
Payable November 25, 2009	-	275,000	275,000
Payable December 6, 2009	62,500	-	62,500
Payable as at December 31, 2009	100,000	525,000	625,000
Payable in 2010 and beyond	225,000	1,050,000	1,275,000
Total Future Option Payments	325,000	1,575,000	1,900,000

(a) La Encantada Silver Mine, Coahuila State

The La Encantada Silver Mine is a producing underground mine located in Northern Mexico accessible via a 1.5 hour flight from Torreon, Coahuila. The mine comprises of 4,076 hectares of mining rights and surface land ownership of 1,343 hectares. The closest town, Muzquiz de Boquillas del Carmen, is 45 kilometres away via unpaved road. The La Encantada Silver Mine consists of a 1,000 tonnes per day flotation plant, an airstrip, and other facilities, including a village with 180 houses as well as administrative offices. The Company owns 100% of the La Encantada Silver Mine.

(b) La Parrilla Silver Mine, Durango State

The La Parrilla Silver Mine is a system of connecting underground producing mines consisting of the La Rosa/Rosarios/La Blanca, the San Marcos Mine and the Quebradillas Mine. La Parrilla is located approximately 65 kilometres southeast of the city of Durango, in Durango state Mexico. Located at the mine are: mining equipment, a 425 tonne-per-day cyanidation plant, a 425 tonne-per-day flotation plant and mining concessions covering an area of 53,000 hectares of which the Company owns 100 hectares of surface rights. The Company owns 100% of the La Parrilla Silver Mine, which began commercial silver production in October 2004.

In 2008, the Company amended payment terms to an optionor regarding the outstanding payments as at December 31, 2008 on the Quebradillas Mine. In regards to the aggregate of US\$749,000 which was previously payable in 2008, the Company has agreed to make a series of payments in 2009 totaling US\$1,121,160 which includes interest at a rate of 3% over three month LIBOR. During the three months ended March 31, 2009, the Company made payments totaling US\$277,935 pursuant to the amended agreements.

There is a net smelter royalty agreement ("NSR") of 1.5% of sales revenue from the Quebradillas Mine to a maximum of US\$2,500,000 and an option to purchase the NSR at any time for US\$2,000,000. For the period ended March 31, 2009, the Company paid US\$36,086 (December 31, 2008 – US\$69,000) relating to royalties.

FIRST MAJESTIC SILVER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED MARCH 31, 2009 AND 2008

8. MINING INTERESTS (continued)

(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. The mine comprises of approximately 7,840 hectares of mineral rights, approximately 1,300 hectares of surface land rights surrounding the mine, and another 104 hectares of surface rights where the 950 tonnes per day cyanidation mill, flotation circuit, mine buildings and offices are located. The Company owns 100% of the San Martin Silver Mine.

(d) Del Toro Silver Mine, Zacatecas State

The Del Toro Silver Mine is located 60 km to the southeast from the Company's La Parrilla Silver Mine and consists of 320 contiguous hectares of mining claims plus an additional 100 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.

The Company owns 100% of the Perseverancia Silver Mine, the San Juan Silver Mine and the surrounding 293 hectare land package.

(e) Cuitaboca Silver Project, Sinaloa State

The Cuitaboca Silver Project, located in Sinaloa State, Mexico, consists of an option to acquire a 5,134 hectare land package. This option was acquired in May 2006 through the acquisition of First Silver and its wholly owned subsidiary, El Pilon.

The Company entered into an option agreement in November 2004 with Consorcio Minero Latinamericano, S.A. de C.V., a private Mexican company owned by a former director of First Silver, for the purchase of a 100% interest in seven mining claims covering 3,718 hectares located in Sinaloa State, Mexico. To purchase the claims, the Company needs to pay US\$2,500,000 in staged cash payments through November, 2010 (US\$925,000 paid as at March 31, 2009). A 2.5% NSR on the claims may be purchased at any time during the term of the agreement or for a period of 12 months thereafter for an additional US\$500,000.

9. VENDOR LIABILITY AND INTEREST

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

In November 2007, an action was commenced by the Company and First Silver against the Majority Shareholder who previously was a director, President & Chief Executive Officer of First Silver, and a company he controls. The Company and First Silver allege that, while holding the positions of director, President and Chief Executive Officer, the Majority Shareholder 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 Majority Shareholder acquiring a mine which was First Silver's right to acquire. Management believes that there are substantial grounds to this claim, however, the outcome of this litigation is not presently determinable.

FIRST MAJESTIC SILVER CORP.
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9. VENDOR LIABILITY AND INTEREST (continued)

Pending resolution of the litigation set out above, the Company has withheld payments of interest due to the previous Majority Shareholder on scheduled interest payment dates of November 30, 2007, February 29, 2008 and May 30, 2008. The Company is withholding payment of the final instalment of \$13,341,380 due May 30, 2008 and the above mentioned interest payments, an amount totalling \$13,940,237. On July 22, 2008, the Company posted an irrevocable Letter of Credit with the Supreme Court of British Columbia pending the court outcome which is not anticipated for at least one year or until such litigation has been resolved. In January 2009, a further \$545,522 was paid into the Supreme Court of British Columbia for additional interest payments and will be added to the Letter of Credit posted to the Supreme Court of British Columbia.

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

10. DEPOSITS ON LONG-TERM ASSETS

Deposits consist of advance payments made to property vendors, drilling service providers, and equipment vendors, which are categorized as long-term in nature, in amounts as follows:

	March 31, 2009	December 31, 2008
	\$	\$
Deposit on services	49,744	-
Deposit on equipment	2,585,159	1,986,517
	<u>2,634,903</u>	<u>1,986,517</u>

11. SHARE CAPITAL

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

(i) On March 5, 2009, the Company completed a public offering with a syndicate of underwriters who purchased 8,487,576 units at an issue price of \$2.50 per unit for net proceeds to the Company of \$19,705,739, of which \$18,856,981 relates to the common shares and \$848,758 relates to the warrants. Each unit consisted of one common share in the capital of the Company and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one additional common share at a price of \$3.50 expiring on March 5, 2011. The underwriters had an option, exercisable up until 30 days following closing of the offering, to purchase up to an additional 1,273,136 common shares at a price of \$2.40 per share and up to an additional 636,568 warrants at a price of \$0.20 per warrant. The underwriters did not exercise their option to purchase the option shares or warrants.

FIRST MAJESTIC SILVER CORP.
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11. SHARE CAPITAL (continued)

(ii) On March 25, 2008, the Company completed a public offering with a syndicate of underwriters who purchased 8,500,000 units at an issue price of \$5.35 per unit for net proceeds to the Company of \$40,144,471. Each unit consisted of one common share in the capital of the Company and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one additional common share at a price of \$7.00 expiring on March 25, 2010. The underwriters had an option, exercisable up until 30 days following closing of the offering, to purchase up to an additional 1,275,000 common shares at a price of \$5.07 per share and up to an additional 637,500 warrants at a price of \$0.56 per warrant. The underwriters did not exercise their option to purchase any option shares, but did acquire the 637,500 warrants (see Note 11(c)).

(b) Stock Options

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

The changes in stock options outstanding for the three months ended March 31, 2009 and the year ended December 31, 2008 are as follows:

	Three Months Ended March 31, 2009			Year Ended December 31, 2008		
	Number of Shares	Weighted Average Exercise Price (\$)	Weighted Average Remaining Life	Number of Shares	Weighted Average Exercise Price (\$)	Weighted Average Remaining Life
Balance, beginning of the period	6,862,500	3.84	2.78 years	5,892,500	4.04	2.75 years
Granted	-	0.00	0.00 years	2,672,500	2.93	3.67 years
Exercised	(6,250)	1.27	2.78 years	(436,650)	3.20	0.51 years
Forfeited or expired	-	0.00	0.00 years	(1,265,850)	3.05	0.45 years
Balance, end of the period	6,856,250	3.85	2.53 years	6,862,500	3.84	2.78 years

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11. SHARE CAPITAL (continued)

(b) Stock Options (continued)

The following table summarizes both the stock options outstanding and those that are exercisable at March 31, 2009:

Price \$	Options Outstanding	Options Exercisable	Expiry Dates
3.28	12,500	12,500	June 13, 2009
4.32	630,000	630,000	December 6, 2009
5.50	200,000	200,000	February 1, 2010
4.64	75,000	75,000	June 1, 2010
4.17	100,000	100,000	August 8, 2010
3.72	30,000	30,000	September 24, 2010
3.98	20,000	13,750	October 17, 2010
4.45	660,000	495,000	October 30, 2010
4.34	50,000	37,500	November 1, 2010
4.42	25,000	18,750	November 12, 2010
4.34	200,000	150,000	December 5, 2010
4.42	50,000	37,500	February 20, 2011
4.65	100,000	75,000	March 25, 2011
4.19	30,000	15,000	April 26, 2011
4.02	100,000	50,000	May 15, 2011
4.30	450,000	450,000	June 19, 2011
4.67	130,000	65,000	July 4, 2011
4.15	300,000	150,000	July 28, 2011
3.62	735,000	367,500	August 28, 2011
1.60	200,000	50,000	October 8, 2011
1.27	118,750	25,000	October 17, 2011
4.32	245,000	245,000	December 6, 2011
4.41	400,000	400,000	December 22, 2011
5.00	155,000	155,000	February 7, 2012
4.65	25,000	25,000	June 20, 2012
4.34	925,000	693,750	December 5, 2012
3.62	100,000	50,000	August 28, 2013
1.44	240,000	60,000	November 10, 2013
1.56	550,000	137,500	December 17, 2013
	6,856,250	4,813,750	

During the three months ended March 31, 2009, no stock options were granted to directors, officers and employees. Pursuant to the Company's policy of accounting for the fair value of stock-based compensation over the applicable vesting period, \$896,739 has been recorded as an expense in the three months ended March 31, 2009, all of which relates to previously issued stock options.

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

	Three Months ended March 31, 2009	Year ended December 31, 2008
Risk-free interest rate	2.4%	2.4%
Estimated volatility	64.9%	64.9%
Expected life	2.35 years	2.35 years
Expected dividend yield	0%	0%

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

FIRST MAJESTIC SILVER CORP.
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11. SHARE CAPITAL (continued)

(c) Share Purchase Warrants

The changes in share purchase warrants for the three months ended March 31, 2009 and the year ended December 31, 2008 are as follows:

	Three months ended March 31, 2009			Year ended December 31, 2008		
	Number of Warrants	Weighted Average Exercise Price (\$)	Weighted Average Term to Expiry	Number of Warrants	Weighted Average Exercise Price (\$)	Weighted Average Term to Expiry
Balance, beginning of the period	5,078,791	6.99	1.19 years	5,845,240	5.66	0.89 years
Issued (i) (ii) (iii)	4,243,788	3.50	2.00 years	4,887,500	7.00	2.00 years
Exercised	-	0.00	0.00 years	(7,500)	4.25	0.86 years
Cancelled or expired	(191,291)	6.81	0.00 years	(5,646,449)	5.62	0.00 years
Balance, end of the period	9,131,288	5.37	1.42 years	5,078,791	6.99	1.19 years

- (i) On March 5, 2009, the Company issued 4,243,788 warrants exercisable at a price of \$3.50 per share exercisable for a period of two years. The warrants were detachable warrants issued in connection with the 8,487,576 unit offering. The fair value of the warrants was estimated using the *Black-Scholes Option Pricing Model* (assumptions include a risk free rate of 1.5%, market sector implied volatility of 35%, expected life of 2 years and expected dividend yield of 0%) and \$848,758 was credited to contributed surplus.
- (ii) On March 25, 2008, the Company issued 4,250,000 warrants exercisable at a price of \$7.00 per share exercisable for a period of two years. The warrants were detachable warrants issued in connection with the 8.5 million unit offering. The fair value of the warrants was estimated using the *Black-Scholes Option Pricing Model* (assumptions include a risk free rate of 2.74%, market sector implied volatility of 42%, expected life of 2 years and expected dividend yield of 0%) and \$2,380,000 was credited to contributed surplus.
- (iii) On April 4, 2008, the Company issued 637,500 warrants exercisable at a price of \$7.00 per share exercisable for a period of two years under the over-allotment option in connection with the March 25, 2008 public offering. Each warrant entitles the holder to acquire one additional common share at a price of \$7.00 until March 25, 2010. The fair value of the warrants was estimated using the *Black-Scholes Option Pricing Model* (assumptions include a risk free rate of 2.74%, market sector implied volatility of 42%, expected life of 2 years and expected dividend yield of 0%) and \$357,000 was credited to contributed surplus.

The following table summarizes the share purchase warrants outstanding at March 31, 2009:

Exercise Price \$	Warrants Outstanding	Expiry Dates
7.00	4,887,500	March 25, 2010
3.50	4,243,788	March 5, 2011
	9,131,288	

FIRST MAJESTIC SILVER CORP.
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11. SHARE CAPITAL (continued)

(d) Share Capital to be Issued

On June 5, 2006, pursuant to the acquisition of First Silver Reserve Inc. 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. Under the terms of the plan of arrangement (the "Arrangement"), First Majestic acquired the remaining First Silver shares in consideration for either: (i) the issuance of one common share of First Majestic for each two First Silver shares acquired; or (ii) a cash payment of \$2.165 per share of First Silver.

The former shareholders of First Silver had until December 13, 2006 to deposit their completed Letters of Transmittal and to elect to receive either cash or shares of First Majestic. At December 31, 2006, the former shareholders of First Silver tendered 718,404 common shares of First Silver for cash, and another 9,583,813 shares of First Silver were tendered for shares of First Majestic. The remaining 3,840,504 shares of First Silver not tendered for either cash or shares of First Majestic may only be tendered for shares of First Majestic.

At December 31, 2006, the Company recorded \$9,294,020 as share capital to be issued, representing 1,920,252 shares of First Majestic issuable in exchange for 3,840,504 shares of First Silver not tendered for cash and not yet tendered for First Majestic shares by the former shareholders of First Silver. During 2007 the prior shareholders of First Silver were issued 1,625 shares of First Majestic in exchange for 3,250 shares of First Silver. In 2008 the prior shareholders of First Silver were issued a further 1,861,500 shares in exchange for 3,723,000 shares of First Silver. At March 31, 2009, the prior shareholders of First Silver had yet to exchange the remaining 114,254 shares of First Silver, exchangeable for 57,127 shares of First Majestic resulting in a remaining balance of shares to be issued of \$276,495.

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.

12. REVENUE

Details of the components of revenue are as follows:

	Three months ended March 31	
	2009	2008
	\$	\$
Gross revenue - silver doré bars and concentrates	16,269,685	16,245,923
Less: refining, smelting and transportation charges	(2,540,742)	(2,801,235)
Less: metal deductions	(536,523)	(480,506)
Net revenue - silver doré bars and concentrates	13,192,420	12,964,182
Revenue - silver coins, ingots and bullion	1,194,452	-
Net revenue	14,386,872	12,964,182

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13. RELATED PARTY TRANSACTIONS

During the period ended March 31, 2009, the Company:

- a) incurred \$76,493 (2008 - \$45,185) for management services provided by the President & CEO and/or a corporation controlled by the President & CEO of the Company pursuant to a consulting agreement.
- b) incurred \$73,633 (2008 - \$60,256) to a director and Chief Operating Officer for management and other services related to the mining operations of the Company in Mexico pursuant to a consulting agreement.
- c) incurred \$1,269,751 (2008 - \$1,935,900) for service fees with a mining services company sharing our premises in Durango Mexico. This related party provided management services and paid mining contractors who provided services at the Company's mines in Mexico for the period January 1 to February 28, 2009. Of the fees incurred, \$769,644 was unpaid as at March 31, 2009 (2008 - \$511,536). This relationship was terminated in February 2009.

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.

14. SEGMENTED INFORMATION

The Company considers that it has three operating segments all of which are located in Mexico, and one corporate segment with locations in Canada and Mexico. The El Pilon operations consist of the San Martin Silver Mine, the San Martin property, the Cuitaboca Silver Project and the Jalisco Group of Properties. The First Majestic Plata operations consist of the La Parrilla Silver Mine, the Del Toro Silver Mine, the La Parrilla properties and the Del Toro properties. The La Encantada operations consist of the La Encantada Silver Mine and the La Encantada property.

These reportable operating segments are summarized in the table below:

Three months ended March 31, 2009

	First Majestic					Total
	El Pilon operations	Plata operations	La Encantada operations	Corporate	Other Eliminations	
	\$	\$	\$	\$	\$	\$
Revenue	4,455,966	3,935,858	5,448,325	1,194,452	(647,729)	14,386,872
Cost of sales	2,733,227	2,701,303	2,484,297	1,083,976	(703,990)	8,298,813
Amortization, depreciation and accretion	253,147	464,758	256,971	-	-	974,876
Depletion	251,440	150,878	167,977	-	-	570,295
Mine operating earnings	1,218,152	618,919	2,539,080	110,476	56,261	4,542,888
General and administrative	-	-	-	1,818,005	-	1,818,005
Stock-based compensation	-	-	-	896,739	-	896,739
Net interest, other income and foreign exchange	293,633	347,495	280,720	101,381	-	1,023,229
Income tax (recovery) expense	(174,693)	(47,258)	574,037	(486,869)	-	(134,783)
Net income (loss)	1,099,212	318,682	1,684,323	(2,218,780)	56,261	939,698
Capital expenditures	692,893	1,886,255	5,923,006	14,816	-	8,516,970
Total assets	118,179,765	59,759,240	40,700,384	35,098,796	-	253,738,185

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14. SEGMENTED INFORMATION (continued)

Three months ended March 31, 2008

	El Pilon operations \$	First Majestic Plata operations \$	La Encantada operations \$	Corporate \$	Other eliminations \$	Total \$
Revenue	2,209,563	4,998,028	5,756,591	-	-	12,964,182
Cost of sales	1,465,532	2,571,495	2,480,029	-	-	6,517,056
Amortization, depreciation and accretion	285,264	354,880	147,035	45,475	-	832,654
Depletion	478,675	190,802	216,885	-	-	886,362
Mine operating earnings (loss)	(19,908)	1,880,851	2,912,642	(45,475)	-	4,728,110
General and administrative	-	-	-	2,131,880	-	2,131,880
Stock-based compensation	-	-	-	1,108,216	-	1,108,216
Net interest, other income (expense) and foreign exchange	(329,878)	330,105	84,118	126,901	-	211,246
Income tax (recovery) expense	(86,075)	91,657	205,863	-	-	211,445
Net income (loss)	396,045	1,459,089	2,622,661	(3,412,472)	-	1,065,323
Capital expenditures	2,802,254	5,482,710	1,395,524	167,429	-	9,847,917
Total assets	123,259,022	51,818,280	18,579,069	52,822,875	-	246,479,246

15. CAPITAL LEASE OBLIGATIONS

In 2007 and 2008, the Company entered into lease commitments with a mining equipment supplier for \$14.1 million (US\$11.2 million) of equipment to be delivered during 2007 and 2008. The Company committed to pay 35% within 30 days of entering into the leases, 15% on arrival of the equipment, and the remaining 50% in quarterly payments over a period of 24 months from delivery, financed at 9% interest over the term of the lease. On March 13, 2009, the Company executed a restructuring agreement for the balance of \$3.6 million (US\$2.9 million) payable to the equipment lease vendor, to be paid over twenty four monthly payments commencing February 1, 2009 with interest payable at 9% on the outstanding principal balance, secured by a guarantee from First Majestic (the parent company).

On January 12, 2009, the Company executed two financing arrangements with an equipment vendor, committing the Company for a total of approximately \$2.6 million (US\$2.0 million) purchase price with terms of 36 monthly lease payments of \$48,460 (US\$38,420) consisting of principal plus 12.5% interest on outstanding balances and 12 monthly lease payments of \$43,640 (US\$34,600) consisting of principal only.

The following is a schedule of future minimum lease payments under the capital leases at March 31, 2009:

	US\$	SCA
2009 Gross lease payments	2,323,440	2,930,554
2010 Gross lease payments	1,972,328	2,487,697
2011 Gross lease payments	581,999	734,076
	4,877,767	6,152,327
Less: interest	(484,328)	(610,860)
Total payments, net of interest	4,393,439	5,541,467
Less: current portion	(2,386,781)	(3,010,446)
Capital Lease Obligation	2,006,658	2,531,021

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16. ASSET RETIREMENT OBLIGATIONS

	Three months ended March 31, 2009	Year ended December 31, 2008
	\$	\$
Balance, beginning of the period	5,304,369	2,290,313
Effect of change in estimates	-	2,979,726
Interest accretion	116,039	200,477
Effect of translation of foreign currencies	7,786	(166,147)
	5,428,194	5,304,369

Asset retirement obligations allocated by mineral properties are as follows:

	Anticipated Date	March 31, 2009 \$	December 31, 2008 \$
La Encantada Silver Mine	2018	1,909,228	1,865,674
La Parrilla Silver Mine	2022	1,647,175	1,609,602
San Martin Silver Mine	2016	1,871,791	1,829,093
		5,428,194	5,304,369

During the year ended December 31, 2008, the Company reassessed its reclamation obligations at each of its mines based on updated mine life estimates, rehabilitation and closure plans. The total undiscounted amount of estimated cash flows required to settle the Company's estimated obligations is \$7.27 million, which has been discounted using a credit adjusted risk free rate of 8.5%, of which \$2.46 million of the reclamation obligation relates to the La Parrilla Silver Mine, \$2.31 million of the obligation relates to the San Martin Silver Mine, and \$2.51 million relates to the La Encantada Silver Mine. The present value of the reclamation liabilities may be subject to change based on management's current estimates, changes in the remediation technology or changes to the applicable laws and regulations. Such changes will be recorded in the accounts of the Company as they occur.

17. COMMITMENTS

The Company is obligated to make certain mining property option payments as described in Note 8, in connection with the acquisition of its mineral property interests.

As at March 31, 2009, the Company is obligated to make a series of payments totalling US\$843,225 before the end of 2009 with respect to property payments at the Quebradillas Mine at La Parrilla.

The Company has capital lease obligations as described in Note 15.

The Company is obligated to make certain interest and cash payments, as described in Note 9, in connection with the acquisition of a controlling interest in First Silver, subject to litigation.

The Company has office lease commitments of \$116,800 in 2009 through 2011 and \$29,220 in 2012. Additional annual operating costs are estimated at \$101,110 per year (\$8,426 per month) over the term of the lease. The Company provided a deposit of one month of rent equaling \$20,151.

As at March 31, 2009, the Company is committed to approximately \$7.1 million (2008 - \$nil) relating to the La Encantada Project which is currently being constructed.

FIRST MAJESTIC SILVER CORP.
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17. COMMITMENTS (continued)

As at March 31, 2009, the Company is obligated to make payments totalling \$405,000 by the second quarter of 2009 with respect to the purchase and delivery of a semi autogenous grinding (SAG) mill for the Del Toro Silver Mine.

The Company is committed to making severance payments amounting to US\$574,000 (2008- US\$540,000) to four officers in the event of a change of control of the Company.

18. NON-CASH FINANCING AND INVESTING ACTIVITIES

	March 31, 2009	March 31, 2008
	\$	\$
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Fair value of warrants upon completion of public offering	848,758	2,380,000
Issuance of shares for First Silver Arrangement	-	8,985,460
Transfer of contributed surplus to common shares for options exercised	2,950	263,407
Assets acquired by capital lease	2,259,380	-

19. SUBSEQUENT EVENTS

Subsequent to March 31, 2009:

- (a) On April 1, 2009, the following stock options were forfeited:
 - (i) 25,000 stock options exercisable at a price of \$4.32 per share expiring on December 6, 2009;
 - (ii) 60,000 stock options exercisable at a price of \$4.45 per share expiring on October 30, 2010;
 - (iii) 10,000 stock options exercisable at a price of \$4.19 per share expiring on April 26, 2011; and
 - (iv) 40,000 stock options exercisable at a price of \$3.62 per share expiring on August 28, 2011.
- (b) On April 24, 2009, 20,000 stock options exercisable at a price of \$4.45 per share expiring on October 30, 2010 were forfeited.
- (c) On May 7, 2009, 1,262,500 stock options exercisable at a price of \$2.03 per share were granted. 800,000 of the stock options expire on May 7, 2012 and 462,500 stock options expire on May 7, 2014.

20. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the classifications used in 2009.



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE QUARTER ENDED MARCH 31, 2009

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 costs and expenses, uncertainties related to the availability of and costs of financing needed in the future and other factors described in the Company's Annual Information Form under the heading "Risk Factors". The Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change. The reader is cautioned not to place undue reliance on forward-looking statements.

PRELIMINARY INFORMATION

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

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

This MD&A relates to the consolidated operations of the Company and its wholly owned direct subsidiaries: Corporación First Majestic, S.A. de C.V. ("CFM") and First Silver Reserve Inc ("First Silver"), as well as the indirect wholly owned subsidiaries of CFM: First Majestic Plata, S.A. de C.V. ("FM Plata"), Mineral El Pilón, S.A. de C.V. ("El Pilón"), Minera La Encantada, S.A. de C.V. ("La Encantada") and Majestic Services, S.A. de C.V. ("Majestic Services"). First Silver underwent a wind up and distribution of assets and liabilities to the Company in December 2007; however, First Silver has not been dissolved pending the outcome of litigation described herein.

QUALIFIED PERSONS

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

FIRST MAJESTIC SILVER CORP.

MANAGEMENT'S DISCUSSION & ANALYSIS

All financial information in this MD&A is prepared in accordance with Canadian GAAP, and all dollar amounts are expressed in Canadian dollars unless otherwise indicated. All information contained in this MD&A is current as of May 14, 2009, unless otherwise stated.

FINANCIAL PERFORMANCE AND HIGHLIGHTS

- Total production for the quarter ended March 31, 2009 was 1,040,117 ounces of silver equivalents consisting of 929,964 ounces of silver, 491 ounces of gold and 1,828,739 pounds of lead. This compares to the 1,061,720 ounces of silver equivalents produced in the quarter ended March 31, 2008, which consisted of 895,358 ounces of silver, 240 ounces of gold, 1,857,897 pounds of lead and 318,539 pounds of zinc. Total production for the quarter ended December 31, 2008 was 1,056,219 ounces of silver equivalents which included 930,120 ounces of silver, 403 ounces of gold and 2,093,988 pounds of lead.
- Gross revenue for the quarter ended March 31, 2009, prior to smelting, refining, transportation charges and metal deductions, was \$17.5 million compared to \$16.2 million in the same quarter of 2008; an increase of 8%. In the quarter ended March 31, 2009, the Company shipped 996,595 silver equivalent ounces including 67,620 ounces of coins, ingots and bullion at an average price of \$17.52 per ounce (US\$14.07) compared to 1,019,490 equivalent ounces in the quarter ended March 31, 2008 at an average price of \$15.94 (US\$15.87) per ounce. The Company has been successful in realizing an average selling price of US\$14.07, higher than the average trading price of silver in the quarter of US\$12.61 per ounce. Compared to the quarter ended December 31, 2008, the Company increased shipped ounces by 20% compared to the 827,845 ounces of silver equivalent previously shipped, at an average price of \$14.15 per ounce (US\$11.67).
- The Company generated net income after taxes of \$0.9 million for the first quarter ended March 31, 2009 compared to net income after taxes of \$1.1 million for the quarter ended March 31, 2008, and a net loss after taxes of \$5.5 million for the fourth quarter ended December 31, 2008. The net income after taxes for this quarter was after recording non-cash stock-based compensation expense of \$0.9 million, a foreign exchange loss of \$1.0 million and an income tax recovery of \$0.1 million.
- Sales revenue (after smelting, refining, transportation charges and metals deductions) for the quarter ended March 31, 2009 was \$14.4 million; an increase of 11% compared to \$13.0 million for the quarter ended March 31, 2008. Smelting, refining, transportation charges and metal deductions decreased by 3.3% of gross revenue to \$3.1 million in the quarter ended March 31, 2009 compared to \$3.3 million in the quarter ended March 31, 2008, and \$2.6 million in the quarter ended December 31, 2008. This was attributed to the revised smelting and refining agreements renegotiated effective December 1, 2008; as well as the new smelting and refining relationships entered into in February 2009. Average smelting and transportation charges for doré in the quarter ended March 31, 2009 were US\$0.51 per equivalent ounce whereas for concentrates were US\$3.23 per equivalent ounce. The smelting rates for concentrate were higher than expected as final settlements of concentrates occur 60 days after shipment, therefore the settlement lag resulted in older shipments of November and December settling in Q1-2009 under previous smelting agreements.
- Direct cash costs per ounce of silver for the quarter ended March 31, 2009 decreased to US\$4.94 per ounce of silver, compared to US\$6.51 per ounce of silver for the quarter ended March 31, 2008, due to higher silver ounces produced in 2009 and reduction of mining expenses and indirect costs. Direct cash costs for the quarter ended December 31, 2008 were US\$6.37 per ounce.
- Mine operating earnings for the quarter ended March 31, 2009 were \$4.5 million, a decrease of \$0.2 million or 4% compared to mine operating earnings of \$4.7 million for the quarter ended March 31, 2008, and a mine operating loss \$1.1 million for the quarter ended December 31, 2008.
- The Company had operating income of \$1.8 million for the first quarter ended March 31, 2009 compared to operating income of \$1.5 million for the quarter ended March 31, 2008, an increase of \$0.3 million or 23%. Operating loss for the fourth quarter ended December 31, 2008 was \$3.8 million.
- At the La Encantada Silver Mine, construction is progressing according to plan on the US\$21.6 million, 3,500 tonnes per day ("tpd") cyanidation plant. The plant is scheduled to commence operations in July 2009. Once

completed, the new plant is anticipated to produce over four million ounces of silver annually in the form of doré bars. Total capitalized construction in progress consisted of \$12.9 million with a further \$1.4 million being un-capitalized advances to contractors.

- During the quarter ended March 31, 2009, the Company invested \$1.8 million on its mineral properties and a further \$1.6 million on additions to plant and equipment on a cash basis. This compares to \$4.6 million invested on its mineral properties, and a further \$3.0 million on additions to plant and equipment in the quarter ended March 31, 2008, and \$0.7 million invested on its mineral properties, and a further \$0.4 million on additions to plant and equipment in the quarter ended December 31, 2008.
- On March 5, 2009, the Company completed a public offering with a syndicate of underwriters who purchased 8,487,576 units at an issue price of \$2.50 per unit for gross proceeds to the Company of \$21,218,940.

The subsidiaries, mines, mills and properties in Mexico are as follows:

Subsidiaries	Mine and Mill	Exploration Properties
First Majestic Plata, S.A. de C.V.	La Parrilla Silver Mine Del Toro Silver Mine	La Parrilla properties Del Toro properties
Minera El Pilón, S.A. de C.V.	San Martin Silver Mine	San Martin property Cuitaboca Silver Project Jalisco Group of Properties
Minera La Encantada, S.A. de C.V.	La Encantada Silver Mine	La Encantada property
Majestic Services, S.A. de C.V. (a labour services company)	(all of the above)	(all of the above)
Corporación First Majestic, S.A. de C.V. (holding company for the above)	(holding company for the above)	(holding company for the above)

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

MINING OPERATING RESULTS

CONSOLIDATED FIRST MAJESTIC RESULTS	Quarter Ended March 31,	
	2009	2008
Ore processed/tonnes milled	216,047	158,398
Average silver grade (g/tonne)	222	248
Recovery (%)	60%	71%
Silver ounces produced	929,964	895,358
Gold ounces produced	491	240
Equivalent ounces from gold	33,483	12,684
Pounds of lead produced	1,828,739	1,857,897
Equivalent ounces from lead	76,668	137,894
Pounds of zinc produced	-	318,539
Equivalent ounces from zinc	-	15,784
Total production - ounces silver equiv.	1,040,117	1,061,720
Ounces of silver equivalents sold	996,595	1,019,490
Total US cash cost per ounce ^{(1) (2)}	4.94	6.51
Underground development (m)	4,610	6,006
Diamond drilling (m)	5,048	10,256
Total US production cost per tonne ⁽²⁾	32.72	45.83

LA ENCANTADA RESULTS	Quarter ended March 31,	
	2009	2008
Ore processed/tonnes milled	76,556	52,881
Average silver grade (g/tonne)	305	322
Recovery (%)	51%	64%
Silver ounces produced	384,976	352,982
Gold ounces produced	-	-
Equivalent ounces from gold	-	-
Pounds of lead produced	902,372	503,788
Equivalent ounces from lead	37,719	37,050
Pounds of zinc produced	-	19,136
Equivalent ounces from zinc	-	-
Total production - ounces of silver equiv.	422,695	390,032
Ounces of silver equivalents sold	418,217	365,924
Total US cash cost per ounce ^{(1) (2)}	3.92	4.04
Underground development (m)	2,097	1,395
Diamond drilling (m)	2,397	779
Total US production cost per tonne ⁽²⁾	38.17	43.63

- (1) The Company reports non-GAAP measures which include Direct Costs Per Tonne, Direct Cash Cost per ounce of payable silver (prior to smelting charge), and smelting charges per ounce of silver in order to manage and evaluate operating performance at each of the Company's mines. These measures are widely used in the silver mining industry as a benchmark for performance, but do not have a standardized meaning, and are not GAAP measures. See Reconciliation to GAAP below.
- (2) Cash Costs do not include smelting; production costs per tonne include smelter charges.

LA PARRILLA RESULTS	Quarter ended March 31,	
	2009	2008
Ore processed/tonnes milled	65,905	55,299
Average silver grade (g/tonne)	191	276
Recovery (%)	66%	75%
Silver ounces produced	268,329	367,870
Gold ounces produced	150	138
Equivalent ounces from gold	10,844	7,224
Pounds of lead produced	926,367	1,245,334
Equivalent ounces from lead	38,949	92,714
Pounds of zinc produced	-	32,763
Equivalent ounces from zinc	-	-
Total production - ounces of silver equiv.	318,124	467,808
Ounces of silver equivalents sold	301,181	426,519
Total US cash cost per ounce ^{(1) (2)}	5.22	4.66
Underground development (m)(includes 389 metres at Del Toro)	1,806	2,048
Diamond drilling (m) (includes 926 metres at Del Toro)	2,038	8,547
Total US production cost per tonne ⁽²⁾	35.79	39.24

SAN MARTIN RESULTS	Quarter ended March 31,	
	2009	2008
Ore processed/tonnes milled	73,586	50,218
Average silver grade (g/tonne)	163	138
Recovery (%)	72%	79%
Silver ounces produced	276,659	174,506
Gold ounces produced	341	102
Equivalent ounces from gold	22,639	5,460
Pounds of lead produced	-	108,775
Equivalent ounces from lead	-	8,130
Pounds of zinc produced	-	266,640
Equivalent ounces from zinc	-	15,784
Total production - ounces of silver equiv.	299,298	203,880
Ounces of silver equivalents sold	277,197	227,047
Total US cash cost per ounce ^{(1) (2)}	6.08	15.40
Underground development (m)	707	2,564
Diamond drilling (m)	613	931
Total US production cost per tonne ⁽²⁾	24.30	55.40

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

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

Reconciliation of Cash Costs to GAAP		Three Months Ended March 31, 2009			
		San Martin	La Parrilla	La Encantada	2009
DIRECT MINING EXPENSES(MMI)	US\$	1,962,701	2,100,608	1,889,850	5,953,160
OTHER SELLING COSTS (TRANSPORT, ETC.)	US\$	26,271	57,667	26,338	110,276
THIRD PARTY SMELTING	US\$	106,017	957,099	1,412,566	2,475,682
BYPRODUCT CREDITS	US\$	(306,647)	(756,744)	(406,791)	(1,470,182)
TOTAL CASH COSTS	US\$	1,788,342	2,358,631	2,921,963	7,068,936
CASH COST PER OUNCE PRODUCED	US\$/OZ	6.46	8.79	7.59	7.60
SMELTING/REFINING/TRANSPORTATION COST PER OUNCE	US\$/OZ	(0.38)	(3.57)	(3.67)	(2.66)
DIRECT MINING EXPENSES CASH COST	US\$/OZ	6.08	5.22	3.92	4.94
TONNES PRODUCED	TONNES	73,586	65,905	76,556	216,047
OUNCES OF SILVER PRODUCED	OZ	276,659	268,328	384,976	929,963
OUNCES OF SILVER EQ PRODUCED	OZ EQ	22,639	49,796	37,719	110,154
TOTAL OZ OF SILVER EQ PRODUCED	OZ EQ	299,298	318,124	422,695	1,040,117
MINING	\$/Tonne	8.99	12.05	11.59	10.84
MILLING	\$/Tonne	12.25	15.51	8.19	11.81
INDIRECT	\$/Tonne	5.43	4.31	4.91	4.91
SELLING AND TRANSPORT COSTS	\$/Tonne	0.36	0.88	0.34	0.51
SMELTING AND REFINING COSTS	\$/Tonne	1.44	14.52	18.45	11.46
BY PRODUCT CREDITS	\$/Tonne	(4.17)	(11.48)	(5.31)	(6.80)
DIRECT COST PER TONNE	\$/Tonne	24.30	35.79	38.17	32.72
RECONCILIATION:					
Cash Cost	US\$	1,788,342	2,358,631	2,921,963	7,068,936
Inventory changes	US\$	314,120	(42,618)	83,688	355,190
Byproduct credits	US\$	306,647	756,744	406,791	1,470,182
Smelting and refining	US\$	(106,017)	(957,099)	(1,412,566)	(2,475,682)
Other	US\$	(21,472)	89,276	29,302	97,106
Cost of sales - Calculated	US\$	2,281,620	2,204,934	2,029,178	6,515,732
Average CDN/US Exchange Rate		0.83477	0.81625	0.81680	0.82282
Booked Cost of Sales	CDN\$	2,733,227	2,701,303	2,484,297	7,918,827
Vancouver Cost of Sales (See Note 1)	CDN\$	-	-	-	379,986
Total Cost of Sales as Reported	CDN\$	-	-	-	8,298,813

Note 1 - Net of intercompany elimination of \$703,990.

INVENTORY RECONCILIATION (See Note 1):

	San Martin	La Parrilla	La Encantada	Vancouver	2009
Opening stockpile inventory	OZ EQ 147,932	193,165	88,555		429,652
Reduction of stockpile	OZ EQ (31,532)	(99,815)	(34,485)	-	(165,832)
Ending stockpile inventory	OZ EQ 116,400	93,350	54,070	-	263,820
Opening in process inventory	OZ EQ 13,992	8,524	-	-	22,516
Inventory adjustments	OZ EQ (351)	1,239	-	-	888
Ending in process inventory	OZ EQ 13,641	9,763	-	-	23,404
Opening finished goods inventory	OZ EQ 33,276	20,368	48,111	-	101,755
Production - silver equivalent ounces	OZ EQ 299,298	318,124	422,695	-	1,040,117
Shipments - silver equivalent ounces	OZ EQ (277,197)	(301,181)	(418,217)	-	(996,595)
Inventory adjustments	OZ EQ (27)	256	(6,646)	-	(6,417)
Ending finished goods inventory	OZ EQ 55,350	37,567	45,943	-	138,860
Total inventory before transfers	OZ EQ 185,391	140,680	100,013		426,084
Transfers to coins, ingots and bullion inventory	OZ EQ (46,769)	-	-	46,769	-
Open market purchases of silver	OZ EQ -	-	-	50,000	50,000
Opening inventory of coins, ingots and bullion	OZ EQ -	-	-	42,453	42,453
Sales of coins, ingots and bullion	OZ EQ -	-	-	(67,620)	(67,620)
Closing inventory of coins, ingots and bullion	OZ EQ -	-	-	71,602	71,602
Total inventory, all stages and products	OZ EQ 185,391	140,680	100,013	71,602	497,686
Value of ending inventory - (Note 1)	CDN\$ 1,019,569	967,763	522,594	1,246,643	3,756,569
Value of ending inventory - Cdn\$ per oz	CDN\$ 5.50	6.88	5.23	17.41	7.55
Month end exchange rate - March 31, 2009	1.2613	1.2613	1.2613	1.2613	1.2613
Value of ending inventory - US\$ per oz	US\$ 4.36	5.45	4.14	13.80	5.98

Note 1 - The inventory reconciliation above consists of silver coins, bullion, doré, concentrates, ore in process and stockpile but excludes materials and supplies.

REVIEW OF MINING OPERATING RESULTS

The silver production for the quarter consisted of 929,964 ounces of silver representing an increase of 4% compared with the first quarter of 2008 and a minor decrease of 156 ounces from the 930,120 ounces of silver when compared with the fourth quarter of 2008. 1,828,739 pounds of lead were produced in the quarter representing a 2% decrease over the first quarter of 2008 and a decrease of 13% or 265,249 pounds when compared with the fourth quarter of 2008. 491 ounces of gold were produced in the quarter representing an increase of 105% when compared with the first quarter of 2008 and an increase of 22% compared with the fourth quarter of 2008.

The ore processed during the quarter at the Company's three operating silver mines: La Parrilla Silver Mine, the San Martin Silver Mine and La Encantada Silver Mine; amounted to 216,047 tonnes showing an increase of 36% over the same quarter of 2008 and a modest increase of 401 tonnes over the fourth quarter of 2008.

The overall average silver head grade in the quarter for the three mines increased to 222 g/t silver compared to 248 g/t Ag in the first quarter of 2008 and 207 g/t Ag achieved in the fourth quarter of 2008.

Total combined recoveries of silver at the Company's three different mills were 60% compared to 65% in the prior quarter and 71% in the first quarter of 2008. At the La Encantada operation low recoveries were caused by high manganese in the ore and increased throughput through the mill. At the San Martin operation, some high carbonaceous ore affected metallurgy, however this was compensated by increased head grades. Steps are being taken at La Encantada to improve recoveries; however, until the new 3,500 tpd cyanidation plant is completed in June of this year, metallurgical recoveries are only expected to increase modestly.

A total of 4,610 meters of underground development was completed in the quarter compared to 6,006 metres of development completed in the first quarter of 2008 and 5,845 metres completed in the fourth quarter of 2008. This program is important as it provides access to new areas within the different mines and prepares the mines for continued growth of silver production going forward. The Company has recently reduced its drilling program to two rigs operating at San Martin only; however, in the first quarter 31 holes were completed marking an end to those drill programs commenced last year. A total of 5,048 meters of diamond drilling was completed during the quarter compared to 10,256 metres drilled in Q1 2008 and 4,194 metres drilled in Q4 2008.

The Company continues to analyze its expenditures in order to optimize operations and improve profitability.

MINE UPDATES

La Encantada Silver Mine

The La Encantada Silver Mine is a producing underground mine located in Northern Mexico in Coahuila State approximately a 1.5 hour flight from Torreon and comprises 4,076 hectares of mining rights and surface land ownership of 1,343 hectares. The closest city, Melchor Muzquiz, is 225 kilometres away via 45 kilometres of gravel road and 180 kilometres in paved road. The La Encantada mine consists of a 1,000 tpd flotation plant, and other related facilities, including a mining village with 180 houses, administrative offices, and private airstrip. The Company owns 100% of the La Encantada Silver Mine.

The La Encantada mine is the Company's largest producer of silver, with the highest grade ore and lowest cost to produce. This operation is undergoing a US\$21.6 million expansion expected to be completed in mid-2009 to add a 3,500 tpd cyanidation plant thereby becoming a producer of doré bars. The mill is presently operating on average at approximately 950 tpd and produces a silver rich lead concentrate. To date, the Company has spent approximately US\$13 million on the new plant and the Company estimates commissioning to commence in mid-2009.

Tonnes milled in the first quarter of 2009 decreased by 4%, from 79,480 tonnes milled in the fourth quarter of 2008 to 76,556 tonnes milled in the first quarter of 2009, however this was a 45% increase over the 52,881 tonnes milled in the first quarter of 2008. The average head grade increased by 9% or 24 grams of silver, from 281 g/t in the fourth quarter of 2008 to 305 g/t in the first quarter of 2009, due to higher tonnage of high grade ore coming from the mine. A total of 422,695 equivalent ounces of silver were produced during the first quarter of 2009, which represents a decrease of 13% from the 484,053 equivalent ounces of silver produced in the fourth quarter of 2008 and an increase of 32,663 when compared with the first quarter of 2008. Silver production consisted of 384,976 ounces of silver, a decrease of 10% versus the 427,753 ounces in the previous quarter, and an increase of 31,994 over the first quarter of 2008, and 902,372 pounds of lead, a decrease of 25% from the 1,195,557 pounds of lead produced in the previous quarter and an increase of 398,584 pounds of lead produced in the first quarter of 2008. At the La Encantada operation low recoveries were caused by high manganese in the ore and increased throughput through the mill. Steps are being taken at La Encantada to improve recoveries; however, until the new 3500 tpd cyanidation plant is completed in mid-2009, metallurgical recoveries are only expected to increase modestly.

Underground mine development consisted of 2,097 metres of development completed in the first quarter of 2009 aimed at several targets including the San Javier/Milagros Breccias, Azul y Oro and the new Buenos Aires areas and a new developed area between the 660 and the Ojuelas ore bodies. This compares to 3,075 metres of development completed in the previous quarter, showing a decrease of 32% and an increase of 702 meters over the first quarter of 2008. The purpose of the ongoing underground development program is to prepare for increased production levels in 2009, to confirm additional Reserves and Resources, and for exploration and exploitation purposes going forward. Underground diamond drilling continued with a total of 2,397 metres compared with 2,107 metres drilled in the previous quarter and 779 meters drilled in the first quarter of 2008.

La Parrilla Silver Mine

The La Parrilla Silver Mine is a group of producing underground mines consisting of the La Rosa/Rosarios/La Blanca mines which are connected through underground workings, the San Marcos mine and the Quebradillas mine, located approximately 65 kilometres southeast of the city of Durango, Mexico. La Parrilla includes an 850 tpd mill consisting of parallel 425 tpd cyanidation and flotation circuits, buildings, offices and infrastructure and mining concessions covering an area of 53,000 hectares of which the Company owns 100 hectares of surface rights. The Company owns 100% of the La Parrilla Silver Mine, which began commercial silver production in October 2004.

This is the first mine developed by the Company and its operations have been scaled up continually from a 180 tpd operation in early 2005, to the current average throughput of 840 tpd. This mill produces doré bars and both silver-rich lead and zinc concentrates.

An expansion program at the mill was launched in July 2008 to expand this operation to 1,000 tpd by April 2009. However, due to market conditions that affected the entire mining sector in the fourth quarter of 2008, the expansion program was suspended resulting in the current mill capacity of 850 tpd.

Tonnes milled at La Parrilla decreased slightly, from 66,395 tonnes in the fourth quarter of 2008 to 65,905 tonnes in the first quarter of 2009, a decrease of 1% and an increase of 10,606 tonnes at the first quarter of 2008. The average head grade of silver at the mill decreased from 206 g/t in the fourth quarter of 2008 to 191 g/t in the first quarter of 2009, a decrease of 7% and a decrease of 85 g/t over the production of the first quarter of 2008. Recoveries of silver decreased from 70% in the fourth quarter to 66% in the first quarter of 2009 and a decrease of 11% over the first quarter of 2008.

Total silver production from the mill decreased by 12%, from 359,851 ounces of silver equivalent in the fourth quarter of 2008 to 318,124 ounces of silver equivalent in the first quarter of 2009 and a decrease of 149,684 ounces equivalent when compared with the first quarter of 2008. The composition of the silver equivalent production in the first quarter of 2009 included 268,329 ounces of silver, 150 ounces of gold and 926,367 pounds of lead. This compares to 305,685 ounces of silver, 297 ounces of gold and 897,031 pounds of lead in the fourth

quarter of 2008 and to 367,870 ounces of silver, 138 ounces of gold and 1,245,334 pounds of lead in the fourth quarter of 2008. The decrease was caused by lower head grade and lower metallurgical recoveries.

The total metres of diamond drilling increased from 668 metres in the fourth quarter of 2008 to 1,112 metres in the first quarter of 2009, an increase of 66% and a reduction compared to the 8,547 meters of drilling completed in the first quarter of 2008. In addition to the ongoing diamond drill program, a total of 1,417 metres of underground development was completed in the first quarter of 2009 compared to the 1,557 metres in the fourth quarter of 2008, a decrease of 9% and a decrease on the 2,048 meters of development completed in the first quarter of 2008.

In February 2009, the Mexican Environmental Authority PROFEPA (Procuraduria Federal Proteccion al Ambiente) awarded a Clean Industry Certificate to the La Parrilla Silver Mine. This Certificate was achieved after twenty nine months of voluntary environmental audit work, which demonstrates the Company's sustained focus in complying with international and Mexican mining standards.

San Martin Silver Mine

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. The mine comprises approximately 7,840 hectares of mineral rights, approximately 1,300 hectares of surface land rights surrounding the mine and another 104 hectares of surface land rights where the 1,000 tpd cyanidation mill and 500 tpd flotation circuit, mine buildings and offices are located. The Company owns 100% of the San Martin Silver Mine. The mill has historically produced 100% doré bars and continues to do so to this day. In early 2008, a 500 tpd flotation circuit was completed to take advantage of the large sulphide Resource at this mine, however, due to low base metal prices and high costs of smelting concentrates this circuit is presently not being operated.

In order to reduce operating costs, the Company temporarily reduced the production of ore from the main Zuloaga vein in 2008, eliminating all the external contractors and focusing on a combination of ore from the mine, old backfill and stockpile inventory to feed the cyanidation process.

An expansion program of the mill was launched in July 2008. The program included adding additional leaching tanks, thickeners and the addition of a third ball mill. The plan was to expand this mill from the historic 800 tpd to 1,200 tpd by April 2009. However, due to market conditions and the need to preserve cash, the expansion program was suspended in November 2008 resulting in the mill running at the current monthly average 890 tpd in the last quarter, after factoring in maintenance and statutory holidays. The completed upgrades included the construction of a new thickener, new clarifiers and new filter presses to complete the expansion of the cyanidation process. Other upgrades completed included the pouring of cement floors around the leaching and thickeners areas and the repair and reinforcement of the older leaching tanks. These improvements are part of the process of achieving a "Clean Industry Certification" from PROFEPA.

Tonnes milled at the San Martin mine increased from 69,771 tonnes in the fourth quarter of 2008 to 73,586 tonnes in the first quarter of 2009, an increase of 5% and an increase over the 50,218 tonnes produced in the first quarter of 2008. The average head grade increased significantly, from 124 g/t in the fourth quarter of 2008 to 163 g/t during the first quarter of 2009, representing a 31% increase and an increase also over the 138 g/t obtained in the first quarter of 2008. The higher grades were obtained as a result of new blocks being brought into production at the mine in the oxides areas.

Combined recoveries of silver in the quarter were 72%, compared to 71% in the previous quarter and below the 79% obtained in the first quarter of 2008, resulting in total production of 299,298 equivalent ounces of silver, which is 41% higher than the 212,315 equivalent ounces of silver in the fourth quarter of 2008 and 46% higher than the 203,880 produced in the first quarter of 2008. The equivalent ounces of silver in the first quarter of 2009 consisted of 276,659 ounces of silver and 341 ounces of gold. This compares to 196,681 ounces of silver, 106 ounces of gold and 1,399 pounds of lead in the fourth quarter of 2008 and the 174,506 ounces of silver, 102 ounces of gold, 108,775 pounds of lead and 266,640 pounds of zinc produced on the first quarter of 2008.

During the first quarter of 2009, a total of 613 metres of diamond drilling was completed. This is compared to 1,419 metres drilled in the fourth quarter of 2008, amounting to a 57% decrease, due to the reduction in exploration corporate wide, and the 931 meters drilled on the first quarter of 2008.

During the first quarter of 2009, a total of 707 metres of underground development was completed. This represents a 42% decrease when compared with 1,214 metres of underground development in the fourth quarter of 2008.

Del Toro Silver Mine, Zacatecas, Mexico

The Del Toro Silver Mine is located 60 km to the southeast from the Company's La Parrilla Silver Mine and consists of 320 contiguous hectares of mining claims plus an additional 100 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 1 kilometre apart.

The Del Toro Silver Mine is an advanced stage development project that has undergone an aggressive drilling program since 2005 to explore the various areas of interest within the Del Toro property holdings. The Company has been extracting development ore from the mine and shipping it to its La Parrilla mill for mixing into La Parrilla's production and for batch metallurgical testing. In the current quarter, 15,089 tonnes of development ore were extracted and fed into the La Parrilla mill for production and testing.

The Perseverancia area is presently being upgraded and rehabilitated to increase production from the high grade chimney areas. During the first quarter of 2009, the upgrade of the shaft continued and construction and installation of a new 200 tpd head frame and new hoist was completed which will allow for an increase in production from this area in the following months.

Presently permitting is underway for the construction of a new mill at Del Toro. Assuming all permitting is completed by mid 2009, and funds are available for this project, a new 500 tpd mill is anticipated to be operating in the first half of 2010. The Company has been making instalment payments toward the purchase of a semi autogenous grinding mill (SAG Mill) and currently has a long term prepaid balance of \$1.1 million (US\$836,000) toward an estimated total cost of \$1.4 million (US\$1.1 million) for the shipped and landed SAG Mill. It is anticipated that the Company will take receipt of the SAG Mill at the Del Toro mine after permitting is completed in two to three months.

EXPLORATION PROPERTY UPDATES

Cuitaboca Silver Project, Sinaloa, Mexico

The Company has an option to purchase a 100% interest in the Cuitaboca Silver Project, consisting of 5,134 hectares located in the State of Sinaloa, Mexico, which contains at least six well known veins with sulphide mineralization carrying high grade silver. The veins within the property are known as the La Lupita, Los Sapos, Chapotal, Colateral-Jesus Maria, Mojardina and Santa Eduwiges. In October 2008, in an effort to reduce costs, the Company halted its activities at the Cuitaboca project. Further exploration and development consisting of 2,000 metres of direct drifting along the vein and a diamond drill program at both the Colateral and Mojardina veins is being deferred until silver commodity prices recover and/or funds can be allocated to this project. Road construction for access to the La Lupita, Los Sapos, Chapotal, and Santa Eduwiges veins was also deferred.

Jalisco Group of Properties, Jalisco, Mexico

The Company acquired a group of mining claims totalling 5,131 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 been discontinued pending an improvement in market conditions.

RESULTS OF OPERATIONS

Three Months ended March 31, 2009 compared to Three Months ended March 31, 2008.

	March 31, 2009	March 31, 2008
	\$	\$
Gross Revenue	17,464,137	16,245,923 (1)
Net Revenue	14,386,872	12,964,182 (2)
Cost of sales	8,298,813	6,517,056
Amortization and depreciation	858,837	787,179
Depletion	570,295	886,362
Accretion of reclamation obligation	116,039	45,475
Mine operating earnings	4,542,888	4,728,110 (3)
General and administrative	1,818,005	2,131,880
Stock-based compensation	896,739	1,108,216
	<u>2,714,744</u>	<u>3,240,096</u>
Operating income	1,828,144	1,488,014 (4)
Interest and other expenses	(360,206)	(338,827) (5)
Investment and other income	289,843	137,393
Foreign exchange loss	(952,866)	(9,812) (6)
Income before taxes	804,915	1,276,768
Income tax - current	83,703	438,404
Income tax (recovery) - future	(218,486)	(226,959)
Income tax (recovery) expense	(134,783)	211,445 (7)
NET INCOME FOR THE PERIOD	939,698	1,065,323 (8)

- Gross revenue (prior to smelting, refining and transportation costs and metal deductions) for the three month period ended March 31, 2009 was \$17,464,137 compared to \$16,245,923 for the three month period ended March 31, 2008 for an increase of \$1,218,214 or 8%. Although silver prices were lower and there was a slight decrease in the number of ounces sold in the first quarter of 2009, the stronger U.S dollar compared to the Canadian dollar accounted for the favourable increase in gross revenue as silver shipments are valued in U.S dollars. The average gross revenue per ounce sold on a consolidated basis was Cdn\$17.52 (US\$14.07) per ounce for the three-month period ended March 31, 2009 compared to Cdn\$15.94 (US\$15.87) per ounce for the three-month period ended March 31, 2008. The product mix has seen an increase in the proportion of sales of coins, ingots and bullion, which have a higher final sales price and a higher cost of sales relative to normal sales of doré and concentrates.
- Net revenue for the three months ended March 31, 2009 increased by \$1,422,690 or 11%, from \$12,964,182 in the first quarter of 2008 to \$14,386,872 in the first quarter of 2009. Smelting, refining and transportation charges were reduced by 6% compared to the three-month period ended March 31, 2009 compared to March 31, 2008, and reflects the start of reductions to smelting and refining charges related to two new smelting and refining agreements entered into in February 2009 for doré and concentrate smelting. Smelting and refining reductions are delayed due to the 60 day delay in settling prior concentrate shipments. Net revenue in the quarter included \$1,194,452 from the sales of coins, ingots and bullion, which are products with a lower gross margin percentage but a positive contribution to sales after deducting metal costs and costs to fabricate the products for sale directly to consumers and individual retail investors over the Company's website.
- Mine operating earnings decreased to \$4,542,888 for the three months ended March 31, 2009 from \$4,728,110 for the three months ended March 31, 2008, a difference of \$185,222 or 4%. This is primarily due to an increase of 27% in the cost of sales as presented in Canadian dollars compared to the prior year. In the prior year the Canadian dollar was nearly at par with the US dollar, however this year the average exchange rate of US to Canadian dollars was nearly 1.25:1. Also contributing to the increase of Cost of Sales in Q1 2009 was a significant reduction of stockpile inventories amounting to \$743,267, which is categorized as an inventory effect and is excluded from the Cash Costs, but is included in Cost of Sales in Q1-2009. These significant variations account for the increase in Canadian dollar Cost of Sales at a time

when US denominated Cash Costs have decreased relative to the same quarter in the prior year. The Company is continuing to review its contracts and procurement activities to negotiate more favourable terms for materials purchases and to renegotiate payment terms where possible from U.S. dollars to the Mexican pesos.

4. There was an increase in depreciation and amortization of \$71,658 for the three month period ended March 31, 2009 compared to the three month period ended March 31, 2008 which were normal charges on plant and equipment related to capital expansions at all three operating mines. Depletion expense decreased by \$316,067 or 36% in the three months ended March 31, 2009 compared to the three months ended March 31, 2008 and is primarily related to the San Martin mine as less tonnage was extracted from reserves. Accretion of reclamation obligations has increased by \$70,564, from \$45,475 in the first quarter of 2008 to \$116,039 in the first quarter of 2009, due to the updated cost estimates for reclamation activities as determined in late 2008.
5. Operating income increased by \$340,130 or 23%, from \$1,488,014 for the three-month period ended March 31, 2008 to \$1,828,144 for the three-month period ended March 31, 2009. The increase is attributable to reductions in general and administrative expenses (\$313,875 or 15%) and stock-based compensation (\$211,477 or 19%) but these were partially offset by the reduced mine operating earnings as described above.
6. Interest and other expenses increased by \$21,379 or 6% in the three month period ended March 31, 2009 compared to the prior year and are primarily attributed to additional interest on capital leases. Investment and other income increased by \$152,450 or 111%. Interest rates on short-term investments continued to decline in the first quarter of 2009 but this was offset by a gain of \$254,046 that was realized on derivative financial instruments.
7. There is an increase in foreign exchange loss, from \$9,812 in the three month period ended March 31, 2008 to \$952,866 for the three month period ended March 31, 2009, due to the effect of a strengthening U.S. dollar on outstanding U.S. dollar denominated liabilities.
8. During the three month period ended March 31, 2009, the Company recorded an income tax recovery of \$134,783 compared to a tax expense of \$211,445 in the period ended March 31, 2008, and is attributed to the reduction of taxable income in the 2009 period compared to 2008.
9. Net income for the three month period ended March 31, 2009 was \$939,698 or \$0.01 per common share compared to net income of \$1,065,323 or \$0.02 per common share in 2008, for a decrease of \$125,625.

SUMMARY OF QUARTERLY RESULTS

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

	Quarter	Net sales revenues \$	Net income (loss) after taxes \$	Basic and diluted net income (loss) per common share \$	Stock based compensation (1) \$	Property write downs \$	Note
Year ended December 31, 2009	Q1	14,386,872	939,698	0.01	896,739	-	2
Year ended December 31, 2008	Q4	9,106,605	(5,538,906)	(0.08)	865,415	-	3
	Q3	10,817,211	(374,245)	(0.01)	1,035,864	-	
	Q2	11,436,889	(296,956)	0.00	670,616	-	4
	Q1	12,964,182	1,065,323	0.02	1,108,216	-	
Year ended December 31, 2007	Q4	11,631,477	(1,292,631)	(0.03)	1,446,821	-	
	Q3	10,288,478	(2,070,082)	(0.04)	723,992	1,703,591	5
	Q2	10,846,344	(729,658)	(0.01)	775,532	-	

Notes:

- (1) Stock-based Compensation - the net losses are affected significantly by varying stock based compensation amounts in each quarter. Stock based compensation results from the issuance of stock options in any given period, as well as factors such as vesting and the volatility of the Company's stock, and is a calculated amount based on the *Black-Scholes Option Pricing Model* of estimating the fair value of stock option issuances.
- (2) In the quarter ended March 31, 2009, a stronger U.S. dollar compared to the Canadian dollar accounted for the increase of revenue. Although silver prices were lower in the first quarter of 2009, the average gross revenue per ounce sold was Cdn\$17.52 (US\$14.07) per ounce on a consolidated basis for the three-month period ended March 31, 2009. The Company also experienced higher cost of sales and a foreign exchange loss of \$1.0 million due to the effect of a strengthening U.S. dollar on U.S. dollar denominated expenses and liabilities. Also contributing to an increase in net sales is the increasing revenues from the sale of coins, ingots and bullion, with sales of \$1,194,452 in the quarter.
- (3) In the quarter ended December 31, 2008, net sales revenue was negatively affected by declining silver prices and losses on final metal settlements, for which provisional payments had already been received. While the average gross revenue per ounce was US\$14.66 for the year ended December 31, 2008, the average gross revenue per ounce for the fourth quarter of 2008 was US\$11.67 per ounce. In addition, the strengthening U.S. dollar relative to the Mexican peso and Canadian dollar gave rise to a foreign exchange loss of \$3.7 million in the fourth quarter of 2008.
- (4) In the quarter ended June 30, 2008, the Company had a revision to its smelting charges imposed, resulting in an incremental charge and reduction of net sales of \$1.9 million (US\$1,852,830) in the quarter. Effective December 1, 2008, smelting and refining charges were reduced. In addition, in February 2009, the Company entered into two new smelting agreements which further reduced smelting charges for doré and concentrate.
- (5) Write downs of mineral properties – net losses are impacted by managements' decision not to pursue certain mineral properties. In the quarter ended September 30, 2007, management elected not to proceed with the acquisitions of the Candameña Mining District and accordingly, included a \$1,703,591 one time write down of the carrying value of the Candameña mineral property to its estimated proceeds from disposal.

Revenues Per Canadian GAAP (expressed in CDN\$)

As required by Canadian GAAP, revenues are presented as the net sum of invoiced revenues for delivered shipments of silver doré bars, and silver concentrates, including metal by-products of gold, lead and zinc, after having deducted refining and smelting charges, as well as shipments of coins, ingots and bullion products. The following analysis provides 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 Canadian GAAP. Gross revenues are deducted by shipped ounces of equivalent silver to calculate the average realized price per ounce of silver sold.

Revenue Analysis	Quarter Ended	
	March 31,	
	2009	2008
	\$	\$
MEXICO		
Gross revenues - silver dore bars and concentrates	16,269,685	16,245,923
Less: refining, smelting and transportation charges	(2,540,742)	(2,801,235)
Less: metal deductions	(536,523)	(480,506)
Net revenue from silver dore and concentrates	13,192,420	12,964,182
Equivalent ounces of silver sold	996,595	1,019,490
Average gross revenue per ounce sold (\$CDN)	16.33	15.94
Average exchange rate in the period (\$US/\$CDN)	1.2453	1.0041
Average gross revenue per ounce sold (\$US)	13.11	15.87
CANADA		
Gross revenues - silver coins, ingots and bullion	1,194,452	-
Equivalent ounces of silver sold, from Mexican production	67,620	-
Average gross revenue per ounce sold (\$CDN)	17.66	-
Average exchange rate in the period (\$US/\$CDN)	1.2453	-
Average gross revenue per ounce sold (\$US)	14.18	-
CONSOLIDATED		
Gross revenues - silver coins, ingots and bullion	17,464,137	16,245,923
Less: refining, smelting and transportation charges	(2,540,742)	(2,801,235)
Less: metal deductions	(536,523)	(480,506)
Net revenue from silver dore and concentrates	14,386,872	12,964,182
Equivalent ounces of silver sold (after interco. eliminations)	996,595	1,019,490
Average gross revenue per ounce sold (\$CDN)	17.52	15.94
Average exchange rate in the period (\$US/\$CDN)	1.2453	1.0041
Average gross revenue per ounce sold (\$US)	14.07	15.87
Average market price of per ounce of silver per LBMA.ORG (\$US)	12.61	17.68

LIQUIDITY

At March 31, 2009, the Company had working capital of \$14.2 million and cash and cash equivalents of \$33.1 million compared to a working capital deficiency of \$1.0 million and cash and cash equivalents of \$17.4 million at December 31, 2008. Current liabilities at March 31, 2009 include the long-term vendor liability and associated interest relating to the acquisition of First Silver in the amount of \$14.5 million. On July 22, 2008, the Company

secured its outstanding vendor liability by entering into a Letter of Credit facility for \$13.9 million, secured by cash and liquid short term investments. The Letter of Credit is revolving with annual expiry on July 22. The cash and short term investments earn market rates of interest from which the 0.5% per annum cost of the Letter of Credit is deducted and the net interest remitted to the Company. In January 2009, a further \$0.5 million was paid into the Supreme Court of British Columbia for additional interest payments and will be added to the Letter of Credit posted to the Supreme Court of British Columbia. The Restricted Cash is segregated from operating cash as the funds are not accessible by the Company pending the litigation described in Note 9 of the Consolidated Financial Statements. Also included in current liabilities at March 31, 2009 is the current portion of capital lease obligations of \$3.0 million.

On March 5, 2009, the Company completed a public offering with a syndicate of underwriters who purchased 8,487,576 units at an issue price of \$2.50 per unit for net proceeds to the Company of \$19,705,739. Each unit consisted of one common share in the capital of the Company and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one additional common share at a price of \$3.50 until March 5, 2011. The Company plans to use \$15.5 million of the net proceeds of the offering for mill construction and mine improvements at the La Encantada Silver Mine and the remainder for general working capital. The underwriters had an option, exercisable up until 30 days following closing of the offering, to purchase up to an additional 1,273,136 common shares at a price of \$2.40 per share and up to an additional 636,568 warrants at a price of \$0.20 per warrant. The underwriters did not exercise their option to purchase the option shares or warrants. During the quarter ended March 31, 2009, the Company also received \$7,938 pursuant to the exercise of 6,250 stock options.

On March 25, 2008, the Company completed a public offering with a syndicate of underwriters issuing 8,500,000 Units at an issue price of \$5.35 per unit for net proceeds to the Company of \$40,144,471. Each unit consisted of one common share in the capital of the Company and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one additional common share at a price of \$7.00 expiring March 25, 2010. In addition, the Company received \$1,130,588 pursuant to the exercise of 376,250 stock options and \$31,875 pursuant to the exercise of 7,500 warrants during the three months ended March 31, 2008.

During the three months ended March 31, 2009, the Company made investments on its mineral properties of \$1.8 million (March 31, 2008 - \$4.6 million), and on plant and equipment further expenditures of \$1.6 million (March 31, 2008 - \$3.0 million). In 2008, the Company took actions to reduce its rate of spending on exploration and development expenditures. Although the Company has expended approximately US\$13 million to date on its capital expansion at La Encantada, this is expected to be a US\$21.6 million capital expansion that would increase capacity to 3,500 tonnes per day.

Funds surplus to the Company's short-term operating needs are invested in highly liquid short-term investments with maturities of three months or less. The funds are not exposed to any liquidity risk and there are no restrictions on the ability of the Company to meet its obligations. The Company has no exposure and has not invested any of its treasuries in any asset backed commercial paper securities.

2009 OUTLOOK

Management is choosing at this time to revise its production and cost outlook for 2009 in the interests of maintaining a more conservative expectation for the year. Please be cautioned, these are forward-looking estimates and subject to the cautionary note regarding the risks associated with forward looking statements at the beginning of this MD&A.

PRODUCTION PROJECTIONS - 2009	La Encantada	La Parrilla	San Martin	Consolidated
Tonnes Milled	587,100	265,300	250,800	1,103,200
Silver head grades (grams/tonne)	212	250	150	205
Silver recoveries	60%	75%	80%	68%
Silver ounces	2,470,300	1,545,700	967,700	4,983,700
Gold ounces	15	465	1,187	1,667
Lead tonnes	944	1,322	-	2,266
Silver equivalent ounces ⁽¹⁾	2,563,300	1,703,600	1,032,200	5,300,000

(1) Pricing assumptions for equivalents – Au = US\$800/oz., Pb = US\$0.55/oz., Zn = US\$0.50/oz.

Silver production is expected to increase in mid 2009 when the La Encantada plant expansion is completed and plant capacity has been increased from 1,000 tpd to 3,500 tpd. The Company expects to gradually bring the new cyanidation plant into production beginning with production of 1,000 tpd in the first month, 2,000 tpd in the second month, 3,000 tpd in the third month, and achieving full capacity of 3,500 tpd in the fourth month of production.

Although mill capacities are stated in maximum daily tonnage, management has established expected available days of operation in the year to include two days of maintenance per month and eleven days of statutory holidays for a total of 330 available productive days.

Capital expenditures at the La Encantada mine are expected to amount to US\$21.6 million upon completion in mid-2009.

Smelting and refining charges are expected to decrease in 2009 due to new refining and smelting agreements entered into in February 2009 for doré and concentrate production. With the shift in production at the La Encantada mine, the mix of doré to concentrate production will increase from 49% to 92% by the fourth quarter of 2009.

Sales of coins, ingots and bullion will increase in the year from 5% of production in Q1/09, to approximately 10% by the end of Q2/09 and will remain at that level for the balance of 2009. These sales result in approximately a 10% increase in selling price over normal quoted selling prices in any quarter. Additional information on the Company's silver coins, ingots and bullion, including how to place an order, may be found on the Company's website at www.firstmajestic.com.

OFF-BALANCE SHEET ARRANGEMENTS

At March 31, 2009, the Company had no material off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that generate financing, liquidity, market or credit risk to the Company, other than those disclosed in this MD&A and the consolidated financial statements and the related notes.

RELATED PARTY TRANSACTIONS

During the period ended March 31, 2009, the Company:

- a) incurred \$76,493 (2008 - \$45,185) for management services provided by the President & CEO and/or a corporation controlled by the President & CEO of the Company pursuant to a consulting agreement.
- b) incurred \$73,633 (2008 - \$60,256) to a director and Chief Operating Officer for management and other services related to the mining operations of the Company in Mexico pursuant to a consulting agreement.
- c) incurred \$1,269,751 (2008 - \$1,935,900) for service fees with a mining services company sharing our premises in Durango Mexico. This related party provided management services and paid mining contractors who provided services at the Company's mines in Mexico for the period January 1 to February 28, 2009. Of the fees incurred, \$769,644 was unpaid as at March 31, 2009 (2008 - \$511,536). This relationship was terminated in February 2009.

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

PROPOSED TRANSACTIONS

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

CONTRACTUAL OBLIGATIONS

The Company's liabilities have contractual maturities which are summarized below;

	Payments Due By Period				
	Total	Less than 1 year	1- 3 years	4 - 5 years	After 5 years
Capital Lease Obligations	\$ 5,541,467	\$ 3,010,446	\$ 2,531,021	\$ -	\$ -
Purchase Obligations ⁽¹⁾	7,050,202	7,050,202	-	-	-
Vendor Liability on Mineral Property ⁽²⁾	1,063,559	1,063,559	-	-	-
Purchase obligation for SAG mill	405,000	405,000	-	-	-
Total Contractual Obligations ⁽³⁾	<u>\$ 14,060,228</u>	<u>\$ 11,529,207</u>	<u>\$ 2,531,021</u>	<u>\$ -</u>	<u>\$ -</u>

(1) Contract commitments for construction materials and equipment for the La Encantada Mill Expansion Project

(2) Vendor liability on mineral property on the Quebradillas Mine at La Parrilla.

(3) Amounts above do not include payments related to the Company's future asset retirement obligations (see Note 16), nor do they include accounts payable and accrued liabilities of \$15.5 million.

CRITICAL ACCOUNTING ESTIMATES

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

All of the Company's significant accounting policies and the estimates are included in Note 2 in the annual consolidated financial statements for period ended December 31, 2008. While all of the significant accounting

policies are important to the Company's consolidated financial statements, the following accounting policies and the estimates have been identified as being critical:

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

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

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

The Company completed an impairment review of its properties at December 31, 2008. The estimates used by management are subject to various risks and uncertainties. It is reasonably possible that changes in estimates could occur which may affect the expected recoverability of the Company's investments in mining projects and other mineral property interests.

Depletion and Depreciation of Property, Plant and Equipment

Property, plant and equipment comprise one of the largest components of the Company's assets and, as such, the amortization of these assets has a significant effect on the Company's financial statements. On the commencement of commercial production, depletion of each mining property is provided on the unit-of-production basis using estimated reserves and resources expected to be converted to reserves as the depletion basis. The mining plant and equipment and other capital assets are depreciated, following the commencement of commercial production, over their expected economic lives using either the unit-of-production method. Capital projects in progress are not depreciated until the capital asset has been put into operation.

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

Asset Retirement Obligations and Reclamation Costs

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

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

As the estimate of obligations is based on future expectations, in the determination of closure provisions, management makes a number of assumptions and judgments. The liability is accreted over time to the amount ultimately payable through periodic charges to earnings. The undiscounted amount of estimated cash flows required to settle the Company's estimated obligations is discounted using a credit adjusted risk free rate of 8.5%. The closure provisions are more uncertain the further into the future the mine closure activities are to be carried out. Actual costs incurred in future periods related to the disruption to date could differ materially from the discounted future value estimated by the Company at March 31, 2009.

Income Taxes

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

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

Management executed a corporate restructuring for tax purposes that became effective January 1, 2008, enabling on a limited basis to consolidate its tax losses of certain subsidiaries against the taxable incomes of other subsidiaries. Co-incident with the tax consolidation, Mexico introduced an alternative minimum tax known as the IETU, effective January 1, 2008, to attempt to limit certain companies from avoiding paying taxes on their cash earnings in Mexico. Management has reviewed its IETU obligations and its consolidated tax position at March 31, 2009, and management is required to assess whether the Company is "more likely than not" to benefit from these tax losses prior to recording a benefit from the tax losses.

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

Stock-Based Compensation

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

FUTURE ACCOUNTING CHANGES

The Company has assessed new and revised accounting pronouncements that have been issued but that are not yet effective and determined that the following may have a significant impact on the Company.

The CICA issued the new Handbook Section 3064, "Goodwill and Intangible Assets", which establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard is effective for the Company beginning January 1, 2009. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

The CICA issued the new Handbook Section 1582, "Business Combinations", Section 1601 "Consolidations" and Section 1602 "Non-controlling Interests" to harmonize with International Financial Reporting Standards ("IFRS"). Section 1582 specifies a number of changes including: an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure non-controlling interests at fair value, and a requirement to recognize acquisition related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. These new standards become effective beginning on or after January 1, 2011, but early adoption is permitted.

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. The Company's officers and management are also responsible for establishing and maintaining disclosure controls and procedures for the Company. These disclosure controls and procedures are designed to provide reasonable assurance that any information required to be disclosed by the Company under securities legislation is recorded, processed, summarized and reported within the applicable time periods and to ensure that required information is gathered and communicated to the Company's management so that decisions can be made about timely disclosure of that information.

Management reviewed internal controls in detail in 2008 and noted weaknesses in internal controls related to education and adoption of new automated internal controls in Mexico proposed when its new accounting information systems were adopted in the first quarter of 2008. The risk of material error is mitigated by extensive management review of financial reports and various account reconciliations and analyses in both Mexico and Canada. Management is continuing to rely significantly on substantive testing and detailed analyses in parallel with establishing detailed controls over the new systems in order to mitigate specific weaknesses while ensuring the fair presentation of its financial statements.

Based upon the recent assessment of the effectiveness of the internal control over financial reporting and disclosure controls and procedures, including consideration of detailed analyses by supervisory personnel to mitigate any exposure or weaknesses, the Company's Chief Executive Officer and Chief Financial Officer have concluded that there are weaknesses in Mexico but these are compensated by head office supervisory controls and as a result management has concluded that there are no material unmitigated weaknesses, and the design and implementation of internal control over financial reporting and disclosure controls and procedures were effective as at March 31, 2009.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for public companies to commence using IFRS, replacing Canada's own GAAP. The transition date is for interim and annual financial statements relating to fiscal years beginning on or after

January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for all the periods ended after January 1, 2010.

We have begun planning our transition to IFRS but the impact on our consolidated financial position and results of operations has not yet been determined. The Company is presently undergoing a diagnostic assessment of its current accounting policies systems and processes in order to identify differences between current Canadian GAAP and IFRS treatment. While the effects of IFRS have not yet been fully determined, the Company has identified several key areas where it is likely to be impacted by accounting policy changes, including the accounting for Property, Plant and Equipment, Asset Retirement Obligations and Business Combinations. Further detailed analysis of these areas is underway, and no decisions have yet been made with regard to accounting policy choices.

A more detailed review of the impact of IFRS on the Company's consolidated financial statements, and other areas of the Company is in progress and is expected to be completed by the end of 2009. The Company will continue to monitor changes in IFRS during the implementation process and intends to update the critical accounting policies and procedures to incorporate the changes required by converting to IFRS and the impact of these changes on its financial reporting. There will be changes in accounting policies related to the adoption of IFRS and these changes may materially impact the Company's financial statements in the future.

OTHER MD&A REQUIREMENTS

- (a) Additional information relating to the Company may be found on or in:
- SEDAR at www.sedar.com,
 - the Company's Annual Information Form,
 - the Company's audited consolidated financial statements for the year ended December 31, 2008.