



INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

MARCH 31, 2010 (UNAUDITED)

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

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

FIRST MAJESTIC SILVER CORP.
INTERIM CONSOLIDATED BALANCE SHEETS
AS AT MARCH 31, 2010 AND DECEMBER 31, 2009
(Unaudited, expressed in Canadian dollars)

	March 31, 2010	December 31, 2009
	\$	\$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	8,478,338	5,889,793
Accounts receivable	3,484,012	2,174,848
Other receivables (Note 4)	5,307,342	6,624,200
Inventories (Note 5)	3,994,051	3,812,460
Prepaid expenses and other (Note 6)	2,534,357	1,467,759
	23,798,100	19,969,060
MINING INTERESTS (Note 7)		
Producing properties	60,439,055	57,144,477
Exploration properties	112,490,643	109,255,696
Plant and equipment	65,860,718	60,388,530
	238,790,416	226,788,703
CORPORATE OFFICE EQUIPMENT (Note 7)	487,729	409,281
DEPOSITS ON LONG-TERM ASSETS (Note 10)	1,873,960	4,306,419
	264,950,205	251,473,463
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	12,303,719	11,202,381
Unearned revenue on silver bullion sales	128,489	158,147
Current portion of debt facilities (Note 9)	2,632,074	1,546,612
Current portion of capital lease obligations (Note 14)	1,661,858	2,139,352
Income and other taxes payable	169,234	117,844
	16,895,374	15,164,336
FUTURE INCOME TAXES	30,419,939	28,417,011
CAPITAL LEASE OBLIGATIONS (Note 14)	429,455	668,284
LONG-TERM PORTION OF DEBT FACILITIES (Note 9)	3,095,400	3,213,487
OTHER LONG TERM LIABILITIES (Note 16)	776,611	753,657
ASSET RETIREMENT OBLIGATIONS (Note 15)	4,563,097	4,336,088
	56,179,876	52,552,863
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 11(a))	244,458,682	244,241,006
SHARE CAPITAL TO BE ISSUED (Note 11(d))	276,495	276,495
CONTRIBUTED SURPLUS	28,465,674	27,808,671
ACCUMULATED OTHER COMPREHENSIVE LOSS	(34,279,659)	(40,238,914)
DEFICIT	(30,150,863)	(33,166,658)
	208,770,329	198,920,600
	264,950,205	251,473,463
CONTINUING OPERATIONS (Note 1)		
CONTINGENT LIABILITIES (Note 17)		
COMMITMENTS (Note 18)		

APPROVED BY THE BOARD OF DIRECTORS

Keith Neumeyer

Director

Douglas Penrose

Director

FIRST MAJESTIC SILVER CORP.
INTERIM CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED MARCH 31, 2010 AND 2009
(Unaudited, expressed in Canadian dollars, except share amounts)

	March 31, 2010	March 31, 2009
	\$	\$
Revenues (Note 12)	18,217,614	14,386,872
Cost of sales	8,973,857	8,298,813
Amortization and depreciation	797,396	858,837
Depletion	1,000,595	570,295
Accretion of reclamation obligation (Note 15)	93,720	116,039
Mine operating earnings	7,352,046	4,542,888
General and administrative	1,986,623	1,818,005
Stock-based compensation	700,179	896,739
	<u>2,686,802</u>	<u>2,714,744</u>
Operating income	4,665,244	1,828,144
Interest and other expenses	(562,439)	(360,206)
Investment and other income	27,321	289,843
Loss on disposal of marketable securities	(40,470)	-
Foreign exchange gain (loss)	72,025	(952,866)
Income before taxes	<u>4,161,681</u>	<u>804,915</u>
Income tax expense - current	18,561	83,703
Income tax expense (recovery) - future	1,127,325	(218,486)
Income tax expense (recovery)	<u>1,145,886</u>	<u>(134,783)</u>
NET INCOME FOR THE PERIOD	<u>3,015,795</u>	<u>939,698</u>
EARNINGS PER COMMON SHARE		
BASIC	<u>\$ 0.03</u>	<u>\$ 0.01</u>
DILUTED	<u>\$ 0.03</u>	<u>\$ 0.01</u>
WEIGHTED AVERAGE SHARES OUTSTANDING		
BASIC	<u>92,710,994</u>	<u>76,400,055</u>
DILUTED	<u>94,091,000</u>	<u>92,387,593</u>

FIRST MAJESTIC SILVER CORP.

INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

FOR THE PERIODS ENDED MARCH 31, 2010 AND 2009

(Unaudited, expressed in Canadian dollars, except share amounts)

	Share Capital		Contributed Surplus	Accumulated Other Comprehensive Income (Loss) ("AOCI") (1)	Deficit	Total AOCI and Deficit	Total	
	Shares	Amount						To be issued
	\$	\$	\$	\$	\$	\$	\$	
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	1,761,645
Shares issued for:								
Exercise of options	6,250	7,938	-	-	-	-	-	7,938
Public offering, net of issue costs (Note 11(a)(i))	8,487,576	18,856,981	-	848,758	-	-	-	19,705,739
Stock option expense, net of deferred compensation	-	-	-	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
Balance at December 31, 2009	92,648,744	244,241,006	276,495	27,808,671	(40,238,914)	(33,166,658)	(73,405,572)	198,920,600
Net income	-	-	-	-	-	3,015,795	3,015,795	3,015,795
Other comprehensive income:								
Translation adjustment	-	-	-	-	5,738,887	-	5,738,887	5,738,887
Unrealized gain on marketable securities	-	-	-	-	220,368	-	220,368	220,368
Total comprehensive income							8,975,050	8,975,050
Shares issued for:								
Exercise of options	50,000	92,000	-	-	-	-	-	92,000
Exercise of warrants	25,000	82,500	-	-	-	-	-	82,500
Stock option expense during the period	-	-	-	700,179	-	-	-	700,179
Transfer of contributed surplus upon exercise of stock options and warrants	-	43,176	-	(43,176)	-	-	-	-
Balance at March 31, 2010	92,723,744	244,458,682	276,495	28,465,674	(34,279,659)	(30,150,863)	(64,430,522)	208,770,329

(1) AOCI consists of the cumulative translation adjustment on self sustaining subsidiaries which primarily affects the mining interests, except for the unrealized gain on marketable securities classified as "available for sale".

FIRST MAJESTIC SILVER CORP.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED MARCH 31, 2010 AND 2009
(Unaudited, expressed in Canadian dollars)

	March 31, 2010 \$	March 31, 2009 \$
OPERATING ACTIVITIES		
Net income for the period	3,015,795	939,698
Adjustment for items not affecting cash		
Depletion	1,000,595	570,295
Depreciation	797,396	858,837
Stock-based compensation	700,179	896,739
Accretion of reclamation obligation	93,720	116,039
Unrealized (gain) loss on futures contracts	(442,304)	850
Future income taxes	1,127,325	(218,486)
Other income from derivative financial instruments	-	(267,667)
Loss on sale of marketable securities	40,470	-
Unrealized foreign exchange (gain) loss and other	(453,749)	305,677
	<u>5,879,427</u>	<u>3,201,982</u>
Net change in non-cash working capital items		
Decrease in accounts receivable and other receivables	418,357	395,480
Increase in inventories	(75,994)	(536,133)
Increase in prepaid expenses and other	(271,139)	(479,985)
Decrease in accounts payable and accrued liabilities	(504,358)	(2,338,209)
(Decrease) Increase in unearned revenue	(29,658)	267,872
Increase (Decrease) in taxes receivable and payable	57,924	(158,024)
Decrease in vendor liability on mineral property	-	(350,560)
	<u>5,474,559</u>	<u>2,423</u>
INVESTING ACTIVITIES		
Expenditures on mineral property interests (net of accruals)	(3,409,620)	(1,847,474)
Net proceeds from pre-commercial operations	2,101,124	-
Additions to plant and equipment (net of accruals and pre-commercial proceeds)	(1,353,532)	(1,585,659)
Decrease in silver futures contract deposits	-	688,293
Investment in marketable securities	(25,000)	-
Proceeds from sale of marketable securities	29,530	-
Increase in deposits on long term assets and other	(464,331)	(380,708)
Increase in restricted cash for vendor liability	-	(545,522)
	<u>(3,121,829)</u>	<u>(3,671,070)</u>
FINANCING ACTIVITIES		
Issuance of common shares and warrants, net of issue costs	174,500	19,713,677
Payment of capital lease obligations	(659,568)	(382,468)
Prepayment facility, net of repayments	748,154	-
	<u>263,086</u>	<u>19,331,209</u>
INCREASE IN CASH AND CASH EQUIVALENTS	2,615,816	15,662,562
EFFECT OF EXCHANGE RATE ON CASH HELD IN FOREIGN CURRENCY	(27,271)	254
CASH AND CASH EQUIVALENTS - BEGINNING OF THE PERIOD	5,889,793	17,424,123
CASH AND CASH EQUIVALENTS - END OF THE PERIOD	8,478,338	33,086,939
CASH AND CASH EQUIVALENTS IS COMPRISED OF:		
Cash	8,394,572	18,517,588
Short-term deposits	83,766	83,592
Restricted cash (Note 8)	-	14,485,759
	<u>8,478,338</u>	<u>33,086,939</u>
Interest paid	244,161	42,368
Income taxes paid	-	-
NON-CASH FINANCING AND INVESTING ACTIVITIES (NOTE 19)	-	-

FIRST MAJESTIC SILVER CORP.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED MARCH 31, 2010 AND 2009 (Unaudited)

1. DESCRIPTION OF BUSINESS AND CONTINUING OPERATIONS

First Majestic Silver Corp. (the “Company” or “First Majestic”) is in the business of production, development, exploration, and acquisition of mineral properties with a focus on silver in Mexico. The Company’s shares and warrants trade on the Toronto Stock Exchange under the symbols “FR” 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. The Company’s ability to continue as a going concern is dependent on the price of silver in global commodity markets, and on maintaining profitable operations or obtaining sufficient funds from alternative sources as required to augment operations and for ongoing capital developments. If the Company were unable to continue as a going concern, material adjustments may 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”). These interim financial statements do not contain all the information required by GAAP for annual financial statements and should be read in conjunction with the Company’s latest audited consolidated financial statements for the year ended December 31, 2009.

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”), First Silver Reserve Inc. (“First Silver”) and Normabec Mining Resources Ltd. (“Normabec”) 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”), Majestic Services S.A. de C.V. (“Majestic Services”), Minera Real Bonanza, S.A. de C.V. (“MRB”) and Servicios Minero-Metalurgicos e Industriales, S.A. de C.V. (“Servicios”). 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 8. Intercompany balances and transactions are eliminated on consolidation.

Variable Interest Entities (“VIEs”) as defined by the Accounting Standards Board in Accounting Guideline 15 “Consolidation of Variable Interest Entities” are entities in which equity investors do not have the characteristics of a “controlling financial interest” or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIEs are subject to consolidation by the primary beneficiary who will absorb the majority of the entities expected losses and/or expected residual returns. The Company has determined that it has no VIEs.

3. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

Future Accounting Pronouncements

Business Combinations, Consolidations and Non-controlling interests

The CICA has approved new Handbook Section 1582, “Business Combinations”, Section 1601 “Consolidations” and Section 1602 “Non-controlling Interests” to harmonize with International Financial Reporting Standards (“IFRS”). These new sections will be effective for years beginning on or after January 1, 2011, with early adoption permitted. 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. The Company has adopted these new standards for the period ended March 31, 2010.

FIRST MAJESTIC SILVER CORP.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED MARCH 31, 2010 AND 2009 (Unaudited)

3. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES (continued)

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 January 1, 2011, and relates to interim and annual financial statements on or after January 1, 2011. The transition will require the restatement for comparative purposes of amounts reported by the Company for all reporting periods beginning after January 1, 2010.

The Company has commenced planning its transition to IFRS but the impact on our consolidated financial position and results of operations has not yet been determined. The Company is continuing its diagnosis and impact assessment of its current accounting policies systems and processes in order to identify differences between current Canadian GAAP and IFRS treatment. The Company will continue to monitor changes in IFRS during 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.

4. OTHER RECEIVABLES

Details of the components of other receivables are as follows:

	March 31, 2010	December 31, 2009
	\$	\$
Value added taxes recoverable	3,098,482	4,066,074
Other taxes and value added taxes on accounts payable	1,825,000	2,072,442
Loan receivable from supplier	376,468	478,824
Interest receivable and other	7,392	6,860
	5,307,342	6,624,200

5. INVENTORIES

Inventories consist of the following:

	March 31, 2010	December 31, 2009
	\$	\$
Silver coins and bullion including in process shipments	666,139	273,262
Finished product - doré and concentrates	366,681	343,990
Ore in process	328,963	463,549
Stockpile	443,195	387,836
Materials and supplies	2,189,073	2,343,823
	3,994,051	3,812,460

The amounts of inventory recognized as expenses during the period are equivalent to the cost of sales for the respective periods.

FIRST MAJESTIC SILVER CORP.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED MARCH 31, 2010 AND 2009 (Unaudited)

6. PREPAID EXPENSES AND OTHER

Details of prepaid expenses and other are as follows:

	March 31, 2010	December 31, 2009
	\$	\$
Prepayments to suppliers and contractors	1,246,045	832,880
Deposits	243,037	215,036
Marketable securities	567,518	387,425
Derivative financial instruments	436,250	-
Prepaid mineral rights	41,507	32,418
	2,534,357	1,467,759

7. MINING INTERESTS AND PLANT AND EQUIPMENT

Mining interests and plant and equipment, net of accumulated depreciation and depletion, are as follows:

	March 31, 2010			December 31, 2009		
	Cost	Accumulated Depreciation and Depletion	Net Book Value	Cost	Accumulated Depreciation and Depletion	Net Book Value
	\$	\$	\$	\$	\$	\$
Mining properties	191,120,833	18,191,135	172,929,698	183,585,673	17,185,500	166,400,173
Plant and equipment	75,527,992	9,667,274	65,860,718	69,026,387	8,637,857	60,388,530
	266,648,825	27,858,409	238,790,416	252,612,060	25,823,357	226,788,703

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

	March 31, 2010			December 31, 2009		
	Cost	Accumulated Depletion	Net Book Value	Cost	Accumulated Depletion	Net Book Value
	\$	\$	\$	\$	\$	\$
MEXICO						
Producing properties						
La Encantada (a)	14,459,318	3,032,992	11,426,326	13,055,900	2,886,830	10,169,070
La Parrilla (b)	24,059,052	3,249,990	20,809,062	22,371,850	3,009,041	19,362,809
San Martin (c)	40,111,820	11,908,153	28,203,667	38,902,227	11,289,629	27,612,598
	78,630,190	18,191,135	60,439,055	74,329,977	17,185,500	57,144,477
Exploration properties						
La Encantada (a)	2,502,732	-	2,502,732	2,467,451	-	2,467,451
La Parrilla (b)	7,880,206	-	7,880,206	7,625,168	-	7,625,168
San Martin (c) (1)	68,410,230	-	68,410,230	65,931,244	-	65,931,244
Del Toro (d)	12,295,213	-	12,295,213	11,855,627	-	11,855,627
Real de Catorce (e)	21,402,262	-	21,402,262	21,376,206	-	21,376,206
	112,490,643	-	112,490,643	109,255,696	-	109,255,696
	191,120,833	18,191,135	172,929,698	183,585,673	17,185,500	166,400,173

(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).

FIRST MAJESTIC SILVER CORP.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED MARCH 31, 2010 AND 2009 (Unaudited)

7. MINING INTERESTS AND PLANT AND EQUIPMENT (continued)

A summary of plant and equipment is as follows:

	March 31, 2010			December 31, 2009		
	Cost	Accumulated	Net Book	Cost	Accumulated	Net Book
	\$	Depreciation	Value	\$	Depreciation	Value
La Encantada Silver Mine	47,382,393	2,215,382	45,167,011	42,001,694	1,954,699	40,046,995
La Parrilla Silver Mine	17,900,568	4,302,582	13,597,986	17,228,300	3,792,818	13,435,482
San Martin Silver Mine	10,200,045	3,145,130	7,054,915	9,751,407	2,889,290	6,862,117
Real de Catorce Silver Project	44,986	4,180	40,806	44,986	1,050	43,936
Used in Mining Operations	75,527,992	9,667,274	65,860,718	69,026,387	8,637,857	60,388,530
Corporate office equipment	897,346	409,617	487,729	767,782	358,501	409,281
	76,425,338	10,076,891	66,348,447	69,794,169	8,996,358	60,797,811

Details of plant and equipment and corporate office equipment by specific assets are as follows:

	March 31, 2010			December 31, 2009		
	Cost	Accumulated	Net Book	Cost	Accumulated	Net Book
	\$	Depreciation	Value	\$	Depreciation	Value
Land	2,288,642	-	2,288,642	2,279,494	-	2,279,494
Automobile	435,964	233,206	202,758	401,056	204,920	196,136
Buildings	6,142,110	647,253	5,494,857	5,918,355	578,177	5,340,178
Machinery and equipment	27,240,669	8,200,495	19,040,174	26,154,678	7,311,470	18,843,208
Computer equipment	616,018	333,651	282,367	560,018	279,783	280,235
Office equipment	711,410	483,100	228,310	577,215	460,070	117,145
Leasehold improvements	320,304	179,186	141,118	320,304	161,938	158,366
Construction in progress (1)(2)	38,670,221	-	38,670,221	33,583,049	-	33,583,049
	76,425,338	10,076,891	66,348,447	69,794,169	8,996,358	60,797,811

- (1) Construction in progress includes \$36,395,805 relating to La Encantada, \$419,824 relating to La Parrilla and \$1,854,592 relating to San Martin (December 31, 2009 - \$31,283,949 relating to La Encantada, \$535,604 relating to La Parrilla and \$1,763,496 relating to San Martin).
- (2) At March 31, 2010, the La Encantada mill expansion project had not achieved a commercial stage of production, therefore the net amount of revenues less production costs of \$2,770,596 (December 31, 2009 - \$496,371) in connection with the sale of 316,680 silver equivalent ounces (December 31, 2009 - 54,277 silver equivalent ounces) of precipitates during the pre-operating period from November 19, 2009 to March 31, 2010 were offset to construction in progress. The net proceeds on the sale of silver precipitates for the quarter ended March 31, 2010 was \$2,274,225, relating to 262,403 pre-commercial ounces of silver produced in the current quarter.

Mineral property options paid and future option payments in U.S. dollars are due as follows:

	Del Toro Note 7(d) US\$
Paid as at December 31, 2009	5,987,500
Payable in 2010	225,000
Total Current and Future Option Payments	6,212,500

FIRST MAJESTIC SILVER CORP.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED MARCH 31, 2010 AND 2009 (Unaudited)

7. MINING INTERESTS AND PLANT AND EQUIPMENT (continued)

(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 is comprised of 4,076 hectares of mining rights and surface land ownership of 1,343 hectares. The closest town, Muzquiz, is 225 km away via paved and unpaved road. The La Encantada Silver Mine consists of a 3,500 tonnes per day cyanidation plant, a 1,000 tonnes per day flotation plant, an airstrip, and a village with 180 houses as well as administrative offices. The Company owns 100% of the La Encantada Silver Mine. During the quarter ended March 31, 2010, \$5.9 million in expenditures were incurred at La Encantada and classified as construction in progress at March 31, 2010 as the plant has not yet achieved commercial production levels.

(b) La Parrilla Silver Mine, Durango State

The La Parrilla Silver Mine is a system of connected 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 km southeast of the city of Durango, in the State of Durango, Mexico. Located at the mine are: mining equipment, a 425 tonnes per day cyanidation plant, a 425 tonnes 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.

There is a net smelter royalty ("NSR") agreement of 1.5% of sales revenue associated with the Quebradillas Mine, with a maximum payable of US\$2.5 million. The Company has an option to purchase the NSR at any time for an amount of US\$2.0 million. For the quarter ended March 31, 2010, the Company paid US\$43,870 (quarter ended March 31, 2009 - US\$36,086) relating to royalties. The sum of royalties paid under the Quebradillas NSR is presently US\$248,233.

(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 is comprised of approximately 7,840 hectares of mineral rights, approximately 1,300 hectares of surface rights surrounding the mine, and another 104 hectares of surface rights where the 950 tonnes per day cyanidation mill, flotation circuit, mine buildings and administrative 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 of the Company's La Parrilla Silver Mine and consists of 392 contiguous hectares of mining claims and 100 hectares of surface rights covering the area surrounding the San Juan mine. The Del Toro Silver Mine consolidates 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 US\$225,000 option payments due in 2010 relate to a new land acquisition of 50 hectares. All other option payments have been made.

(e) Real de Catorce Silver Project, San Luis Potosi State

The Real de Catorce Silver Project is located 25 km west of the town of Matehuala in San Luis Potosi State, Mexico. The Real de Catorce property consists of 22 mining concessions covering 6,327 hectares. The Company owns 100% of the Real de Catorce Silver Project. Upon commencement of commercial production on the property, the Company has agreed to pay an amount of US\$200,000 to a previous owner. The property is subject to a 3% net smelter return royalty, of which 1.75% may be acquired in increments of 0.25% for a price of US\$250,000 per increment for the first five years from the date of the first payment and at a price of US\$300,000 per increment for the following five years.

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7. MINING INTERESTS AND PLANT AND EQUIPMENT (continued)

(e) Real de Catorce Silver Project, San Luis Potosi State (continued)

In addition, the Company has agreed to acquire the surface rights forming part of the property, including the buildings located thereon and covering the location of the previous mining operations, in consideration for a single payment of US\$1.0 million to be made in December 2010.

The Company has also agreed to make a payment of US\$200,000 on December 10, 2010 for all technical and geological information collected over the area. Such payment is not related to the acquisition of the mining concessions or the surface rights and buildings agreement.

8. VENDOR LIABILITY AND INTEREST AND RESTRICTED CASH

In May 2006, First Majestic acquired control of First Silver Reserve Inc. ("First Silver") for \$53.4 million. The purchase price was payable in three instalments (50%, 25% and 25%) to the then majority interest shareholder of First Silver (the "Majority Shareholder"). The first instalment was paid upon closing on May 30, 2006. The second instalment was paid on May 30, 2007. The third and final instalment of \$13.3 million due on May 30, 2008 was withheld by the Company.

In November 2007, an action was commenced by the Company and its acquired subsidiary First Silver against the Majority Shareholder (the "Defendant") who was previously a director, President and Chief Executive Officer of First Silver. The Company and First Silver allege in their action 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. At the present time, the trial is scheduled to commence in the Supreme Court of British Columbia on February 21, 2011.

In March 2008, the Defendant filed a Counterclaim against the Company for unpaid amounts and interest of \$14.9 million, and was secured by a \$14.5 million Letter of Credit posted in Court by First Majestic. The Company recorded these amounts as Restricted Cash as at March 31, 2009. In July 2009, an Order was granted by the Court, with the consent of all parties, under which the Defendant obtained a judgment in the amount of \$14.9 million. The Company agreed to pay out \$14.3 million from the posted Letter of Credit to the Defendant's lawyer's trust account (the "Trust Funds") in partial payment of the Judgment. The remaining funds from the Letter of Credit were paid out to the Company. The Consent Order requires that the Trust Funds be held in trust pending the outcome of the Company's action. If the trial has not commenced by June 30, 2011, the Trust Funds can be released to the Defendant, unless otherwise ordered by the court. These funds would be accessible to the Company in the event of a favourable outcome to the litigation.

9. DEBT FACILITIES

(a) Pre-Payment Facility

In August 2009, a subsidiary of the parent company entered into an agreement for a six-month pre-payment facility for advances on the sale of lead in its concentrate production. Under the terms of the agreement, \$1.6 million (US\$1.5 million) was advanced against the Company's lead concentrate production from the La Parrilla Silver Mine for a period of six months. Interest accrues at an annualized floating rate of one-month LIBOR plus 5%. Interest is payable monthly and the principal amount is repayable based on the volume of lead concentrate shipped with minimum monthly instalments of US\$250,000 required. The repayment of the credit facility is guaranteed by the parent company.

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9. DEBT FACILITIES (continued)

(a) Pre-Payment Facility (continued)

On February 28, 2010, this agreement was amended to provide an additional six-month pre-payment facility of up to \$1.6 million (US\$1.5 million). A total of \$1.6 million (US\$1.5 million) was drawn on this pre-payment facility. As at March 31, 2010, after delivering monthly quotas of lead concentrates and payments of interest charges, the Company had a remaining balance payable on the pre-payment facility of \$1,287,075 (US\$1,255,489).

(b) FIFOMI Loan Facilities

In October 2009, the Company entered into an agreement with the Mexican Mining Development Trust - Fideicomiso de Fomento Minero (FIFOMI) for two loan facilities, a capital asset loan and a working capital loan, totalling 53.8 million Mexican pesos (CAD\$4.3 million). Funds from these loans were used for the completion of the 3,500 tonnes per day cyanidation plant at the La Encantada Silver Mine and for working capital purposes. The capital asset loan, for up to 47.1 million Mexican pesos (CAD\$3.7 million), bears interest at the Mexican interbank rate plus 7.51% per annum and is repayable over a 60-month period. The working capital loan, for up to 6.7 million Mexican pesos (CAD\$0.6 million), bears interest at the Mexican interbank rate plus 7.31% per annum and is a 90-day revolving loan. The loans are secured against real property, land, buildings, facilities, machinery and equipment at the La Encantada Silver Mine. At March 31, 2010, the balance owing was 53.8 million Mexican pesos (CAD\$4.4 million) of which \$1.3 million was classified as current.

The following is a summary of the debt facilities as at March 31, 2010:

	\$CAD
Pre-payment Facility	1,287,075
FIFOMI Loan Facilities	4,440,399
	5,727,474
Less: current portion	(2,632,074)
Long-term Portion of Debt Facilities	3,095,400

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, 2010	December 31, 2009
	\$	\$
Deposit on equipment at La Encantada	464,331	2,876,717
Deposit on equipment at La Parrilla	1,409,629	1,429,702
	1,873,960	4,306,419

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11. SHARE CAPITAL

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

Issued	Three Months Ended March 31, 2010		Year Ended December 31, 2009	
	Shares	\$	Shares	\$
Balance - beginning of the period	92,648,744	244,241,006	73,847,810	196,648,345
Issued during the period				
For cash:				
Exercise of options	50,000	92,000	36,250	68,838
Exercise of warrants	25,000	82,500	50,000	165,000
Public offering of units (i)	-	-	8,487,576	18,840,890
Private placements (ii)	-	-	4,167,478	9,051,069
For debt settlements (iii)	-	-	1,191,852	2,741,260
For Normabec acquisition (iv)	-	-	4,867,778	16,696,479
Transfer of contributed surplus for stock				
options and warrants exercised	-	43,176	-	29,125
Balance - end of the period	92,723,744	244,458,682	92,648,744	244,241,006

- (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 \$19,689,648, of which \$18,840,890 was allocated to the common shares and \$848,758 was allocated 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 common share at a price of \$3.50 expiring on March 5, 2011.
- (ii) In August and September 2009, the Company completed non-brokered private placements consisting of an aggregate of 4,167,478 units at a price of \$2.30 per unit for net proceeds to the Company of \$9,440,069, of which \$9,051,069 was allocated to the common shares and \$389,000 was allocated to the warrants. Each unit consisted of one common share and one-half of one common share purchase warrant, with each full warrant entitling the holder to purchase one additional common share of the Company at an exercise price of \$3.30 per share for a period of two years after closing. A total of 1,749,500 warrants expire on August 20, 2011, and 334,239 warrants expire on September 16, 2011. Finders' fees in the amount of \$101,016 and 50,000 warrants were paid regarding a portion of these private placements. The finder's warrants are exercisable at a price of \$3.30 per share and expire on August 20, 2011.
- (iii) In August and September 2009, the Company settled certain current liabilities amounting to \$2,741,260 by the issuance of 1,191,852 common shares of the Company at a value of \$2.30 per share.
- (iv) On November 13, 2009, the Company issued 4,867,778 common shares at a value of \$3.43 per share in connection with the acquisition of Normabec.

FIRST MAJESTIC SILVER CORP.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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11. SHARE CAPITAL (continued)

(b) Stock Options

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

The changes in stock options outstanding for the periods ended March 31, 2010 and December 31, 2009 are as follows:

	Three Months Ended March 31, 2010			Year Ended December 31, 2009		
	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	8,603,750	3.50	2.4 years	6,862,500	3.84	2.8 years
Granted	225,000	3.51	3.0 years	2,842,500	2.88	3.6 years
Exercised	(50,000)	1.84	2.2 years	(36,250)	1.90	2.5 years
Forfeited or expired	(200,000)	5.50	0.0 years	(1,065,000)	4.11	0.7 years
Balance, end of the period	8,578,750	3.46	2.3 years	8,603,750	3.50	2.4 years

FIRST MAJESTIC SILVER CORP.
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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, 2010:

Price \$	Options Outstanding	Options Exercisable	Expiry Dates
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	20,000	October 17, 2010
4.45	530,000	530,000	October 30, 2010
4.34	25,000	25,000	November 1, 2010
4.34	200,000	200,000	December 5, 2010
4.42	50,000	50,000	February 20, 2011
4.65	100,000	100,000	March 25, 2011
4.19	20,000	20,000	April 26, 2011
4.02	100,000	100,000	May 15, 2011
4.30	450,000	450,000	June 19, 2011
4.67	120,000	120,000	July 4, 2011
4.15	300,000	300,000	July 28, 2011
3.62	565,000	565,000	August 28, 2011
1.60	200,000	150,000	October 8, 2011
1.27	106,250	75,000	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
2.03	692,500	346,250	May 7, 2012
4.65	25,000	25,000	June 20, 2012
2.62	60,000	30,000	September 16, 2012
2.96	25,000	6,250	October 28, 2012
3.38	25,000	6,250	November 5, 2012
4.34	925,000	925,000	December 5, 2012
3.52	560,000	140,000	December 7, 2012
3.70	535,000	133,750	December 15, 2012
3.56	200,000	50,000	February 2, 2013
3.15	25,000	6,250	March 19, 2013
3.62	100,000	100,000	August 28, 2013
1.44	240,000	180,000	November 10, 2013
1.56	550,000	412,500	December 17, 2013
2.03	462,500	231,250	May 7, 2014
2.32	12,500	6,250	June 15, 2014
3.70	350,000	87,500	December 15, 2014
	8,578,750	6,396,250	

During the three months ended March 31, 2010, the Company granted stock options to an officer and an employee to purchase 225,000 shares (three months ended March 31, 2009 – nil) of the Company. Pursuant to the Company's policy of accounting for the fair value of stock-based compensation over the applicable vesting period, the fair value of stock options granted during this quarter was \$348,000, of which \$112,115 was expensed in the current period and \$235,885 was deferred and will be amortized over the remaining vesting period of the stock options.

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11. SHARE CAPITAL (continued)

(b) Stock Options (continued)

The weighted average fair value of each stock option granted during the past three months was \$1.55 (2009 - \$nil). The fair value of stock options is estimated using the *Black-Scholes Option Pricing Model* with the following assumptions:

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Risk-free interest rate	1.2%	2.4%
Estimated volatility	93.3%	64.9%
Expected life	1.5 years	2.4 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 an accurate measure of the actual fair value of the Company's stock options.

(c) Share Purchase Warrants

The changes in share purchase warrants for the three months ended March 31, 2010, and the year ended December 31, 2009, are as follows:

	Three Months Ended March 31, 2010			Year Ended December 31, 2009		
	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	11,357,465	5.04	0.8 years	5,078,791	6.99	1.2 years
Issued	-	0.00	0.0 years	6,638,492	3.66	2.1 years
Exercised	(25,000)	3.30	1.6 years	(50,000)	3.30	1.7 years
Cancelled or expired	(5,029,938)	7.06	0.0 years	(309,818)	7.69	0.0 years
Balance, end of the period	6,302,527	3.43	1.1 years	11,357,465	5.04	0.8 years

- (i) On March 5, 2009, the Company issued 4,243,788 warrants exercisable at a price of \$3.50 per share 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 volatility of 35.0%, expected life of 2 years, and expected dividend yield of 0%) and as a result \$848,758 was credited to contributed surplus.
- (ii) On August 20, 2009, the Company issued 1,799,500 warrants exercisable at a price of \$3.30 per share exercisable for a period of two years. The warrants were issued in connection with a non-brokered private placement of 3,499,000 units. The fair value of the warrants was estimated using the *Black-Scholes Option Pricing Model* (assumptions include a risk free rate of 1.15%, market adjusted volatility of 38.5%, expected life of 2 years, and expected dividend yield of 0%) and as a result \$328,047 was credited to contributed surplus.
- (iii) On September 16, 2009, the Company issued 334,239 warrants exercisable at a price of \$3.30 per share exercisable for a period of two years. The warrants were issued in connection with a non-brokered private placement of 668,478 units. The fair value of the warrants was estimated using the *Black-Scholes Option Pricing Model* (assumptions include a risk free rate of 1.15%, market adjusted volatility of 38.5%, expected life of 2 years, and expected dividend yield of 0%) and as a result \$60,953 was credited to contributed surplus.

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11. SHARE CAPITAL (continued)

(c) Share Purchase Warrants (continued)

- (iv) On November 13, 2009, in connection with the acquisition of Normabec, the Company issued 118,527 warrants exercisable at a price of \$9.11 per share expiring on December 13, 2009, and 142,438 warrants exercisable at a price of \$9.11 per share expiring on January 2, 2010. The fair value of the warrants was estimated using the *Black-Scholes Option Pricing Model* (assumptions include a risk free rate of 1.26%, volatility of 67%, expected life of 0.1 year, and expected dividend yield of 0%). No value was credited to contributed surplus. These warrants expired unexercised.

The following table summarizes the share purchase warrants outstanding at March 31, 2010:

Exercise Price \$	Warrants Outstanding	Expiry Dates
3.50	4,243,788	March 5, 2011
3.30	1,724,500	August 20, 2011
3.30	334,239	September 16, 2011
6,302,527		

(d) Share Capital to be Issued

On June 5, 2006, pursuant to the acquisition of First Silver Reserve Inc., First Majestic and First Silver entered into a business combination agreement whereby First Majestic agreed to acquire the remaining 36.25% minority interest in First Silver. At March 31, 2010, prior shareholders of First Silver had not yet exchanged 114,254 shares of First Silver, exchangeable for 57,127 shares of First Majestic, resulting in a remaining value 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 net revenue are as follows:

	Three Months Ended March 31,	
	2010	2009
	\$	\$
Combined revenue - silver doré bars, concentrates, coins and ingots	24,171,245	17,464,137
Less: intercompany eliminations	(2,235,533)	-
Consolidated gross revenue	21,935,712	17,464,137
Less: refining and smelting charges, net of intercompany eliminations	(2,736,517)	(2,540,742)
Less: metal deductions, net of intercompany eliminations	(981,581)	(536,523)
Net revenue	18,217,614	14,386,872

At March 31, 2010, the La Encantada mill expansion project had not achieved a commercial stage of production; therefore, cash receipts in the quarter ended March 31, 2010 were \$4,718,618 in connection with the sale of 262,403 silver equivalent ounces of precipitates in the current quarter. These receipts during the pre-operating period were not recorded as sales revenues and excluded from the above table and instead were recorded as a reduction of capital costs in construction in progress (Note 7).

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13. SEGMENTED INFORMATION

The Company has three operating segments located in Mexico, one retail market segment in Canada 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 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, 2010						
	El Pilon operations	First Majestic Plata operations	La Encantada operations	Coin Sales	Corporate and Other Eliminations	Total
	\$	\$	\$	\$	\$	\$
Revenue	5,563,286	6,164,359	7,151,248	1,332,621	(1,993,900)	18,217,614
Cost of sales	2,826,321	3,111,674	3,378,116	1,261,706	(1,603,960)	8,973,857
Amortization, depreciation and accretion	225,581	410,726	254,809	-	-	891,116
Depletion	614,788	237,832	147,975	-	-	1,000,595
Mine operating earnings (loss)	1,896,596	2,404,127	3,370,348	70,915	(389,940)	7,352,046
General and administrative	-	-	-	-	1,986,623	1,986,623
Stock-based compensation	-	-	-	-	700,179	700,179
Net interest, other income (expense) and foreign exchange	(938,335)	(2,989,992)	(893,568)	-	4,318,332	(503,563)
Income tax expense (recovery)	173,474	(132,790)	982,223	-	122,979	1,145,886
Net income (loss)	784,787	(453,075)	1,494,557	70,915	1,118,611	3,015,795
Capital expenditures	620,310	1,361,045	5,058,837	-	106,635	7,146,827
Total assets	107,478,840	63,772,320	67,141,967	-	26,557,078	264,950,205

Three Months Ended March 31, 2009						
	El Pilon operations	First Majestic Plata operations	La Encantada operations	Coin Sales	Corporate and Other Eliminations	Total
	\$	\$	\$	\$	\$	\$
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 (loss)	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 (expense) 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	110,476	(2,272,995)	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	-	34,997,007	253,636,396

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14. 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 24 monthly payments commencing February 1, 2009 with interest payable at 9% on the outstanding principal balance, secured by a guarantee from the parent company.

On January 12, 2009, the Company executed two additional financing arrangements with an equipment vendor, committing the Company to total payments of approximately \$2.6 million (US\$2.0 million) representing the purchase price plus interest 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 as at March 31, 2010:

	\$US	\$CAD
2010 Gross lease payments	1,432,402	1,454,748
2011 Gross lease payments	651,155	661,313
2012 Gross lease payments	132,549	134,616
	<u>2,216,106</u>	<u>2,250,677</u>
Less: interest	(156,916)	(159,364)
Total payments, net of interest	2,059,190	2,091,313
Less: current portion	(1,636,331)	(1,661,858)
Capital Lease Obligation	422,859	429,455

15. ASSET RETIREMENT OBLIGATIONS

	Three Months Ended March 31, 2010	Year Ended December 31, 2009
	\$	\$
Balance, beginning of the period	4,336,088	5,304,369
Effect of change in estimates	-	(877,834)
Interest accretion	93,720	445,090
Effect of translation of foreign currencies	133,289	(535,537)
Balance, end of the period	4,563,097	4,336,088

Asset retirement obligations allocated by mineral properties are as follows:

	Anticipated Date	March 31, 2010 \$	December 31, 2009 \$
La Encantada Silver Mine	2020	1,910,565	1,815,518
La Parrilla Silver Mine	2025	1,050,558	998,293
San Martin Silver Mine	2019	1,601,974	1,522,277
		4,563,097	4,336,088

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15. ASSET RETIREMENT OBLIGATIONS (continued)

During the year ended December 31, 2009, 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 \$6.1 million, which has been discounted using a credit adjusted risk free rate of 8.5%, of which \$1.7 million of the reclamation obligation relates to the La Parrilla Silver Mine, \$2.0 million of the obligation relates to the San Martin Silver Mine, and \$2.5 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.

16. OTHER LONG TERM LIABILITIES

In 1992, El Pilon entered into a contract with a Mexican bank, whereby the bank committed to advance cash to El Pilon in exchange for silver to be delivered in future instalments. The bank failed to advance the fully agreed amount, and El Pilon therefore refused to deliver the silver. El Pilon sued the bank for breach of contract. The Company believes it will retain the advance received from the bank, but the ultimate outcome is uncertain. The aggregate potential liability including interest and penalties amounts to \$776,611 (December 31, 2009 - \$753,657).

17. CONTINGENT LIABILITIES

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

18. COMMITMENTS

The Company is obligated to make certain mining property option payments as described in Note 7, in connection with the acquisition of its mineral property interests.

The Company has office lease commitments of \$116,880 per annum in 2010 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, 2010, the Company is committed to construction contracts of approximately \$0.8 million (US\$0.8 million) (December 31, 2009 - \$2.1 million or US\$2.0 million) relating to the La Encantada mill expansion project which is currently in the final stage of completion.

As a result of the acquisition of Normabec, the Company is committed to make a US\$1.0 million payment in December 2010 to acquire surface rights forming part of the Real de Catorce Project. It is also committed to make a payment of US\$200,000 in December 2010 for technical and geological information collected over the Real de Catorce area.

The Company is committed to making severance payments in the amount of approximately \$2.0 million, (December 31, 2009 - \$1.9 million), subject to certain adjustments, to four officers in the event of a change of control of the Company.

FIRST MAJESTIC SILVER CORP.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED MARCH 31, 2010 AND 2009 (Unaudited)

19. NON-CASH FINANCING AND INVESTING ACTIVITIES

	Three Months Ended March 31,	
	2010	2009
	\$	\$
NON-CASH FINANCING AND INVESTING ACTIVITIES:		
Fair value of warrants upon completion of public offering	-	848,758
Transfer of contributed surplus upon exercise of stock options and warrants	43,176	2,950
Assets acquired by capital lease	-	2,259,380

20. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the classifications used in the current year's presentation.

21. SUBSEQUENT EVENTS

Subsequent to March 31, 2010:

- (a) A total of 22,500 options were exercised for proceeds of \$45,675; and
- (b) On April 27, 2010, a total of 40,000 options were cancelled consisting of 10,000 options at a price of \$4.45 per share expiring on October 30, 2010; 10,000 options at a price of \$3.62 per share expiring on August 28, 2011 and 20,000 options at a price of \$3.52 per share expiring on December 7, 2012.



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE QUARTER ENDED MARCH 31, 2010

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" and "FR.WT.B", respectively. The common shares are also quoted on the OTCQX 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 Encantada, La Parrilla, and San Martin Silver 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, 2009. 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"), First Silver Reserve Inc. ("First Silver") and Normabec Mining Resources Ltd. ("Normabec") 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"), Majestic Services S.A. de C.V. ("Majestic Services"), Minera Real Bonanza, S.A. de C.V. ("MRB") and Servicios Minero-Metalurgicos e Industriales, S.A. de C.V. ("Servicios"). 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 which it is involved as the plaintiff, described herein in the Liquidity section.

QUALIFIED PERSONS

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

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 12, 2010, unless otherwise stated.

FINANCIAL PERFORMANCE AND HIGHLIGHTS

- Consolidated gross revenue (prior to smelting, refining and metal deductions) for the quarter ended March 31, 2010 was \$21,935,712 compared to \$17,464,137 for the quarter ended March 31, 2009 for an increase of \$4,471,575 or 26%. Consolidated gross revenue for the quarter ended March 31, 2010 increased by 2% compared to the prior quarter ended December 31, 2009. The improvement in revenues in 2010 is attributable to a 30% increase in equivalent silver ounces sold compared to the quarter ended March 31, 2009.
- In the first quarter of 2010, the Company shipped (sold) 1,298,659 ounces of silver equivalent at an average price of \$16.89 per ounce (US\$16.23) compared to 996,595 ounces in the first quarter of 2009 at an average price of \$17.52 per ounce (US\$14.07), representing an increase of 30% in shipments over the same quarter in 2009 and a 13% increase over Q4 of 2009. In the fourth quarter of 2009, the Company shipped 1,145,562 ounces of silver equivalents at an average price of \$18.71 (US\$17.72) per ounce.
- Total production for the first quarter of 2010 increased 30% from the prior quarter and 56% from the same quarter of the prior year to 1,619,403 ounces of silver equivalents consisting of 1,409,825 ounces of silver, 857 ounces of gold and 2,542,071 pounds of lead. This compares to the 1,040,117 ounces of silver equivalents produced in the first quarter of 2009, which consisted of 929,964 ounces of silver, 491 ounces of gold, 1,828,739 pounds of lead. In the fourth quarter of 2009, the Company produced 1,249,568 ounces of silver equivalents consisting of 1,103,840 ounces of silver, 701 ounces of gold and 1,571,819 pounds of lead.
- Net sales revenue (after smelting and refining charges and metals deductions) for the quarter ended March 31, 2010 was \$18.2 million, an increase of 27% compared to \$14.4 million for the first quarter of 2009. Net sales revenue for the quarter ended March 31, 2010 was virtually unchanged compared to \$18.4 million for the fourth quarter of 2009. Smelting and refining charges and metal deductions decreased marginally to 17% of gross revenue in the first quarter of 2010 compared to 18% of gross revenue in the first quarter of 2009. Average smelting charges for doré in the first quarter of 2010 were US\$0.52 per equivalent silver ounce whereas for concentrates they were US\$4.05 per equivalent silver ounce.
- The Company generated net income in the first quarter of 2010 of \$3.0 million, or earnings per common share ("EPS") of \$0.03 compared to a net income in the first quarter of 2009 of \$0.9 million or EPS of \$0.01. Net income for the first quarter of 2010 was after deducting non-cash stock-based compensation expense of \$0.7 million and an income tax provision of \$1.1 million. As the new La Encantada plant was not in commercial production until April 1, 2010, generally accepted accounting principles require the revenues and production costs to be recorded as capital costs against the plant rather than being recorded in the Statement of Income for the first quarter of 2010. If the revenues and expenses of the new plant were recorded as income rather than capital, then EPS adjusted upwards for the \$2.3 million of capitalized profits at the La Encantada cyanidation plant would have been \$0.06 per share rather than \$0.03 per share.
- Total cash costs per ounce (includes smelting, refining, metal deductions, and by-product credits and is a non-GAAP measure) for the first quarter of 2010 was US\$8.11 per ounce of silver compared to US\$7.60 per ounce of silver in the first quarter of 2009 and US\$8.61 per ounce in the fourth quarter of 2009.
- Direct cash costs per ounce of silver (a non-GAAP measure) for the first quarter of 2010 were US\$4.94, consistent with the first quarter of 2009 at US\$4.94 per ounce of silver. This compares to the direct cash costs of US\$5.69 per ounce of silver in the fourth quarter of 2009.
- Mine operating earnings for the first quarter of 2010 increased by 62% to \$7.4 million, compared to mine operating earnings of \$4.5 million for the first quarter of 2009, due to an increase in net revenue during the first quarter of 2010. Mine operating earnings for the first quarter of 2010 decreased by 9% when compared

to mine operating earnings of \$8.1 million for the fourth quarter of 2009, due to additional depletion expenses recorded in the current quarter compared to the fourth quarter of 2009, however, an additional \$2.3 million of profits were capitalized due to the pre-commercial nature of the precipitate sales at the La Encantada cyanidation plant in the first quarter and therefore were excluded from the \$7.4 million mine operating earnings reported above.

- Operating income increased by 155%, or \$2.8 million, to \$4.7 million for the quarter ended March 31, 2010, from an operating income of \$1.8 million for the quarter ended March 31, 2009, due to the increase in mine operating earnings. Operating income increased by 137%, for the quarter ended March 31, 2010, when compared to an operating income of \$2.0 million for the fourth quarter ended December 31, 2009.
- The new cyanidation process plant at the La Encantada Silver Mine achieved commercial production effective April 1, 2010 with current throughput at approximately 2,700 tonnes per day and is expected to reach full production by the end of the second quarter and producing at an annualized rate of over four million ounces of silver. Total capitalized construction in progress at La Encantada at March 31, 2010 consisted of \$35.9 million (US\$35.3 million).
- During the quarter ended March 31, 2010, the Company invested \$3.4 million in its mineral properties and a further \$1.4 million in additions to plant and equipment on a cash basis. This compares to \$1.8 million invested in its mineral properties and a further \$1.6 million in additions to plant and equipment on a cash basis in the first quarter ended March 31, 2009.

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 Jalisco Group of Properties
Minera La Encantada, S.A. de C.V.	La Encantada Silver Mine	La Encantada property
Minera Real Bonanza, S.A. de C.V.	Real de Catorce Silver Project	Real de Catorce property
Majestic Services, S.A. de C.V. (a labour services company)	(services for all of the above)	(services for all of the above)
Servicios Minero-Metalurgicos y Industriales, S.A. de C.V.	(inactive Normabec services company)	(inactive services company)
Corporación First Majestic, S.A. de C.V. (holding company for First Majestic Plata, Minera El Pilon, Minera La Encantada and Majestic Services)	(holding company for First Majestic Plata, Minera El Pilon, Minera La Encantada and Majestic Services)	(holding company for First Majestic Plata, Minera El Pilon, Minera La Encantada and Majestic Services)

Certain financial results in this MD&A, regarding operations and cash costs are presented in the Mine Operating 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 which the transactions occurred.

MINING OPERATING RESULTS

CONSOLIDATED FIRST MAJESTIC RESULTS	Quarter Ended March 31,	
	2010	2009
Ore processed/tonnes milled ⁽⁴⁾	337,110	216,047
Average silver grade (g/tonne)	253	222
Recovery (%)	66%	60%
Commercial silver ounces produced	1,148,632	929,964
Pre-commercial silver ounces produced ⁽⁴⁾	261,193	-
Total silver ounces produced ⁽⁴⁾	1,409,825	929,964
Gold ounces produced ⁽⁴⁾	857	491
Equivalent ounces from gold ⁽⁴⁾	59,690	33,483
Pounds of lead produced ⁽⁴⁾	2,542,071	1,828,739
Equivalent ounces from lead ⁽⁴⁾	149,887	76,668
Total production - ounces silver equivalent ⁽⁴⁾	1,619,403	1,040,117
Total commercial production - ounces silver equivalent	1,357,446	1,040,117
Ounces of silver equivalents sold ⁽¹⁾	1,298,659	996,595
US cash cost per ounce ⁽²⁾	\$8.11	\$7.60
Direct US cash cost per ounce ⁽²⁾	\$4.94	\$4.94
Underground development (m)	5,100	4,610
Diamond drilling (m)	308	5,048
Total US production cost per tonne ⁽³⁾	\$43.80	\$32.72

LA ENCANTADA RESULTS	Quarter Ended March 31,	
	2010	2009
Ore processed/tonnes milled ⁽⁴⁾	194,750	76,556
Average silver grade (g/tonne)	366	305
Recovery (%)	56%	51%
Commercial silver ounces produced	462,429	384,976
Pre-commercial silver ounces produced ⁽⁴⁾	261,193	-
Silver ounces produced ⁽⁴⁾	723,622	384,976
Gold ounces produced ⁽⁴⁾	12	-
Equivalent ounces from gold ⁽⁴⁾	772	-
Pounds of lead produced ⁽⁴⁾	1,545,785	902,372
Equivalent ounces from lead ⁽⁴⁾	90,813	37,719
Total production - ounces of silver equivalent ⁽⁴⁾	815,209	422,695
Total commercial production - ounces silver equivalent	553,252	422,695
Ounces of silver equivalents sold	576,223	418,217
US cash cost per ounce ⁽²⁾	\$8.59	\$7.59
Direct US cash cost per ounce ⁽²⁾	\$3.80	\$3.92
Underground development (m)	2,033	2,097
Diamond drilling (m)	-	2,397
Total US production cost per tonne ⁽³⁾	\$56.53	\$38.17

LA PARRILLA RESULTS	Quarter Ended March 31,	
	2010	2009
Ore processed/tonnes milled	73,443	65,905
Average silver grade (g/tonne)	213	191
Recovery (%)	75%	66%
Silver ounces produced	375,446	268,329
Gold ounces produced	119	150
Equivalent ounces from gold	11,083	10,844
Pounds of lead produced	996,286	926,367
Equivalent ounces from lead	59,074	38,949
Total production - ounces of silver equivalent	445,603	318,124
Ounces of silver equivalents sold	445,212	301,181
US cash cost per ounce ⁽²⁾	\$8.51	\$8.79
Direct US cash cost per ounce ⁽²⁾	\$5.02	\$5.22
Underground development (m)	1,704	1,806
Diamond drilling (m)	37	2,038
Total US production cost per tonne ⁽³⁾	\$43.51	\$35.79

SAN MARTIN RESULTS	Quarter Ended March 31,	
	2010	2009
Ore processed/tonnes milled	68,917	73,586
Average silver grade (g/tonne)	181	163
Recovery (%)	78%	72%
Silver ounces produced	310,757	276,659
Gold ounces produced	726	341
Equivalent ounces from gold	47,835	22,639
Total production - ounces of silver equivalent	358,591	299,298
Ounces of silver equivalents sold	346,977	277,197
US cash cost per ounce ⁽²⁾	\$6.91	\$6.46
Direct US cash cost per ounce ⁽²⁾	\$6.55	\$6.08
Underground development (m)	1,363	707
Diamond drilling (m)	272	613
Total US production cost per tonne ⁽³⁾	\$31.14	\$24.30

(1) Includes (69,753) ounces in the quarter ended March 31, 2010 (after adjustments for intercompany eliminations) sold as coins, ingots and bullion from Canadian operations and minesite transfers.

(2) The Company reports non-GAAP measures which include direct costs per tonne and cash cost (including smelting and refining charges) and direct cash cost (cash cost less smelting and refining charges) per ounce of payable silver, in order to manage and evaluate operating performance at each of the Company's mines. These measures, established by the Gold Institute (Production Cost Standards, November 1999), 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 on page 7.

(3) Production costs per tonne include smelter charges.

(4) At March 31, 2010, the La Encantada mill expansion project had not achieved a commercial stage of production, therefore the net margin of \$2.3 million (Net Revenue of \$4.7 million less Costs of Sales of \$2.4 million) in connection with the sale of 262,403 silver ounces of precipitates during the pre-operating period was recorded as a reduction of construction in progress during the quarter ended March 31, 2010. The tables above include the production from the mill expansion, however average silver grade, recovery, US cash cost per ounce, direct US cash cost per ounce and total US production cost per tonne are based on production excluding pre-commercial stage production of 261,957 silver equivalent ounces during the quarter ended March 31, 2010.

**RECONCILIATION OF COST OF SALES TO CASH COSTS
FOR THE QUARTER ENDED MARCH 31, 2010 AND 2009**

“Cash cost per ounce” is a measure developed by precious metals companies in an effort to provide a comparable standard; however, there can be no assurance that our reporting of this non-GAAP measure is similar to that reported by other mining companies. Cash costs per ounce is a measure used by the Company to manage and evaluate operating performance at each of the Company’s operating mining units, and is widely reported in the silver mining industry as a benchmark for performance, but does not have a standardized meaning. To facilitate a better understanding of these measures as calculated by the Company, we have provided a detailed reconciliation of these measures to our cost of sales, as reported in our Consolidated Statements of Income. Direct cash costs consists of cash costs less smelting and refining charges.

		For the Three Months Ended							
		March 31, 2010				March 31, 2009			
		San Martin	La Parrilla	La Encantada	Total	San Martin	La Parrilla	La Encantada	Total
COST OF SALES	US\$	2,711,208	2,985,789	3,235,508	8,932,505	2,281,620	2,204,934	2,029,178	6,515,732
ADD: THIRD PARTY SMELTING & REFINING	US\$	111,017	1,311,905	2,214,770	3,637,692	106,017	957,099	1,412,566	2,475,682
DEDUCT: BY-PRODUCT CREDITS	US\$	(763,217)	(1,158,372)	(1,301,355)	(3,222,944)	(306,647)	(756,744)	(406,791)	(1,470,182)
DEDUCT: ROYALTIES	US\$	-	(25,320)	-	(25,320)	-	-	-	-
INVENTORY CHANGES	US\$	87,046	83,211	(175,925)	(5,668)	(314,120)	42,618	(83,688)	(355,190)
OTHER NON-CASH COSTS	US\$	(129)	(1,863)	(1,835)	(3,827)	21,472	(89,276)	(29,302)	(97,106)
TOTAL CASH COST (A)	US\$	2,145,925	3,195,350	3,971,163	9,312,438	1,788,342	2,358,631	2,921,963	7,068,936
DEDUCT: THIRD PARTY SMELTING & REFINING	US\$	(111,017)	(1,311,905)	(2,214,770)	(3,637,692)	(106,017)	(957,099)	(1,412,566)	(2,475,682)
DIRECT CASH COST (B)	US\$	2,034,908	1,883,445	1,756,393	5,674,746	1,682,325	1,401,532	1,509,397	4,593,254
TONNES PRODUCED (Note 1)	TONNES	68,917	73,443	70,242	212,602	73,586	65,905	76,556	216,047
OUNCES OF SILVER PRODUCED (C) (Note 1)	OZ	310,757	375,446	462,429	1,148,632	276,659	268,328	384,976	929,963
OUNCES OF SILVER EQ PRODUCED (Note 1)	OZ EQ	47,834	70,157	90,823	208,814	22,639	49,796	37,719	110,154
TOTAL OZ OF SILVER EQ PRODUCED (Note 1)	OZ EQ	358,591	445,603	553,252	1,357,446	299,298	318,124	422,695	1,040,117
CASH COST PER OUNCE PRODUCED (A/C)	US\$/OZ	6.91	8.51	8.59	8.11	6.46	8.79	7.59	7.60
SMELTING AND REFINING COST PER OUNCE	US\$/OZ	(0.36)	(3.49)	(4.79)	(3.17)	(0.38)	(3.57)	(3.67)	(2.66)
DIRECT CASH COST (B/C)	US\$/OZ	6.55	5.02	3.80	4.94	6.08	5.22	3.92	4.94
MINING	\$/Oz.	3.63	3.60	2.82	3.29	2.39	2.96	2.30	2.52
MILLING	\$/Oz.	3.19	3.07	2.01	2.67	3.26	3.81	1.63	2.74
INDIRECT	\$/Oz.	1.80	1.15	1.32	1.40	1.44	1.06	0.98	1.14
SELLING AND TRANSPORT COSTS	\$/Oz.	0.39	0.28	0.46	0.38	0.10	0.22	0.07	0.12
SMELTING AND REFINING COSTS	\$/Oz.	0.36	3.49	4.79	3.17	0.38	3.57	3.67	2.66
BY-PRODUCT CREDITS	\$/Oz.	(2.46)	(3.08)	(2.81)	(2.81)	(1.11)	(2.82)	(1.06)	(1.58)
CASH COST PER OUNCE	\$/Oz.	6.91	8.51	8.59	8.11	6.46	8.79	7.59	7.60
SMELTING AND REFINING COSTS	\$/Oz.	(0.36)	(3.49)	(4.79)	(3.17)	(0.38)	(3.57)	(3.67)	(2.66)
DIRECT CASH COST	\$/Oz.	6.55	5.02	3.80	4.94	6.08	5.22	3.92	4.94

Note 1 – The table above does not include 261,957 silver ounces of pre-commercial production from the La Encantada mill expansion project during the quarter ended March 31, 2010, which were produced at a cost of \$2,444,393 (US\$2,348,346).

INVENTORY RECONCILIATION (See Note 1):

For the Quarter Ended March 31, 2010						
	San Martin	La Parrilla	La Encantada	Vancouver	Total	
Opening stockpile inventory	OZ EQ	7,443	116,539	39,713	-	163,695
Reduction of stockpile	OZ EQ	3,483	(5,583)	(6,816)	-	(8,916)
Ending stockpile inventory	OZ EQ	10,926	110,956	32,897	-	154,779
Opening in process inventory	OZ EQ	21,241	22,521	50,077	-	93,839
Inventory adjustments	OZ EQ	(1,822)	(2,532)	(27,821)	-	(32,175)
Ending in process inventory	OZ EQ	19,419	19,989	22,256	-	61,664
Opening finished goods inventory	OZ EQ	25,249	12,040	-	-	37,289
Production - silver equivalent ounces	OZ EQ	358,591	445,603	553,252	-	1,357,446
Shipments - silver equivalent ounces	OZ EQ	(346,977)	(445,212)	(576,223)	-	(1,368,412)
Inventory adjustments	OZ EQ	(8,435)	2,618	27,175	-	21,358
Ending finished goods inventory	OZ EQ	28,428	15,049	4,204	-	47,681
Total ending inventory before transfers	OZ EQ	197,755	145,994	59,357	-	403,106
Opening inventory of coins, ingots and bullion	OZ EQ	-	-	-	36,880	36,880
Transfers to coins, ingots and bullion inventory	OZ EQ	(138,982)	-	-	138,982	-
Adjustment due to refining, smelting and other	OZ EQ	-	-	-	(17,139)	(17,139)
Sales of coins, ingots and bullion	OZ EQ	-	-	-	(69,399)	(69,399)
Total inventory, all stages and products	OZ EQ	58,773	145,994	59,357	89,324	353,448
Value of ending inventory - (Note 1)	CDN\$	418,354	543,278	177,207	666,139	1,804,978
Value of ending inventory - Cdn\$ per oz	CDN\$	7.12	3.72	2.99	7.46	5.11
Average exchange rate - Q1 2010		1.0409	1.0409	1.0409	1.0409	1.0409
Value of ending inventory - US\$ per oz	US\$	6.84	3.58	2.87	7.16	4.91

Note 1 - The inventory reconciliation above consists of silver coins, bullion, doré, concentrates, ore in process and stockpile but excludes materials and supplies. The tables above do not include 261,957 silver equivalent ounces of pre-commercial production from the La Encantada mill expansion project during the quarter ended March 31, 2010.

Cost of Sales Reconciliation

Quarter Ended March 31, 2010						
	San Martin	La Parrilla	La Encantada	Vancouver	Total	
Cash Cost	US\$	2,145,925	3,195,351	3,971,162	-	9,312,438
Inventory changes	US\$	(87,046)	(83,211)	175,925	-	5,668
By-product credits	US\$	763,217	1,158,372	1,301,355	-	3,222,944
Smelting and refining	US\$	(111,017)	(1,311,905)	(2,214,770)	-	(3,637,692)
Royalties	US\$	-	25,320	-	-	25,320
Other	US\$	129	1,863	1,835	-	3,827
Cost of sales - Calculated	US\$	2,711,208	2,985,790	3,235,507	-	8,932,505
Average CDN/US Exchange Rate		0.95927	0.95954	0.95778	-	0.95882
Booked Cost of Sales	CDN\$	2,826,321	3,111,674	3,378,116	-	9,316,111
Vancouver Cost of Sales (See Note 1)	CDN\$	-	-	-	(342,254)	(342,254)
Total Cost of Sales as Reported	CDN\$	2,826,321	3,111,674	3,378,116	(342,254)	8,973,857

Note 1 - Net of intercompany eliminations of \$1,603,960 for the quarter ended March 31, 2010.

REVIEW OF MINING OPERATING RESULTS

The total silver equivalent production for the first quarter of 2010 consisted of 1,619,403 ounces of silver equivalent (includes commercial and pre-commercial production) representing an increase of 30% compared to 1,249,568 ounces of silver equivalent produced in the fourth quarter of 2009 and an increase of 56% compared to 1,040,117 ounces of silver equivalent produced in first quarter of 2009. The pre-commercial production of 261,957 equivalent ounces of silver was capitalized, and commercial production in the quarter ended March 31, 2010 was 1,357,446 ounces of silver equivalents.

Production in the first quarter of 2010 consisted of 1,409,825 ounces of silver, an increase of 28% compared to the fourth quarter of 2009, and an increase of 52% compared to the first quarter of 2009. A total of 2,542,071 pounds of lead was produced, representing an increase of 61% compared to the fourth quarter of 2009 and an increase of 39% compared to the first quarter of 2009. Gold produced in the first quarter of 2010 was 857 ounces, representing a increase of 22% compared to the fourth quarter of 2009 and an increase of 75% compared to the first quarter of 2009.

The ore processed during the first quarter of 2010 at the Company's three operating silver mines: the La Encantada Silver Mine, the La Parrilla Silver Mine and the San Martin Silver Mine; amounted to 337,110 tonnes which is an increase of 34% from the fourth quarter of 2009 and an increase of 56% compared to the first quarter of 2009.

The average silver head grade in the first quarter of 2010 for the three mines increased to 253 grams per tonne ("g/t") silver compared to 235 g/t silver in the fourth quarter of 2009 and 222 g/t in the first quarter of 2009.

Total combined recoveries of silver at the Company's three mills was 66% in the first quarter of 2010 compared to 65% in the fourth quarter of 2009 and 60% in the first quarter of 2009.

A total of 5,100 metres of underground development was completed in the first quarter of 2010 compared to 5,266 metres completed in the fourth quarter of 2009. This program is important as it provides access to new areas within the different mines and prepares the mines for continuing growth of silver production.

A total of 308 metres of diamond drilling was completed in the first quarter of 2010 compared to 1,031 metres drilled in the fourth quarter of 2009, and 5,048 metres drilled in the first quarter of 2009.

MINE UPDATES

La Encantada Silver Mine, Coahuila, Mexico

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 town, Muzquiz, is 225 kilometres away via paved and unpaved roads. The La Encantada Silver Mine consists of 3,500 tonnes per day ("tpd") cyanidation plant, a 1,000 tpd flotation plant, all related facilities and infrastructure, including a mining camp with 180 houses, administrative offices, and a private airstrip. The Company owns 100% of the La Encantada Silver Mine.

During the first quarter of 2010, the new 3,500 tpd mill continued the ramp up process with the mill achieving increasing production during the quarter to the current throughput of approximately 2,700 tpd. Management announced in a news release that the new cyanidation plant was deemed commercially operating effective April 1, 2010. Therefore, all production, revenues and operating costs associated with the new mill were capitalized in the first quarter. Effective April 1, 2010, all revenues and costs will be treated as normal course operations and recorded in the Company's income statement rather than being capitalized as pre-production or pre-operating. It is anticipated that full capacity will be achieved near the end of the second quarter of 2010. At full capacity, the new La Encantada cyanidation operation is expected to produce an additional four million ounces of silver in doré form annually. To date, the Company has spent approximately \$38.2 million (US\$37.6 million) on the new cyanidation plant, or \$35.9 million (US\$35.3 million) after adjusting for pre-operating revenues and expenses.

The new plant is now 98% complete with the only item remaining being the delivery and installation of the 'Induction Furnaces'. This plant is currently producing silver precipitates which are being shipped regularly to the smelter until the new induction furnaces are installed later this quarter. Once these furnaces are operating, the Company will be producing its own doré bars which will further reduce third party smelting and refining charges.

The last major items installed in the first quarter were the tailings filter-presses which are allowing for the recirculation of 84% of the water circulating in the system. These filters are some of the latest mining technologies available resulting in the Company setting an important standard for sustainable operational practices. The plant is using much less water than originally expected and much less than a traditional operation of this type. This state-of-the-art process is also opening the possibility for immediate reclamation to permanently rejuvenate open space.

The use of this filter press technology will play a central role in achieving superior operational performance in the areas of water use, cyanide use, land use and environmental impact. These three large heavy duty, 2 metre x 2 metre automatic filter presses are dewatering the tailings to 16% moisture levels resulting in substantial savings in pumping, cyanide consumption and power generation. Additionally, the remaining tailings cake is being dry-stacked which eliminates the need for conventional tailings ponds and promotes ongoing reclamation and revegetation of the area.

In addition to the completion of the new cyanidation plant, the flotation circuit at La Encantada was renovated with the installation of new flotation cells in the fourth quarter of 2009. The flotation circuit produces two products: a silver rich concentrate and a lead rich concentrate. The lead rich concentrate is presently being sold through an off-take agreement, whereas the silver concentrate is being introduced into the cyanidation circuit to enrich the silver content of the silver precipitates.

Fresh ore from the underground mine is being processed at a rate of 850 tpd, after which the silver concentrate is piped to the cyanidation process where it is mixed with old tailings. At full production, the blend will consist of one part fresh ore to three parts tailings at a rate of 2,650 tpd to total 3,500 tpd.

Tonnes milled in the first quarter of 2010 increased to 194,750 tonnes compared to 104,864 tonnes in the fourth quarter of 2009, an increase of 86%. Of the tonnes milled, 70,242 tonnes were of commercial production, and 124,508 tonnes were from old tailings. The average head grade was 366 g/t in the first quarter of 2010, representing an increase of 20% when compared to 305 g/t in both the first and fourth quarter of 2009. Silver recovery in the first quarter of 2010 was 56% which is slightly higher than the 51% achieved in the first and fourth quarter of 2009. Recoveries have improved due to the new flotation cells which were installed in early December to increase the recoveries. Tonnes milled in the first quarter of 2010 increased by 154% over the 76,556 tonnes milled in the first quarter of 2009.

A total of 815,209 equivalent ounces of silver were produced during the first quarter of 2010, which represents an increase of 87% compared to 435,845 equivalent ounces of silver produced in fourth quarter of 2009 and an increase of 93% compared to the 422,695 equivalent ounces of silver produced in the first quarter of 2009. Silver production consisted of 723,622 ounces of silver, representing an increase of 81% compared with the 399,810 ounces produced in the fourth quarter of 2009 and an increase of 88% compared with the 384,976 ounces produced in the first quarter of 2009. Lead production for the first quarter of 2010 was 1,545,785 pounds which was an increase of 1,008,984 pounds or 188% compared to the fourth quarter of 2009 and an increase of 902,372 or 71% compared to the first quarter of 2009. Of the total 815,209 equivalent ounces of production from Minera La Encantada in the first quarter, 553,252 equivalent ounces were from commercial production, as 261,957 silver ounces were pre-commercial ounces of precipitates from the new cyanidation plant.

Underground mine development consisted of 2,033 metres completed in the first quarter of 2010 compared to 2,251 metres of development completed in the fourth quarter of 2009, representing a decrease of 10%. This program focused on improving haulage and logistics for ore and waste that is transported by trucks out of the mine from several targets including the San Javier/Milagros Breccias, Azul y Oro including the new Buenos Aires

areas and a new developed area between the 660 and the Ojuelas ore bodies. The purpose of the ongoing underground development program is to prepare for increased production levels in 2010, to confirm additional Reserves and Resources, and for exploration and exploitation purposes going forward. Similar to the fourth quarter of 2009, no diamond drilling exploration was completed at La Encantada in the first quarter of 2010.

La Parrilla Silver Mine, Durango, Mexico

The La Parrilla Silver Mine is a group of producing underground operations consisting of the La Rosa/Rosarios/La Blanca mines which are connected through underground workings including the San Marcos and the Quebradillas mines, located approximately 65 kilometres southeast of the city of Durango, Mexico. La Parrilla includes an 850 tpd mill consisting of two 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 leases 100 hectares of surface rights. The Company owns 100% of the La Parrilla Silver Mine.

Tonnes milled at La Parrilla were 73,443 tonnes in the first quarter of 2010, representing an decrease of 3% when compared with the 75,475 tonnes milled in the fourth quarter of 2009, but an increase of 11% when compared with the 65,905 tonnes milled in the first quarter of 2009. The average head grade for the first quarter of 2010 was 213 g/t and was consistent with the fourth quarter of 2009 and compared to the 191 g/t in the first quarter of 2009. Recoveries of silver have increased to 75% in the first quarter of 2010 from 73% in the fourth quarter of 2009 and the 66% in the first quarter of 2009.

Total silver production was 445,603 equivalent ounces of silver in the first quarter of 2010. This was a decrease of 23,715 equivalent ounces of silver or 5% compared to the fourth quarter of 2009 but an increase of 127,479 equivalent ounces of silver or 40% compared to the first quarter of 2009. The composition of the silver equivalent production in the first quarter of 2010 included 375,446 ounces of silver, 119 ounces of gold and 996,286 pounds of lead. This compares with 395,761 ounces of silver, 151 ounces of gold, 1,038,018 pounds of lead produced in the fourth quarter of 2009 and 268,329 ounces of silver, 150 ounces of gold, 926,367 pounds of lead in the first quarter of 2009.

A total of 1,704 metres of underground development was completed in the first quarter of 2010, compared to 2,047 metres in the fourth quarter of 2009. Only 37 metres of diamond drilling was completed in the first quarter of 2010 compared to 114 metres in fourth quarter of 2009.

Development in the lower levels 8 and 9 of the Rosarios and La Rosa vein continued during the quarter providing access to reserves and resources that are going to be produced in the second half of the year, also the access to level 10 was initiated through a ramp which is expected to be completed in the second quarter, providing further reserves and upgrading the indicated and inferred resources of the lower part of the Rosarios/La Rosa vein.

At the Quebradillas area, the development was focused on the Q25 ore body which was indicated by a previous program of diamond drilling, having developed at strike, the upper part of the ore body for more than 80 metres. The access to this ore body will provide ore for the future production of zinc concentrates at the La Parrilla flotation plant.

San Martin Silver Mine, Jalisco, Mexico

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 950 tpd cyanidation mill and 500 tpd flotation circuit, mine buildings, infrastructure 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. In early 2008, a 500 tpd flotation circuit was nearly 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, the circuit was placed in care and maintenance pending further capital investment.

Tonnes milled at the San Martin mine were 68,917 tonnes in the first quarter of 2010, representing a slight decrease of 3% when compared to the 70,919 tonnes milled in the fourth quarter of 2009 and decrease of 6% when compared to the 73,586 tonnes milled in the first quarter of 2009. The average head grade was 181 g/t in the first quarter of 2010, representing a decrease of 2% when compared to the 184 g/t in the fourth quarter of 2009 and an increase of 11% when compared to the 163 g/t in the first quarter of 2009.

Recoveries of silver in the first quarter of 2010 increased to 78% from the 73% achieved in the fourth quarter of 2009 and from the 72% achieved in the first quarter of 2009. Total production of 358,591 ounces of silver equivalent in the first quarter of 2010 was 4% higher than the 344,405 equivalent ounces of silver produced in the fourth quarter of 2009 and 20% higher than the 299,298 equivalent ounces of silver produced in the first quarter of 2009. The equivalent ounces of silver in the first quarter of 2010 consisted of 310,757 ounces of silver and 726 ounces of gold. This compares to 308,269 ounces of silver and 545 ounces of gold produced in the fourth quarter of 2009 and 276,659 ounces of silver and 341 ounces of gold in the first quarter of 2009.

During the first quarter of 2010, a total of 1,363 metres of underground development was completed compared to 968 metres in the fourth quarter of 2009. In addition, 272 metres of diamond drilling was completed in the first quarter of 2010 compared to 917 metres in the fourth quarter of 2009.

Exploration via short hole drilling into the footwall and hanging wall has shown success with the discovery of the new San Pedro area in 2009. This underground drilling program is continuing and is anticipated to result in structures similar to the San Pedro area and to continually provide additional oxide resources. The 2009 surface exploration program defined the new La Esperanza vein which runs parallel to the Zuloaga vein and has high anomalous samples from 100 to 250 grams per tonne of Ag on surface. The access road to this newly discovered vein began in the first quarter and is expected to be completed before summer. This exploration is a high priority target which is scheduled to be drilled in the second half of 2010.

Del Toro Silver Mine, Zacatecas, Mexico

The Del Toro Silver Mine is located 60 km to the southeast of the Company's La Parrilla Silver Mine and consists of 392 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.

All necessary permits for the construction of a 1,000 tpd flotation mill were granted in Q4 2009 and Q1 2010 by the Mexican authorities. No immediate plans are in place to commence construction, however the Company anticipates a final decision to proceed later in 2010.

In January 2010 the "Change of Use of Land Permit" for a new Flotation Plant was approved by the SEMARNAT. This permit was the last permit required to commence construction of a new operation expected later this year.

Real de Catorce Silver Project, San Luis Potosi, Mexico

The Real de Catorce Silver Project was acquired on November 13, 2009, through the share acquisition of Normabec. The Real de Catorce mine is located 25 km west of the town of Matehuala in San Luis Potosi State, Mexico. The Real de Catorce property consists of 22 mining concessions covering 6,327 hectares, with historical production of 230 million ounces between 1773 and 1990. As a result of the acquisition of Normabec, the Company owns 100% of the Real de Catorce Silver Project.

After the acquisition on November 13, 2009 of the historically famous Real de Catorce silver mine in the Mexican State of San Luis Potosi, the Company completed all the ownership transfer of the mining claims and the Mexican subsidiary Minera Real Bonanza. The Company is now preparing a plan to reconfirm the geologic information and to start the future activities in this very large silver mining district.

EXPLORATION PROPERTY UPDATES

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 as the Company focuses its capital investment on other higher priority projects.

RESULTS OF OPERATIONS

Three Months ended March 31, 2010 compared to Three Months ended March 31, 2009.

	For the Three Months Ended	
	March 31, 2010	March 31, 2009
	\$	\$
Gross revenue	21,935,712	17,464,137 (1)
Net revenue	18,217,614	14,386,872 (2)
Cost of sales	8,973,857	8,298,813 (3)
Amortization and depreciation	797,396	858,837
Depletion	1,000,595	570,295 (4)
Accretion of reclamation obligation	93,720	116,039
Mine operating earnings	7,352,046	4,542,888 (5)
General and administrative	1,986,623	1,818,005 (6)
Stock-based compensation	700,179	896,739 (7)
	2,686,802	2,714,744
Operating income	4,665,244	1,828,144 (8)
Interest and other expenses	(562,439)	(360,206) (9)
Investment and other income	27,321	289,843 (10)
Loss on disposal of marketable securities	(40,470)	- (11)
Foreign exchange gain (loss)	72,025	(952,866) (12)
Income before taxes	4,161,681	804,915
Income tax expense - current	18,561	83,703
Income tax (recovery) - future	1,127,325	(218,486)
Income tax expense (recovery)	1,145,886	(134,783) (13)
Net income for the quarter	3,015,795	939,698 (14)
Earnings per share - basic	0.03	0.01

Notes:

- (1) Consolidated gross revenue (prior to smelting and refining and metal deductions) for the quarter ended March 31, 2010 was \$21,935,712 or \$16.89 (US\$16.23) per ounce compared to \$17,464,137 or \$17.52 (US\$14.07) per ounce for the quarter ended March 31, 2009 for an increase of \$4,471,575 or 26%. The increase in the first quarter of 2010 is attributable to a 30% increase in equivalent silver ounces sold; however, was offset by the foreign exchange effects due to the strength of the Canadian dollar compared to the U.S. dollar during the period which had a negative effect on revenue of 16% as the shipments are valued in U.S. dollars.
- (2) Net revenue for the three months ended March 31, 2010 increased by 3,830,742 or 27% to \$18,217,614 from \$14,386,872 in the first quarter of 2009, due to the same increases that affected consolidated gross revenue in the first quarter of 2010. In addition, lower smelting and refining charges per ounce of 1% contributed to the increase in net revenue in the first quarter of 2010.

- (3) Cost of sales increased by \$675,044 or 8%, to \$8,973,857 in the first quarter of 2010 from \$8,298,813 in the same quarter of 2009. This modest increase in cost of sales was accomplished while increasing the equivalent silver ounces sold by 30% from the quarter ended March 31, 2009. In the first quarter of 2010, the Company processed higher grade ore than the comparative period in 2009.
- (4) Depletion increased by \$430,300 or 75% to \$1,000,595 in the first quarter of 2010 from \$570,295 in the same quarter of 2009, due to an increase in production from reserves at the San Martin Silver Mine compared to the prior year when more ore tonnage was extracted from areas outside reserves for which depletion was not recorded.
- (5) Mine operating earnings increased by \$2,809,158 or 62% to \$7,352,046 for the quarter ended March 31, 2010 compared to \$4,542,888 for the same quarter in the prior year. This is primarily due to the \$3,830,742 increase in net revenue and offset by the higher depletion expenses during the first quarter of 2010.
- (6) General and administrative expenses increased by \$168,618 or 9% compared to the prior year primarily due to increases in salaries and benefits of \$104,309 and investor relations of \$144,420. Focus in the first quarter of 2009 was to preserve cash by reducing expenditures subsequent to the global economic crisis in the fall of 2008. Also, there was a decrease of \$95,409 relating to audit fees in the first quarter of 2010 compared to the same period in 2009.
- (7) Stock-based compensation decreased by \$196,560 or 22% due to fewer options vesting in the first quarter of 2010.
- (8) Operating income increased by \$2,837,100 or 155% to \$4,665,244 for the quarter ended March 31, 2010 compared to \$1,828,144 for the quarter ended March 31, 2009, due to the increase in mine operating earnings.
- (9) During the quarter ended March 31, 2010, interest and other expenses increased by \$202,233 or 56% to \$562,439 compared to \$360,206 for the quarter ended March 31, 2009 and is primarily due to interest charges relating to the debt facilities with FIFOMI for the completion of the MLE cyanidation plant and the pre-payment facility associated with the advances for the sale of lead concentrates.
- (10) Investment and other income decreased by \$262,522 or 91% compared to the same quarter in the prior year as the cash and cash equivalents balances during the first quarter of 2009 was significantly higher than the current year as there were funds available relating to the restricted cash and the earlier stage of development of the La Encantada cyanidation plant.
- (11) During the quarter ended March 31, 2010, the Company sold marketable securities that were written down in 2009 and realized a loss on disposal on these investments of \$40,470.
- (12) The Company experienced a foreign exchange gain of \$72,025 in the quarter ended March 31, 2010 compared to a foreign exchange loss of \$952,866 in the quarter ended March 31, 2009 due to the devaluation of net monetary assets denominated in U.S. dollars related to a weakening of the U.S. dollar compared to the Canadian dollar, and a weakening of the Mexican peso relative to the Canadian dollar.
- (13) During the quarter ended March 31, 2010, the Company recorded an income tax expense of \$1,145,886 compared to a recovery of \$134,783 in the quarter ended March 31, 2009, and this is attributed to the provision of current income taxes and the provision of future income taxes arising from temporary timing differences.
- (14) As a result of the foregoing, net income for the quarter ended March 31, 2010 was \$3,015,795 or \$0.03 per common share compared to a net income of \$939,698 or \$0.01 per common share in the quarter ended March 31, 2009, for an increase of \$2,076,097 compared to the same period in the prior year. This excludes the \$2.3 million of profits which were capitalized due to the pre-commercial sales and were not included in mine operating earnings and net income.

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 (8) \$	Note
Year ended December 31, 2010	Q1	18,217,614	3,015,795	0.03	700,179	1
	Q4	18,374,117	2,492,488	0.03	1,099,386	2
Year ended December 31, 2009	Q3	13,724,803	1,841,623	0.02	505,847	3
	Q2	13,024,877	1,036,416	0.01	800,808	4
	Q1	14,386,872	939,698	0.01	896,739	5
Year ended December 31, 2008	Q4	9,106,605	(5,538,906)	(0.08)	865,415	6
	Q3	10,817,211	(374,245)	(0.01)	1,035,864	
	Q2	11,436,889	(296,956)	0.00	670,616	7

Notes:

- (1) In the quarter ended March 31, 2010, net sales revenue was comparable to the quarter ended December 31, 2009. The Company sold 153,097 equivalent ounces of silver (after intercompany eliminations) more in the first quarter of 2010 compared to the fourth quarter of 2009; however, the average gross revenue per ounce realized was \$16.89 (US\$16.23) in the quarter ended March 31, 2010 compared to \$18.71 (US\$17.72) in the quarter ended December 31, 2009; an average effect of \$1.82 per ounce or 10% (does not include the \$2.3 million profit from pre-commercial sales).
- (2) In the quarter ended December 31, 2009, net sales revenue increased due to increasing silver prices. The average gross revenue per ounce of silver realized increased to US\$17.72 in the quarter ended December 31, 2009, compared to US\$15.07 in the prior quarter ended September 30, 2009.
- (3) In the quarter ended September 30, 2009, net sales revenue increased due to rising prices. The average gross revenue per ounce of silver realized was US\$15.07 in the quarter ended September 30, 2009, increasing from US\$12.60 in the prior quarter ended June 30, 2009.
- (4) In the quarter ended June 30, 2009, net sales revenue decreased due to losses on final settlements for which provisional payments had already been received in the prior quarter.
- (5) 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. Also contributing to an increase in net sales is \$1,194,452 from the sale of coins, ingots and bullion in the three months ended March 31, 2009.
- (6) 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 relating to net U.S. monetary liabilities in the fourth quarter of 2008.
- (7) 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.

- (8) Stock-based Compensation - the net income (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.

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 and metal deductions, and intercompany shipments of coins, ingots and bullion products. The following analysis provides the gross revenues prior to refining and smelting charges and metal deductions, 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	For the Three Months Ended	
	March 31,	
	2010	2009
	\$	\$
MEXICO		
Gross revenues - silver dore bars and concentrates	22,838,623	16,269,685
Less: refining and smelting charges	(2,769,290)	(2,540,742)
Less: metal deductions	(1,000,409)	(536,523)
Net revenue from silver dore and concentrates	19,068,924	13,192,420
Equivalent ounces of silver sold	1,368,412	996,595
Average gross revenue per ounce sold (\$CDN)	16.69	16.33
Average exchange rate in the period (\$US/\$CDN)	1.0409	1.2453
Average gross revenue per ounce sold (\$US)	16.03	13.11
CANADA		
Gross revenues - silver coins, ingots and bullion	1,332,622	1,194,452
Equivalent ounces of silver sold, from Mexican production	69,229	67,620
Average gross revenue per ounce sold (\$CDN)	19.25	17.66
Average exchange rate in the period (\$US/\$CDN)	1.0409	1.2453
Average gross revenue per ounce sold (\$US)	18.49	14.18
CONSOLIDATED		
Combined gross revenues - silver dore, concentrates, coins, ingots and bullion	24,171,245	17,464,137
Less: intercompany eliminations	(2,235,533)	-
Consolidated gross revenues - silver dore, concentrates, coins, ingots and bullion	21,935,712	17,464,137
Less: refining and smelting charges, net of intercompany	(2,736,517)	(2,540,742)
Less: metal deductions, net of intercompany	(981,581)	(536,523)
Consolidated net revenue from silver dore, concentrates, coins, ingots and bullion	18,217,614	14,386,872
Equivalent ounces of silver sold (after interco. eliminations)	1,298,659	996,595
Average gross revenue per ounce sold (\$CDN)	16.89	17.52
Average exchange rate in the period (\$CDN/\$US)	1.0409	1.2453
Average gross revenue per ounce sold (\$US)	16.23	14.07
Average market price of per ounce of silver per COMEX (\$US)	16.91	12.61

At March 31, 2010, the La Encantada mill expansion project had not achieved a commercial stage of production, therefore sales receipts in the quarter ended March 31, 2010 of \$4,718,618 in connection with the sale of 262,403 silver equivalent ounces of precipitates during the pre-operating period was not recorded as a sales revenues but instead was recorded as a reduction of capital in the construction in progress account. As at March 31, 2010, total cash receipts of \$5,663,086 was in the connection with the sale of 316,680 silver equivalent ounces of precipitates during the pre-operating period since inauguration of the plant.

LIQUIDITY

At March 31, 2010, the Company had working capital of \$6.9 million and cash and cash equivalents of \$8.5 million compared to working capital of \$4.8 million and cash and cash equivalents of \$5.9 million at December 31, 2009. Working capital increased by \$2.1 million as a result of \$5.5 million from operating activities, an increase of \$1.3 million in accounts receivable due to shipments prior to period end and offset by a reduction of value added taxes recoverable or to be filed of \$1.2 million as at March 31, 2010 compared to December 31, 2009 due primarily to the receipt of tax remittances from the tax authorities in Mexico. Prepaid expenses and other increased by \$1.1 million primarily due to \$0.4 million relating to prepayments to suppliers and contractors, \$0.2 million in increases in the fair value of marketable securities and \$0.4 million in derivative financial instruments. Accounts payable and accrued liabilities increased by \$1.1 million due to timing of payments to vendors. The current portion of debt facilities increased by \$1.1 million, relating to the additional six month pre-payment facility of \$1.6 million, the Company has drawn relating to the lead concentrates. Also, the current portion of capital leases decreased by \$0.5 million due to payments during the period.

During the quarter ended March 31, 2010 the Company invested \$3.4 million on the acquisition, exploration and development of its mineral properties and a further \$1.4 million in additions to plant and equipment. In late 2008, after achieving 300 million ounces of total Reserves and Resources, the Company took actions to reduce its rate of expenditure on exploration and development.

The Company expended approximately US\$35.3 million over the past 21 months on its new processing plant at La Encantada, which is expected to increase capacity to 3,500 tpd and to add approximately four million ounces of production per year for the Company.

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

2010 OUTLOOK

This section of the MD&A provides management's production and costs forecasts for 2010. 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.

Silver production at the La Encantada Silver Mine consists of a 1,000 tpd flotation circuit which is currently producing a lead concentrate, as well as a 3,500 tpd cyanidation circuit which is producing a silver precipitate. Effective April 1, 2010, the new cyanidation plant was deemed to be commercially operating and all revenues and operating costs will be recorded in the Company's income statement rather than being capitalized as pre-production or pre-operating costs which was the accounting treatment up to March 31, 2010. The plant produced pre-commercial silver precipitates at an average cash cost per ounce of US\$10.30 after selling, smelting and refining charges of \$1.80 (by-products are not payable) during the first quarter of 2010. The Company is expecting smelting and refining charges to reduce once the precipitates are smelted in the Company's own furnaces prior to additional off-site refining. Induction furnaces are expected to arrive and be installed in May and June 2010.

OFF-BALANCE SHEET ARRANGEMENTS

At March 31, 2010, 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. Derivative instruments are carried at fair value.

RELATED PARTY TRANSACTIONS

Amounts paid to related parties were incurred in the normal course of business and measured at the exchange amount, which is the amount agreed upon by the transacting parties and on terms and conditions similar to non-related parties. During the quarter ended March 31, 2010, there were no significant transactions with related parties.

PROPOSED TRANSACTIONS

Other than as disclosed herein, 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	\$ 2,091,313	\$ 1,661,858	\$ 429,455	\$ -	\$ -
FIFOMI Loan Facilities	4,440,399	1,344,999	1,727,665	1,367,735	-
Trafigura Prepayment Facility	1,287,075	1,287,075	-	-	-
Real de Catorce Payments ⁽¹⁾	1,261,200	1,261,200	-	-	-
Purchase Obligations ⁽²⁾	838,414	838,414	-	-	-
Asset Retirement Obligations	4,563,097	-	-	-	4,563,097
Accounts Payable and Accrued Liabilities	12,303,719	12,303,719	-	-	-
Total Contractual Obligations	<u>\$ 26,785,217</u>	<u>\$ 18,697,265</u>	<u>\$ 2,157,120</u>	<u>\$ 1,367,735</u>	<u>\$ 4,563,097</u>

(1) Contract commitments to acquire surface rights and geological information relating to the Real de Catorce Project.

(2) Contract commitments for construction materials and equipment for the La Encantada mill expansion project.

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 the year ended December 31, 2009. 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, 2009. The estimates used by management were 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 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. There were no write-downs or impairment losses recorded at December 31, 2009, as a result of these impairment analyses at the Company's operating mines.

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 country in which the mines operate, the requirements could change resulting from amendments in those laws and regulations relating to environmental protection and other legislation affecting resource companies.

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

appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the amount or timing of the underlying cash flows needed to settle the obligation.

As the estimate of obligations is based on future expectations, in the determination of closure provisions, management makes a number of assumptions and judgments. The 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, 2010.

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 it 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, 2010, and management assessed whether the Company is "more likely than not" to benefit from these tax losses prior to recording a benefit from the tax losses.

In December 2009, Mexico introduced tax consolidation reform tax rules which, effective January 2010, would require companies to begin the recapture of the benefits of tax consolidation within five years of receiving the benefit, and phased in over a five year period. First Majestic's first tax deferral benefit from consolidation was realized in 2008, and as such the benefit of tax consolidation would be recaptured from 2013 to 2018. Numerous companies in Mexico are challenging the legality of these regressive tax reforms. It is unlikely that the outcome of these challenges will be determinable for several years.

Other 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 an accurate single measure of the actual fair value of the Company's stock options granted during the year.

FUTURE ACCOUNTING CHANGES

Business Combinations, Consolidations and Non-controlling interests

The CICA has approved new Handbook Section 1582, "Business Combinations", Section 1601 "Consolidations" and Section 1602 "Non-controlling Interests" to harmonize with International Financial Reporting Standards ("IFRS"). These new sections will be effective for years beginning on or after January 1, 2011, with early adoption permitted. 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. The Company has adopted these new standards for the period ended March 31, 2010.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. The Company will be required to begin reporting under IFRS for the quarter ending March 31, 2011, and will be required to prepare an opening balance sheet and provide information that conforms to IFRS for comparative periods presented.

The Company has developed an IFRS changeover plan which addresses the key areas such as accounting policies, financial reporting, disclosure controls and procedures, information systems, education and training and other business activities.

The Company commenced its IFRS conversion project during the second quarter of 2009 and has established a conversion plan and an IFRS project team. The IFRS conversion project is comprised of three phases: i) project planning, scoping and preliminary impact analysis; ii) detailed diagnostics and evaluation of financial impacts, selection of accounting policies, and design of operational and business processes; and iii) implementation and review.

The Company is in the second phase of its conversion plan and has completed a detailed analysis of the standards, including the evaluation of policy choices for those standards that may have an impact on its financial statements, business processes and systems.

Management is in the process of quantifying the expected material differences between IFRS and the current accounting treatment under Canadian GAAP. Differences with respect to recognition, measurement, presentation and disclosure of financial information are expected in key accounting areas. The Company cannot reasonably determine the full impact that adopting IFRS would have on its financial statements at this time. As a result, it is unable to quantify the impact of adopting IFRS on the financial statements as at March 31, 2010.

The Company is continuing to monitor developments in standards and interpretations of standards and industry practices. Due to anticipated changes to IFRS and International Accounting Standards prior to the adoption of IFRS, management's plan is subject to change based on new facts and circumstances that arise.

The following list, though not exhaustive, identifies some of the changes in key accounting policies due to the adoption of IFRS:

Standards	Difference from GAAP	Potential Impact
Presentation and disclosure	IFRS requires significantly more disclosure than Canadian GAAP for certain standards. In addition, classification and presentation may be different for some balance sheet items.	The increased disclosure requirements will cause the Company to change financial reporting processes to ensure the appropriate data is collected. The Company is analyzing the impact of classification and presentation changes.

Standards	Difference from GAAP	Potential Impact
First time Adoption of IFRS (IFRS 1)	IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions in certain areas to the general requirement for full retrospective application of IFRS. With regards to the IFRS transition, the Company continues to analyze the optional exemptions available under IFRS 1.	The adoption of certain exemptions will impact the January 1, 2010 opening balance sheet adjustments. The Company continues to assess the appropriateness of the accounting policies applied under IFRS both at the time of transition and following transition.
Property, Plant and Equipment (IAS 16)	IFRS requires all significant components of property, plant and equipment ("PPE") to be amortized according to their individual useful lives as determined in accordance with IFRS. IAS 16 permits the revaluation of PPE to fair value.	Potentially material components within processing plants will have shorter useful lives than the entire plant, requiring increased amortization expenses.
Impairment of Long-lived Assets (IAS 36)	IFRS requires the assessment of asset impairment to be based on comparing the carrying amount to the recoverable amount using discounted cashflows while GAAP only requires discounting if the carrying value of assets exceeds the undiscounted cash flows. IFRS also requires the reversal of any previous asset impairments, excluding goodwill, where circumstances have changed. GAAP prohibits the reversal of impairment losses.	The differences in methodology may result in asset impairments upon transition to IFRS. The Company is currently assessing the potential impact on long-lived assets which may require further writedowns relating to impairments.
Asset Retirement Obligations (IAS 37)	Differences include the basis of estimation for undiscounted cashflows, the discount rate used, the frequency of liability remeasurement, and recognition of a liability when a constructive obligation exists.	IFRS 1 provides an exemption which allows the Company to recognize reclamation and closure costs obligations, estimate costs of the related mining properties using risk free rates, and recalculating depreciation and depletion of assets at fair value as at January 1, 2010.
Income Taxes (subject to adoption at transition of a revised IAS 12 standard)	Recognition and measurement criteria for deferred tax assets and liabilities may differ.	Deferred tax assets may be derecognized at transition. This standard is in-transition since IAS 12 was withdrawn in November 2009 and the AcSB will adopt the converged standard at changeover to IFRS. The Company is assessing the changes but the changes are not likely significant.
Functional Currency (IAS 21)	IAS 21 requires the Company to determine the translation differences in accordance with IFRS from the date on which a subsidiary was formed or acquired.	IFRS 1 provides an exemption that allows a Company to reset its cumulative translation account to zero at the date of transition, with the balance being transferred to opening retained earnings.
Business Combinations (IFRS 3)	Under GAAP, the new HB section 1582 is effective January 1, 2011 to converge with IFRS and early adoption is permitted.	Early adoption of HB section 1582 is permitted, and the Company plans to early adopt this section for the year ended December 31, 2010. IFRS 1 will allow IFRS rules for business combinations on a prospective basis rather than re-stating all business combinations.
Leases (IAS 17)	IFRS classifies leases as either financing or operating leases and classification depends on whether substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred from the lessor to the lessee, and is made at the inception of the lease. There are no quantitative thresholds similar to GAAP.	The Company is developing internal indicators to assist in lease classification under IFRS.
Borrowing Costs (IAS 23)	IAS 23 does not allow the expensing of borrowing costs, to the extent they are directly attributable to acquisition, production and construction of a qualifying asset.	IFRS 1 allows companies to capitalize borrowing costs relating to all qualifying assets prospectively on adoption.
Stock-based Compensation (IFRS 2)	Under Canadian GAAP, obligations for cash payments under stock-based compensation plans are accrued using the intrinsic method, compared to the fair value method under IFRS.	While the carrying value of each reporting period will be different under IFRS, the cumulative expense recognized over the life of the instrument will be the same. The Company will adopt this change prospectively using the IFRS 1 exemption for share units that vest prior to January 1, 2010.

Other important considerations during the IFRS transition are the following:

Internal control over financial reporting (“ICFR”) – for all accounting policy changes identified, the Company will assess the impact on the ICFR design and effectiveness implications and will ensure that all changes in accounting policies include the appropriate additional controls and procedures for future IFRS reporting requirements.

Disclosure controls and procedures (“DC&P”) – for all accounting policy changes identified an assessment of DC&P design and effectiveness implication will be analyzed to address any issues with respect to DC&P during IFRS transition.

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 has been remediating internal controls since 2009, and is proceeding on a course of strengthening internal controls in accounting systems in Mexico and Canada. The risk of material error is mitigated by extensive management reviews of financial and operating reports, account reconciliations and analyses in both Mexico and Canada, as well as monthly audit committee reviews. Significant progress on management’s remediation plan has been achieved, and management expects the remainder of its current plan to be completed by the end of 2010.

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, however 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, 2010.

OTHER MD&A REQUIREMENTS

Additional information relating to the Company may be found on or in:

- SEDAR at www.sedar.com,
- the Company’s Annual Information Form,
- the Company’s audited consolidated financial statements for the year ended December 31, 2009.