FIRST MAJESTIC
SILVER CORP.

First Majestic Silver Corp.
2007 Annual Report

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Trusted to Deliver, Committed To Growth

First Majestic's corporate objective is to become a senior silver producer in Mexico through the development of its existing assets and through strategic acquisitions that fit its current growth profile. In keeping with this strategy, the Company will continue to focus on creating bottom line shareholder value and long-term sustainable growth.

Letter to Shareholders

2007 was a pivotal year for First Majestic Silver Corp. After a very successful three year acquisition campaign ending in November 2006, with the acquisition of the La Encantada Silver Mine, 2007 will be remembered as the year the Company successfully consolidated all three of its producing silver mines under the First Majestic umbrella.

Many challenges were tackled during 2007, including: the continued build out of one of the broadest, diversified, and most capable operating teams in Mexico, the implementation of a broad set of corporate-wide control systems to manage accounting, geology and mining, and, the implementation of an ongoing program which is continuing into 2008 to replace older above-ground and underground mining equipment.

Our business plan launched in late 2003 led by our Chief Operating Officer, Ramon Davila and myself, was to build one of the largest silver producers in North America. To date, our objective of setting ourselves apart and meeting this objective is very much intact. Presently, the Company employs approximately 1300 people, mostly in Mexico spread throughout our three producing silver mines; the La Parrilla Silver Mine, the San Martin Silver Mine, and the La Encantada Silver Mine. Management is very proud of our team, its accomplishments and commitments to the business.

The Company's production growth continues to steadily increase from 1.3 million ounces of silver in 2006 to 3.6 million ounces of silver in 2007. In addition to our production growth, the defined silver resource growth over that period was nothing less than incredible. First Majestic entered 2006 with 70,000,000 defined silver equivalent ounces and within only a year more than doubled the Company's NI 43-101 Resources to 163,000,000 ounces of silver equivalent at the beginning of 2008.

Management is very much focused on continuing to define and develop additional compliant Reserves and Resources at each of its producing mines and other projects. I have been asked regularly, "Why define so many silver ounces"? The answer is simple! First Majestic is limited only by its mill capacities at each of its operations. As our Reserves and Resources continue to grow, the Company can focus on the expansions of its mills capacities. During 2008, Shareholders can expect to see continuous updates on the Company's expansion plans at each of its three producing silver mines.

First Majestic continues to attract quality mining professionals to its team. With three great mines at the early infancy of their growth cycles; First Majestic expects to produce much more silver in 2008 and beyond.

This coming year, Management at First Majestic will focus on executing its business plan by continuing the ongoing improvements at each mine and by reaching its production and resource targets for 2008.

Ultimately, we are building long term sustainable mining operations focusing on sound environmental practices, the development of the communities in which we operate and the professional development of our employees. By obtaining these objectives we'll be producing silver many years into the future. These objectives often take much more time than shareholders have patience for. It also takes a substantial investment in dollars, time and skill-set. Shareholders can be assured, Management at First Majestic are very focused on growth and building a profitable mining company and will not waiver from its primary objective of building one of North America's largest silver producers, in turn providing value to our shareholders.

Keith Neumeyer,
President & CEO

First Majestic starts 2008 announcing its common shares were listed on the Toronto Stock Exchange (TSX).

2007 Highlights

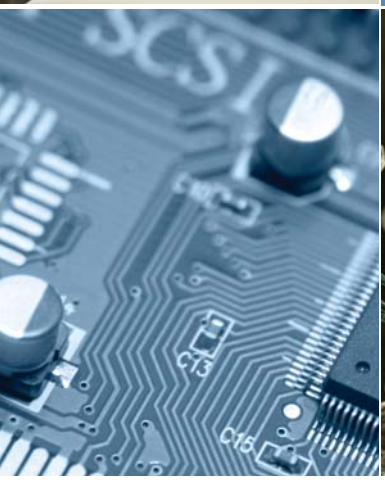
- Successfully consolidated three producing silver mines under the First Majestic umbrella
- Commissioned new 800 tpd cyanidation/flotation mill at the flagship La Parrilla Silver Mine
- 90% of corporate revenues were attributed to silver production
- Ended year with 163,000,000 NI 43-101 compliant silver equivalent Resources

Silver Uses

There's No Substitute For Silver! As can be seen by the average trading price for silver in the last few years. 2007 saw the average silver price attaining $13.38 compared to $11.50 in 2006. The Silver price reached almost $21.00 in March 2008. Each year we witness new uses for silver being introduced into the marketplace. Some of the exciting industrial applications announced in 2007 include:

- US FDA has approved Silver-Coated Breathing Tube for patient ventilators
- Gym lockers having silver-based antimicrobial lining
- Silver fabrics now proven useful for those with carpal tunnel syndrome
- Motorola Inc.'s i870 phone includes an anti-bacterial silver coating
- Sharper Image Corp. offers food-storage containers lined with silver particles
- Samsung Electronics Ltd. has launched a line of washing machines and refrigerators that use silver to kill germs
- Curad, as well as many other bandage manufacturers now sell bandages with embedded silver.
- Silver fabrics allow for breathable flexible and less bulky than activated carbon containing fabrics.

In addition to the increasing industrial demand as shown; investment demand has also been increasing substantially. Above ground supply of silver are presently at historic lows which is expected to be very supportive for silver prices moving forward.



Pharmaceuticals
Silver is leading a revolution in technology and medicine. The white metal's unique bacteriafighting qualities are becoming more and more critical in healing conditions ranging from severe burns to Legionnaires Disease.

Electrical
Silver is the best electrical conductor of all metals. Because it does not corrode, its use in electrical and motor control switches is universal.

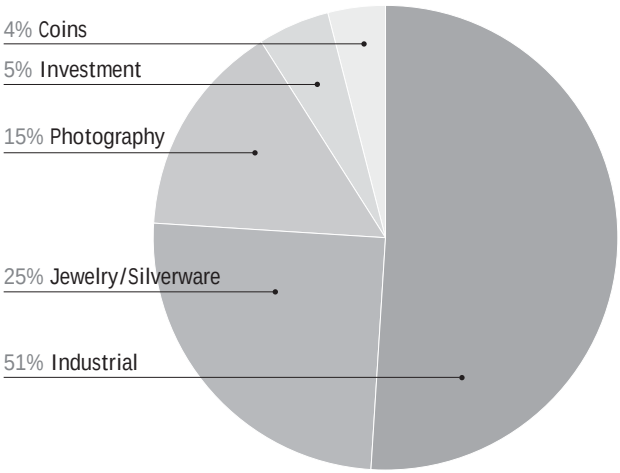
Chemical catalyst
Silver is also one of the few elements that improve the efficiency of chemical reactions. Nanotechnology applications using silver are growing - in computers, communications, miniature motors and switches.

Reflectants
Silvered windshields in homes, cars and office buildings reflect away some 70% of the solar energy that would otherwise pass through, thus reducing the load on air conditioners.

Industrial
Silver is the ideal industrial material. No other metal has silver's combined strength, malleability and ductility, or facilitates electrical and thermal conductivity as well, or can reflect light and endure such extreme temperature changes.

Printed circuitry
Printed circuit boards (PCBs) use silver for connecting paths of electronic circuitry. PCBs are essential to the electronics that control the operation of aircraft, automobile engines, electrical appliances, security systems, telecommunication networks, mobile telephones, television receivers.

World Silver Demand - 2007 Estimate



Superconductors
These low-current switches are also found in control panels of cable television, telephones, and devices using digital electronics.

Electroplating
The ease of electrodeposition of silver accounts for silver's widespread use in coating. Silver plating is used in a wide variety of applications from Christmas Tree ornaments to cutlery and hollowware.

Brazing & Soldering
Silver facilitates the joining of materials (called brazing when done at temperatures above 600°Celsius and soldering when below) and produces naturally smooth, leak-tight and corrosion-resistant joints.

Coins
Silver, being a rare and noble metal, was a more desirable medium of exchange than beads, feathers, shells, and the like. Its use as a medium of exchange is known throughout all recorded history.

Photography
Although a wide variety of other technology is available, silver-based photography will retain its pre-eminence due to its superior definition and low cost.

Silverware & Jewelry
Silver possesses working qualities similar to gold but enjoys greater reflectivity and can achieve the most brilliant polish of any metal. To make it durable for jewelry, however, pure silver (999 fineness) is often alloyed with small quantities of copper.

Mirrors & Coatings
Silver's unique optical reflectivity, and its property of being virtually 100% reflective after polishing, allows it to be used both in mirrors and in coatings for glass, cellophane or metals. Everyone is accustomed to silvered mirrors. Over 250 million square feet of silver-coated glass is used for domestic windows in the U.S. yearly and much more for silver coated polyester sheet for retrofitting windows.

Solar Energy
Silver paste is used in 90 percent of all crystalline silicon photovoltaic cells, which are the most common solar cell, according to the Photovoltaic Technology Division of the U.S. Department of Energy. And all silicon cells used in space to power satellites use silver in the form of evaporated metal to make the electrical contact. The electricity generated by photovoltaic cells is highly reliable. As soon as sunlight strikes, power begins to flow. Silver is the best reflector of thermal energy (after gold).

Water Purification
An increasing trend is the millions of on-the-counter and under-the-counter water purifiers that are sold each year in the United States to rid drinking water of bacteria, chlorine, trihalomethanes, lead, particulates, and odor.

Source: www.silverinstitute.org

Social Responsibility

First Majestic Silver Corp. understands and embraces the social responsibilities that come with operating a progressive mining company. Management is committed to exemplary corporate citizenship within the communities in which the Company operates. As the Company's Mexican operations have grown in the last few years the focus has been on both engaging the local workforce and on promoting economic sectors beyond First Majestic's operations.

First Majestic is involved in supporting the development of new opportunities which improves the wellbeing of the communities. The objective is to create a sustainable economic environment, to help the communities to create the necessary infrastructure to market their agricultural products, creating new areas of opportunity, and developing new sources of income. The Company has launched many social programs with the communities we work within.

In addition, the Company has been working on the establishment of community recycling programs and assisting with local road improvements.

One aspect that is viewed as fundamental for the future of our operations is the education level of the communities. Special focus is given to improve and help the local primary and secondary schools. During Christmas, the Company donates to the communities, so no child is left without a gift. First Majestic in cooperation with the state governments also assists in meeting the areas health needs, and compensates a local doctor providing free community health services.

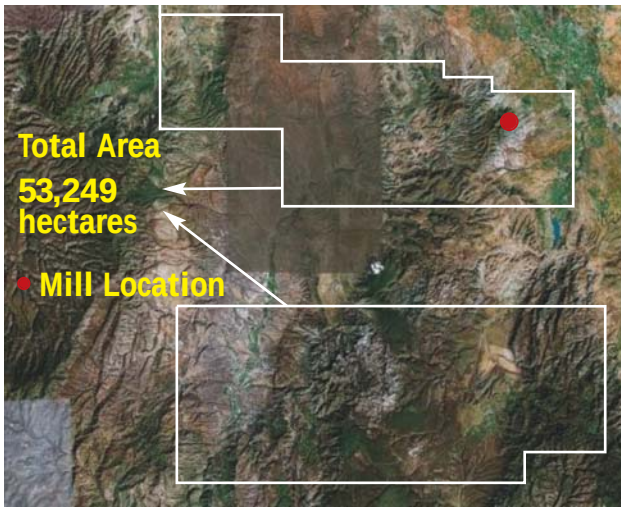
The Company takes its commitment to community relations and wellbeing of its workforce very seriously. First Majestic remains focused with emphasis on keeping the work environment safe and we continue to work with our employees in order to assure that they have the best training, adequate tools, best equipment, and supervision to perform their work as required.

Adopting and welcoming community awareness and building relationships with all communities that First Majestic is operating will be an ongoing commitment that the company strives to achieve for a value added effort to everyone as a whole.

La Parrilla Silver Mine

The La Parrilla Silver Mine is located approximately 1km from the village of San Juan de La Parrilla and 75km SE of the city of Durango in central Mexico.

The La Parrilla Silver Mine consists of underground silver/lead/zinc mining operations and a cyanidation and flotation ore processing plant with an installed capacity of 800 tonnes per day (tpd). The plant processes both oxide and sulphide silver ores in two separate 400 tpd parallel circuits. Both Doré metal bars and flotation concentrates are being produced.



The land holding surrounding the main mine and mill complex is a very large 53,249 hectare (131,581 acres) land package consisting of several known areas of mineralization, such as: the Los Rosarios, La Rosa and La Blanca/San José vein system (Los Rosarios System); San Marcos; Quebradillas; Las Vacas; San Nicolas; Las Animas, and numerous other targets for exploration along several known structures and projected intersections, such as Milagros, La Víbora and Sacramento.

The La Parrilla was First Majestic's first mine acquisition in early 2004 and was not operating at the time. The mine and mill was a typically small operation, however, Management felt the potential existed, not only to bring this mine back into production, but also, to increase its size over time. Since this acquisition, the mine has proven to be much larger than originally anticipated. The Company has spent the past four years improving the operations through a variety of mechanical improvements, modernizations, underground development, mill expansion, and resource definition.

The new 800 tpd mill was completed in May 2007 which is allowing the Company to take advantage of sulphide ores present as well as the oxide ores. This dual processing plant has allowed for a much more flexible operation.

Since the mine commenced operations in late 2004, over 12,500 metres of underground development has occurred and over 200 diamond drill holes totalling over 56,240 metres have been drilled. This ongoing program of development and exploration designed primarily to assist in mining activity and resource and reserve definition, continues to confirm Management's view that the potential at the La Parrilla is immense and is destined to become a much larger operation in the years ahead.

" Substantial Resource growth will lead to much larger operation going forward "

LA PARILLA NI 43-101 - January 30, 2008

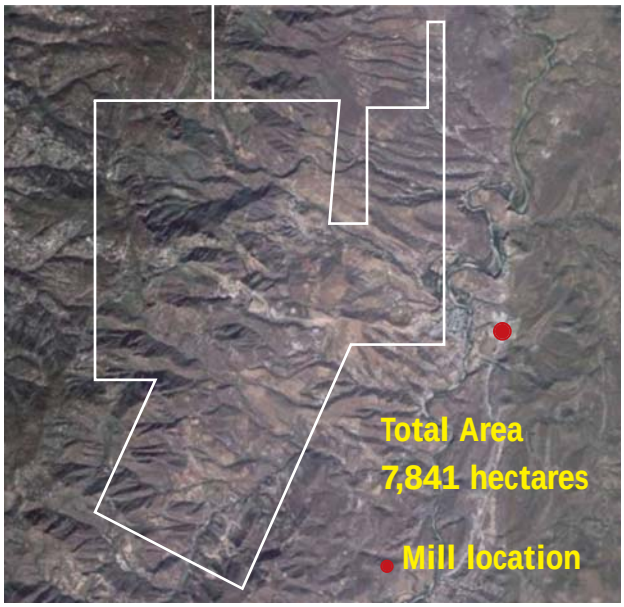
		Grade				
Category	Tonnes	Gold g/tonne	Silver g/tonne	Lead %	Zinc %	Contained Silver Eqv. Oz.
Total Proven+Probable Mineral Reserves	553,394	-	326	0.59	0.43	6,107,551
Total Measured + Indicated Resources	2,667,671	0.13	287	1.95	2.48	29,336,405
Total Inferred Resources	4,157,231	0.13	230	1.45	1.57	38,639,050
Total Resource	**7,378,296**	**-**	**-**	**-**	**-**	**74,083,006**

Milestones for 2008 include: further mill improvements to increase recoveries, aggressive underground development to increase available mining areas in order to increase mill throughput; continue program of underground equipment replacement and modernization, and increase regional exploration activity.

First Majestic intends to continue with its strategy of publishing updated NI 43-101 compliant Resource calculations as material changes occur. It is anticipated that at least one additional NI 43-101 Report will be published for the La Parrilla late in 2008.

San Martin Silver Mine

The San Martín Silver Mine is located near the town of San Martín de Bolaños in the Bolaños river valley, in the northern portion of the State of Jalisco in México. The San Martín is a 250 kilometre drive by paved road north from Guadalajara. The property consists of 7,841 hectares and includes several vein systems and structures that have not in the past received serious exploration attention. The mine has been developed primarily on the main Zuloaga vein which has been identified over a strike length of three kilometres which consists of six main levels and an additional three partially developed levels (Pinolea, San Carlos, La Escondida). The main access levels, San José, Santa María, Ballenas, Cangrejos, San Pablo, San Juan and San Carlos, are accessible from surface adits and various interconnecting underground ramps. Production is also occurring from the La Blanca vein, a vertical split off from the Zuloaga vein.



First Majestic is presently developing and rehabilitating the upper parts of the Zuloaga vein and along crosscutting veins at the Rebaje 40 Oriente on the Cangrejos Level, and at the Rebaje 1100 on the Ballenas Level. The Company recognizes that in both cases north-south veins intersecting the Zuloaga vein show high grade mineralization in widths of up to 10 meters in the hanging wall of the previously mined structures. The La Blanca vein, which cuts upward through the Zuloaga hanging wall, which appears to contain higher silver grades, is also being redeveloped.

The Company's main focus with the San Martin in 2007 has been to give the mine a renewed facelift since its acquisition. Due to the poor mining standards and practices at the mine under its prior owner, it is taking time to turn the San Martin into an efficient operation. Several improvements have been made since acquisition, including; the replacement of over 12 pieces of underground mining equipment; upgrades to mill facilities; and, the recent construction commencement of a new 500 tpd flotation circuit to take advantage of the large sulphide Resource present. Further improvements will continue and are planned for 2008.

Since the San Martin was acquired in June 2006, over 12,441metres of underground development has occurred and over 80 diamond drill holes totalling over 8,815 metres have been drilled. This ongoing program of development and exploration is designed primarily to assist in mining activities and achieve resource and reserve definition.

Milestones for 2008 include: to continue the aggressive underground development program that commenced in late 2006 in order to define and develop additional oxide resources; complete the construction of the new flotation circuit; and, increase mill capacity by adding a third ball mill.

First Majestic intends to continue with its strategy of publishing updated NI 43-101 compliant Resource calculations as new information becomes available. It is anticipated that two NI 43-101 Reports will be published in 2008; one midyear and another late in 2008.

San Martin NI 43-101 - May 28, 2007

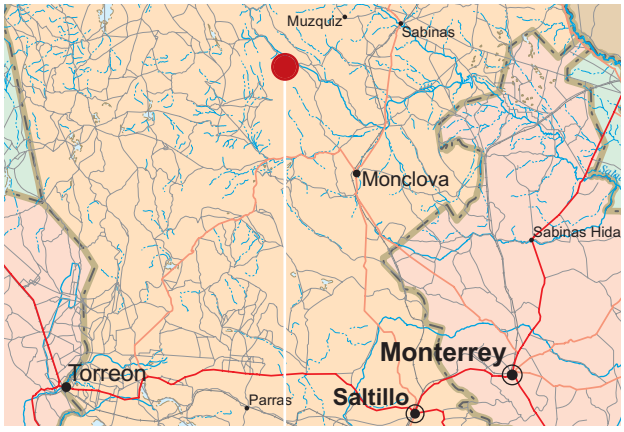
Category	Tonnes	Silver g/tonne	Contained Silver (oz) (g/tonne)	Silver Grade with Au/Pb Credit Au/Pb Credits	Contained Silver (oz) including
Total Proven+Probable Mineral Reserves	492,023	290	4.594,804	314	4,962,389
Total Measured+Indicated Resources	1,797,965	250	14,451,468	270	15,624,740
Total Inferred Resources	2,737,800	202	17,750,000	257	23,721,400
Total Resource	**5,027,788**	**-**	**-**	**-**	**44,308,529**

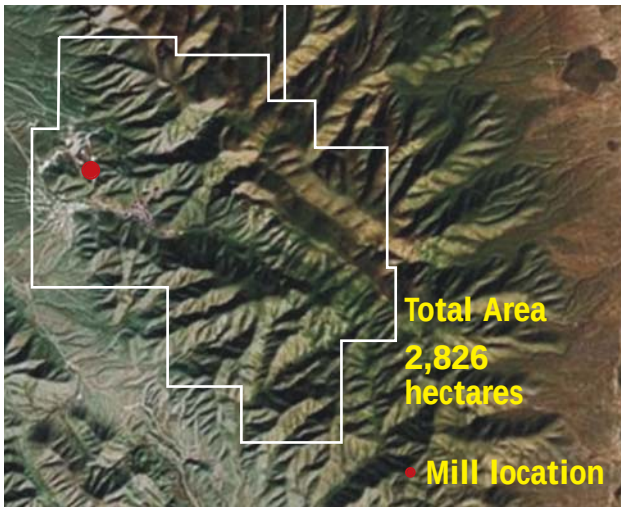
“ With renewed investment and mining approach, the San Martin Silver Mine will continue to produce substantial ounces of silver.”

La Encantada Silver Mine

The La Encantada Silver Mine is located in the northwest corner of the State of Coahuila in Mexico, 120km from the city of Múzquiz, and can be reached via paved road.

The La Encantada property covers 2,826 hectares (6,982 acres) which includes the mine, 800 tpd flotation plant, housing, camp and associated facilities including: laboratory, maintenance buildings, water wells and pipeline, airstrip, 180 houses, mine office, warehouses, club house, kitchen and restaurant facilities, recreational facilities and guest houses.





The La Encantada represents the Company's highest grade mine and lowest cost producer. Resource development has been of primary importance as is also the case at each of the Company's three producing silver mines. The ongoing exploration and development program has resulted in a significant increase in both Resources and Reserves. Major efforts are underway in several areas within the mine that include: the Breccia Milagros, Bonanza, San Francisco, Intrusivo Milagros, Azul y Oro, and Cuerpo de Zinc, and at mine level N-1535.

As a result of the successes at the La Encantada and the expected continued increases in defined Resources going forward, management is expecting that this operation will be expanded significantly in 2008. Shareholders can expect to see news during 2008 on the Company's expansion plans at the La Encantada Silver Mine.

Since the La Encantada mine began operations under First Majestic in late 2006, over 6,297 metres of underground development has occurred and over 56 diamond drill holes totalling over 3,700 metres have been drilled. This ongoing program of development and exploration designed primarily to assist in mining activity and resource and reserve definition, continues to confirm management's view that the potential at the La Encantada is extensive.

Milestones for 2008 include: initiate major expansion plan by adding a cyanidation circuit; substantial increase in exploration activities within the mine including targeted areas such as La Escalera Breccia pipe and the Azul y Oro and Buenos Aires vein system and surrounding ground; and continuation of underground mine development to add ounces to compliant Resources.

As in the case of each of the Company's mines, First Majestic intends to continue with its strategy of publishing updated NI 43-101 compliant Resource calculations as additional silver ounces are defined. It is anticipated that at least one additional NI 43-101 Report will be published late in 2008 for the La Encantada Silver Mine.

LA ENCANTADA NI 43-101 - January 7, 2008

		Grade				Metal Contained
Category	Tonnes	Silver g/tonne	Lead %	Zinc	Silver only oz	Silver (oz.) including Lead Credit
Total Proven+Probable Mineral Reserves	1,209,133	312	1.77	0.81	12,110,507	12,620,835
Total Measured+Indicated Resources	7,036,976	173	1.73	2.05	39,099,835	40,122,659
Total Inferred Resources	1,967,000	200	0.50	0.50	12,479,000	13,428,000
Total Resource	**10,213,109**	**-**	**-**	**-**	**63,689,342**	**66,171,494**

“ A major expansion program is planned for the La Encantada Silver Mine in 2008 making this mine our largest silver producer for 2009 "

Exploration Projects

The Chalchihuites Group of Properties

The Chalchihuites Group of Properties is strategically located 60 km to the southeast of the Company's flagship La Parrilla Silver Mine and consists of 293 hectares of contiguous mining claims which cover the Perseverancia Silver Mine and the San Juan Silver Mine. The Chalchihuites mining district is in the western portion of Zacatecas State in the municipality of Chalchihuites, and is located 150 km to the northwest of Zacatecas City. The Company has completed a geological program that included surface geology, geochemical and geo-physical surveying, diamond drilling, underground rehabilitation and development and channel sampling. Diamond drilling and underground development activities are ongoing.

San Juan Silver Mine

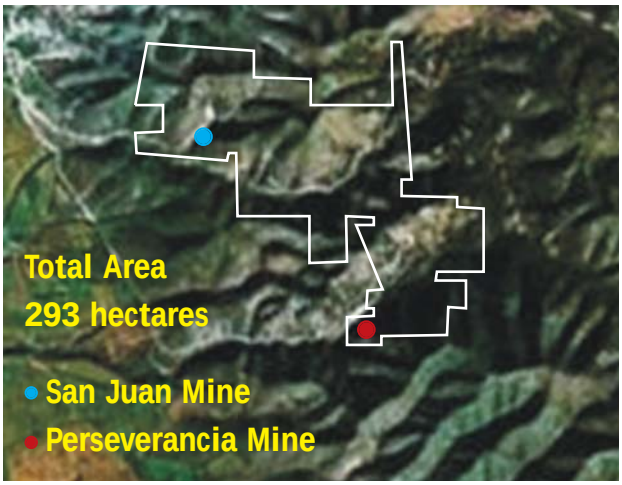
The San Juan Silver Mine is one of the oldest mines in the district and was partially mined to a depth of 150 meters over nine levels. The mine has not been in operation since the 1950's. First Majestic's exploration program has consisted of mapping, sampling, rehabilitation and development of old workings. A diamond drilling program has been underway for the past two years. Results from this program can be viewed on the Company's website. In addition, substantial underground development of over 1950 meters has occurred and is ongoing to expose and develop this exciting ore body.

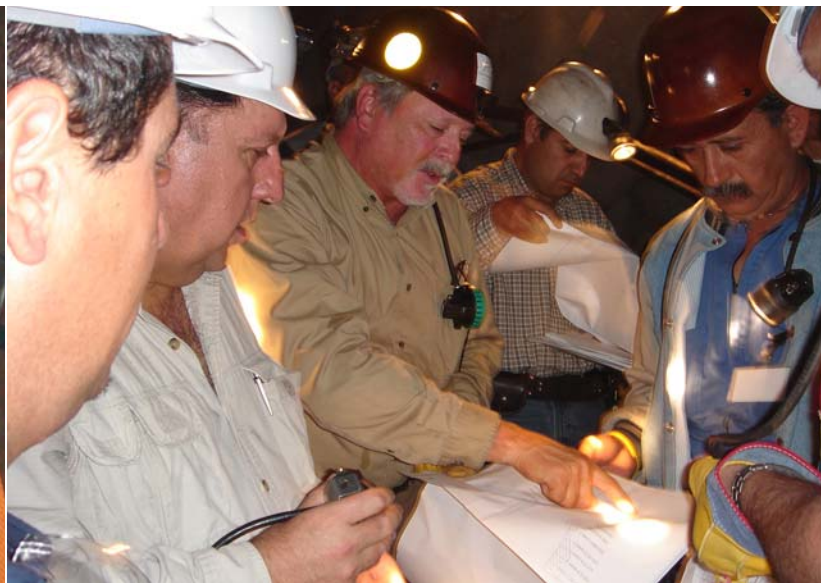
The mineralized structure remains open at depth and along strike and appears to be of sufficient size to one day warrant the construction of its own mill.

La Perseverancia Silver Mine

The La Perseverancia Silver Mine, has been historically the most important mine in the Chalchihuites area due to its production and high grades. The mine is approximately one kilometre away from the San Juan mine. The Perseverancia mine consists of two adjacent high-grade silver mineralized chimneys. High grade Ore is presently being extracted on a limited basis and being shipped to the La Parrilla mill for processing.

Presently, construction of a ramp from surface and installation of a new head-frame are underway to access the chimneys from underground and to increase production levels. It is anticipated





that during 2008, production from this operation will reach approximately 200 tpd. The Ore presently being shipped to the La Parrilla mill grades approximately 1.0 kg/tonne Silver (1000 g/tonne Ag) and 30% Lead.

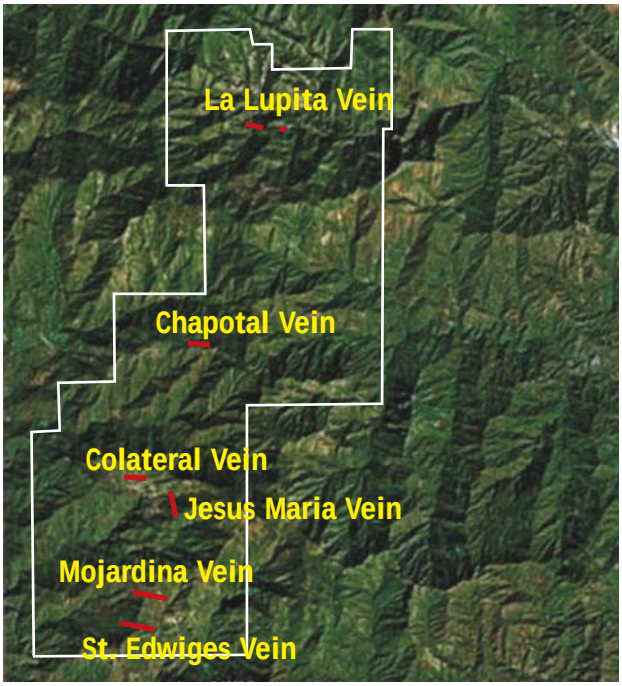
It is further anticipated that the San Juan and Perseverancia Silver Mines will become a combined stand-alone operation in the future.

The Cuitaboca Silver Project

The Cuitaboca Silver Project is located in the State of Sinaloa in Mexico, 150 km north-northwest of the city of Culiacan, situated in the Western edge of the Sierra Madre Occidental metallogenic province, a large geological region that is host to many of the best known gold, silver and base metals producing districts such as San Jose de Gracia, Alamos, Guanacevi, Tayoltita, Bacís, La Cienega, Pinos Altos, etc.

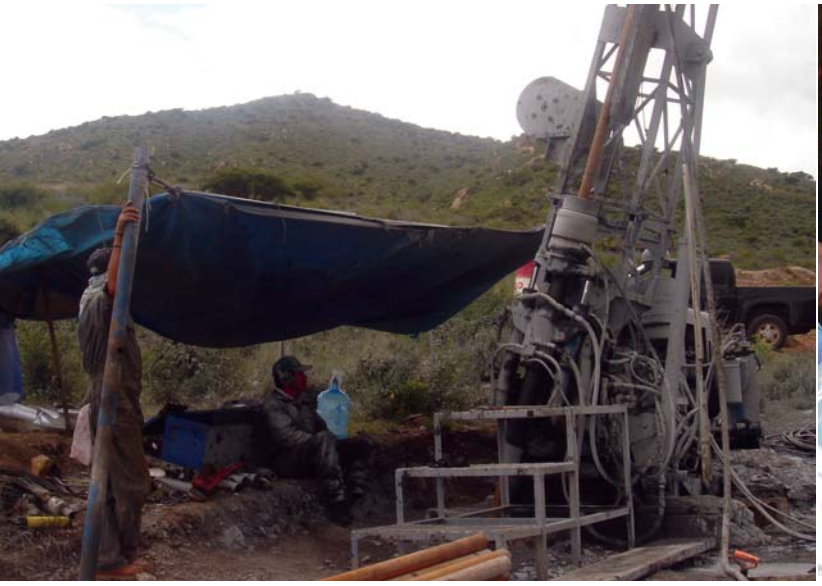
The property consists of 5,134 hectares land package where at least six known parallel veins exist that hosts high grade silver, lead and zinc. These veins are known as La Lupita, Los Sapos, Chapotal, Colateral-Jesus Maria, Mojardina and Santa Eduwiges.

Road construction to access the different veins and underground development at the Colateral vein has dominated the activities to date at Cuitaboca. Due to the excellent exploration results in 2007, further road construction and underground development of the Santa Eduwiges and Jesus Maria veins is planned. Furthermore, a diamond drill program is being planned for regional exploration.



The Jalisco Group of Properties

The Jalisco Group of Properties is a group of mining claims located in Jalisco State, Mexico totalling 5,131 hectares. This is a grass roots exploration project that has to date received little attention. The initial stage of evaluation and exploration will be launched in 2008 to assess the geological potential of one of the properties located in the prolific mining district of Etzatlan, Jalisco where the Company owns 787 hectares. This early program will include mapping and surface geology to determine if interesting drill targets exist.



Management's Responsibility for Financial Reporting

The consolidated financial statements of First Majestic Silver Corp. (the "Company") are the responsibility of the Company's management. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimates and judgment based on information currently available.

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

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

The consolidated financial statements have been audited by Deloitte & Touche LLP and their report outlines the scope of their examination and gives their opinion on the financial statements.

"Keith Neumeyer"

Keith Neumeyer
President & CEO
April 11, 2008

"Raymond Polman"

Raymond Polman
Chief Financial Officer
April 11, 2008

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Auditors' report

To the Shareholders of

First Majestic Silver Corp.

We have audited the consolidated balance sheets of First Majestic Silver Corp. as at December 31, 2007, and 2006, and the consolidated statements of loss, shareholders' equity and comprehensive income (loss), and cash flows for the year ended December 31, 2007, the six months ended December 31, 2006 and the year ended June 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006, and the results of its operations and its cash flows for the year ended December 31, 2007, the six months ended December 31, 2006, and the year ended June 30, 2006 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

April 11, 2008

Consolidated Balance Sheets

As at December 31, 2007 and 2006

	December 31, 2007 $	December 31, 2006 $
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	12,835,183	17,870,712
Accounts receivable	3,365,054	1,200,362
Other receivables (Note 4)	6,600,195	5,893,538
Inventories (Note 5)	2,908,880	1,688,451
Prepaid expenses	1,044,753	61,025
	26,754,065	26,714,088
MINING INTERESTS (Note 6)		
Producing properties	25,167,945	29,812,065
Exploration properties	102,462,552	109,058,819
Plant and equipment	28,903,950	19,700,013
	156,534,447	158,570,897
CORPORATE OFFICE EQUIPMENT (Note 6)	432,309	76,669
DEPOSITS ON LONG-TERM ASSETS (Note 7)	1,282,030	–
	185,002,851	185,361,654
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	8,732,447	8,557,624
Current portion of long-term vendor liability (Note 9)	13,341,380	13,341,380
Current portion of arrangement liability (Note 8)	388,836	388,836
Current portion of capital lease obligations (Note 20)	2,061,464	–
Liability for the acquisition of Desmin (Note 10)	–	1,165,300
Employee profit sharing payable (Note 19)	177,624	293,989
Income taxes payable (Note 15)	926,946	394,128
	25,628,697	24,141,257
LONG TERM VENDOR LIABILITY (Note 9)	–	13,341,380
LONG TERM ARRANGEMENT LIABILITY (Note 8)	–	388,836
FUTURE INCOME TAXES (Note 15)	31,848,682	36,784,192
CAPITAL LEASE OBLIGATIONS (Note 20)	1,245,194	-
OTHER LONG TERM LIABILITIES (Note 18)	1,207,332	1,518,304
ASSET RETIREMENT OBLIGATION (Note 21)	2,290,313	3,898,085
	62,220,218	80,072,054
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 11)	145,699,783	103,466,619
SHARE CAPITAL TO BE ISSUED (Note 8)	9,286,155	9,294,020
CONTRIBUTED SURPLUS	17,315,001	11,720,436
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	(15,186,207)	7,910,502
DEFICIT	(34,332,099)	(27,101,977)
	122,782,633	105,289,600
	185,002,851	185,361,654

CONTINGENT LIABILITIES (Note 17)
COMMITMENTS (Note 19)

APPROVED BY THE BOARD OF DIRECTORS

(Signed) Keith Neumeyer Director

(Signed) Douglas Penrose Director

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

Consolidated Statements of Loss

For the periods ended December 31, 2007, December 31, 2006 and June 30, 2006

	Year ended December 31, 2007 $	Six months ended December 31, 2006 $	Year ended June 30, 2006 (Note 2) $
Revenue (Note 12)	42,924,920	12,754,965	4,159,292
Cost of sales (excluding amortization and depreciation)	26,989,300	11,068,717	3,788,564
	15,935,620	1,686,248	370,728
General and administrative	7,460,903	3,141,795	2,851,206
Stock based compensation	3,865,689	1,558,892	1,604,969
Amortization and depreciation	2,402,262	356,100	223,875
Depletion	6,317,134	2,740,875	1,773,640
Accretion of reclamation obligation	208,448	81,391	89,597
Write off of mineral properties (Note 6(d))	1,703,591	2,860,512	384,930
	21,958,028	10,739,565	6,928,217
Operating loss	(6,022,408)	(9,053,317)	(6,557,489)
Interest and financing expenses	(1,169,934)	(824,347)	(135,972)
Investment and other income	1,358,166	685,777	277,662
Foreign exchange gain	(11,299)	729	64,913
Dilution loss on shares issued by subsidiary	–	–	(89,283)
Loss before taxes and non-controlling interest	(5,845,475)	(9,191,158)	(6,440,169)
Income tax (recovery) - current	259,392	260,517	203,490
Income tax (recovery) - future	1,125,255	(1,140,920)	(408,391)
Income tax (recovery) expense	1,384,647	(880,403)	(204,901)
Non-controlling interest	–	722,563	569,382
NET LOSS FOR THE PERIOD	(7,230,122)	(7,588,192)	(5,665,886)
BASIC AND DILUTED LOSS PER COMMON SHARE	(0.13)	(0.17)	(0.16)
WEIGHTED AVERAGE SHARES OUTSTANDING	56,720,099	43,728,690	35,024,657

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

Consolidated Interim Statements of Shareholders' Equity and Comprehensive Income (Loss)

For the Periods ended December 31, 2007, December 31, 2006 and June 30, 2006

	Shares	Amount $	Share capital To be issued $	Special Warrants $	Contributed Surplus $	Accumulated other Income (Loss) ("AOCI") $	Deficit $	Total AOCI and deficit $	Total $
Balance at June 30, 2005	23,644,717	23,488,473	–	–	1,333,137	–	(13,847,899)	(13,847,899)	10,973,711
Net loss							(5,665,886)	(5,665,886)	(5,665,886)
Other comprehensive loss									
Cumulative translation adjustment						(154,205)		(154,205)	(154,205)
Total comprehensive loss								(5,820,091)	(5,820,091)
Shares issued for:									
Exercise of options	710,000	963,900							963,900
Exercise of warrants	4,407,066	7,887,245							7,887,245
Acquisition of mineral properties	200,000	450,000							450,000
Private placement	6,076,374	10,661,751							10,661,751
Special warrants issued				25,524,894					25,524,894
Compensation options issued during the period					550,000				550,000
net of non-controlling interest portion of $356,712					720,145				720,145
Stock option expense during the period					528,112				528,112
Warrants issued during the period					1,470,000				1,470,000
Transfer of contributed surplus upon exercise of stock options		329,100			(329,100)				–
Balance at June 30, 2006	35,038,157	43,780,469	–	25,524,894	4,272,294	(154,205)	(19,513,785)	(19,667,990)	53,909,667
Net loss							(7,588,192)	(7,588,192)	(7,588,192)
Other comprehensive income									
Cumulative translation adjustment						8,064,707		8,064,707	8,064,707
Total comprehensive income								476,515	476,515
Shares issued for:									
Exercise of options	255,000	579,750							579,750
Exercise of warrants	184,316	414,711							414,711
First Silver arrangement	4,791,907	23,192,830							23,192,830
Conversion of special warrants	7,000,000	22,885,359		(25,524,894)	2,607,000				(32,535)
Private placement	4,429,250	12,419,500							12,419,500
Share capital to be issued for First Silver			9,294,020						9,294,020
Fair value of First Majestic options exchanged for First Silver options					173,250				173,250
Stock option expense during the period net of non-controlling interest portion of $356,712					1,558,892				1,558,892
Warrants issued during the period					3,046,000				3,046,000
Finder's warrants issued during the period					257,000				257,000
Transfer of contributed surplus upon exercise of stock options		194,000			(194,000)				–
Balance at December 31, 2006	51,698,630	103,466,619	9,294,020	–	11,720,436	7,910,502	(27,101,977)	(19,191,475)	105,289,600
Net loss							(7,230,122)	(7,230,122)	(7,230,122)
Other comprehensive loss									
Exchange translation adjustment of changing consolidation method for First Majestic Plata						(3,244,350)		(3,244,350)	(3,244,350)
Cumulative translation adjustment						(19,852,359)		(19,852,359)	(19,852,359)
Total comprehensive loss								(30,326,831)	(30,326,831)
Adjustment relating to Minera El Pilon transaction					(417,317)				(417,317)
Shares issued for:									
Exercise of options	1,407,500	3,022,400							3,022,400
Exercise of warrants	2,668,823	6,876,102							6,876,102
First Silver arrangement	1,625	7,865	(7,865)						-
Acquisition of La Encantada	382,582	2,000,904							2,000,904
Conversion of special warrants	6,883,000	29,221,643		(32,138,643)	2,917,000				-
Special warrants issued				32,138,643					32,138,643
Stock option expense during the period					3,865,689				3,865,689
Warrants issued during the period					333,443				333,443
Transfer of contributed surplus upon exercise of stock options		1,104,250			(1,104,250)				–
Balance at December 31, 2007	63,042,160	145,699,783	9,286,155	–	17,315,001	(15,186,207)	(34,332,099)	(49,518,306)	122,782,633

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

Consolidated Statements of Cash Flows

For the periods ended December 31, 2007, December 31, 2006 and June 30, 2006

	Year ended December 31, 2007 $	Six months ended December 31, 2006 $	Year ended June 30, 2006 (Note 2) $
OPERATING ACTIVITIES			
Net loss for the period	(7,230,122)	(7,588,192)	(5,665,886)
Adjustment for items not affecting cash			
Depletion	6,317,134	2,740,875	1,773,640
Depreciation	2,402,262	356,100	223,875
Stock-based compensation	3,865,689	1,558,892	1,604,969
Accretion of reclamation obligation	208,448	81,391	89,597
Unrealized gain on futures contracts	–	–	(182,917)
Write-down of mineral property interests	1,703,591	2,860,512	384,930
Gain on sale of fixed assets	–	(25,695)	–
Future income taxes	1,125,255	(1,140,920)	(408,391)
Unrealized foreign exchange	290,487	(7,576)	(186,919)
Loss on dilution of investment in subsidiary	–	–	89,283
Non-controlling interest	–	(722,563)	(569,382)
	8,682,744	(1,887,176)	(2,847,201)
Net change in non-cash working capital items			
(Increase) in accounts receivable and advances	(2,164,592)	(2,980,216)	(836,663)
Decrease in asset on derivative instrument	–	50,752	–
(Increase) decrease in inventory	(1,220,429)	(471,567)	217,340
(Increase) decrease in prepaid expenses	(983,728)	106,244	78,910
Increase in accounts payable and accrued liabilities	147,418	3,848,429	856,913
Increase (decrease) in employee profit sharing payable	(116,365)	(123,317)	156,692
Increase (decrease) in taxes receivable and payable	(173,839)	(1,099,888)	168,164
	4,171,209	(2,556,739)	(2,205,845)
INVESTING ACTIVITIES			
Decrease in silver futures contract deposits	–	930,018	449,876
Acquisition of First Silver Reserve Inc. less cash acquired (Note 8)	–	(929,558)	(23,348,787)
Acquisition costs of Minera La Encantada less cash acquired (Note 10)	(3,798,900)	–	–
Acquisition costs of Desmin S.A. de C.V. less cash acquired (Note 10)	(1,165,300)	(43,164)	–
Additions to plant and equipment	(11,841,594)	(10,035,282)	(3,434,209)
Expenditures on mineral property interests	(18,895,126)	(2,861,099)	(5,351,760)
Proceeds from sale of fixed assets	–	77,790	–
	(35,700,920)	(12,861,295)	(31,684,880)
FINANCING ACTIVITIES			
Payment of short term vendor liability	(13,341,380)	–	–
Payment of short term arrangement liability	(388,836)	–	–
Issuance of common shares and subscriptions, net of issue costs	11,002,752	16,716,961	20,829,539
Issuance of special warrants, net of issue costs	29,221,643	–	26,074,894
Shares issued by subsidiary to non-controlling interest	–	–	153,357
	26,494,179	16,716,961	47,057,790
INCREASE IN CASH AND CASH EQUIVALENTS	(5,035,532)	1,298,927	13,167,065
CASH AND CASH EQUIVALENTS - BEGINNING OF THE PERIOD	17,870,715	16,571,788	3,404,723
CASH AND CASH EQUIVALENTS - END OF THE PERIOD	12,835,183	17,870,715	16,571,788
CASH AND CASH EQUIVALENTS IS COMPRISED OF:			
Cash	521,201	7,066,683	5,606,367
Term deposits	12,313,982	10,804,032	10,965,421
	12,835,183	17,870,715	16,571,788

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

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

1. DESCRIPTION OF BUSINESS AND CONTINUING OPERATIONS

First Majestic Silver Corp. (the "Company" or "First Majestic") is in the business of the production, development, exploration and acquisition of mineral properties focusing on silver in Mexico. During the fiscal year ended December 31, 2007, the Company traded on the TSX Venture Exchange under the symbol "FR". On January 15, 2008, the Company's shares and warrants commenced trading on the TSX under the symbols "FR" and "FR.WT" respectively, and were de-listed from the TSX Venture Exchange.

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").

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

In August 2007 and December 2007, the Company effected a corporate restructuring of Desmin, La Encantada and First Majestic Plata, such that the Company now holds the shares of First Majestic Plata, El Pilon, Desmin and La Encantada, through CFM, which is a Mexican holding company for Mexican tax consolidation purposes. The Company has determined its Mexican operations are now self-sustaining, and as a result in August 2007, the Company adopted the current rate method for translating First Majestic Plata and recognized the change in carrying values of its net assets as an element of other comprehensive income (see Note 3).

In 2006, the Company changed its fiscal year end from June 30 to December 31. As a result, these financial statements include the financial position as at December 31, 2007, and the results of operations and changes in cash flows for the year then ended. The comparative figures include the financial position as at December 31, 2006, and the results of operations and changes in cash flows for the six months ended December 31, 2006, and twelve months ended June 30, 2006. Certain of the comparative figures of the prior periods have been reclassified to conform with the presentation as at and for the year ended December 31, 2007.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles.

Measurement Uncertainties

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Significant areas where management judgment is applied include, among others, the expected economic lives and the future operating results and net cash flows expected to result from exploitation of resource properties and related assets, the amount of proven and probable mineral reserves, income tax provisions, the determination of the fair value of assets acquired in business combinations and the amount of future site reclamation costs and asset retirement obligations. Actual results could differ from those reported.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and money market instruments with terms to maturity not exceeding 90 days at date of issue. The Company does not believe it is exposed to significant credit or interest rate risk although cash and cash equivalents are held in excess of federally insured limits with major financial institutions.

Inventories

Finished product and ore in process is valued at the lower of cost and net realizable value. Cost is determined as the average production cost of saleable silver and metal by-product. Materials and supplies are valued at the lower of cost and replacement cost.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral Property Interests

The acquisition, development and deferred exploration costs are depleted on a units-of-production basis over the estimated economic life of the ore body following commencement of production.

Mineral property costs and exploration, development and field support costs directly relating to mineral properties are deferred until the property to which they directly relate is placed into production, sold, abandoned or subject to a condition of impairment. The deferred costs are amortized over the useful life of the ore body following commencement of production, or written off if the property is sold or abandoned. Administration costs and other exploration costs that do not relate to any specific property are expensed as incurred.

The Company reviews and evaluates its mining 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 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 carrying value of exploration stage mineral property interests represent costs incurred to date. The Company is in the process of exploring its other mineral property interests and has not yet determined whether they contain ore reserves that are economically recoverable. Accordingly, the recoverability of these capitalized costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete their exploration and development, and upon future profitable production.

Although the Company has taken steps to verify ownership and legal title to mineral properties in which it has an interest, according to the usual industry standards for the stage of mining, development and exploration of such properties, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects. Management is not aware of any such agreements, transfers or defects.

From time to time, the Company acquires or disposes of properties pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee and, accordingly, are recorded as mineral property costs or recoveries when the payments are made or received.

Asset Retirement Obligations and Reclamation Costs

Future costs to retire an asset including dismantling, remediation and ongoing treatment and monitoring of the site are recognized and recorded as a liability at fair value at the date the liability is incurred. The liability is accreted over time through periodic charges to earnings. Future site restoration costs are capitalized as part of the carrying value of the related mineral property at its initial value and amortized over the mineral property's useful life based on a units-of-production method.

Translation of Foreign Currencies

(i) Subsidiary Financial Statements

In August 2007, the Company changed the method in which it translates the accounts of First Majestic Plata. At the time of the corporate restructuring of Desmin, La Encantada and First Majestic Plata (Note 2), the operations of First Majestic Plata changed from integrated to self-sustaining on the basis that recent commercial operations of the La Parrilla Silver Mine resulted in a change in the functional currency of that operation from the Canadian dollar to the Mexican peso. As a result, the current rate method was adopted in place of the temporal method. The translation loss of $3,244,350 attributable to current rate translation of non-monetary items as of the date of the change is included as an element of the exchange gains and losses included in a separate component of accumulated other comprehensive income.

(ii) Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated into the currency of measurement at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities are translated at the exchange rates in effect at the time of acquisition or issue. Revenues and expenses are translated at rates approximating the exchange rates in effect at the time of the transactions. Exchange gains and losses arising from the translation of these items are included in operations.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes
The Company uses the asset and liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases (temporary differences), using substantively enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs. Future income tax assets are recognized to the extent that they are considered more likely than not to be realized.

Property, Plant and Equipment
Property, plant and equipment are recorded at cost less accumulated depreciation applied from the commencement of operations, calculated using the straight line method over the following useful lives:

Computer equipment	3 years	straight-line
Automobile	5 years	straight-line
Office equipment	5 years	straight-line
Mine and mill equipment	10 years	straight-line
Buildings	20 years	straight-line

Construction in progress costs are not amortized until the related asset is complete, ready for use and utilized in commercial production.

Revenue Recognition
Revenue from the sale of silver is recorded in the accounts when title transfers to the customer, which generally occurs on the date of shipment, when collection is reasonably assured and when the price is reasonably determined. Revenue is recorded in the statement of operations net of treatment and refining costs paid to counterparties. Revenue from the sale of silver is subject to adjustment upon final settlement of estimated metal prices, weights and assays. Adjustments to revenue for metal price changes are recorded monthly and any other adjustments are recorded on final settlement. By-product revenue is included as a component of sales.

Impairment of Long-Lived Assets
Long-lived assets are assessed for impairment when events and circumstances warrant. The carrying value of a long-lived asset is impaired when the carrying amount exceeds the estimated undiscounted net cash flow from use or disposal. In the event that a long-lived asset is determined to be impaired, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to earnings.

Loss Per Share
Basic loss per share is computed by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method. The effects of potential issuances of shares under options and warrants would be anti-dilutive, and therefore basic and diluted loss per share are the same.

Stock Based Compensation
The Company uses the fair value method for recording compensation for all awards made to directors, employees and non-employees including stock appreciation rights, direct awards of stock and stock based awards that call for settlement in cash or other assets. The compensation expense is determined as the fair value of the option at the date of grant calculated using the *Black-Scholes Option Pricing Model*. The contributed surplus balance is reduced as the options are exercised and the amount initially recorded is credited to share capital. The effect of forfeitures of stock based compensation is recorded as an adjustment to stock based compensation expense in the period the stock based compensation is forfeited.

Derivatives
The Company periodically uses foreign exchange and commodity contracts to manage exposure to fluctuations in foreign exchange rates and silver prices. Derivative positions are recorded on the balance sheet at fair value with changes in fair value recorded in the operations.

Comprehensive Income
On January 1, 2007, the Company adopted Section 1530: Comprehensive Income. Comprehensive income consists of net income and other comprehensive income ("OCI"). OCI represents changes in shareholders' equity during a period arising from transactions

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

other than changes related to transactions with owners. OCI includes unrealized gains and losses on financial assets classified as available-for-sale, changes in the fair value of the effective portion of derivative instruments included in cash flow hedges and currency translation adjustments on the Company's net investment in self-sustaining foreign operations.

Cumulative changes in OCI are included in accumulated other comprehensive income ("AOCI"). Prior financial statements retroactively reflect the classification of the currency translation adjustments on the Company's net investment in self-sustaining operations as a component of other comprehensive loss.

Financial Instruments – Recognition and Measurement and Hedges

Effective January 1, 2007, the Company adopted Section 3855: Financial Instruments – Recognition and Measurement. This section establishes standards for recognizing and measuring financial assets, liabilities, and non-financial derivatives. In accordance with these standards, the Company classifies financial instruments as either held-to-maturity, available-for-sale, held for trading, or loans and receivables. Financial assets and liabilities, including derivatives, are recognized on the consolidated balance sheet when the Company becomes a party to the contractual provisions of the financial instrument. Under this standard, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Transaction costs are expensed as incurred for financial instruments classified as held-for-trading. For financial instruments classified as other than held-for-trading, transaction costs are added to the carrying amount of the financial asset or liability on initial recognition and amortized using the effective interest method.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in the statement of loss. Loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale financial assets are presented in available-for-sale securities in the Company's consolidated balance sheet and measured at fair value with unrealized gains and losses, including changes in foreign exchange rates, recognized in OCI. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

Derivative instrument are recorded on the consolidated balance sheet at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Changes in the fair values of derivative instruments are recognized in net income with the exception of derivatives designated as effective cash flow hedges.

The Company has designated its financial assets and liabilities as follows:

- Cash and cash equivalents — Held for trading
- Accounts receivable — Loans and receivables
- Other receivables — Loans and receivables
- Accounts payable and accrued liabilities — Other financial liabilities
- Short term debt — Other financial liabilities
- Long term debt — Other financial liabilities
- Capital lease obligations — Other financial liabilities

Impact on Adoption of Section 1530 and 3855

The adoption of the new requirements for financial instruments and reporting comprehensive income had no material impact on the results of operations and financial position of the Company other than the translation adjustment relating to the Company's net investment in self-sustaining subsidiaries is recorded as a component of comprehensive loss for the year ended December 31, 2007 in the amount of $23,096,709 (2006 - $7,910,502) and the cumulative translation adjustment at December 31, 2006 in the amount of $7,910,502 is recorded as accumulated other comprehensive income as at that date.

Change in Accounting Policy Relating to Cost of Production

During the year, the Company changed its accounting policy with respect to the treatment of underground mining costs. During production at underground mines, the Company incurs development costs to build new shafts, drifts and ramps that enable the Company to physically access ore underground. Under the new policy, these underground development costs will be capitalized as incurred and amortized on a unit of production basis over the period that the related ore is extracted. Costs incurred and capitalized to enable access to specific ore blocks or areas of the mine, and which only provide an economic benefit over the period of mining that ore block or area, are attributed to earnings using the units-of-production method where the denominator is estimated recoverable ounces of silver contained in proven and probable reserves within that ore block or area.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Previously the Company did not distinguish underground mining costs on this basis and therefore such costs were expensed as costs of production in the period they were incurred.

The Company believes that the new accounting policy provides a more accurate and reliable measure of the cost of production for ore produced at the Company's mines and facilitates a more meaningful inter-period comparison of such costs.

This change has been applied on a prospective basis effective January 1, 2007, with the effect that cost of sales, net loss and comprehensive loss for the year ended December 31, 2007, have all been reduced by $2,400,996, mineral properties have increased by $2,183,856, and the deficit decreased by $2,400,996, respectively at December 31, 2007. Loss per share for the year ended December 31, 2007 was reduced by $0.04.

The Company has concluded that retrospective application of this accounting change for periods ending on or prior to December 31, 2006 is impracticable to determine on the basis that production records were not prepared nor retained in sufficient detail to enable a proper determination of the applicable capitalized costs and related amortization.

4. OTHER RECEIVABLES

Details of the components of other receivables are as follows:

	December 31, 2007 $	December 31, 2006 $
Value added tax and GST recoverable	4,467,782	2,951,825
Other taxes recoverable	1,286,967	-
Interest receivable	16,325	32,334
Advances to employees	11,288	90,572
Advances to suppliers	421,535	1,725,622
Other	396,298	1,093,185
	6,600,195	5,893,538

5. INVENTORIES

Inventories consist of the following:

	December 31, 2007 $	December 31, 2006 $
Finished product (silver dore and concentrates)	1,321,004	15,223
Ore in process	246,289	182,064
Materials and supplies	1,341,587	1,491,164
	2,908,880	1,688,451

6. MINING INTERESTS

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

	December 31, 2007			December 31, 2006		
	Cost $	Accumulated depreciation and depletion $	Net $	Cost $	Accumulated depreciation and depletion $	Net $
Mining properties	138,832,672	11,202,175	127,630,497	143,324,480	4,453,596	138,870,884
Plant and equipment	31,133,655	2,229,705	28,903,950	20,387,442	687,429	19,700,013
	169,966,327	13,431,880	156,534,447	163,711,922	5,141,025	158,570,897

6. MINING INTERESTS (continued)

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

	December 31, 2007					
	Depletable $	Non Depletable $	Total $	Plant and Equipment $	Totals 2007 $	Totals 2006 $
MEXICO						
Producing properties						
La Encantada (a)	936,641	–	936,641	9,149,753	10,086,394	377,957
La Parrilla (b)	10,817,187	–	10,817,187	13,699,934	24,517,121	19,738,299
San Martin (c)	13,414,117	–	13,414,117	6,054,263	19,468,380	29,395,822
	25,167,945	–	25,167,945	28,903,950	54,071,895	49,512,078
Exploration properties						
La Encantada (a)		1,728,689	1,728,689		1,728,689	1,761,699
La Parrilla (b)		4,717,254	4,717,254		4,717,254	–
San Martin (c)(1)		87,749,359	87,749,359		87,749,359	101,284,020
Candamena (d)		700,000	700,000		700,000	1,993,465
Chalchihuites (e) (f)		6,804,780	6,804,780		6,804,780	3,798,219
Cuitaboca (f) (2)		762,470	762,470		762,470	221,416
	–	102,462,552	102,462,552	–	102,462,552	109,058,819
	25,167,945	102,462,552	127,630,497	28,903,950	156,534,447	158,570,897

A summary of plant and equipment is as follows:

	December 31, 2007			December 31, 2006		
	Cost $	Accumulated Depreciation $	Net Book Value $	Cost $	Accumulated Depreciation $	Net Book Value $
La Parrilla Silver Mine	14,763,264	1,063,330	13,699,934	13,835,500	416,209	13,419,291
San Martin Silver Mine	6,918,969	864,706	6,054,263	6,116,717	213,952	5,902,765
La Encantada Silver Mine	9,451,422	301,669	9,149,753	435,225	57,268	377,957
Used in Mining Operations	31,133,655	2,229,705	28,903,950	20,387,442	687,429	19,700,013
Corporate office equipment	528,865	96,556	432,309	104,303	27,634	76,669
	31,662,520	2,326,261	29,336,259	20,491,745	715,063	19,776,682

Details by specific assets are as follows:

	December 31, 2007			December 31, 2006		
	Cost $	Accumulated Depreciation $	Net Book Value $	Cost $	Accumulated Depreciation $	Net Book Value $
Land	2,309,428	-	2,309,428	66,049	-	66,049
Automobile	266,020	41,256	224,764	262,552	18,317	244,235
Buildings	5,971,902	182,714	5,789,188	1,005,504	71,551	933,953
Machinery and equipment	21,898,609	1,922,611	19,975,998	7,751,740	577,649	7,174,091
Computer equipment	372,549	91,386	281,163	48,646	12,686	35,960
Office equipment	219,127	62,625	156,502	184,759	34,605	150,154
Leasehold improvements	308,183	25,669	282,514	-	-	-
Construction in progress	316,702	-	316,702	11,172,495	255	11,172,240
	31,662,520	2,326,261	29,336,259	20,491,745	715,063	19,776,682

(1) This includes properties acquired from First Silver and held by Minera El Pilon. The properties are located in the San Martin de Bolaños region, as well as in Jalisco State (the Jalisco Group of Properties).

(2) The Cuitaboca property was acquired from First Silver, is held by Minera El Pilon, and all costs are subsequent to acquisition.

Details of expenditures by nature and property are summarized in Schedule "A" – Consolidated Summary of Mineral Property Interest to these financial statements.

6. MINING INTERESTS (continued)

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

	Note 6(b) La Parrilla US$	Note 6(e) Chalchihuites US$	Note 6(f) Cuitaboca US$	Totals US$
Paid as at December 31, 2007	2,251,000	5,760,000	550,000	8,561,000
February 21, 2008 (paid)	145,200	-	-	145,200
February 22, 2008 (paid)	154,400	-	-	154,400
March 1, 2008 (paid)	-	65,000	-	65,000
Subtotal Q1 2008	299,600	65,000	-	364,600
May 21, 2008	217,800	-	-	217,800
May 22, 2008	231,600	-	-	231,600
May 25, 2008	-	-	175,000	175,000
Subtotal Q2 2008	449,400	-	175,000	624,400
November 25, 2009	-	-	200,000	200,000
Subtotal Q3 2008	-	-	200,000	200,000
Subtotal Q4 2008	-	-	-	-
FY 2009 and beyond	-	-	1,575,000	1,575,000
Future Option Payments	749,000	65,000	1,950,000	2,764,000
Totals	3,000,000	5,825,000	2,500,000	11,325,000

(a) La Encantada Silver Mine, Coahuila State

The La Encantada Silver Mine is a producing underground mine located in Northern Mexico approximately a 1.5 hour flight from Torreon and comprises 2,826 hectares of mining rights and surface land ownership of 1,343 hectares. The closest town, Muzquiz to Boquillas del Cármen, is 45 kilometres away via dirt road. The La Encantada Silver Mine consists of an 800 tonnes per day flotation plant, an airstrip, and other facilities, including a village with 180 houses as well as administrative offices.

In November 2006, the Company acquired the exploitation rights for the La Encantada Silver Mine from Desmin, for US$1.5 million. Subsequently, the Company acquired Minera La Encantada S.A. de C.V. for consideration of $6,169,593, consisting of US$3.25 million in cash, 382,582 common shares of the Company and 191,291 warrants to acquire the NSR from Peñoles (see Note 10).

(b) La Parrilla Silver Mine, Durango

The La Parrilla Silver Mine is a producing underground mine located approximately 65 kilometres southeast of the city of Durango, Mexico and includes mining equipment, an 800 tonnes per day cyanide and flotation processing mill commissioned in May 2007, and mining concessions covering an area of 53,000 hectares of which the Company owns 100 hectares of surface rights. The Company owns 100% of the La Parrilla Silver Mine which began commercial silver production in October 2004.

In January 2004, the Company purchased the original 300 hectares of mineral rights as well as the mill and mine. In August 2006, the Company entered into three agreements to acquire the Quebradillas and Viboras Silver Mines and a contiguous land package of 3,126 hectares of mining concessions located in the La Parrilla Mining District in Durango State, Mexico. The Company purchased all the mining concessions, the mines, the data of past diamond drill programs and the assets located within the mine areas for a total purchase price of US$3,000,000 payable over a period of two years (US$2,251,000 paid as at December 31, 2007). These agreements call for a net smelter royalty ("NSR") of 1.5% of sales revenue to a maximum of US$2,500,000. The Company has the option to purchase the NSR at any time for US$2,000,000.

(c) San Martin Silver Mine, Jalisco State

The San Martin Silver Mine is a producing underground mine located within 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 800 tonnes per day cyanidation mill, mine buildings and offices are located. The Company owns 100% of the San Martin Silver Mine.

The Company has estimated the cost of the San Martin Silver Mine, which has proven and probable reserves, and is carrying the associated asset categorized with other producing properties. The estimated cost of the property which relates to the value beyond proven and probable is classified as an exploration property (see table above).

6. MINING INTERESTS (continued)

(d) Candameña Mining District Property, Chihuahua

In December 2004, the Company signed two option agreements for the purchase of the Candameña Mining District Property ("Candameña") located in the eastern Sierra Madre Mountain range about midway between Hermosillo and Chihuahua in east central Sonora Mexico. The purchase includes all properties, assets and equipment and all mining concessions consisting of 5,215 hectares.

The payment schedule to one of the agreements was amended on May 24, 2005, November 30, 2006 and March 26, 2007 and a 1% NSR, payable up to a maximum of US$4,000,000, was cancelled on November 30, 2006.

On August 14, 2007, the Company entered into an agreement with Prospector Consolidated Resources Inc. ("Prospector") whereby Prospector had the right to acquire a 100% interest in the Company's option to the Candameña Mining District Property by paying $50,000 and issuing two million of its common shares to the Company upon regulatory approval. The Company received $50,000 in August 2007, and Prospector assumed all option commitments to the underlying property vendors effective August 2007. Prospector received regulatory approval and the Company received two million shares of Prospector in March 2008. In September 2007, management wrote down the carrying value of the Candameña property by $1,703,591 to $700,000 reflecting the cash received and estimated proceeds on disposal of two million shares of Prospector.

(e) Chalchihuites Group of Properties, Zacatecas

The Chalchihuites Group of Properties is located 60 km to the southeast from the Company's La Parrilla Silver Mine and consists of a 293 contiguous hectare land package which covers the Perseverancia Silver Mine and the San Juan Silver Mine. In 2004, the Company signed several option agreements which covered a total land area of 487 hectares located in the Chalchihuites Mining District, in the municipality of Chalchihuites, located 150 km to the northwest of Zacatecas City in the Western portion of Zacatecas State. In January 2007, the Company exercised its option to acquire the San Juan Silver Mine, and in June 2007 exercised its option to acquire the Perseverancia Silver Mine. During the quarter ended September 30, 2007, the Company acquired 100 hectares of surface rights covering the area surrounding the San Juan Mine.

In reference to the final US$2,000,000 payment due June 8, 2007, US$1,000,000 was paid in June 2007 and the remaining US$1,000,000 is being held in trust pending registration of the concessions with the Mexican mining registry. In connection therewith, a finder's fee in the amount of $176,934 (US$165,870) was paid to a director of the Company.

In September, 2007, the Company took 100% ownership of the Perseverancia Silver Mine, the San Juan Silver Mine and the surrounding 293 hectare land package.

There remains one outstanding option agreement, entered into on August 29, 2005 to acquire the La Esperanza and the San Rafael mining concessions comprising approximately 29 hectares in the Chalchihuites area for a total purchase price of US$175,000 payable over a three-year period (US$65,000 unpaid as at December 31, 2007). A finder's fee in the aggregate of US$7,257 is payable to a director of the Company in the event that the remaining option agreement is exercised.

(f) Cuitaboca Silver Project, Sinaloa, Mexico

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

The Company presently owns an option agreement entered into on November 25, 2004 with Consorcio Minero Latinamericano, S.A. de C.V. ("Consorcio"), a private Mexican company owned by a former director of First Silver, for the purchase of a 100% interest in seven mining claims covering 3,718 hectares located in the State of Sinaloa, Mexico. To purchase the claims, the Company must pay a total of US$2,500,000 in staged cash payments through November 25, 2010 (US$550,000 paid as at December 31, 2007). A 2.5% NSR on the claims may be purchased for an additional US$500,000 at any time during the term of the agreement or for a period of 12 months thereafter.

7. 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:

	December 31, 2007 $	December 31, 2006 $
Property payment, Chalchihuites (Note 6(e))	991,565	-
Deposit on Services	216,923	-
Deposit on Equipment	73,542	-
	1,282,030	-

8. ACQUISITION OF FIRST SILVER RESERVE INC.

a) MAJORITY ACQUISITION

On April 3, 2006, First Majestic entered into an agreement to acquire approximately 63.75% of the issued and outstanding shares of First Silver Reserve Inc. ("First Silver") from the major shareholder of First Silver (the "Shareholder"). First Silver's wholly-owned subsidiary, El Pilon, is the sole owner of the San Martin Silver Mine in Jalisco State, Mexico.

First Majestic purchased 24,649,200 common shares of First Silver (the "Acquisition") at a price of $2.165 per share for an aggregate purchase price of $53,365,519 payable to the Shareholder in three instalments. The first instalment of $26,682,759, representing 50% of the purchase price, was paid on closing of the Acquisition on May 30, 2006. Two additional instalments of $13,341,380, each representing 25% of the purchase price, are payable on the first and second anniversaries of the closing of the Acquisition. An interest amount of 6% per annum, simple interest, is payable quarterly on the two outstanding payments.

The Shareholder had an outstanding legal dispute regarding the ownership of 3.7 million shares of First Silver (equivalent to 1.85 million shares in First Majestic) which was settled in March 2008. The Shareholder offered to sell his remaining 2.8 million shares of First Silver to First Majestic on the same terms set out above. The Company has declined the offer and requested that the shares are treated as Arrangement shares (see below), convertible into First Majestic shares (see – Note 8). The 3.7 million shares of First Silver (1.85 million shares) are included in "Shares to be Issued" in the Shareholders' Equity section of the Balance Sheet.

The Acquisition has been accounted for using the purchase method. First Majestic is the acquirer and the business acquired has been recorded at its estimated fair value. The results of operations of First Silver have been consolidated with the operations of the Company effective June 1, 2006.

The allocation of the purchase price to the assets acquired and liabilities assumed, based on the 63.75% of First Silver acquired, is as follows:

		$
Consideration:		
Cash on closing		26,682,757
Short-term vendor liability		13,341,380
Long-term vendor liability		13,341,380
Other costs incurred related to the Acquisition		222,340
		53,587,857
Allocation of purchase price:		
Net working capital		5,333,616
Property, plant and equipment		2,977,551
Mineral property interests:		
Proven and probable mineral reserves	16,200,681	
Value of mineral resources beyond proven and probable	55,609,505	
	71,810,186	71,810,186
Future income taxes		(21,342,466)
Asset retirement obligations		(1,140,520)
Other long-term liabilities		(1,823,617)
Non-controlling interest		(2,226,893)
		53,587,857

b) PLAN OF ARRANGEMENT WITH FIRST SILVER RESERVE INC.

On June 5, 2006, First Majestic and First Silver entered into a business combination agreement whereby First Majestic acquired the remaining 36.25% of the outstanding securities of First Silver which were not owned by First Majestic, resulting in First Silver becoming a wholly-owned subsidiary of First Majestic. Under the terms of the plan of arrangement (the "Arrangement"), First Majestic acquired the remaining issued and outstanding First Silver shares in consideration for either: (i) the issuance of one common share of First Majestic for each two First Silver shares acquired; or (ii) a cash payment in the amount of $2.165 per First Silver share payable on the basis of 50% upon the completion of the Arrangement and the balance payable in two equal instalments on the first and second anniversaries of the date of closing of the Arrangement, with interest payable quarterly and compounded annually at 6.0% per annum on the unpaid balances from the closing of the Arrangement.

The Arrangement was approved at a special meeting of shareholders of First Silver on September 7, 2006 and closed on September 14, 2006.

At closing, First Silver option holders exchanged, on a two for one basis, 25,000 stock options of First Silver exercisable at a price of $1.64 per share expiring on June 13, 2009 and 1,100,000 stock options of First Silver exercisable at a price of $2.15 per share expiring on June 19, 2011 for 12,500 stock options of First Majestic exercisable at a price of $3.28 per share expiring on June 13,

8. ACQUISITION OF FIRST SILVER RESERVE INC. (continued)

2009 and 550,000 stock options of First Majestic exercisable at a price of $4.30 per share expiring on June 19, 2011, respectively. The stock options granted were valued at $693,000 using the Black-Scholes Option Pricing Model (assumptions include a risk free rate of 4.02%, estimated volatility of 68%, expected life of 2 to 3 years and expected dividend yield of 0%). At December 31, 2006, $275,682 of this amount was credited to contributed surplus and $417,318 was designated as deferred compensation and will be credited to contributed surplus in future periods as the related stock options vest.

The common shares of First Silver were delisted from the Toronto Stock Exchange at the close of business on September 18, 2006.

The Arrangement was accounted for using the purchase method with shares of First Majestic issued as partial consideration valued at $4.84 per share based on the volume adjusted average share price for a period commencing two days before and ending two days after the announcement date.

The former shareholders of First Silver had until December 13, 2006 to deposit their completed Letters of Transmittal and to elect to receive either cash or shares of First Majestic on such terms as further described herein, after which time the former shareholders of First Silver would only be entitled to receive shares of First Majestic. At December 31, 2006, the former shareholders of First Silver tendered for cash 718,404 common shares of First Silver. The holders of another 9,583,813 shares of First Silver tendered for shares of First Majestic while the remaining 3,840,504 shares of First Silver may only be tendered for shares of First Majestic. At December 31, 2006, the Company recorded $9,294,020 as share capital for 1,920,252 shares of First Majestic to be issued to the former shareholders of First Silver.

Any certificate formerly representing First Silver shares not duly surrendered on or prior to September 14, 2012 shall cease to represent a claim or interest of any kind or nature, including a claim for dividends or other distributions against First Majestic or First Silver by a 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.

The allocation of the purchase price to the assets acquired and liabilities assumed, of the remaining 36.25% of First Silver acquired, is as follows:

		$
Consideration:		
Cash		777,673
Arrangement liability:		
Current		388,836
Long-term		388,836
Shares issued		23,192,830
Shares to be issued		9,294,020
Fair value of options vested		173,250
Other costs incurred relating to the Arrangement		151,885
		34,367,330
Allocation of purchase price:		
Net working capital		1,663,516
Property, plant and equipment		1,046,815
Mineral property interests:		
Proven and probable mineral reserves	8,478,548	
Value of mineral resources beyond proven and probable	37,291,354	
	45,769,902	45,769,902
Future income taxes		(13,224,517)
Asset retirement obligations		(417,426)
Other long-term liabilities		(470,960)
		34,367,330

9. VENDOR LIABILITY

As discussed in Note 8, First Majestic's aggregate purchase price of $53,365,519, on acquisition of FSR, was payable to the Majority Shareholder in three instalments. The first instalment of $26,682,759, representing 50% of the purchase price, was paid on closing of the acquisition on May 30, 2006. An additional 25% instalment of $13,341,380, was paid on May 30, 2007, on the first anniversary of the closing. The final 25% instalment of $13,341,380 is due on May 30, 2008, on the second anniversary of the closing of the acquisition. Simple interest at 6% per annum, is payable quarterly on the outstanding vendor balance.

In November 2007, an action was commenced by the Company and FSR against the majority shareholder of FSR ("Majority Shareholder"), who was a previous director, President & Chief Executive Officer of FSR, and a company he controls, whereby the

9. VENDOR LIABILITY (continued)

Company and FSR allege that while holding the positions of director, President and Chief Executive Officer, he engaged in a course of deceitful and dishonest conduct in breach of his fiduciary and statutory duties owed to FSR, which resulted in FSR not acquiring a mine. Management believes that there are substantial grounds to this claim, however, the outcome of this litigation is not presently determinable.

Pending resolution of the litigation set out above the Company has withheld payment of quarterly instalments of interest due on November 30, 2007 and February 29, 2008 to the previous Majority Shareholder and has maintained a reserve of cash in the amount of such instalments. The Company anticipates withholding payment of the final instalment of $13,341,380 due May 30, 2008 if such litigation has not been resolved by such date.

On March 14, 2008, a statement of defence and counter-claim was filed in respect of the action commenced by the Company. Pursuant to the counterclaim, a request has been claimed for payment of an aggregate of $400,241 in respect of interest payments due under the share purchase agreement dated April 3, 2006 which the Company has withheld under such agreement. The Majority Shareholder further claims damages for the failure by the Company to purchase 2,800,000 shares of FSR which the Company acquired pursuant to a plan of arrangement in 2006 (Note 8 (b)), the return of some or all of the shares of FSR owned by the Company, and for unquantified damages, costs and interest. The Company believes that the issues raised in the counterclaim will turn on the success of the Company's action against the defendant, however, the outcome of this litigation is not presently determinable.

10. ACQUISITIONS OF DESMIN S.A. DE C.V. AND MINERA LA ENCANTADA S.A. DE C.V.

DESMIN S.A. DE C.V.

In August 2006, the Company signed a letter agreement to acquire 100% of the issued and outstanding shares of Desmin S.A. de C.V. ("Desmin"), a privately held Mexican mining company. The Company agreed to pay US$1.5 million over a six-month period for all of the issued and outstanding shares of Desmin, resulting in Desmin becoming a wholly owned subsidiary of the Company.

The above amounts were paid, as follows:

	US$
November 1, 2006	500,000
January 31, 2007	500,000
April 30, 2007	500,000
Total	1,500,000

Desmin's primary asset was an exploitation contract which covers the operation of the La Encantada Silver Mine located in Coahuila State, Mexico. The exploitation contract provided Desmin the right to exploit all properties within a 985 hectare land package, including the operations of the mine and mill and all the ancillary installations and associated equipment. In addition, Desmin had an option to purchase the La Encantada Silver Mine including the mill and surrounding mining claims. Desmin had a sliding scale royalty arrangement with Minera La Encantada S.A. de C.V.

The acquisition of Desmin was accounted for using the purchase method, with First Majestic identified as the acquirer and recording the business acquired at its estimated fair value. The results of operations of Desmin have been consolidated into the operations of the Company effective November 1, 2006.

The allocation of the purchase price to the assets acquired and liabilities assumed, is as follows:

	$
Consideration:	
Cash paid on closing	565,750
Short-term liability (US$1,000,000)	1,131,500
Other costs incurred relating to the acquisition of Desmin	8,055
	1,705,305
Allocation of purchase price :	
Net working capital	299,177
Property, plant and equipment	131,754
Mining rights	1,769,964
Future income taxes	(495,590)
	1,705,305

The determination of the fair value of the Desmin's assets and liabilities acquired was based on management's best estimate at the date of the financial statements. In January 2008, Desmin was amalgamated into Minera La Encantada, S.A. de C.V., and with both companies continuing forward as Minera La Encantada, S.A. de C.V. as described below.

10. ACQUISITIONS OF DESMIN S.A. DE C.V. AND MINERA LA ENCANTADA S.A. DE C.V. (continued)

MINERA LA ENCANTADA S.A. DE C.V.

In December 2006, the Company signed a letter of agreement to acquire 100% of the issued and outstanding shares of Minera La Encantada S.A. de C.V. ("La Encantada"), a Mexican mining company owned by Minas Peñoles S.A. de C.V. and Industrias Peñoles S.A. de C.V. for the purchase price of US$3,250,000 and a 4% NSR. La Encantada's primary asset is the La Encantada Silver Mine in Coahuila State, Mexico. A non-refundable deposit of US$1,000,000 was made on the date of the agreement and the balance was paid upon closing on March 20, 2007. Pursuant to the terms of the agreement, the Company exercised its option to acquire the 4% NSR in exchange for 382,582 common shares at a value of $5.23 per share and 191,291 warrants exercisable at a price of $6.81 per share for a two-year period. The warrants were valued at $333,443 using the *Black-Scholes Option Pricing Model* (assumptions include a risk free rate of 4.02%, estimated volatility of 72%, expected life of 2 years and expected dividend yield of 0%).

The final allocation of the purchase price to the assets acquired and liabilities assumed is as follows:

	$
Consideration:	
Cash paid (US$3,250,000)	3,798,900
382,582 common shares issued	2,037,249
Fair value of 191,291 share purchase warrants issued	333,444
	6,169,593
Allocation of purchase price :	
Net working capital	–
Proven and probable mineral reserves in production	3,061,300
Plant and equipment	7,300,268
Asset retirement obligation	(2,327,800)
Future income taxes	(1,864,175)
	6,169,593

The final determination of the fair value of La Encantada's assets and liabilities acquired is based on the fair value of the assets acquired which includes an independent valuation for certain assets and liabilities, and an independent purchase price allocation assessment.

11. SHARE CAPITAL

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

	Year ended December 31, 2007		Six months ended December 31, 2006	
	Shares	$	Shares	$
Balance - beginning of period	51,698,630	103,466,619	35,038,157	43,780,469
Issued during the period				
For cash:				
Exercise of options	1,407,500	3,022,400	255,000	579,750
Exercise of warrants	2,668,823	6,876,102	184,316	414,711
Private placements	–	–	4,429,250	12,419,500
For exercise of special warrants (i)	6,883,000	29,221,643	7,000,000	22,885,359
For First Silver Arrangement	1,625	7,865	4,791,907	23,192,830
For acquisition of La Encantada (Note 10)	382,582	2,000,904	–	–
Transfer of contributed surplus for stock options exercised	–	1,104,250	–	194,000
Balance - end of the period	63,042,160	145,699,783	51,698,630	103,466,619

(i) On May 10, 2007, the Company completed a private placement of Special Warrants for gross proceeds of $34,415,000 (net proceeds of $29,221,643 after expenses of the issue). A total of 6,883,000 Special Warrants were sold at a price of $5.00 per Special Warrant through Cormark Securities Inc. (formerly Sprott Securities Inc.) and CIBC World Markets Inc. (as co-lead underwriters) and Blackmont Capital Inc. (the "Underwriters"). Each Special Warrant entitled the holder to receive, without further consideration, upon exercise or deemed exercise, one common share and one half common share purchase warrant. Each whole share purchase warrant is exercisable at a price of $6.50 expiring on November 10, 2008. The Underwriters received a commission of 5.5% of the gross proceeds of the offering at closing. The Company filed a short form prospectus dated July 25, 2007 qualifying

11. SHARE CAPITAL (continued)

the distribution of 6,883,000 common shares and 3,441,500 share purchase warrants issued upon the exercise of 6,883,000 Special Warrants. The fair value of the warrants was estimated using the *Black-Scholes Option Pricing Model* (assumptions include a risk free rate of 4.65%, estimated volatility of 63.3%, expected life of 1.3 years and expected dividend yield of 0%) and $2,917,000 was credited to contributed surplus.

(ii) On April 20, 2006, the Company completed a private placement financing of 7,000,000 special warrants at a price of $4.00 per special warrant for total gross proceeds of $28 million and net proceeds after expenses of the issue of $25,492,359. Each special warrant entitled the holder to receive, without further consideration, upon exercise or deemed exercise, one common share and one half common share purchase warrant. Each whole warrant will be exercisable at a price of $5.00 until October 20, 2007. The Company filed a short form prospectus dated July 19, 2006 qualifying the distribution of 7,000,000 common shares and 3,499,999 share purchase warrants issued upon the exercise of 7,000,000 special warrants and 420,000 broker warrants issued upon the exercise of 420,000 compensation options. Each broker warrant is exercisable to purchase one common share at $4.00 per share until October 20, 2007. The fair value of the warrants was estimated using the *Black-Scholes Option Pricing Model* (assumptions include a risk free rate of 4.19%, estimated volatility of 49.55%, expected life of 1.5 years and expected dividend yield of 0%) and $2,607,000 was credited to contributed surplus.

(iii) On November 28, 2006, the Company completed a non-brokered private placement consisting of 4,429,250 units at a price of $3.60 per unit for gross proceeds of $15,945,300 and net proceeds after expenses of the issue of $15,465,500. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of $4.25 per share until November 27, 2008. The fair value of the warrants was estimated to be $3,046,000 and was allocated to contributed surplus. A finder's fee of $189,500 cash, other issue costs of $33,300 and 122,824 warrants exercisable at a price of $4.25 per share expiring on November 27, 2008 with an estimated fair value of $257,000 was paid on a portion of this private placement. The fair value of the warrants and the finder's warrants was estimated using the *Black-Scholes Option Pricing Model* (assumptions include a risk free rate of 3.91%, estimated volatility of 82.02%, expected life of 2 years and expected dividend yield of 0%).

(b) Stock Options

In June 2007, the Company adopted a new stock option plan (the "2007 Plan") to replace the previous stock option plan, approved by the Company's shareholders on December 21, 2006. The maximum number of shares reserved for issuance under the 2007 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 year ended December 31, 2007, are as follows:

	Year Ended December 31, 2007			Six Months Ended December 31, 2006		
	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	5,052,500	3.30	2.34 years	2,954,600	2.43	1.46 years
Granted	2,680,000	4.50	3.83 years	2,427,900	4.26	3.86 years
Exercised	(1,407,500)	2.15	0.22 years	(255,000)	2.27	0.31 years
Cancelled or expired	(432,500)	4.32	0.34 years	(75,000)	3.97	1.53 years
Balance, end of the period	5,892,500	4.04	2.75 years	5,052,500	3.30	2.34 years

11. SHARE CAPITAL (continued)

The following table summarizes both the stock options outstanding and those that are exercisable at December 31, 2007:

Price $	Options Outstanding	Options Exercisable	Expiry Dates
1.79	90,000	90,000	January 12, 2008
3.75	25,000	25,000	March 8, 2008
4.05	100,000	100,000	March 20, 2008
5.04	49,600	49,600	April 25, 2008
4.55	25,000	18,750	July 6, 2008
3.29	50,000	37,500	October 16, 2008
3.28	100,000	75,000	October 17, 2008
2.10	240,000	240,000	November 9, 2008
2.45	650,000	650,000	December 16, 2008
3.28	12,500	9,375	June 13, 2009
4.32	775,400	581,550	December 6, 2009
5.50	200,000	100,000	February 1, 2010
4.64	75,000	37,500	June 1, 2010
4.17	100,000	25,000	August 8, 2010
3.72	30,000	7,500	September 24, 2010
3.98	25,000	6,250	October 17, 2010
4.45	870,000	217,500	October 30, 2010
4.34	50,000	12,500	November 1, 2010
4.42	25,000	6,250	November 12, 2010
4.34	200,000	50,000	December 5, 2010
4.30	450,000	337,500	June 19, 2011
4.32	245,000	183,750	December 6, 2011
4.41	400,000	300,000	December 22, 2011
5.00	155,000	77,500	February 7, 2012
4.65	25,000	12,500	June 20, 2012
4.34	925,000	231,250	December 5, 2012
	5,892,500	3,481,775	

During the year ended December 31, 2007, the Company granted stock options to directors, officers and employees to purchase 2,680,000 shares of the Company. Pursuant to the Company's policy of accounting for the fair value of stock-based compensation over the applicable vesting period, $3,865,689 has been recorded as an expense in the twelve-month period ended December 31, 2007 relating to stock options.

The weighted average fair value of stock options issued at the date of grant was $1.39 per share during the year ended December 31, 2007 (Six months ended December 31, 2006 $2.01)

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

	Year ended December 31, 2007 $	Year ended December 31, 2006 $
Risk-free interest rate	4.0%	3.9%
Estimated volatility	56.3%	80.5%
Expected life	1.7 years	2.9 years
Expected dividend yield	0%	0%

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

11. SHARE CAPITAL (continued)

(c) Share Purchase Warrants

The changes in share purchase warrants for the period ended December 31, 2007 are as follows:

	Year Ended December 31, 2007			Six Months Ended December 31, 2006		
	Number of Warrants	Weighted Average Exercise Price ($)	Average Number of Periods to Expiry	Number of Warrants	Weighted Average Exercise Price ($)	Average Number of Periods to Expiry
Balance, beginning of the period	8,766,271	4.02	1.12 years	2,693,139	2.44	1.38 years
Issued (i) (ii)	3,632,791	6.52	1.32 years	6,257,448	4.65	1.50 years
Exercised	(2,668,823)	2.58	0.33 years	(184,316)	2.25	1.02 years
Cancelled or expired	(3,884,999)	4.89	0.00 years	–	–	–
Balance, end of the period	5,845,240	5.66	0.89 years	8,766,271	4.02	1.12 years

(i) The Company issued 191,291 warrants exercisable at a price of $6.81 per share for a two-year period as part of the acquisition of La Encantada (Note 10).

(ii) The Company filed a short form prospectus dated July 25, 2007 qualifying the distribution of 6,883,000 common shares and 3,441,500 share purchase warrants issued upon the exercise of 6,883,000 Special Warrants.

The following table summarizes the share purchase warrants outstanding at December 31, 2007:

Exercise Price $	Warrants Outstanding	Expiry Dates
6.50	3,441,500	November 10, 2008
4.25	2,212,449	November 27, 2008
6.81	191,291	March 20, 2009
	5,845,240	

12. REVENUE

Details of the components of revenue are as follows:

	Year Ended December 31 2007 $	Six Months Ended December 31 2006 $	Year Ended June 30 2006 $
Gross revenues - silver dore bars and concentrates	45,837,983	13,425,081	4,324,095
Less: refining, smelting and transportation charges	(2,913,063)	(670,116)	(164,803)
Net revenue	42,924,920	12,754,965	4,159,292

13. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2007, the Company:

(a) incurred $197,696 (six months ended December 31, 2006 - $91,039, year ended June 30, 2006 - $135,697) for management services provided by the President & CEO and/or a corporation controlled by the President & CEO of the Company pursuant to a consulting agreement.

(b) incurred $nil (six months ended December 31, 2006 - $15,000, year ended June 30, 2006 - $65,000) for geological and technical services provided by directors and/or corporations controlled by the directors of the Company.

(c) paid $478,206 (six months ended December 31, 2006 - $92,792, year ended June 30, 2006 - $187,588) to a director and Chief Operating Officer for management and other services related to the mining operations of the Company in Mexico pursuant to a consulting agreement. The $478,206 paid includes $254,742 (US$234,292) paid as finder's fees upon the completion of certain option agreements relating to the Chalchihuites Group of Properties.

(d) incurred $1,728,222 of service fees during the year (six months ended December 31, 2006 - $101,891, year ended June 30, 2006 - $nil) to a mining services company sharing our premises in Durango Mexico for the management and payment of mining contractors performing services for the Company in Mexico at all three mines. An employee of the Company is a shareholder of the mining services company. Of the fees, $94,724 were unpaid at December 31, 2007 (December 31, 2006 - $16,835).

13. RELATED PARTY TRANSACTIONS (continued)

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

14. SEGMENTED INFORMATION

The Company considers that it has three operating segments all of which are located in Mexico, and one Corporate segment located in Canada. These reportable operating segments are summarized in the table below.

	Year ended June 30, 2007				
	El Pilon operations $	First Majestic Plata operations $	La Encantada operations $	Corporate and other eliminations (1) $	Totals $
Silver sales	16,365,358	11,455,068	15,104,494	–	42,924,920
Cost of sales	12,276,345	8,110,761	6,602,194	–	26,989,300
Amortization and depreciation	909,890	759,884	638,969	93,518	2,402,261
Depletion	5,392,958	747,648	176,528	–	6,317,134
Earnings (loss) from operations	(3,932,881)	(3,117,446)	7,162,968	(6,135,048)	(6,022,407)
Net interest and other income	(75,529)	98,771	(898,321)	1,052,011	176,932
Income tax (recovery) expense	(548,007)	1,158,106	774,547	–	1,384,646
Net earnings (loss)	(3,460,404)	(4,176,781)	5,490,100	(5,083,038)	(7,230,123)
Total long lived assets	107,980,209	37,804,261	12,032,006	432,311	158,248,787

	Six months ended December 31, 2006				
	El Pilon operations $	First Majestic Plata operations $	La Encantada operations $	Corporate and other eliminations (1) $	Totals $
Silver sales	9,456,895	1,530,722	1,767,348	–	12,754,965
Cost of sales	8,336,816	1,584,409	1,147,492	–	11,068,717
Amortization and depreciation	175,554	97,692	73,749	9,105	356,100
Depletion	2,658,109	82,766	-	–	2,740,875
Earnings (loss) from operations	(2,725,760)	(3,472,650)	185,764	(3,865,018)	(9,877,664)
Net interest and other income	133,957	(861,466)	22,388	1,391,627	686,506
Income tax (recovery)	(742,252)	–	(138,151)	–	(880,403)
Net earnings (loss)	(1,849,551)	(4,334,115)	346,303	(1,750,829)	(7,588,192)
Total long lived assets	130,901,258	25,529,983	2,139,656	76,669	158,647,566

	Year ended June 30, 2006				
	El Pilon operations $	First Majestic Plata operations $	La Encantada operations $	Corporate and other eliminations (1) $	Totals $
Silver sales	2,083,243	2,076,049	–	–	4,159,292
Cost of sales	1,525,260	2,263,304	–	–	3,788,564
Amortization and depreciation	285,939	183,115	–	9,441	478,495
Depletion	947,992	571,028	–	-	1,519,020
Earnings (loss) from operations	(2,054,382)	(1,971,364)	–	(2,667,715)	(6,693,461)
Net interest, income and other items	(309,235)	(17,733)	–	580,260	253,292
Income tax (recovery)	(204,901)	-	–	–	(204,901)
Net earnings (loss)	(1,215,953)	(1,916,240)	–	(2,533,693)	(5,665,886)
Total long lived assets	73,368,446	17,159,691	–	52,765	90,580,902

(1) All corporate operations are in Canada.

15. INCOME TAXES

At December 31, 2007, the Company has approximately $10,467,000 of non-capital losses, and has available cumulative unclaimed resource deductions and capital cost pools of approximately $1,772,000, which in certain circumstances may offset future taxable income in Canada. The non-capital losses expire commencing 2008 through 2027. The cumulative resource deductions and capital cost pools may be carried forward indefinitely.

In addition, subject to certain restrictions, the Company has tax pools of approximately $20,661,800 available to offset future taxable income in Mexico.

The Company has recognized future income tax benefits that have arisen as a result of losses to the extent that they are more likely than not to be realized based on its assessment of future taxable income and other relevant factors.

The reconciliation of the income tax provision computed at statutory rates to the reported income tax provision is as follows:

	Year Ended December 31, 2007 $	Six Months Ended December 31, 2006 $
Combined federal and provincial income tax rate	34.12%	34.12%
Income tax benefit computed at Canadian statutory rates	1,994,476	3,136,023
Foreign tax rates different from statutory rates	109,488	(228,649)
Non-deductible expenses	(4,916,662)	(1,484,865)
Unrecognized benefit of income tax losses	(962,006)	(542,106)
Other	2,390,057	–
	(1,384,647)	880,403

Significant components of the Company's future tax assets and liabilities, after applying enacted corporate income tax rates, are as follows:

	December 31, 2007 $	December 31, 2006 $
Future income tax assets		
Net tax losses carried forward	7,578,741	3,325,276
Temporary differences on liabilities / assets	1,032,285	1,712,236
Share issue costs	1,549,472	975,393
Valuation allowance for future income tax assets	(4,854,065)	(4,148,223)
Net future income tax assets	5,306,433	1,864,682
Future income tax liabilities		
Excess of carrying value of mineral property assets over tax value	(37,155,115)	(38,648,874)
Future income tax liabilities, net	(31,848,682)	(36,784,192)

16. FINANCIAL INSTRUMENTS, CREDIT AND OTHER RISKS

The carrying amounts reported in the balance sheet for cash and cash equivalents, accounts receivable and advances, accounts payable, employee profit sharing payable, Arrangement liability, liability for the acquisition of Desmin and vendor liability approximate their fair values due to the short term to maturity of the instruments or in the case of the vendor and Arrangement liabilities, the fact they bear interest at rates approximating market rates.

The Company is exposed to fluctuations in commodity prices and exchange rates. The Company periodically uses foreign exchange and commodity contracts to manage exposure to fluctuations in foreign exchange rates and silver prices.

The Company is exposed to credit risk as all its sales are to one customer. The amounts presented on the balance sheet are net of allowances for doubtful receivables as estimated by management based on the current economic environment.

17. CONTINGENT LIABILITIES

In February 2004, an action was commenced against the Company by the optionors of the Wekusko Property in Canada whereby the optionors are seeking an amount of $43,500 cash, 30,000 common shares of the Company and an entitlement to exercise an option to purchase 100,000 shares of the Company at $0.35 per share. The Company believes it has substantial defences to the claim; however the outcome of this litigation is not presently determinable.

Under Mexican regulations, the Company may be obligated to remit taxes to the government on payments made for the acquisition of mineral claims in the event that the recipients of such payments fail to make the required tax remittances relating to those payments. Although unlikely, the maximum potential remittance is approximately $4.0 million however the Company believes it has substantial defences to any claims.

18. 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 $1,518,304 (14,071,400 Pesos). The Company recorded this liability at its best estimate of fair value in the amount of $1,207,332 (14,071,400 Pesos) as part of the acquisition of First Silver (Note 8).

19. COMMITMENTS

The Company is obligated to make certain payments as described in Note 6, in connection with the acquisition of its mineral property interests.

The Company is also obligated to make certain interest, share and cash payments, as described in Notes 7(a) and 7(b) and Note 8, in connection with the acquisition of a controlling interest in First Silver, and the Arrangement with First Silver, respectively.

Under Mexican regulations, employees (excluding directors and senior management) are eligible for a profit sharing bonus of 10% of annual pre-tax profit. The amount of the profit sharing bonus accrued as a component of cost of sales for the year ended December 31, 2007 is $112,611 (six months ended December 31, 2006 - $293,989; year ended June 30, 2006 - $239,816) which will be paid to the employees of certain Mexican operating subsidiaries in May 2008.

In May 2007, the Company entered into an office premises lease for a period of four years and eight months commencing August 1, 2007. The premises lease commits the Company to a net annual rental expense of $48,700 in 2007, $116,880 in 2008 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 two months of rent equaling $42,879.

The Company is committed to making severance payments amounting to US$540,000 to four officers in the event that there is a change of control of the Company.

20. CAPITAL LEASE OBLIGATIONS

In June 2007, the Company entered into a lease commitment with a mining equipment supplier for the delivery of $4,215,371 (US$3,964,050) of equipment to be delivered over a period from July to February 2008. The Company committed to pay 35% within 30 days of entering into the lease, 15% on arrival of the equipment, and the remaining 50% is to be paid in quarterly payments over a period of 24 months, financed at 9.5% interest over the term of the lease.

The following is a schedule of future minimum lease payments under the capital leases at December 31, 2007:

	$US	$CA
2008 Gross lease payments	2,323,757	2,296,104
2009 Gross lease payments	1,319,318	1,303,618
	3,643,075	3,599,722
Less: interest	(296,593)	(293,064)
Total Payments, net of interest	3,346,482	3,306,658
Less: current portion	(2,086,291)	(2,061,464)
Capital Lease Obligation	1,260,191	1,245,194

21. ASSET RETIREMENT OBLIGATIONS

	Year Ended December 31, 2007 $	Six Months Ended December 31, 2006 $
Balance, beginning of the period	3,898,085	2,238,523
Amounts assumed on acquistions	2,305,800	1,151,521
Effect of change in estimates	(3,493,413)	434,226
Interest accretion	208,448	81,391
Effect of translation of foreign currencies	(628,607)	(7,576)
	2,290,313	3,898,085

Asset retirement obligations allocated by mineral properties are as follows:

	Anticipated Date	December 31, 2007 $	December 31, 2006 $
La Encantada mine	2037	307,271	–
La Parrilla mine	2032	360,000	2,746,564
San Martin mine	2013	1,623,042	1,151,521
		2,290,313	3,898,085

During the year ended December 31, 2007, the Company assessed its reclamation obligations at each of its mines including the La Encantada mine acquired during the year. The total undiscounted amount of estimated cash flows required to settle the Company's estimated obligations is $4,274,000, which has been discounted using a credit adjusted risk free rate of 8.5%. $1,118,419 of the reclamation obligation relates to the La Parrilla Silver Mine, $1,900,535 of the obligation relates to the San Martin Silver Mine, and $1,255,000 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.

22. OTHER NON-CASH FINANCING AND INVESTING ACTIVITIES

	Year ended December 31 2007 $	Year ended December 31 2006 $	Year ended June 30 2006 $
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Contributed surplus for First Majestic options issued for First Silver options	–	173,250	–
Conversion of special warrants to common shares (Note 11)	29,221,643	25,524,894	–
Fair value of compensation options issued as part of special warrants	–	–	550,000
Fair value of finder's warrants issued for private placement	–	257,000	–
Fair value of warrants issued for acquisition of La Encantada (Note 10)	333,443	–	–
Fair value of warrants issued upon conversion of special warrants	5,193,357	2,607,000	–
Fair value of warrants upon completion of private placements	–	3,046,000	1,470,000
First Silver Arrangement liability (Note 8)	–	777,672	–
Issuance of shares for First Silver Arrangement (Note 8)	7,865	32,486,850	–
Issuance of shares for acquisition of La Encantada (Note 11)	2,000,904	–	–
Issuance of shares for mineral property interests	–	–	450,000
Issuance of vendor liability on the acquisition of First Silver (Note 8)	–	–	26,682,759
Liability for Desmin S.A. de C.V. (Note 9)	–	1,165,300	–
Transfer of contributed surplus to common shares for options exercised (Note 11)	1,104,250	194,000	329,100

23. SUBSEQUENT EVENTS

Subsequent to December 31, 2007:

(a) On January 14, 2008 the Company listed the Company's common shares and warrants on the TSX and commenced trading on January 15, 2008. A notice was issued by the Company dated January 15, 2008 that it has ceased to be a "venture issuer".

(b) In March 2008 the Company received two million shares of common stock from Prospector Consolidated Resources Inc. ("Prospector") pursuant to an agreement whereby Prospector has the right to acquire a 100% interest in the Company's option to the Candameña Mining District property (see Note 6(d)).

(c) On March 25, 2008, the Company completed a public offering with a syndicate of underwriters who purchased 8,500,000 Units at an issue price of $5.35 per Unit for net proceeds to the Company of $42,973,875. Each Unit consists of one common share in the capital of the Company and one-half of one Common Share purchase warrant. Each whole Common Share purchase warrant entitles the holder to acquire one additional Common Share at a price of $7.00 for a period of 24 months from the closing of the Offering. The underwriters have an option, exercisable up until 30 days following closing of the offering, to purchase up to an additional 1,275,000 Common Shares (the "Option Shares") at a price of $5.07 per Option Share and up to an additional 637,500 Warrants at a price of $0.56 per Warrant.

(d) On March 25, 2008, The Company issued 100,000 stock options with an exercise price of $4.65 per share to an officer of the Company.

(e) On April 4, 2008, the Company completed the issuance of an aggregate of 637,500 common share purchase warrants pursuant to the exercise of the over-allotment option granted to the Underwriters in connection with the public offering of 8,500,000 units of First Majestic which closed on March 25, 2008. The Additional Warrants were sold to the Underwriters at an issue price of $0.56 per Additional Warrant. Each Additional Warrant entitles the holder to acquire one additional common share at a price of $7.00 until March 25, 2010. The gross proceeds to First Majestic from the exercise of the Over-allotment Option is $357,000

SCHEDULE "A"
FIRST MAJESTIC SILVER CORP.
CONSOLIDATED SCHEDULE OF MINERAL PROPERTY INTERESTS
FOR THE YEAR ENDED DECEMBER 31, 2007

	La Parrilla	San Martin	Chalchihuites	Candamena	Cuitaboca	La Encantada	Total
	$	$	$	$	$	$	$
Balance - beginning of the period	6,319,008	124,777,077	3,798,218	1,993,465	221,416	1,761,699	138,870,883
Expenditures during the period							
Consulting	5,977	–	1,301,171	116,093	–	–	1,423,241
Filing fees	43,822	–	6,159	14,266	–	–	64,247
Mine exploration costs	12,029,890	2,746,556	333,661	180,769	408,129	1,708,632	17,407,637
Reports and assays	–	–		–	–	–	–
	12,079,689	2,746,556	1,640,991	311,128	408,129	1,708,632	18,895,125
Acquisition costs during the period (net)	1,078,650	–	2,293,864	430,661	132,925	7,032,536	10,968,636
Less: write off of mineral properties	–	–	–	(1,703,591)	–	–	(1,703,591)
Less: depletion	(747,648)	(5,392,958)	–	–	–	(176,528)	(6,317,134)
Less: amortization of mining rights (2)	–	–	–	–	–	(434,056)	(434,056)
Cumulative translation adjustment	(2,227,324)	(19,838,914)	(928,292)	(331,663)	–	(1,229,917)	(24,556,110)
Less: New adjustments Final Price Allocation	–	–	–	–	–	(3,971,236)	(3,971,236)
Less: Adjustments to ARO (Note 21)	(967,935)	(1,128,286)	–	–	–	(2,025,800)	(4,122,021)
Balance, end of the period	15,534,440	101,163,475 (1)	6,804,781	700,000	762,470 (1)	2,665,330	127,630,496

(1) For properties held by Minera El Pilon, all amounts are aggregated into acquisition costs. No part of the purchase price was allocated to the Cuitaboca property.

(2) See Note 9 – Acquisition of Desmin S.A. de C.V.

(See Note 6)

SCHEDULE "B"
FIRST MAJESTIC SILVER CORP.
CONSOLIDATED SCHEDULE OF MINERAL PROPERTY INTERESTS
FOR THE YEAR ENDED DECEMBER 31, 2006

	La Parrilla	San Martin	Chalchihuites	Dios Padre	Candamena	Candelaria	Cuitaboca	La Encantada	Total
	$	$	$	$	$	$	$	$	$
Balance - beginning of the period	4,609,691	70,675,894	2,959,437	1,703,356	1,614,862	190,547	-	-	81,753,787
Expenditures during the period									
Consulting	27,147	-	305,956	27,003	151,428	-	2,012	11,133	524,679
Filing fees	2,840	-	154,288	2,840	5,993	-	-	4,250	170,211
Mine exploration costs	460,501	-	219,884	30,006	41,305	604	100,691	-	852,991
Reports and assays	628	-	3,336	7,960	6,505	-	-	4,674	23,103
	491,116	-	683,464	67,809	205,231	604	102,703	20,057	1,570,984
Acquisition costs during the period (net)	1,324,374	56,676,564	844,084	128,624	173,372	101,602	118,713	1,815,391	61,182,724
Less: write off of mineral properties	(14,428)	-	(688,766)	(1,899,789)	-	(292,753)	-	-	(2,895,736)
Less: depletion	(91,745)	(2,575,381)	-	-	-	-	-	-	(2,667,126)
Less: amortization of mining rights (2)	-	-	-	-	-	-	-	(73,749)	(73,749)
Balance, end of the period	6,319,008	124,777,077	3,798,219	-	1,993,465	-	221,416	1,761,699	138,870,884
		(1)					(1)		

(1) For properties held by Minera El Pilon, all amounts are aggregated into acquisition costs. No part of the purchase price was allocated to the Cuitaboca property.

(2) See Note 9 – Acquisition of Desmin S.A. de C.V.

(See Note 6)

Management's Discusssion & Analysis

Forward-Looking Statements

Except for statements of fact relating to the Company, certain information contained herein constitutes forward-looking statements. Forward-looking statements are frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate" 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 ecological 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 production, development, exploration and acquisition of mineral properties focusing on silver in Mexico. The common shares and warrants of the Company trade on the Toronto Stock Exchange under the symbols "FR", "FR.WT" and "FR.WT.A", respectively. The common shares are also quoted on the "Grey Market" in the U.S. under the symbol "FRMSF" and on the Frankfurt, Berlin, Munich and Stuttgart Stock Exchanges under the symbol "FMV". Silver producing operations of the Company are carried out through three operating mines: the La Parrilla, the La Encantada, and the 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, 2007, and for the six month transition year ended December 31, 2006. 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 two wholly owned direct subsidiaries: Corporación First Majestic, S.A. de C.V. ("CFM"), and First Silver Reserve Inc ("First Silver"), as well as the indirect wholly owned subsidiaries of CFM: Mineral El Pilón, S.A. de C.V. ("El Pilon"), Minera La Encantada, S.A. de C.V. ("La Encantada"), Desmin, S.A. de C.V. ("Desmin"), and First Majestic Plata, S.A. de C.V. ("FM Plata"), see "transactions with related parties" section below for a current Organization Chart subsequent to restructuring.

During the period ended December 31, 2006, the Company changed its fiscal year-end from June 30 to December 31 to be consistent with the fiscal year ends of its newly acquired operating subsidiaries. To facilitate the change in year end, the Company reported a one-time, six-month transition year covering the six month period from July 1, 2006 to December 31, 2006. The Company is currently reporting its first twelve month fiscal year following its change of year end. As is required by Canadian generally accepted accounting principles ("Canadian GAAP"), the Company is presenting comparative information for the six month transition year ended December 31, 2006, and for the prior full reporting year ended June 30, 2006.

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. Certain financial results in this MD&A, regarding operations, cash costs, and average realized revenues, will have been reclassified from prior reports to conform with industry peer company presentation standards, showing selected US dollar operational information.

All information contained in this MD&A is current as of April 11, 2008, unless otherwise stated.

Qualified Persons

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

FINANCIAL PERFORMANCE AND HIGHLIGHTS

- Sales revenues for the year were $42.9 million, an annualized increase of 68% compared to $12.8 million for the six month provisional year ended December 31, 2006.
- Mine earnings (excluding amortization and depreciation) for the year amounted to $15.9 million, compared to $1.7 million for the six month transitional year ended December 31, 2006.
- The Company generated cash flow from operating activities (before working capital changes) of $8.6 million for the year, compared to cash used in operations (before working capital changes) of $1.9 million for the six months ended December 31, 2006.
- The Company currently has more than $53 million in its treasury, is generating significant cash flows from operations, and has sufficient capital to support its operating requirements for the foreseeable future provided it does not undertake any major acquisitions.
- Total annual production for 2007 consisted of 3,561,171 ounces of silver equivalents, including 3,170,139 ounces of silver, 2,049 ounces of gold, and 2,924,146 pounds of lead.
- The Company invested $18.9 million in capital expenditures on its mineral properties, a further $11.8 million on additions to plant and equipment, and an additional $4.9 million on acquisitions during 2007.
- Net loss for the year ended December 31, 2007, was $7,230,122 compared to $7,588,195 for the six month provisional year ended December 31, 2006 (the prior audited period), representing a 52% decrease from the annualized prior year's net loss. The net loss for the year included non-cash stock-based compensation expense of $3,865,689, and a write-down of a mineral property of $1,703,591.
- Sales revenues for the fourth quarter were $11,631,476, a 43% increase compared to $8,138,284 in the final quarter of 2006. Shipments in the final quarter of 2007 included 908,688 equivalent ounces of silver, an increase of 58% over the 574,547 equivalent ounces shipped in the final quarter of 2006.
- Net loss for the quarter ended December 31, 2007, was $1,292,632 representing a 38% decrease from the third quarter's net loss of $2,070,082.
- Silver production in the fourth quarter ending December 31, 2007, has increased to 1,008,299 equivalent ounces of silver, an increase of 7.2% over the prior quarter's production of 940,225 equivalent ounces of silver, and an increase of 75% over the 574,547 produced in the quarter ending December 31, 2006.
- Direct cash costs per ounce of silver (see Non-GAAP measures below) for the year ended December 31, 2007, were US$7.06 per ounce, and for the quarter they were US$7.97 per ounce of silver, due to increases in energy costs, reagent costs, and increases in equipment maintenance costs. The Company is taking steps which are expected to positively impact costs throughout 2008.

MINING OPERATING RESULTS

The Company is reporting the year ended December 31, 2006 operations information on a calendar year basis as the information for the six month transitional year is not reasonably comparable to the information for the year ended December 31, 2007. Results for the year ended December 31, 2006 were constructed from the six month transitional year ended December 31, 2006, adding the year ended June 30, 2006, less the six months ended December 31, 2005.

FIRST MAJESTIC CONSOLIDATED OPERATIONS

Quarter Ended December 31			Year Ended December 31	
2007	2006	RESULTS	2007	2006
146,798	93,965	Ore processed/tonnes milled	604,756	221,794
241	238	Average silver grade (g/tonne)	222	216
77%	76%	Recovery (%)	73%	80%
868,354	545,112	Silver ounces produced	3,170,139	1,215,017
490	484	Gold ounces produced	2,049	1,313
27,239	23,770	Equivalent ounces from gold	106,046	68,377
1,107,154	96,330	Pounds of lead produced	2,924,146	82,430
112,706	8,976	Equivalent ounces from lead	308,079	5,422
1,008,299	574,547	Total production - ounces of silver equivalents	3,584,265	1,288,816
908,688	574,547	Shipments - Payable ounces of silver equivalents	3,461,560	1,288,816
7.97	8.86	Total USD cash cost per ounce (1)	7.06	n/a (2)
5,346	3,735	Underground development (m)	20,279	7,719
8,122	11,038	Diamond drilling (m)	35,655	27,264
50.30	49.73	Total USD production cost per tonne	42.96	49.73

LA PARRILLA OPERATIONS

Quarter Ended December 31			Year Ended December 31	
2007	2006	RESULTS	2007	2006
53,138	17,984	Ore processed/tonnes milled	179,411	54,127
222	165	Average silver grade (g/tonne)	204	184
70%	69%	Recovery (%)	68%	69%
261,931	60,635	Silver ounces produced	802,603	214,421
142	43	Gold ounces produced	427	146
7,884	2,114	Equivalent ounces from gold	22,435	7,574
801,476	0	Pounds of lead produced	1,782,220	0
81,024	0	Equivalent ounces from lead	175,785	0
350,838	62,749	Total production - ounces of silver equivalents	1,000,823	221,995
336,405	62,749	Shipments - Payable ounces of silver equivalents	986,390	221,995
8.95	15.10	Total USD cash cost per ounce (1)	8.70	n/a (2)
1,477	1,493	Underground development (m)	6,414	3,843
6,869	8,564	Diamond drilling	30,481	23,568
46.05	52.72	Total USD production cost per tonne	42.91	50.05

(1) The Company reports the non-GAAP cash cost per ounce of payable silver in order to manage and evaluate operating performance at each of the Company's mines. The measure is widely used in the silver mining industry as a benchmark for performance, but does not have a standardized meaning.

(2) Cash Costs results have not been audited for the 2006 calendar year, therefore it is not possible to report them in this MD&A report.

SAN MARTIN OPERATIONS

Quarter Ended December 31			Year Ended December 31	
2007	2006	RESULTS	2007	2006
56,003	61,460	Ore processed/tonnes milled	239,796	153,146
171	182	Average silver grade (g/tonne)	171	194
86%	86%	Recovery (%)	84%	86%
264,714	308,486	Silver ounces produced	1,129,220	824,605
348	441	Gold ounces produced	1,622	1,167
19,355	21,656	Equivalent ounces from gold	83,611	60,803
7,409	13,900	Pounds of lead produced	50,024	0
749	3,554	Equivalent ounces from lead	4,233	0
284,819	330,385	Total production - ounces of silver equivalents	1,217,065	885,408
269,227	330,385	Shipments - Payable ounces of silver equivalents	1,202,360	885,408
11.83	10.35	Total US cash cost per ounce (1)	9.92	n/a (2)
2,282	1,592	Underground development (m)	8,218	3,226
721	2,474	Diamond drilling	3,700	3,696
58.40	55.66	Total USD production cost per tonne	50.05	53.45

LA ENCANTADA OPERATIONS

Quarter Ended December 31			Year Ended December 31	
2007	2006	RESULTS	2007	2006
37,657	14,521	Ore processed/tonnes milled	185,549	14,521
370	566	Average silver grade (g/tonne)	306	566
78%	68%	Recovery (%)	68%	68%
341,709	175,991	Silver ounces produced	1,238,316	175,991
0	0	Gold ounces produced	0	0
0	0	Equivalent ounces from gold	0	0
298,269	82,430	Pounds of lead produced	1,091,902	82,430
30,933	5,422	Equivalent ounces from lead	128,061	5,422
372,642	181,413	Total production - ounces of silver equivalents	1,366,377	181,413
303,056	181,413	Shipments - Payable ounces of silver equivalents	1,272,810	181,413
4.22	3.98	Total US cash cost per ounce (1)	3.35	n/a (2)
1,587	650	Underground development (m)	5,647	650
532	0	Diamond drilling	1,474	0
44.26	49.73	Total USD production cost per tonne	33.85	49.73

(1) The Company reports the non-GAAP cash cost per ounce of payable silver in order to manage and evaluate operating performance at each of the Company's mines. The measure is widely used in the silver mining industry as a benchmark for performance, but does not have a standardized meaning.
(2) Cash Costs results have not been audited for the 2006 calendar year, therefore it is not possible to report them in this MD&A report.

REVIEW OF MINING OPERATING RESULTS

Production in the fourth quarter ending December 31, 2007 increased to 1,008,299 equivalent ounces of silver representing a 7% increase over 940,225 equivalent ounces in the prior quarter and an increase of 75% over the equivalent ounces in the same quarter of the previous year.

The equivalent silver production for the quarter consisted of: 868,354 ounces of silver, an increase of 7% over the 810,106 ounces in the previous quarter, and an increase in lead production amounting to 1,107,154 pounds compared to 949,988 pounds of lead produced in the previous quarter, an increase of 17%. The large increase in lead production was primarily due to the flotation circuit at the La Parrilla Silver Mine. Production of gold was 490 ounces in the quarter compared to 436 ounces in the prior quarter.

The ore processed at the Company's three operating silver mines; the La Parrilla Silver Mine, the San Martin Silver Mine and the La Encantada Silver Mine, amounted to 146,798 tonnes in the quarter representing a 11% decrease over the 165,549 tonnes processed in the third quarter and a 56% increase over the fourth quarter of 2006.

Silver production for the year ended December 31, 2007, was 3,561,171 equivalent ounces of silver, compared to 1,288,816 equivalent ounces of silver for the comparable period in 2006. The Company's increase in production can be attributed to a 195% increase in production at the Company's flagship La Parrilla Silver Mine when compared with the same quarter in 2006. Production has also increased significantly due to the acquisitions of the San Martin Silver Mine and the La Encantada Silver Mine, whose results were consolidated beginning in the quarters ending June 30, 2006 and December 31, 2006, respectively. San Martin had one month of operations (June) consolidated into June 30, 2006, and La Encantada had two months of operations consolidated into December 31, 2006 (November and December).

In line with Company's program of underground equipment replacement launched with Sandvik in 2006, a total of 11 pieces of underground equipment were delivered in 2007 which were added to the six pieces of equipment delivered in 2006. This program with Sandvik is continuing with an additional acquisition of 20 pieces of machinery for underground mining activities to be delivered in 2008.

During the fourth quarter, the exploration and development works continued on all fronts as a total of 46 diamond drill holes with 8,122 meters were completed. Of those drill holes completed, 23 were underground and 23 were from surface. In the year 2007, a total of 235 diamond drill holes were completed with a total of 38,217 meters of which 66 holes were underground and 169 holes were completed from surface. When compared with the previous year, this effort shows an increase of 33% from the 28,683 meters completed in 2006.

Development at the mines was also a priority in order for the Company to increase its Proven and Probable Reserves and Resources, and to increase the number of production areas. A total 5,346 meters were completed in the quarter and in the year the total development increased from 8,716 meters completed in 2006, to 20,279 metres completed in 2007 showing an increase of 133%.

MINING PROPERTY UPDATES

La Parrilla Silver Mine, Durango, México

During the fourth quarter of 2007, the new tailings dam was commissioned and started operation. This Project was completed on time (within six months) and on budget (1.7 million US dollars). The importance of this accomplishment is the dam allows the plant to operate at full capacity and reduces the environmental risk at the La Parrilla. At the same time, and because of the complexity of the ores being mixed, it was determined that adding a new thickener, two additional leaching tanks and new filter presses would increase recoveries in the cyanidation circuit. During the quarter, a new thickener was built and started operation in December 2007, the new filters were ordered but due to manufacturing and delivery delays they are expected to arrive in the second quarter of 2008. The construction of the two new leaching tanks is also expected to commence during the second quarter of 2008.

During 2007, the production was 179,411 tonnes, which, when compared to the production of 54,127 tonnes in the same period in 2006, shows an increase of 195%. Production feed to the La Parrilla mill in the fourth quarter was 53,138 tonnes, which represent a decrease of 4% when compared with the third quarter.

The average head grade of silver at the mill in the fourth quarter of 2007 was 222 g/t of silver which compared with the 165 g/t obtained in the same quarter of 2006 showing an increase of 35%. For the year the average grade was of 204 g/t which compared with the 184 g/t for 2006, showing an increase of 11% year over year. Recoveries of silver improved from 67% in the third quarter to 70% in the fourth quarter and averaged 68% recovery in 2007. Total silver production in the quarter was 350,838 ounces of silver equivalent, representing an 11% increase over the 315,456 ounces in the previous quarter ended September 30, 2007. The composition of the silver equivalent production during the quarter included 261,931 ounces of silver, 142 ounces of gold and 801,476 pounds of lead. Total silver production in the year at La Parrilla was 1,000,823 ounces of silver equivalent, representing a 351% increase over the 221,995 ounces of silver equivalent obtained in the previous year. The composition of the silver equivalent production during the year included 802,602 ounces of silver, 427 ounces of gold and 1,782,220 pounds of lead.

Resource and Reserve development at La Parrilla continues to be a priority, with the use of five drill rigs. During the quarter, a total of 20 diamond drill holes were completed at the La Parrilla area consisting of 6,869 meters and in the year 2007 a total of 108 diamond drill holes were completed consisting of 30,481 meters. Complementing this program, a geophysics study was executed in five different areas in order to define new exploration targets which will be tested in 2008.

The primary focus of drilling during this quarter has been confirming resources at the Quebradillas and Vacas areas which were previously owned by Grupo Mexico. The current exploration and resource development program will be expanded into 2008. In addition to the ongoing diamond drill program, and with the objective of increasing the total proven reserves and developing new production areas, a total of 1,477 meters of underground development was completed in the fourth quarter of 2007 at the La Rosa-Rosario, La Blanca, San Marcos, Quebradillas and San José areas. A total of 6,414 meters of underground development was completed in 2007 at La Parrilla.

Of the 11 Sandvik pieces of equipment acquired in 2007, four were delivered to the La Parrilla, including two scoop trams, one truck and one jumbo. Additional equipment is being acquired for La Parrilla in 2008 as part of its agreement with Sandvik.

San Martin Silver Mine, Jalisco, Mexico

During 2007, at the mill, a dust collector and new gas collector were installed in the crushing and smelting areas, and environmental work was completed, such as; pouring cement floors at the leaching and thickener areas in the cyanidation circuit. These improvements are part of the process of achieving a "Clean Industry Certification" from PROFEPA, the Mexican environmental agency responsible for policing environmental affairs. In addition, in order to take advantage of the abundance of sulphide Resources in the mine, management decided to build a new 500 tpd flotation circuit, construction of which commenced in December 2007, and which was completed in February 2008. The first test concentrates from the flotation circuit were produced in March 2008 and were delivered to the Peñoles smelter in Torreón. In addition, one new scoop tram, two new underground trucks and one Jumbo Quasar were delivered to the San Martin mine as part of a fleet modernization program that began in 2006 which is dedicated toward improving efficiencies within the mine, reducing maintenance costs and reducing energy consumption.

Production at the San Martin mine during the quarter ended December 31, 2007, was 56,003 tonnes, representing a 7% decrease compared to the 60,004 tonnes in the previous quarter ended September 30, 2007. The average head grade during the current quarter was 171 g/t representing a 2% decrease from 173 g/t during the previous quarter.

During the year, 239,796 tonnes were fed to the mill which compared with the 153,146 tonnes that the Company produced during 2006 representing an increase of 57%. The average head grade at the mill was 171 g/t, compared with the 194 g/t in the same period in 2006, representing a decrease of 12%. Recoveries for the quarter were 86% compared to 81% in the previous quarter, resulting in total production of 284,819 equivalent ounces of silver, which is 1% lower than the 288,558 ounces in the third quarter of 2007. The equivalent ounces of silver consisted of 264,714 ounces of silver, 348 ounces of gold and 7,409 pounds of lead. Total silver production for the year totalled 1,217,952 ounces of silver equivalent, representing a 2% increase over the 885,408 ounces of silver equivalent from the previous calendar year, which consolidated the results of the San Martin mine from June 1 to December 31, 2006. The composition of the silver equivalent production during 2007 included 1,130,108 ounces of silver, 1,622 ounces of gold, and 50,024 pounds of lead.

Upon the completion of surface geological mapping carried out early in 2007, the surface drilling program was resumed in order to drill new targets defined in the North-South structural system, where some intersections of high grade ore are indicating new areas of high interest. During the fourth quarter of 2007, a total of 721 metres of diamond drilling was completed consisting of 10 underground holes and two holes from surface. In 2007, a total of 3,700 metres of diamond drilling were completed over a total of 56 holes in the San Martin area; eight holes were from surface and 48 holes from underground. Six drill rigs are currently operating; consisting of three underground and three on surface. It is anticipated an additional rig will be added to the drill program in the second quarter 2008.

Also during the year, a new exploration zone in the Rosario-Condesa system was defined in the Cinco Señores area, where some old workings were re-habilitated and mapping was completed, additional exploration is under way in this area.

Additionally, during the fourth quarter a total of 2,282 metres of underground development was completed, for a total of 8,218 metres completed in the year. An important part of this development was focused to access the upper levels in the mine where oxide ores appear to be present. This development is anticipated to improve head grades at the mill during 2008. Also, new development was completed at the Rosarios-Condesa old workings in order to develop new Resources. This activity is ongoing with the purposes of: grade control; the development of additional Reserves and Resources; and exploration to define additional targets for future mine expansion.

La Encantada Silver Mine, Coahuila, Mexico

During 2007, several enhancements have been made at the La Encantada, including the installation of a new portable screening plant and upgrades and replacement of several mechanical components within the mill. In addition, three new scoop trams arrived at the mine, replacing the older pieces of equipment. These new scoop trams are allowing the Company to access high grade areas and increase the rate of development at the mine. Additional equipment is in the process of being procured and delivered throughout 2008.

At the La Encantada Silver Mine, production in the quarter was 37,657 tonnes, a decrease of 25% compared to the third quarter's production of 50,005 tonnes. This decrease was originated by the major failure of the secondary cone crusher, which had to be replaced in February 2008, operations continued into December and January 2008 at the mill with a rented portable crushing system.

The average head grade of silver was 370 g/t, an increase of 32% compared to the 279 g/t achieved in the previous quarter. This increase in head grade helped to compensate the production of silver at the mine. A total of 372,642 equivalent ounces of silver were produced during the fourth quarter, which represents an increase of 11% from the 336,211 equivalent ounces in the previous quarter. Silver production consisted of 341,709 ounces of silver, an increase of 14% versus the 298,810 ounces in the previous quarter and 298,269 pounds of lead, a decrease of 11% from the 333,342 pounds in the previous quarter. Utilization of the mill during 2007 increased from 30% of capacity when the operation was acquired in November 2006, to mill rates of 80% of the installed capacity. This improvement in operations has resulted in a 94% increase in silver production, compared to when the operations were acquired in the quarter ended December 31, 2006.

Total silver production in the year was 1,342,396 ounces of silver equivalent, representing a 640% increase over the 181,413 ounces of silver equivalent obtained during the two months that the Company operated the mine in the previous year. The composition of the silver equivalent production during the year included 1,237,429 ounces of silver, and 1,091,902 pounds of lead.

Further increases in production are anticipated in 2008, resulting in additional expected ounces of silver production from the La Encantada mine on a go-forward basis.

Mine development continues at an aggressive pace and included 1,587 meters of development in the fourth quarter and 5,646 metres for 2007 were aimed at several targets including the San Javier/Milagros Breccias areas. The purpose of the ongoing underground development program is to increase production levels in 2008, confirm additional Reserves and Resources, and for exploration.

In addition to the development, during the fourth quarter of 2007, 1,700 meters of rehabilitation in Level 790 was completed in order to allow access for diamond drill rigs. Drilling has begun in this underground area with a total of 6 holes completed to date consisting of 532 meters. For the year 2007, drilling at the La Encantada totalled 56 holes, consisting of 1,474 meters, of which 49 holes were drilled into the old tailings pond, totalling 744 metres. The drill holes in the tailings dams were completed in order to quantify the tonnage and complete metallurgical testing for the purpose of measuring the economics of reprocessing the tailings.

Initial metallurgical tests conducted on the tailings confirm the possibility of economically recovering the silver contained. An economic evaluation was prepared to assess the feasibility of this project. Environmental permitting and engineering for a major mill upgrade is presently in process and is expected to be completed by the second quarter of 2008.

EXPLORATION PROPERTY UPDATES

Chalchihuites Group of Properties, Zacatecas, Mexico

In January, 2004 the Company entered into several option agreements to acquire a group of mining concessions with a total surface area of 487 hectares, located in Chalchihuites, Zacatecas, Mexico, and approximately 60 kilometres southeast of the La Parrilla Silver Mine. After a three year exploration program consisting of geochemistry, geophysics and diamond drilling, the Company elected to exercise its option to acquire 100% of the 293 hectares which covers the San Juan Silver Mine, the Perseverancia Silver Mine, and surrounding area. In March 2008 the Company also elected to exercise the option to purchase the rights to another 29 hectares, consisting of two additional mining claims in the San Juan mine area.

During 2007, underground mine development at the San Juan Silver Mine continued to access and explore the lower part of a recently discovered new ore body. A ramp and several crosscuts accessed the ore body with development of 1,959 meters completed since acquisition of the mine, which includes a total of 201 meters of development completed in the fourth quarter. Small production (50 tonnes per day) is being produced from development works in this mine and is being shipped to the La Parrilla mill. Exploration and development at the San Juan mine was accelerated during the last two quarters of 2007 with the objective of developing the mine for larger future production. For the year ended December 31, 2007, a total of 15 diamond drill holes totalling 2,562 meters was completed. For the quarter ended December 31, 2007, a total of 8 diamond drill holes totalling 1,583 meters was completed. An underground diamond drill is operating on a permanent basis, and an additional rig has been installed on surface to explore the extension of the ore body to the East. A mine contractor with a crew of 35 people is presently developing the mine.

As well, the Perseverancia Silver Mine is presently being upgraded and rehabilitated to increase production of the high grade chimney areas. High grade ore is presently being produced at a rate of 100 tonnes per month. A diamond drill program, consisting of 13 holes, has been completed to date, consisting of a total of 2,858 meters drilled. During the current period, the continuity of the Perseverancia chimneys at depth was confirmed. During the fourth quarter, extraction of low volumes of high grade ore, totalling approximately 200 tonnes grading approximately 1.5 kilos (1,500 g/t) of silver and 35% lead were extracted from the mine. And in the year a total of 379 tonnes of high grade ore were extracted from the Perseverancia mine. This high grade ore is crushed to minus 1/8" and is being shipped directly to the smelter. This production is expected to continue to increase in the following months.

Cuitaboca Silver Project, Sinaloa, Mexico

As a result of the September 2006 acquisition of First Silver Reserve, Inc., the Company acquired an option to purchase a 100% interest in the Cuitaboca Silver Project, consisting of 5,134 hectares located in the State of Sinaloa, Mexico, which contains at least six well known veins with sulphide mineralization carrying high grade silver. The veins within the property are known as; the La Lupita, Los Sapos, Chapotal, Colateral-Jesus Maria, Mojardina and Santa Eduwiges.

During the quarter ended December 31, 2007, the Company completed five kilometres of road construction to access the Mojardina and Eduviges veins which are the second and third veins scheduled to be accessed. Total road construction since mid 2006 consists of 31 kms. During the fourth quarter of 2007 and the first quarter of 2008, the efforts were directed towards improving the infrastructure, including, improvement of roads, camp site, and enlargement of the Explosives Magazine in order to increase storage capacity. Also, a contractor was sourced and is expected to continue the development at the Colateral vein, and to start development at the Santa Eduwiges vein, in the second quarter of 2008.

The first vein structure discovered; the Colateral vein, was intersected via underground development in 2006, and is now being explored and sampled with direct drifting. A total of 110 meters has been developed in the vein in the current year to date. Sampling and assaying are in process as development continues.

Based on the successful development of the Colateral vein which remains open both at depth and along strike, the Company intends to advance the current exploration program, increasing the development and exploration efforts by completing 2,000 metres of direct drifting along the vein and commencing a diamond drill program at both the Colateral and Mojardina veins during 2008. Road construction will also be continued to extend access to the La Lupita, Los Sapos, Chapotal, and Santa Eduwiges veins where additional exploration work will be carried out.

Jalisco Group of Properties, Jalisco, Mexico

As a result of the September 2006 acquisition of First Silver Reserve Inc., the Company acquired a group of mining claims totalling 5,131 hectares located in various mining districts located in Jalisco State, Mexico. During the second half of 2007, a team of geologists visited these mining claims to initially focus on the evaluation of the geological potential at the prolific mining district of Etzatlan, Jalisco where the Company owns 787 hectares. During 2008, surface geology and mapping will continue for the purpose of defining drill targets.

Candameña Mining District property, Chihuahua, Mexico

The Company has two option agreements for the purchase of the Candameña Mining District property located in the eastern Sierra Madre Mountain range about midway between Hermosillo and Chihuahua in east central Chihuahua, Mexico. The option agreements include all properties, assets, equipment and all mining concessions consisting of 5,215 hectares.

During the second quarter of 2007, a diamond drill program consisting of seven holes totalling 1,550 meters was completed in order to test the La Verde and La Prieta vein system. Results did not definitively identify the continuation of the silver mineralization that was previously mined.

On August 14, 2007, the Company entered into an agreement with Prospector Consolidated Resources Inc. ("Prospector") whereby Prospector had the right to acquire a 100% interest in the Company's option to the Candameña Mining District Property by paying $50,000 and issuing two million of its common shares to the Company upon regulatory approval. The Company received $50,000 in August 2007, and Prospector assumed all option commitments to the underlying property vendors effective August 2007. Prospector received regulatory approval and the Company received two million shares of Prospector in March 2008. In September 2007, management wrote down the carrying value of the Candameña property by $1,703,591 to $700,000 reflecting the cash received and estimated proceeds on disposal of two million shares of Prospector.

SELECTED ANNUAL INFORMATION

	Year ended December 31 2007 $	Transitional year Six months ended December 31, 2006 $[1]	Year ended June 30 2006 $
Total revenues	42,924,920[2]	12,754,965 [2]	4,159,292 [2]
Mine earnings (excluding amortization and depreciation)	15,935,620	1,686,247	370,728
Net loss for the period	7,230,122[3]	(7,588,192)[3]	(5,665,886)[3]
Basic and diluted loss per share	(0.13)	(0.17)	(0.16)
Total assets	185,002,851	185,361,654 [4]	112,674,873 [4]
Total long term liabilities	36,591,521[5]	55,930,797 [4][5]	37,946,841

(1) The Company changed fiscal year ends in 2006, from June 30 to December 31st. The results disclosed for December 31, 2006, are for the six months then ended, as is required by Canadian GAAP.

(2) During the year ended December 31, 2007, revenues increased by $30,169,955 over the revenues for the six month transitional year. This increase is primarily due to the difference in volumes of production, and the comparison of one year to a six month period. In the year ended December 31, 2007, the Company shipped 3,461,650 ounces of silver equivalent, and in the six months ended December 31, 2006, total silver revenues were attributed to 1,016,583 ounces of silver equivalent, an increase of 2,445,067 ounces of silver equivalents. Increased production of silver has resulted from the ramping up of the La Parrilla mill, and the acquisition of San Martin in June 2006, and La Encantada in November, 2006. During the year ended June 30, 2006, a total of 363,278 equivalent ounces of silver was produced and shipped, 202,925 equivalent ounces from La Parrilla, plus one month or 160,353 equivalent ounces from San Martin. More details follow comparing six months ended December 31, 2006, to the year ended June 30, 2006:

- La Parrilla Silver Mine - during the year ended December 31, 2007, a total of 179,411 tonnes of ore were processed with an average head grade of 204 grams per tonne of silver resulting in a total of 1,000,823 equivalent ounces of silver produced, and 986,390 ounces shipped. During the six month period ended December 31, 2006, a total of 29,057 tonnes of ore were processed with an average head grade of 172 grams per tonne of silver resulting in a total of 110,114 equivalent ounces of silver produced. For the year ended June 30, 2006, there were 202,925 equivalent ounces of silver produced.
- San Martin Silver Mine (acquired June 5, 2006) - for the year ended December 31, 2007, processed 239,796 tonnes of ore with an average grade of 171 grams per tonne of silver resulting in 1,217,952 ounces of silver equivalents, and 1,202,360 ounces of silver equivalents shipped. The San Martin mine and mill, over the six month period ended December 31, 2006, processed 128,175 tonnes of ore with an average grade of 192 grams per tonne of silver resulting in 725,055 ounces of silver equivalent.
- La Encantada Silver Mine (acquired November 1, 2006) - during the year ended December 31, 2007, 1,342,396 equivalent ounces of silver were produced, and 1,272,810 ounces of silver equivalent were shipped, compared to 181,413 equivalent ounces of silver in the prior six month period ended December 31, 2006, which included production only for the months of November and December 2006.

(3) Net losses in these periods included non-cash stock based compensation expenses of $3,865,689 for the year ended December 31, 2007, $1,558,892 for the six month transition year ended December 31, 2006, and $1,604,969 for the year ended June 30, 2006.

(4) In the period ending December 31, 2006, the Company completed the Plan of Arrangement to acquire the remaining 36.25% of First Silver Reserve Inc. for proceeds of $34.4 million, which increased mineral properties by $45.8 million, and Future Income Taxes by $13.2 million (categorized as a long term liability).

(5) During the year ended December 31, 2006, the Company paid $13.3 million for its 25% annual vendor liability to the majority shareholder of First Silver Reserve, a prior payment of $26.6 for 50% was made on May 30, 2006, and the final payment of $13.3 million is due on May 30, 2008 (see Capital Resources below).

Over the past two fiscal years the Company has focused on rapid growth and expansion, which it has achieved through expansion of its existing La Parrilla mine and mill facilities, as well as via the acquisitions of First Silver Reserve and Minera La Encantada, which are wholly owned subsidiaries as at December 31, 2007. Results for First Silver Reserve have been fully consolidated effective June 1, 2006, and for Desmin, operations have been fully consolidated effective November 1, 2006, due to the acquisition of Desmin at that date. Desmin had an exploitation right on the La Encantada Silver Mine, and later was fully acquired in March 2007 as a result of the purchase of Minera La Encantada.

The Company has not paid any dividends since incorporation and it presently has no plans to pay dividends.

RESULTS OF OPERATIONS

Year ended December 31, 2007 compared to six month transitional year ended December 31, 2006.

Sales revenues for the year ended December 31, 2007, were $42.9 million, an annualized increase of 68% compared to $12.8 million for the six month transitional year ended December 31, 2006. This reflects an increase of silver shipments from 1,016,583 for the six month transitional year ended December 31, 2006, to 3,461,650 ounces of silver equivalent, for the year ended December 31, 2007, an increase of 2,445,067 ounces of silver equivalents over the prior period. The primary source of the increase in silver shipments was the production of La Encantada, which only consisted of two months and 181,413 ounces of equivalents shipped in the prior period, but which accounted for 1,272,810 ounces of equivalents shipped for the twelve months of operation in 2007.

Mine earnings (excluding amortization and depreciation) for the year ended December 31, 2007 were $15,935,620, compared to $1,686,248 for the six month transitional year ended December 31, 2006. The improvements in mine operating earnings are due to the additional shipments of high grade and low cost ore from the La Encantada mine, increased shipments, increased grade and reduced costs from the La Parrilla, and the comparison of a 12 month operating year in 2007 to a six month operating year in the transitional year ended December 31, 2006.

General and administrative costs increased for the year ended December 31, 2007 to $7,460,903 from $3,141,795 for the six month transitional year ended December 31, 2006, reflecting the difference in the comparison of one year to a six month period, increases primarily in professional fees, audit and legal fees and in office related costs for Desmin and La Encantada. In the current year a significant organizational restructuring was achieved, and additional accounting, advisory and legal fees were incurred in connection with a deferred public offering in early 2007, and these are non-recurring expenses.

Amortization and depreciation increased for the year ended December 31, 2007 to $2,402,262 from $356,100 for the six month transitional year ended December 31, 2006, reflecting an increase of depreciation at the La Parrilla mine of $662,192 related to commissioning the mill, and an increase of $565,220 at the La Encantada mine related to twelve months of operations rather than two in the prior year, and an increase of $734,336 at the San Martin mine reflecting acquisitions of new equipment, as well as the difference in periods of amortization, twelve months currently and six months in the prior year.

Depletion increased for the year ended December 31, 2007 to $6,317,134 from $2,740,875 for the six month transitional year ended December 31, 2006, reflecting, a comparison of one year to six months, as well as an increase in depletion at the La Parrilla mine of $664,882 reflecting increased production, 179,411 tonnes in the current year compared to 29,057 in the prior six month reporting period.

Interest and financing expenses increased for the year ended December 31, 2007 to $1,169,934 from $824,347 for the six month transitional year ended December 31, 2006. The Company has recorded a 6% interest expense in the current year on the $13.3 million vendor amount payable due May 30, 2008 vendor amount payable plus $13.3 million for the first five months of 2007 for the amount that was paid on May 30, 2007. In the transition year ended December 31, 2006, interest expenses were incurred for the full $26.6 million but only for the six months of the transition year.

Investment and other income increased for the year ended December 31, 2007 to $1,358,166 from $685,777 for the six month transitional year ended December 31, 2006, primarily due to the difference of carrying our treasury balances for a full year rather than six months in the transition year.

Income taxes increased in the year ended December 31, 2007 from a recovery of ($880,403) in the transitional year ended December 31, 2006, to an expense of $1,384,647 in the current year, principally due to non-deductible expenses and the recognition of a valuation allowance against the benefit of tax losses in certain jurisdictions.

The net loss after taxes for year ended December 31, 2007 decreased to ($7,230,122) ($0.13 per share) from ($7,588,198) ($0.17 per share) for the six month transitional year ended December 31, 2006, due primarily to increased mine earnings from higher production volumes.

Revenues Per Canadian GAAP (expressed in CDN$)

Per Canadian GAAP, revenues are stated as invoiced revenues for delivered shipments of silver dore bars, and silver concentrates, including metal by-products of gold and lead, after having deducted refining, smelting and transportation charges charged by the counterparty. The following analysis provides the gross value of revenues prior to refining, smelting and shipping charges, which results in the net reportable revenue for the period. Gross revenues are used to calculate the average realized price per equivalent ounce of silver sold.

Revenue Analysis	Year Ended December 31,		Three Months Ended December 31,	
Per Canadian GAAP (expressed in CDN$, unless otherwise stated)	2007 $	2006 (1) $	2007 $	2006 $
Revenues, silver dore bars and concentrates	45,837,983	13,425,081	12,357,792	8,742,064
Refining, smelting and transporta tion charges	(2,913,063)	(670,116)	(726,316)	(603,780)
Net reportable revenues , per Canadian GAAP	42,924,920	12,754,965	11,631,476	8,138,284
Equivalent Ounces of silver sold	3,461,560	1,016,583	908,688	574,547
Average revenue per ounce sold (CDN$)	13.24	13.21	13.60	15.22
Average US/CAD trans lation in the period	1.0740	1.1305	0.9818	1.1393
Average revenue per ounce sold (US Dollar Equiv.)	12.33	11.68	13.85	13.36

(1) December 31, 2006 was a six month provisional year due to a change in year ends from June 30 to December 31, in the 2006 year

SUMMARY OF QUARTERLY RESULTS

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

	Quarter	Net sales revenues $	Net loss after taxes $	Basic and diluted net loss per common share $	Stock based compensation(2) $	Property Write Downs $	Notes:
Year ended	Q4	11,631,477	(1,771,511)	(0.03)	1,446,821	0	
December 31, 2007	Q3	10,288,478	(2,070,082)	(0.04)	723,992	1,703,591	1, 3
	Q2	10,846,344	(729,658)	(0.01)	775,532	0	
	Q1	10,158,621	(3,137,751)	(0.06)	919,344	0	
Transition year	Q2	8,138,284	(3,893,758)	(0.09)	1,400,603	774,254	4
ended December 31, 2006	Q1	4,616,681	(3,694,434)	(0.09)	158,289	2,086,258	5
Year ended June 30, 2006	Q4	2,725,624	(3,151,860)	(0.07)	1,292,007	384,930	6
	Q3	671,435	(995,998)	(0.03)	307,712	0	

Notes:

(1) During the year ended December 31, 2007, the Company changed its accounting policy with respect to the treatment of underground mining costs (see Section 1.11(iv) – Change in Accounting Policy Relating to Cost of Production). This change has been applied on a prospective basis effective January 1, 2007 with the effect that cost of production, net loss and comprehensive loss for the year ended December 31, 2007 have all been reduced by $2,400,996. Mine development costs have increased by $2,136,055 and the deficit increased by $2,400,996 at December 31, 2007. Loss per share for the year ended December 31, 2007 was reduced by $0.04, respectively.

(2) Stock Based Compensation - the net losses are affected by significantly 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.

Write downs of mineral properties – net losses are impacted by managements' decision not to pursue certain mineral properties. The write downs relate to the following properties.

(3) In the quarter ended September 30, 2007, management elected not to proceed with the acquisitions of the Candameña Mining District and accordingly, included a $1,703,591 one time write down of the carrying value of the Candameña mineral property to its estimated proceeds from disposal.

(4) In the quarter ended December 31, 2006, management elected not to proceed with the acquisitions of five of the Chalchihuites Group Properties (Beatriz, Esmeraldita, Nueva India, Tayoltita and Verdiosa) and accordingly, the historical investment in these properties totalling $688,766 were written off during the quarter in addition to other exploration costs of $85,488.

(5) In the quarter ended September 30, 2006, management elected not to proceed with the acquisitions of the Dios Padre Silver Project and the La Candelaria Silver Project, and as a result wrote down the carrying values of the properties by $1,895,107 and $191,151, respectively.
(6) In the quarter ended September 30, 2006, management expensed mineral property interests in the amount of $384,930 relating to two of the Chalchihuites Group Properties known as El Magistral and La Esmeralda.

In addition the cost of production, net loss and comprehensive loss for the three months ended March 31, 2007 and June 30, 2007 have been increased by $75,852 and reduced by $497,762, respectively. Loss per share for the three months ended March 31, 2007 and June 30, 2007 was reduced by $nil and $0.01, respectively.

The results for the seven most recent quarters include the consolidation of operating results of the San Martin mine since June 1, 2006, and the La Encantada mine since November 1, 2006. Accordingly, the sales revenues have increased significantly with these acquisitions.

LIQUIDITY

At December 31, 2007, the Company had working capital of $1,125,368 cash and cash equivalents of $12,835,183 compared to working capital of $2,572,831 cash and cash equivalents of $17,870,712 at December 31, 2006. Current liabilities at December 31, 2007 includes the current portion of a long-term vendor liability relating to the acquisition of First Silver in the amount of $13,341,380, and the current portion of a liability relating to the First Silver Arrangement in the amount of $388,836.

On May 10, 2007, the Company completed a private placement of special warrants for gross proceeds of $34,415,000 and net proceeds after expenses of the issue of $29,221,643. A total of 6,883,000 special warrants were sold at a price of $5.00 per special warrant through a syndicate of underwriters led by Cormark Securities Inc. (formerly Sprott Securities Inc.). On July 25, 2007, the Company obtained a final receipt for a short form prospectus qualifying the distribution of 6,883,000 common shares and 3,441,500 common share purchase warrants issuable on exercise or deemed exercise of the 6,883,000 special warrants. The special warrants were deemed to be exercised on July 30, 2007, without further consideration, for one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant is exercisable at a price of $6.50 until November 10, 2008. A portion of the net proceeds was used to pay the $13,341,380 short-term liability due May 30, 2007 and the balance will be used to fund further expansion at the Company's three operating mines, to meet property option commitments and for general working capital.

On March 25, 2008, the Company completed a public offering with a syndicate of underwriters led by CIBC who purchased 8,500,000 Units at an issue price of $5.35 per Unit, for gross proceeds of $45,475,000. Each Unit consists of one common share in the capital of the Company and one-half of one Common Share purchase warrant. Each whole Common Share purchase warrant entitles the holder to acquire one additional Common Share at a price of $7.00 for a period of 24 months from the closing of the Offering. The underwriters have an option, exercisable up until 30 days following closing of the offering, to purchase up to an additional 1,275,000 Common Shares (the "Option Shares") at a price of $5.07 per Option Share and up to an additional 637,500 Warrants at a price of $0.56 per Warrant.

On April 4, 2008, the Company completed the issuance of an aggregate of 637,500 common share purchase warrants pursuant to the exercise of the over-allotment option granted to the Underwriters in connection with the public offering of 8,500,000 units of First Majestic which closed on March 25, 2008. The Additional Warrants were sold to the Underwriters at an issue price of $0.56 per Additional Warrant. Each Additional Warrant entitles the holder to acquire one additional common share at a price of $7.00 until March 25, 2010. The gross proceeds to First Majestic from the exercise of the Over-allotment Option is $357,000.

Funds surplus to the Company's short-term operating needs are invested in highly liquid short-term investments with maturities of three months or less. The funds are not exposed to any liquidity risk and there are no restrictions on the ability of the Company to meet its obligations. The Company has no exposure and has not invested any of its treasury in any asset backed commercial paper securities. The Company has chosen not to hedge any of its production of silver and has not invested in any futures contracts for the purpose of hedging against commodity prices or currency volatility.

During the year ended December 31, 2007, the Company received $3,022,400 pursuant to the exercise of 1,047,500 stock options and $6,876,102 pursuant to the exercise of 2,668,823 share purchase warrants. Subsequent to the year end, the Company received an additional $1,130,588 pursuant to the exercise of 376,250 stock options and $31,875 pursuant to the exercise of 7,500 share purchase warrants.

During the year ended December 31, 2007, the Company incurred net costs of $18,895,126 (December 31, 2006 - $2,861,099) in respect of expenditures on mineral property interests, $11,841,594 (December 31, 2006 - $10,035,282) in respect of plant and equipment, and $4,964,200 on acquisitions (December 31, 2006 - $43,624) .

CAPITAL RESOURCES

As a result of the $34,415,000 private placement and the $45,475,000 public offering mentioned above, as well as the Company's ability to earn cash flow from its ongoing operations, the Company currently has $53.8 million of cash in treasury and considers that it has sufficient cash flow to meet its existing obligations and to address its capital expansion plans going forward.

The Company's obligations in 2008 include $13,341,380 owing in May 2008 to the majority shareholder of FSR ("FSR Shareholder") regarding the acquisition of First Silver Reserve Inc. ("FSR") as well as $400,241 in respect of interest payments due to the same FSR Shareholder. Also, the final $388,836 payment on the arrangement liability is due in September 2008. In November 2007, an action was commenced by the Company and FSR against the previous FSR Shareholder, to whom approximately $13.7 million in principal and interest is owed, dating back to the acquisition of FSR in April 2006. Pending resolution of the litigation set out above the Company has withheld payment of quarterly instalments of interest due on November 30, 2007 and February 29, 2008 to the previous majority Shareholder and has maintained a reserve of cash in the amount of such instalments. Although the Company has sufficient funds to meet this obligation, the Company anticipates withholding payment of the final instalment and maintaining a reserve for these payments until the litigation has been resolved.

The Company is obligated to make payments to Sandvik Financial pertaining to a short-term leasing arrangement for equipment purchases made in 2006 and 2007, where 50% of the cost of the equipment was scheduled over two year terms from the date of delivery, pursuant to quarterly payments. The combined obligation for the 2006 and 2007 equipment purchases amounts to $3.6 million, inclusive of interest and principal, with principal of $2,061,464 due in 2008, and $1,245,194 due in 2009.

The Company is obligated to making certain mineral property future option payments to retain access to certain mineral properties at its La Parrilla, Chalchihuites, and Cuitaboca properties. These obligations include US$749,000 for La Parrilla (US$299,600 already paid), US$65,000 for Chalchihuites (already paid), and US$1.95 million for Cuitaboca. By optioning its Candameña option to a third party, the Company relieved itself of future obligations of US$6.225 million due to property owners of the Candameña property.

Future costs to retire assets including dismantling, remediation and ongoing treatment and monitoring of sites are recognized and recorded as liabilities at fair value as at the date the liabilities are incurred. The remediation liability is accreted over time to the estimated amount ultimately payable through periodic charges to earnings. Future site restoration costs are capitalized as part of the carrying value of the related mineral properties at their initial values and amortized over the mineral properties useful lives based on a units-of-production method. The present value of the Company's 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.

2008 OUTLOOK

As the Company's Reserves and Resources continue to grow, the Company will focus on expansions of its mills. This coming year, management at First Majestic will focus on executing its business plan by continuing the ongoing improvements at each mine and achieving our production and resource targets for 2008. As a result of the work completed in 2007, the significant additions to our management team, and the many improvements made at each of our three silver mines, we are targeting to reach 5,500,000 ounces of silver equivalent production for 2008, with continued increases in defined silver resources. Ultimately, we are building long term sustainable mining operations, and shareholders can be assured Management at First Majestic are very focused on growth and achieving profitable mining operations.

In 2008, improvements are expected to include; the completion of the flotation circuit at the San Martin; the replacement of the secondary crusher at the La Encantada; new filter presses at the La Parrilla, and; as a result of the Company's completed offering in March, 2008, management is currently reviewing plans that may include the expansion of its operations.

In addition to the above, and in line with the Company's program of underground equipment replacement launched with Sandvik in 2006, a total of 12 pieces of underground equipment were delivered in 2007 which added to the 6 pieces of equipment delivered in 2006. In 2008, the third year of this program, 20 additional pieces of underground equipment are expected to be delivered. These deliveries will include scooptrams, underground trucks and jumbos intended to improve and assist in more efficient underground operations.

The Company anticipates that silver, gold, and lead prices will continue to be volatile but will continue their upward trends. We expect all three producing mines to produce positive cash flows from production, as well as positive mine operating earnings during 2008.

Off-Balance Sheet Arrangements

At December 31, 2007, 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.

Transactions with Related Parties

On July 31, 2007, the Company incorporated a new wholly owned Mexican subsidiary, Corporación First Majestic, S.A. de C.V., ("CFM") and on August 14, 2007 effected a corporate restructuring of Desmin, La Encantada and FM Plata, transferring shares of these companies to CFM. On December 7, 2007, the Company's wholly owned subsidiary First Silver Reserve also transferred the shares of El Pilon to CFM. Effective January 1, 2008, Desmin was amalgamated with La Encantada and continued legally as Minera La Encantada, SA de CV, such that the Company now holds the shares of El Pilon, FM Plata, and La Encantada, through CFM, which is a Mexican holding company for Mexican tax consolidation purposes.

The following diagram illustrates the corporate structure of the Company for further clarification:

First Majestic Silver Corp.
Organizational Structure on Completion of Reorganization

* Note: Shares of each subsidiary are owned 100% by its respective parent, except that a nominal number of shares of each Mexican company is held by a nominee director pursuant to Mexican legal requirements.

The subsidiaries, mines, mills and properties are related as follows:

Subsidiaries:	Mine and Mill	Exploration Properties
Minera El Pilón	San Martin Silver Mine	San Martin property Cuitaboca Silver Project Jalisco Group of Properties
First Majestic Plata	La Parrilla Silver Mine	La Parrilla Property Chalchihuites Group of Properties Candameña Mining District (1)
Minera La Encantada	La Encantada Silver Mine	La Encantada property

(1) On August 14, 2007, the Company entered into an agreement with Prospector Consolidated Resources Inc. ("Prospector") whereby Prospector had the right to acquire a 100% interest in the Company's option to the Candameña Mining District Property by paying $50,000 and issuing two million of its common shares to the Company upon regulatory approval. The Company received $50,000 in August 2007, and Prospector assumed all option commitments to the underlying property vendors effective August 2007. Prospector received regulatory approval and the Company received two million shares of Prospector in March 2008. In September 2007, management wrote down the carrying value of the Candameña property by $1,703,591 to $700,000 reflecting the cash received and estimated proceeds on disposal of two million shares of Prospector.

Related Party Transactions:

During the year ended December 31, 2007, the Company:

(a) incurred $197,696 (six months ended December 31, 2006 - $91,039, year ended June 30, 2006 - $135,697) for management services provided by the President & CEO and/or a corporation controlled by the President & CEO of the Company pursuant to a consulting agreement.

(b) incurred $nil (six months ended December31, 2006 - $15,000, year ended June 30, 2006 - $65,000) for geological and technical services provided by directors and/or corporations controlled by the directors of the Company.

(c) paid $478,206 (six months ended December 31, 2006 - $92,792, year ended June 30, 2006 - $187,588) to a director and Chief Operating Officer for management and other services related to the mining operations of the Company in Mexico pursuant to a consulting agreement. The $478,206 paid includes $254,742 (US$234,292) paid as finder's fees upon the completion of certain option agreements relating to the Chalchihuites Group of Properties.

(d) incurred $1,728,222 of service fees during the year (six months ended December 31, 2006 - $101,891, year ended June 30, 2006 - $ nil) to a mining services company sharing our premises in Durango Mexico for the management and payment of mining contractors performing services for the Company in Mexico at all three mines. An employee of the Company is a shareholder of the mining services company. Of the fees, $94,724 were unpaid at December 31, 2007 (December 31, 2006 - $16,835).

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

Proposed Transactions

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

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 derived therefrom are included in Note 2 to the annual consolidated financial statements for year ended December 31, 2007. While all of the significant accounting policies are important to the Company's consolidated financial statements, the following accounting policies, and the estimates derived therefrom, 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;
- Reclamation and Remediation Obligations;
- 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 with a charge to operations, to the extent the carrying value exceeds discounted estimated future cash flows.

The estimates used by management are subject to various risks and uncertainties. It is reasonably possible that changes in estimates could occur which may affect the expected recoverability of the Company's investments in mining projects and other mineral property interests.

Depletion and Depreciation of Property, Plant and Equipment

Property, plant and equipment comprise one of the largest components of the Company's assets and, as such, the amortization of these assets has a significant effect on the Company's financial statements. On the commencement of commercial production, depletion of each mining property is provided on the unit-of-production basis using estimated reserves as the depletion basis. The mining plant and equipment and other capital assets are depreciated, following the commencement of commercial production, over their expected economic lives using either the unit-of-production method or the straight-line method (over two to 10 years), as appropriate.

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.

Reclamation and Remediation Obligations

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. Because the obligations are dependent on the laws and regulations of the county in which the mines operate, the requirements could change resulting from amendments in those laws and regulations relating to environmental protection and other legislation affecting resource companies.

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

As the estimate of obligations is based on future expectations, in the determination of closure provisions, management makes a number of assumptions and judgments. The 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 December 31, 2007.

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 is required to assess whether the Company is "more likely than not" to benefit from these tax losses. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses.

Stock-Based Compensation

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

Changes in Accounting Policies including Initial Adoption

Significant accounting changes

(i) Comprehensive income

Section 1530 introduces comprehensive income, which consists of net income and other comprehensive income ("OCI"). OCI represents changes in shareholders' equity during a period arising from transactions other than changes related to transactions with owners. OCI includes unrealized gains and losses on financial assets classified as available-for-sale, changes in the fair value of the effective portion of derivative instruments included in cash flow hedges and currency translation adjustments on the Company's net investment in self-sustaining foreign operations. The Company has included in its annual consolidated financial statements, a statement of shareholders' equity comprehensive loss which discloses changes in other comprehensive income during the first quarter of 2007. Cumulative changes in OCI are included in accumulated other comprehensive income ("AOCI"). Prior financial statements retroactively reflect the classification of the currency translation adjustments on the Company's net investment in self-sustaining operations as a component of other comprehensive loss.

(ii) Financial Instruments – Recognition and Measurement and Hedges

Section 3855 establishes standards for recognizing and measuring financial assets, liabilities, and non-financial derivatives. Financial assets and liabilities, including derivatives, are recognized on the consolidated balance sheet when the Company becomes a party to the contractual provisions of the financial instrument. Under this standard, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Transaction costs are expensed as incurred for financial instruments classified as held-for-trading. For financial instruments classified as other than held-for-trading, transaction costs are added to the carrying amount of the financial asset or liability on initial recognition and amortized using the effective interest method.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in interests and other business income. Loans and receivables and other financial liabilities are measured at amortized cost and are amortized using the effective interest method. Available-for-sale financial assets are presented in available-for-sale securities in the Company's consolidated balance sheet and measured at fair value with unrealized gains and losses, including changes in foreign exchange rates, recognized in OCI. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

Derivative instruments are recorded on the consolidated balance sheet at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Changes in the fair values of derivative instruments are recognized in net income with the exception of derivatives designated as effective cash flow hedges.

Impact on Adoption of Section 1530 and 3855

The adoption of the new requirements for financial instruments and reporting comprehensive income had no material impact on the results of operations and financial position of the Company other than the translation adjustment relating to the Company's net investment in self-sustaining subsidiaries is recorded as a component of comprehensive loss for the year ended December 31, 2007 in the amount of $23,096,709 (2006 - $7,910,502) and the cumulative translation adjustment at December 31, 2006 in the amount of $7,910,502 is recorded as accumulated other comprehensive income as at that date.

(iii) Reclassification of Foreign Operation

In August 2007, the Company changed the method in which it translates the accounts of First Majestic Plata. At the time of the corporate restructuring of Desmin, La Encantada and First Majestic Plata (Note 2), the operations of First Majestic Plata were reclassified from integrated to self-sustaining on the basis that recent commercial operations of the La Parrilla Silver Mine resulted in a change in the functional currency of that operation from the Canadian dollar to the Mexican peso. As a result, the current rate method was adopted in place of the temporal method. The exchange loss of $3,244,350 attributable to current rate translation of non-monetary items as of the date of the change is included as an element of the exchange gains and losses included in a separate component of accumulated other comprehensive income.

(iv) Change in Accounting Policy Relating to Cost of Production

During the quarter ended September 30, 2007, the Company changed its accounting policy with respect to the treatment of underground mining costs. During production at underground mines, the Company incurs development costs to build new shafts, drifts and ramps that enable the Company to physically access ore underground. Under the new policy, these underground development costs will be capitalized as incurred and amortized on a unit of production basis over the period that the related ore is extracted. Costs incurred and capitalized to

enable access to specific ore blocks or areas of the mine, and which only provide an economic benefit over the period of mining that ore block or area, are attributed to earnings using the units-of-production method where the denominator is estimated recoverable ounces of silver contained in proven and probable reserves within that ore block or area.

Previously the Company did not distinguish underground mining costs on this basis and therefore such costs were expensed as costs of production in the period they were incurred.

The Company believes that the new accounting policy provides a more accurate and reliable measure of the cost of production for ore produced at the Company's mines and facilitates a more meaningful inter-period comparison of such costs.

This change has been applied on a prospective basis effective January 1, 2007 with the effect that cost of production, net loss and comprehensive loss for the year ended December 31, 2007 have all been reduced by $2,400,996. Mine development costs have increased by $2,136,055 and the deficit increased by $2,400,996, respectively at December 31, 2007. Loss per share for the year ended December 31, 2007 was reduced by $0.04, respectively.

In addition the cost of production, net loss and comprehensive loss for the three months ended March 31, 2007 and June 30, 2007 have been increased by $75,852 and reduced by $497,762, respectively. Loss per share for the three months ended March 31, 2007 and June 30, 2007 was reduced by $nil and $0.01, respectively.

The Company has concluded that retrospective application of this accounting change for periods ending on or prior to December 31, 2007 is impracticable to determine on the basis that production records were not prepared nor retained in sufficient detail to enable a proper determination of the applicable capitalized costs and related amortization.

Financial Risks and Other Risks

The Company's financial instruments consist of cash and cash equivalents, trade receivables, accounts receivable and advances, accounts payable, arrangement liability and vendor liability. It is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair market values of these financial instruments approximate their carrying values, unless otherwise noted.

All of the Company's mining and exploration activities are carried on outside of Canada. Accordingly, the Company is subject to the risks associated with fluctuations in the rate of exchange of foreign currencies against the Canadian dollar, in particular the Mexican peso, and the United States dollar. Such fluctuations may materially affect the Company's financial position and results.

In conducting its business, the principal risks and uncertainties faced by the Company centre on metal and mineral prices, development and exploration of its mineral properties, and efficient production of silver doré and concentrate.

The prices of metals and minerals fluctuate widely and are affected by many factors outside of the Company's control. The relative prices of metals and minerals and future expectations for such prices have a significant impact on the market sentiment for investment in mining and mineral exploration companies. The Company has previously successfully relied on equity financing for its working capital requirements and to fund its capital expansion, development and exploration programs. The Company is generating significant cash flows from operations, and has sufficient capital to support its operating requirements for the foreseeable future provided it does not undertake any major acquisitions.

Other MD&A Requirements

(a) Additional information relating to the Company may be found on or in:
- SEDAR at www.sedar.com,
- the Company's Annual Information Form,
- the Company's audited consolidated financial statements for the year ended December 31, 2007.

(b) Outstanding Share Data as of the Report Date

As of the Report Date, April 6, 2007, the Company has the following securities outstanding:

Issued common shares: **73,782,410** common shares

Stock options:

Price $	Options Outstanding	Options Exercisable	Expiry Dates
5.04	49,600	49,600	April 25, 2008
4.55	25,000	25,000	July 6, 2008
3.28	100,000	75,000	October 17, 2008
2.10	240,000	240,000	November 9, 2008
2.45	550,000	550,000	December 16, 2008
3.28	12,500	12,500	June 13, 2009
4.32	767,900	575,925	December 6, 2009
5.50	200,000	150,000	February 1, 2010
4.64	75,000	37,500	June 1, 2010
4.17	100,000	50,000	August 8, 2010
3.72	30,000	15,000	September 24, 2010
3.98	20,000	6,250	October 17, 2010
4.45	840,000	210,000	October 30, 2010
4.34	50,000	12,500	November 1, 2010
4.42	25,000	6,250	November 12, 2010
4.34	200,000	50,000	December 5, 2010
4.42	50,000	12,500	February 21, 2011
4.65	100,000	25,000	March 25, 2011
4.30	450,000	450,000	June 19, 2011
4.32	245,000	183,750	December 6, 2011
4.41	400,000	300,000	December 22, 2011
5.00	155,000	116,250	February 7, 2012
4.65	25,000	12,500	June 20, 2012
4.24	925,000	231,250	December 5, 2012
	5,635,000	3,396,775	

Share purchase warrants:

Exercise Price $	Warrants Outstanding	Expiry Dates
6.50	3,441,500	November 10, 2008
4.25	2,204,949	November 27, 2008
6.81	191,291	March 20, 2009
7.00	4,887,500	March 25, 2010
	10,725,240	

Disclosure Controls and Procedures

The Company's officers and management are 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.

Based upon the recent evaluation of the effectiveness of the disclosure controls and procedures regarding the Company's consolidated financial statements for the period ended December 31, 2007, and this MD&A, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the design and implementation of disclosure controls and procedures were effective as at and for the period ended December 31, 2007.