



(FORMERLY FIRST MAJESTIC RESOURCE CORP.)

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CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED  
MARCH 31, 2007 (UNAUDITED)

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

**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

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

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

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

**FIRST MAJESTIC SILVER CORP.  
(FORMERLY FIRST MAJESTIC RESOURCE CORP.)  
CONSOLIDATED BALANCE SHEETS  
AS AT MARCH 31, 2007 (UNAUDITED) AND DECEMBER 31, 2006**

	<u>March 31, 2007</u>	<u>December 31, 2006</u>
	<u>\$</u>	<u>\$</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	8,926,581	17,870,712
Trade receivables	3,243,276	1,200,362
Other receivables	5,896,383	5,893,538
Inventory	2,230,536	1,688,451
Prepaid expenses	97,308	61,025
	<u>20,394,084</u>	<u>26,714,088</u>
<b>MINERAL PROPERTY INTERESTS</b>	143,292,643	138,870,884
<b>PROPERTY, PLANT AND EQUIPMENT (Note 6)</b>	25,986,578	19,776,682
	<u>189,673,305</u>	<u>185,361,654</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	9,655,982	8,557,624
Current portion of long-term vendor liability	13,341,380	13,341,380
Current portion of Arrangement liability	388,836	388,836
Liability for the acquisition of Desmin	576,450	1,165,300
Employee profit sharing payable (Note 13)	413,475	293,989
Income taxes payable	1,512,344	394,128
	<u>25,888,467</u>	<u>24,141,257</u>
<b>LONG TERM VENDOR LIABILITY</b>	13,341,380	13,341,380
<b>LONG TERM ARRANGEMENT LIABILITY</b>	388,836	388,836
<b>FUTURE INCOME TAXES</b>	37,056,906	36,784,192
<b>OTHER LONG TERM LIABILITIES (Note 12)</b>	1,419,712	1,518,304
<b>ASSET RETIREMENT OBLIGATION</b>	6,157,287	3,898,085
	<u>84,252,588</u>	<u>80,072,054</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>SHARE CAPITAL (Note 7)</b>	109,058,663	103,466,619
<b>SHARE CAPITAL TO BE ISSUED</b>	9,292,205	9,294,020
<b>CONTRIBUTED SURPLUS (Note 8)</b>	12,454,473	11,720,436
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>	4,779,252	7,910,502
<b>DEFICIT</b>	(30,163,876)	(27,101,977)
	<u>105,420,717</u>	<u>105,289,600</u>
	<u>189,673,305</u>	<u>185,361,654</u>

CONTINUING OPERATIONS (Note 1)  
CONTINGENT LIABILITIES (Note 11)  
COMMITMENTS (Note 13)

APPROVED BY THE BOARD OF DIRECTORS

\_\_\_\_\_  
(signed) "Keith Neumeyer" Director

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(signed) "Douglas Penrose" Director

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

**FIRST MAJESTIC SILVER CORP.  
(FORMERLY FIRST MAJESTIC RESOURCE CORP.)  
CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND DEFICIT  
FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006 (UNAUDITED)**

	Three months ended March 31,	
	2007	2006
	\$	\$
<b>REVENUE</b>		
Sales	10,158,621	671,435
Cost of sales (excluding accretion of the asset reclamation obligation, depreciation and depletion)	6,782,891	596,949
	<u>3,375,730</u>	<u>74,486</u>
<b>EXPENSES</b>		
Accounting and administration services	685,837	29,069
Accretion of reclamation obligation	82,087	22,257
Amortization and depreciation	504,545	51,248
Audit	33,500	15,000
Advertising and promotion	132,178	130,533
Depletion	1,454,478	184,532
Directors' fees	30,000	-
Exploration	159	5,817
Interest expense	406,264	-
Investor relations	19,142	17,326
Legal	75,570	17,805
Management fees	47,408	34,743
Office and other	238,150	64,930
Printing and stationery	5,006	1,578
Professional fees	138,892	67,320
Regulatory, AGM and transfer agent fees	58,345	19,598
Rent	53,516	41,038
Salaries and benefits	182,910	33,407
Stock-based compensation	919,344	307,712
Travel	127,650	100,413
	<u>5,194,981</u>	<u>1,144,326</u>
<b>LOSS BEFORE OTHER ITEMS</b>	<u>(1,819,251)</u>	<u>(1,069,840)</u>
<b>OTHER ITEMS</b>		
Interest and other income	114,492	96,495
Foreign exchange loss	(434,904)	(22,653)
	<u>(320,412)</u>	<u>73,842</u>
<b>LOSS BEFORE INCOME TAXES</b>	<u>(2,139,663)</u>	<u>(995,998)</u>
<b>INCOME TAX (RECOVERY) EXPENSE</b>		
Current	1,224,086	-
Future	(301,850)	-
	<u>922,236</u>	<u>-</u>
<b>NET LOSS</b>	<u>(3,061,899)</u>	<u>(995,998)</u>
<b>DEFICIT - BEGINNING OF THE PERIOD</b>	<u>27,101,977</u>	<u>15,365,928</u>
<b>DEFICIT - END OF THE PERIOD</b>	<u>30,163,876</u>	<u>16,361,926</u>
<b>BASIC AND DILUTED LOSS PER COMMON SHARE</b>	<u>(0.06)</u>	<u>(0.03)</u>
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>	<u>52,349,439</u>	<u>30,622,078</u>

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

**FIRST MAJESTIC SILVER CORP.  
(FORMERLY FIRST MAJESTIC RESOURCE CORP.)  
CONSOLIDATED INTERIM STATEMENTS OF SHAREHOLDER'S EQUITY AND COMPREHENSIVE INCOME  
FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006 (UNAUDITED)**

	Shares	Amount	Share capital To be issued	Contributed surplus	Accumulated other comprehensive income	Deficit	Total
		\$	\$	\$	\$	\$	\$
<b>Balance at December 31, 2005</b>	30,681,091	36,198,724	-	1,273,788	-	(15,365,927)	22,106,585
Net income	-	-	-	-	-	(946,906)	(946,906)
Other comprehensive income							
Cumulative translation adjustment	-	-	-	-	-	-	-
Total comprehensive loss							(946,906)
Shares issued for							
Exercise of options	390,000	576,650	-	-	-	-	576,650
Exercise of warrants	440,067	942,151	-	-	-	-	942,151
Acquisition of mineral properties	200,000	450,000	-	-	-	-	450,000
Stock option expense during the period	-	-	-	245,114	-	-	245,114
Transfer of contributed surplus upon exercise of stock options	-	175,750	-	(175,750)	-	-	-
<b>Balance at March 31, 2006</b>	<b>31,711,158</b>	<b>38,343,275</b>	<b>-</b>	<b>1,343,152</b>	<b>-</b>	<b>(16,312,833)</b>	<b>23,373,594</b>
Balance at December 31, 2006	51,698,630	103,466,619	9,294,020	11,720,436	7,910,502	(27,101,977)	105,289,600
Net income (loss)	-	-	-	-	-	(3,061,899)	(3,061,899)
Other comprehensive income							
Cumulative translation adjustment	-	-	-	-	(3,131,250)	-	(3,131,250)
Total comprehensive loss							(6,193,149)
Shares issued for							
Exercise of options	517,500	1,242,450	-	-	-	-	1,242,450
Exercise of warrants	812,500	1,828,125	-	-	-	-	1,828,125
For First Silver arrangement	375	1,815	(1,815)	-	-	-	-
For acquisition of La Encantada	382,582	2,000,904	-	-	-	-	2,000,904
Stock option expense during the period	-	-	-	919,344	-	-	919,344
Warrants issued during the period	-	-	-	333,443	-	-	333,443
Transfer of contributed surplus upon exercise of stock options	-	518,750	-	(518,750)	-	-	-
<b>Balance at March 31, 2007</b>	<b>53,411,587</b>	<b>109,058,663</b>	<b>9,292,205</b>	<b>12,454,473</b>	<b>4,779,252</b>	<b>(30,163,876)</b>	<b>105,420,717</b>

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

**FIRST MAJESTIC SILVER CORP.  
(FORMERLY FIRST MAJESTIC RESOURCE CORP.)  
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006 (UNAUDITED)**

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(3,061,899)	(995,998)
Adjustment for items not affecting cash		
Depletion	1,454,478	184,532
Amortization and depreciation	504,545	51,248
Stock-based compensation	919,344	307,712
Accretion of reclamation obligation	82,087	22,257
Future income taxes	(301,850)	-
Other	(884,558)	(3,489)
	<u>(1,287,853)</u>	<u>(433,738)</u>
Net change in non-cash working capital items		
Increase in trade and other receivables	(2,222,650)	(620,042)
(Increase) decrease in inventory	(605,349)	1,624
Increase in prepaid expenses	(36,283)	-
Increase in accounts payable and accrued liabilities	698,358	221,703
Increase in employee profit sharing payable	319,486	-
Increase in taxes payable	1,118,216	-
	<u>(2,016,075)</u>	<u>(830,453)</u>
<b>INVESTING ACTIVITIES</b>		
Acquisition costs of Minera La Encantada less cash acquired (Note 5)	(3,798,896)	-
Additions to plant and equipment	(2,448,527)	(429,488)
Expenditures on mineral property interests	(2,991,966)	(1,196,616)
	<u>(9,239,389)</u>	<u>(1,626,104)</u>
<b>FINANCING ACTIVITIES</b>		
Issuance of common shares and subscriptions, net of issue costs	3,070,575	1,518,800
Payment of liability for acquisition of Desmin	(588,850)	-
	<u>2,481,725</u>	<u>1,518,800</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(8,773,739)</b>	<b>(937,757)</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH HELD IN FOREIGN CURRENCY</b>	<b>(170,392)</b>	<b>-</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF THE PERIOD</b>	<b>17,870,712</b>	<b>12,470,882</b>
<b>CASH AND CASH EQUIVALENTS - END OF THE PERIOD</b>	<b>8,926,581</b>	<b>11,533,125</b>
<b>CASH AND CASH EQUIVALENTS IS COMPRISED OF:</b>		
Cash	5,835,641	1,703,477
Term deposits	3,090,939	9,829,647
	<u>8,926,581</u>	<u>11,533,124</u>
<b>NON CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Shares issued for acquisition of La Encantada	2,000,904	-
Fair value of warrants issued for acquisition of La Encantada	333,443	-
Transfer of contributed surplus to common shares for options exercised	518,750	-
Issuance of shares for mineral property interests	-	450,000

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

**FIRST MAJESTIC SILVER CORP.  
(FORMERLY FIRST MAJESTIC RESOURCE CORP.)  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006 (UNAUDITED)**

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**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. The Company trades on the TSX Venture Exchange under the symbol "FR".

These consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and satisfaction of liabilities in the normal course of business. During the three months ended March 31, 2007, the Company recorded a net loss of \$3,061,899 (2006 - \$995,998) and at March 31, 2007 the Company had a working capital deficit of \$5,494,383. Subsequent to the period end, the Company completed a brokered private placement consisting of 6,883,000 special warrants at a price of \$5.00 per special warrant for gross proceeds to the Company of \$34,415,000 (see Note 14(e)).

The Company's ability to continue as a going concern is dependent on the Company's ability to raise equity or other financing as required and ultimately its ability to achieve profitable operations. These financial statements do not include any adjustments to the amount and classification of recorded assets and liabilities that might be necessary, should the Company be unable to continue as a going concern.

**2. BASIS OF PRESENTATION**

These unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("GAAP") with respect to the preparation of interim financial information. Accordingly, they do not include all the information and disclosures required by Canadian GAAP in the preparation of annual financial statements. Certain information and footnote disclosure normally included in consolidated financial statements prepared in accordance with GAAP have been omitted. The accounting policies used in preparation of the accompanying unaudited interim consolidated financial statements are the same as those described in our most recent annual consolidated financial statements. In the opinion of management, all adjustments of a normal recurring nature necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of results for the entire year. These interim financial statements should be read in conjunction with the Company's latest audited consolidated financial statements for the transition year ended December 31, 2006.

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, First Majestic Resources Mexico, S.A. de C.V. ("FMR Mexico"), First Silver Reserve Inc. ("First Silver"), Minera El Pilon S.A. de C.V., ("El Pilon"), Desmin S.A. de C.V. ("Desmin") and Minera La Encantada S.A. de C.V. ("La Encantada") (Note 5). Inter-company balances and transactions are eliminated on consolidation.

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 March 31, 2007, and the results of operations and changes in cash flows for the three months 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 three months ended March 31, 2006.

**FIRST MAJESTIC SILVER CORP.  
(FORMERLY FIRST MAJESTIC RESOURCE CORP.)  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006 (UNAUDITED)**

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**3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES**

***Significant accounting changes***

On January 1, 2007, the Company adopted four new accounting standards that were issued by the Canadian Institute of Chartered Accountants (CICA): Section 1530, Comprehensive Income; Section 3855, Financial Instruments – Recognition and Measurement; Section 3865, Hedges; and Section 325, Equity.

*(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 interim consolidated financial statements, a combined statement of shareholders’ equity and comprehensive loss for the changes in these items during the first quarter of 2007. Cumulative changes in OCI are included in accumulated other comprehensive income (“AOCI”). Generally, gains and losses remain part of the balance of AOCI, until GAAP requires their recognition in net income. 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 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.

**FIRST MAJESTIC SILVER CORP.  
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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006 (UNAUDITED)**

**3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Impact on Adoption of Section 1530 and 3855*

The adoption of these four sections 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 period in the amount of \$3,131,250 and the cumulative translation adjustment at December 31, 2006 in the amount of \$7,910,502.

**4. MINERAL PROPERTY INTERESTS**

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

	March 31, 2007			December 31, 2006		
	Acquisition Costs	Deferred Exploration Costs	Total Costs	Acquisition Costs	Deferred Exploration Costs	Total Costs
	\$	\$	\$	\$	\$	\$
<b>MEXICO</b>						
<b>Producing properties</b>						
La Parrilla (a)	5,056,919	1,924,498	<b>6,981,417</b>	4,791,406	1,527,602	<b>6,319,008</b>
San Martin (b)	21,342,454	-	<b>21,342,454</b>	23,493,057	-	<b>23,493,057</b>
La Encantada (Note 5)	8,604,669	152,398	<b>8,757,067</b>	1,741,643	20,056	<b>1,761,699</b>
	<b>35,004,042</b>	<b>2,076,896</b>	<b>37,080,938</b>	<b>28,284,463</b>	<b>1,527,602</b>	<b>29,812,065</b>
<b>Exploration properties</b>						
San Martin (b)	98,019,135	569,378	<b>98,588,513</b>	101,284,020	-	<b>101,284,020</b>
Chalchihuites (c)	3,612,951	1,476,875	<b>5,089,826</b>	2,730,020	1,068,199	<b>3,798,219</b>
Candamena (d)	1,812,867	440,032	<b>2,252,899</b>	1,695,509	297,956	<b>1,993,465</b>
Quitaboca (e) <sup>(1)</sup>	118,713	161,754	<b>280,467</b>	118,713	102,703	<b>221,416</b>
	<b>103,563,666</b>	<b>2,648,039</b>	<b>106,211,705</b>	<b>105,828,262</b>	<b>1,468,858</b>	<b>107,297,120</b>
	<b>138,567,708</b>	<b>4,724,935</b>	<b>143,292,643</b>	<b>134,112,725</b>	<b>2,996,460</b>	<b>137,109,185</b>

(1) For properties held by First Silver, all amounts are aggregated into acquisition costs. No part of the purchase price was allocated to the Quitaboca property.

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



**FIRST MAJESTIC SILVER CORP.  
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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
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**4. MINERAL PROPERTY INTERESTS (continued)**

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

	Note 4(a) La Parrilla US\$	Note 4(c) Chalchihuites US\$	Note 4(d) Candamena US\$	Note 4(e) Quitaboca US\$	Totals US\$
<b>Paid as at March 31, 2007</b>	<b>1,472,040</b>	<b>3,730,000</b>	<b>1,025,000</b>	<b>275,000</b>	<b>6,502,040</b>
<b>Future Option Payments</b>					
May 21, 2007 (subsequently paid)	116,160	-	-	-	116,160
May 22, 2007 (subsequently paid)	123,520	-	-	-	123,520
May 25, 2007 (subsequently paid)	-	-	-	125,000	125,000
May 29, 2007	-	-	200,000	-	200,000
June 8, 2007	-	2,000,000	-	-	2,000,000
<b>Subtotal Q2 2007</b>	<b>239,680</b>	<b>2,000,000</b>	<b>200,000</b>	<b>125,000</b>	<b>2,564,680</b>
August 21, 2007	116,160	-	-	-	116,160
August 22, 2007	123,520	-	-	-	123,520
August 29, 2007	-	-	150,000	-	150,000
September 7, 2007	-	30,000	-	-	30,000
<b>Subtotal Q3 2007</b>	<b>239,680</b>	<b>30,000</b>	<b>150,000</b>	<b>-</b>	<b>419,680</b>
November 21, 2007	145,200	-	-	-	145,200
November 22, 2007	154,400	-	-	-	154,400
November 25, 2007	-	-	-	150,000	150,000
November 29, 2007	-	-	675,000	-	675,000
<b>Subtotal Q4 2007</b>	<b>299,600</b>	<b>-</b>	<b>675,000</b>	<b>150,000</b>	<b>1,124,600</b>
February 21, 2008	145,200	-	-	-	145,200
February 22, 2008	154,400	-	-	-	154,400
February 29, 2008	-	-	600,000	-	600,000
March 1, 2008	-	65,000	-	-	65,000
<b>Subtotal Q1 2008</b>	<b>299,600</b>	<b>65,000</b>	<b>600,000</b>	<b>-</b>	<b>964,600</b>
May 21, 2008	217,800	-	-	-	217,800
May 22, 2008	231,600	-	-	-	231,600
May 25, 2008	-	-	-	175,000	175,000
May 29, 2008	-	-	1,575,000	-	1,575,000
<b>Subtotal Q2 2008</b>	<b>449,400</b>	<b>-</b>	<b>1,575,000</b>	<b>175,000</b>	<b>2,199,400</b>
November 25, 2009	-	-	-	200,000	200,000
November 29, 2008	-	-	3,375,000	-	3,375,000
<b>Subtotal Q3 2008</b>	<b>-</b>	<b>-</b>	<b>3,375,000</b>	<b>200,000</b>	<b>3,575,000</b>
<b>Subtotal Q4 2008</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FY 2009 and beyond</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,575,000</b>	<b>1,575,000</b>
<b>Future Option Payments</b>	<b>1,527,960</b>	<b>2,095,000</b>	<b>6,575,000</b>	<b>2,225,000</b>	<b>12,422,960</b>
<b>Totals</b>	<b>3,000,000</b>	<b>5,825,000</b>	<b>7,600,000</b>	<b>2,500,000</b>	<b>18,925,000</b>

**FIRST MAJESTIC SILVER CORP.  
(FORMERLY FIRST MAJESTIC RESOURCE CORP.)  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006 (UNAUDITED)**

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**4. MINERAL PROPERTY INTERESTS (continued)**

(a) La Parrilla Silver Mine, Durango

The La Parrilla Silver Mine is located approximately 65 kilometres southeast of the city of Durango, Mexico and includes mining equipment, a processing mill, and mining concessions covering an area of 21,890 hectares including the concessions acquired below and the staking of an additional claim block of 18,466 hectares in October 2006. The La Parrilla Mine began commercial silver production in October 2004.

In September 2005, the Company acquired a 100% interest in mineral claims known as the La Encarnacion and San Ignacio Dos mining claims at La Parrilla, Durango, Mexico.

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 has the option to purchase 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\$1,472,040 paid as at March 31, 2007).

In addition, the agreements call for a net smelter royalty ("NSR") of 1.5% of sales revenues 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.

(b) San Martin Silver Mine, Jalisco State

The San Martin Silver Mine, located near the town of San Martin de Bolaños in Northern Jalisco State, Mexico, comprises approximately 7,840 hectares of mineral rights and approximately 1,300 hectares of surface land rights surrounding the mine and another 104 hectares of land at the mill site. The Company owns 100% of the San Martin Silver Mine, a producing mining property.

The San Martin Silver Mine has reserves and resources. The Company has separated the proven and probable reserves and is carrying the associated asset categorized with other producing properties, and the value beyond proven and probable is being categorized with exploration properties.

(c) Chalchihuites Group Properties, Zacatecas

On June 8, 2004, the Company entered into an option agreement to purchase five mining concessions and one mining exploration concession covering with a total of 88.84 hectares located in Chalchihuites, Zacatecas, Mexico in consideration of cash payments in the aggregate amount of US\$4,000,000 payable over a three-year period to June 8, 2007 and incurring a total of US\$500,000 of expenditures on the property over the same three-year period.

On July 7, 2004, the Company entered into an option agreement to acquire ten additional concessions comprising of 204 hectares adjoining the north-west boundary of the land package. The total consideration is US\$1,650,000 payable over a three-year period. The terms of this option agreement were satisfied in the quarter ended March 31, 2007. In connection therewith, a finder's fee in the amount of \$77,808 (US\$68,422) was paid to a director of the Company.

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**4. MINERAL PROPERTY INTERESTS (continued)**

(c) Chalchihuites Group Properties, Zacatecas (continued)

On August 29, 2005, the Company entered into an option agreement 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.

At March 31, 2007, US\$3,730,000 had been paid pursuant to these option agreements.

A finder's fee in the aggregate of US\$173,127 (2006 - US\$303,750) is payable to a director of the Company in the event that the remaining option agreements are exercised.

(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.

Future option payments now amount to US\$7,600,000 over a four-year period (US\$1,025,000 paid as at March 31, 2007) pursuant to the terms of the amended option agreements.

(e) Quitaboca Silver Project, Sinaloa, Mexico

On November 25, 2004, the Company entered into an option agreement 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 (the "Quitaboca Silver Project") 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\$275,000 paid as at March 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.

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**5. ACQUISITION OF MINERA LA ENCANTADA S.A. DE C.V.**

In December 2006, the Company signed a letter 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%).

At closing, all royalties underlying the La Encantada Silver Mine, including the royalty agreement with Desmin, were cancelled.

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

Consideration:	
Cash paid (US\$3,250,000)	\$ 3,798,896
382,582 common shares issued	2,000,904
Fair value of 191,291 share purchase warrants issued	333,443
	<u>\$ 6,133,244</u>
Allocation of purchase price	
Net working capital	\$ -
Mineral property interests	7,032,536
Plant and equipment	4,155,290
Asset retirement obligation	(2,305,800)
Future income taxes	(2,748,782)
	<u>\$ 6,133,244</u>

The preliminary determination of the fair value of the La Encantada's assets and liabilities acquired is based on management's best estimate at the date of these financial statements. The Company has not completed its assessment of the fair value of the assets acquired which includes obtaining independent valuations for certain assets and liabilities, and expects to complete the process and finalize its estimates in the fiscal year. Any changes to the preliminary allocation of fair value of the La Encantada net assets acquired will be recorded in the period they are determined.

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**6. PROPERTY, PLANT AND EQUIPMENT**

Details of property, plant and equipment are as follows:

	March 31, 2007			December 31, 2006		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	\$	\$	\$	\$	\$	\$
La Parrilla Silver Mine	16,510,420	468,697	16,041,723	13,835,500	416,209	13,419,291
San Martin Silver Mine	6,142,723	888,900	5,253,823	6,116,717	213,952	5,902,765
La Encantada Silver Mine	4,592,563	71,155	4,521,408	435,225	57,268	377,957
Other	219,608	49,984	169,624	104,303	27,634	76,669
	<u>27,465,314</u>	<u>1,478,736</u>	<u>25,986,578</u>	<u>20,491,745</u>	<u>715,063</u>	<u>19,776,682</u>

Details by specific assets are as follows:

	March 31, 2007			December 31, 2006		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	\$	\$	\$	\$	\$	\$
Land	993,701	-	993,701	66,049	-	66,049
Automobile	268,983	4,020	264,963	262,552	18,317	244,235
Buildings	1,691,989	82,681	1,609,308	1,005,504	71,551	933,953
Machinery and equipment	10,302,654	1,314,477	8,988,177	7,751,740	577,649	7,174,091
Computer equipment	266,936	38,486	228,450	48,646	12,686	35,960
Office equipment	163,867	39,071	124,796	184,759	34,605	150,154
Construction in progress	13,777,183	-	13,777,183	11,172,495	255	11,172,240
	<u>27,465,313</u>	<u>1,478,735</u>	<u>25,986,578</u>	<u>20,491,745</u>	<u>715,063</u>	<u>19,776,682</u>

**7. SHARE CAPITAL**

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

<b>Issued</b>	March 31, 2007		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	517,500	1,242,450	255,000	579,750
Exercise of warrants	812,500	1,828,125	184,316	414,711
Private placements	-	-	4,429,250	12,419,500
For exercise of special warrants	-	-	7,000,000	22,885,359
For First Silver Arrangement	375	1,815	4,791,907	23,192,830
For acquisition of La Encantada (Note 5)	382,582	2,000,904	-	-
Transfer of contributed surplus for stock options exercised	-	518,750	-	194,000
Balance - end of the period	<u>53,411,587</u>	<u>109,058,663</u>	<u>51,698,630</u>	<u>103,466,619</u>

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**7. SHARE CAPITAL (CONTINUED)**

**(b) Stock Options**

In September 2006, the Company adopted a new stock option plan (the "2006 Plan") to replace the previous stock option plan, approved by the Company's shareholders on December 15, 2005. The maximum number of shares reserved for issuance under the 2006 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 period ended March 31, 2007, are as follows:

	March 31, 2007			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	355,000	5.02	3.88 years	2,427,900	4.26	3.86 years
Exercised	(517,500)	2.40	0.52 years	(255,000)	2.27	0.31 years
Cancelled or expired	-	-	-	(75,000)	3.97	1.53 years
Balance, end of the period	4,890,000	3.53	2.35 years	5,052,500	3.30	2.34 years

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

Price \$	Options Outstanding	Options Exercisable	Expiry Dates
4.35	100,000	-	April 1, 2007 (see Note 14(c))
4.32	75,000	-	April 1, 2007 (see Note 14(c))
4.30	37,500	-	April 1, 2007 (see Note 14(c))
2.39	30,000	30,000	April 18, 2007
1.80	360,000	360,000	June 21, 2007
2.10	25,000	25,000	October 1, 2007
1.85	150,000	150,000	December 14, 2007
2.45	225,000	168,750	December 16, 2007
1.79	190,000	190,000	January 12, 2008
3.75	25,000	18,750	March 8, 2008
4.05	100,000	75,000	March 20, 2008
2.10	240,000	240,000	November 9, 2008
2.45	650,000	487,500	December 16, 2008
5.04	49,600	24,800	April 25, 2008
4.55	25,000	12,500	July 6, 2008
3.29	50,000	12,500	October 16, 2008
3.28	100,000	25,000	October 17, 2008
3.28	12,500	6,250	June 13, 2009
4.32	945,400	236,350	December 6, 2009
5.50	200,000	50,000	February 1, 2010
4.30	500,000	250,000	June 19, 2011
4.32	245,000	61,250	December 6, 2011
4.41	400,000	100,000	December 22, 2011
5.00	155,000	38,750	February 7, 2012
	<u>4,890,000</u>	<u>2,562,400</u>	

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**7. SHARE CAPITAL (CONTINUED)**

**(b) Stock Options (continued)**

During the period ended March 31, 2007, the Company granted stock options to directors, officers, employees and consultants to purchase 355,000 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, \$919,344 has been recorded as an expense in the period relating to stock options.

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

	<u>March 31, 2007</u>	<u>December 31, 2006</u>
Risk-free interest rate	4.2%	3.9%
Estimated volatility	70.8%	80.5%
Expected life	2.2 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.

**(c) Share Purchase Warrants**

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

	<u>March 31, 2007</u>			<u>December 31, 2006</u>		
	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 year	8,766,271	4.02	1.12 years	2,693,139	2.44	1.38 years
Issued (i)	191,291	6.81	2.00 years	6,257,448	4.65	1.50 years
Exercised	(812,500)	2.25	0.65 years	(184,316)	2.25	1.02 years
Balance, end of the year	<u>8,145,062</u>	<u>4.27</u>	<u>0.93 years</u>	<u>8,766,271</u>	<u>4.02</u>	<u>1.12 years</u>

- (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 5).

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

Exercise Price \$	Warrants Outstanding	Expiry Dates
2.25	196,323	October 20, 2007
4.00	420,000	October 20, 2007
5.00	3,499,999	October 20, 2007
2.60	1,500,000	December 14, 2007
4.25	2,337,449	November 27, 2008
6.81	191,291	March 20, 2009
	<u>8,145,062</u>	

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**8. CONTRIBUTED SURPLUS**

The components of contributed surplus are as follows:

	March 31, 2007	December 31, 2006
	\$	\$
Balance, beginning of the period	11,720,436	4,272,294
Stock option expense during the period	919,344	1,558,892
Fair value of First Majestic options exchanged for First Silver options	-	173,250
Conversion of special warrants	-	2,607,000
Warrants issued during the period	333,443	3,046,000
Finder's warrants issued during the period	-	257,000
Transfer to share capital for options exercised during the period	(518,750)	(194,000)
	<u>12,454,473</u>	<u>11,720,436</u>

**9. RELATED PARTY TRANSACTIONS**

During the period ended March 31, 2007, the Company:

- (a) incurred \$47,408 (2006 - \$34,743) 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 (2006 - \$9,000) for geological and technical services provided by directors and/or corporations controlled by the directors of the Company.
- (c) paid \$47,527 (2006 - \$32,501) to the Chief Operating Officer for management and other services related to the mining operations of the Company in Mexico pursuant to a consulting agreement.
- (d) paid \$77,808 (US\$68,422) (2006 - \$nil) to a director of the Company as a finder's fee upon the completion of the acquisition of the San Juan Silver Mine which forms part of the Chalchihuites Group Properties.

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.



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**10. SEGMENTED INFORMATION**

The Company considers that it has four operating segments. These reportable operating segments are summarized in the table below.

	Three months ended March 31, 2007				
	El Pilon Mexican operations	First Majestic Mexican operations	Desmin and La Encantada Mexican operations	Corporate and other eliminations (1)	Totals
Silver sales	\$ 4,650,488	\$ 1,555,416	\$ 3,952,717	\$ -	\$ 10,158,621
Cost of sales	3,930,350	1,277,133	1,575,408	-	6,782,891
Selling, general and administrative expenses	221,514	305,373	436,274	2,190,710	3,153,871
Amortization, depreciation and depletion	1,805,152	97,642	115,966	22,350	2,041,110
Loss (earnings) from operations	(1,306,528)	(124,732)	1,825,069	(2,213,060)	(1,819,251)
Net interest and other income	(347,963)	429,544	(12,312)	(389,681)	(320,412)
Income tax expense	60,310	-	861,926	-	922,236
Net earnings (loss)	(1,714,801)	304,812	950,831	(2,602,741)	(3,061,899)
Total long lived assets	125,485,315	30,366,604	11,685,545	169,624	167,707,088

(1) All corporate operations are in Canada.

	Three months ended March 31, 2006				
	El Pilon Mexican operations	First Majestic Mexican operations	Desmin and La Encantada Mexican operations	Corporate and other eliminations (1)	Totals
Silver sales	\$ -	\$ 671,435	\$ -	\$ -	\$ 671,435
Cost of sales	-	596,949	-	-	596,949
Selling, general and administrative expenses	-	84,096	-	802,194	886,290
Amortization, depreciation and depletion	-	233,659	-	2,121	235,780
Loss (earnings) from operations	-	(265,526)	-	(804,315)	(1,069,841)
Net interest, income and other items	-	53,487	-	20,356	73,843
Income tax recovery	-	-	-	-	-
Net earnings (loss)	-	(212,039)	-	(783,959)	(995,998)
Total long lived assets	-	12,348,607	-	31,213	12,379,820

(1) All corporate operations are in Canada.

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**11. 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. The maximum potential remittance is approximately \$3.58 million however the Company believes it has substantial defences to any claims.

In July 2006, an action was commenced against the Company by a former executive who alleges that the Company breached a March 2005 stock option agreement. The plaintiff is seeking money damages or, if the court finds this inappropriate, 25,000 common shares of the Company plus interest. Management believes that there are substantial defences to the claim; however, the outcome of this litigation is not presently determinable.

**12. 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 installments. 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 \$1,419,712. The Company recorded this liability at its best estimate of fair value in the amount of \$1,286,788 as part of the acquisition of First Silver.

**13. COMMITMENTS**

Under Mexican regulations, employees (excluding directors and senior management) are eligible for a profit sharing bonus of 10% of annual profit (before taxes). The amount of the profit sharing bonus accrued as a component of cost of sales at March 31, 2007 is \$413,475 (2006 - \$nil) which will be paid to the employees of certain subsidiaries in May 2007.

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**14. SUBSEQUENT EVENTS**

Subsequent to March 31, 2007:

- (a) The Company issued 40,000 common shares for proceeds of \$89,600 pursuant to the exercise of stock options.
- (b) The Company issued 205,000 common shares for proceeds of \$816,250 pursuant to the exercise of share purchase warrants.
- (c) The Company cancelled 100,000 stock options exercisable at a price of \$4.35 per share originally expiring on April 15, 2008, 75,000 stock options exercisable at a price of \$4.32 per share originally expiring on December 6, 2009 and 37,500 stock options exercisable at a price of \$4.30 per share originally expiring on June 19, 2011.
- (d) The Company issued 750 shares at a price of \$4.84 per share for First Silver shares tendered pursuant to the Arrangement.
- (e) On May 10, 2007, the Company completed a private placement of Special Warrants for gross proceeds of \$34,415,000. 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 is exercisable for one Unit of the Company and will be automatically exercised for one Unit of the Company on the date the Company obtains a final receipt for a prospectus qualifying the underlying shares. In the event the Company has not obtained a final receipt prior to the date that is eleven weeks after the closing date (July 26, 2007), each Special Warrant will be automatically exercised for 1.08 Units. Each Unit will entitle the holder to acquire one common share and one-half of one share purchase warrant. Each whole share purchase warrant will be 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.
- (f) 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 \$47,030 in 2007, \$112,872 in 2008 through 2011, and \$28,210 in 2012. Additional annual operating costs are estimated at \$106,056 per year (\$8,838 per month) over the term of the lease. The Company provided a deposit of two months of rent equaling \$42,879.

**SCHEDULE "A"**  
**FIRST MAJESTIC SILVER CORP.**  
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**CONSOLIDATED SCHEDULE OF MINERAL PROPERTY INTERESTS**  
**FOR THE PERIOD ENDED MARCH 31, 2007**

	La Parrilla \$	San Martin \$	Chalchihuites \$	Candamena \$	Quitaboca \$	La Encantada \$	Total \$
<b>Balance - beginning of the period</b>	6,319,008	124,777,077	3,798,219	1,993,465	221,416	1,761,699	<b>138,870,884</b>
<b>Expenditures during the period</b>							
Consulting	-	-	316,306	37,120	-	-	<b>353,426</b>
Filing fees	3,082	-	3,388	7,487	-	-	<b>13,957</b>
Mine exploration costs	393,813	569,378	88,982	97,468	59,051	132,341	<b>1,341,033</b>
Reports and assays	-	-	-	-	-	-	<b>-</b>
	<u>396,895</u>	<u>569,378</u>	<u>408,676</u>	<u>142,075</u>	<u>59,051</u>	<u>132,341</u>	<b><u>1,708,416</u></b>
<b>Acquisition costs during the period (net)</b>	283,259	-	882,932	117,359	-	7,032,536	<b>8,316,086</b>
Less: write off of mineral properties	-	-	-	-	-	-	<b>-</b>
Less: depletion	(17,746)	(1,435,385)	-	-	-	-	<b>(1,453,131)</b>
Less: amortization of mining rights	-	-	-	-	-	(110,623)	<b>(110,623)</b>
Cumulative translation adjustment	-	(3,980,102)	-	-	-	(58,887)	<b>(4,038,989)</b>
<b>Balance, end of the period</b>	<u><u>6,981,416</u></u>	<u><u>119,930,968</u></u>	<u><u>5,089,827</u></u>	<u><u>2,252,899</u></u>	<u><u>280,467</u></u>	<u><u>8,757,066</u></u>	<b><u><u>143,292,643</u></u></b>

(See Note 4)



# **Management's Discussion and Analysis**

**For the three-months ended March 31, 2007**

**FIRST MAJESTIC SILVER CORP.  
(FORMERLY FIRST MAJESTIC RESOURCE CORP.)  
MANAGEMENT'S DISCUSSION & 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.*

**1.0 Preliminary Information**

The following Management’s Discussion and Analysis (“MD&A”) of First Majestic Silver Corp. (“First Majestic” or “the Company”) should be read in conjunction with the accompanying interim consolidated financial statements for the three months ended March 31, 2007 and the audited consolidated financial statements 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](http://www.sedar.com).

Pursuant to a resolution passed by shareholders on September 7, 2006, the Company changed its name from “First Majestic Resource Corp.” to “First Majestic Silver Corp.” on November 22, 2006.

This MD&A of First Majestic relates to the consolidated operations of the Company and its five wholly owned subsidiaries: Minera La Encantada S.A. de C.V. (“La Encantada”), Desmin S.A. de C.V. (“Desmin”), First Majestic Resources Mexico, S.A. de C.V. (“FMR Mexico”), First Silver Reserve Inc. (“First Silver”) and its wholly owned subsidiary Minera El Pilon S.A. de C.V. (“El Pilon”).

For added clarity and transparency, the operations of the subsidiaries consist of the following mines and properties:

<b>Subsidiaries:</b>	<b>Mine and Mill</b>	<b>Exploration Properties</b>
First Silver and El Pilon	San Martin Silver Mine	San Martin property Quitaboca Silver Project
FMR Mexico	La Parrilla Silver Mine	La Parrilla property Chalchihuites Properties Candamena Mining District
La Encantada and Desmin	La Encantada Silver Mine	La Encantada property

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 operating subsidiaries. To facilitate the change, the Company reported a one-time, six-month transition year covering the six month period ended December 31, 2006. Subsequent to the transition year, the first full financial year will cover the period January 1, 2007 to December 31, 2007.

All financial information in this MD&A is prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), and all dollar amounts are expressed in Canadian dollars unless otherwise indicated.

All information contained in this MD&A is as of May 30, 2007, 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 who has reviewed the technical information herein for the San Martin Silver Mine. The Company has in the past relied upon Jan Helsen, PhD, as the Qualified Person for National Instrument 43-101 technical reports on the La Parrilla Silver Mine and the La Encantada Silver Mine. Reports can be found on [www.sedar.com](http://www.sedar.com).

## **1.1 Background**

### ***Nature of Business***

The Company is in the business of the production, development, exploration and acquisition of mineral properties focusing on silver in Mexico. The common shares of the Company trade on the TSX Venture Exchange under the symbol "FR". 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".

## **1.2 Overall Operating Performance and Highlights**

- As of the date of this report, silver producing operations of the Company are carried out through three operating segments being the La Parrilla Silver Mine, the La Encantada Silver Mine, and the San Martin Silver Mine.
- Sales revenue for the quarter ended March 31, 2007, increased significantly to \$10,158,621 representing a 24.8% increase from the prior quarter's revenues of \$8,138,284, and a 1,415% increase from the same quarter revenues ended March 31, 2006 of \$671,435.
- Mine earnings (cash basis) for the quarter ended March 31, 2007 increased to \$3,375,730 representing a 1,165% increase from the prior quarter's mine earnings of \$266,767, and an increase of 4,432% from mine earnings of \$74,486 for the quarter ended March 31, 2006.
- The average realized silver price was \$15.00 (US\$12.80) per ounce of silver for the three months ended March 31, 2007, compared to \$13.70 (US\$12.03) per ounce for the quarter ended December 31, 2006 and \$10.06 (US\$8.72) per ounce for the quarter ended March 31, 2006.
- For the quarter ended March 31, 2007, the Company's three operating mines produced a combined 753,442 ounces of silver equivalent at a cash cost of \$10.02 (US\$8.55) per ounce of silver which consisted of 719,993 ounces of silver, 519 ounces of gold and 327,818 pounds of

lead. Production for the quarter increased by more than 31% compared to the prior quarter's production of 574,704 ounces of silver equivalent, and was an increase of 1,290% over the 59,329 ounces of silver equivalent produced in the quarter ended March 31, 2006. Of the silver produced in the period, a total of 677,241 equivalent ounces was sold at an average sales price of \$15.00 in the quarter (US\$12.80), and an average cost to produce of \$10.02 (US\$8.55), and the balance remained in inventory at the end of the quarter.

- Average cost of production per ounce of silver has reduced by 27% from \$13.70 (US\$12.03) for the six month transitional period ended December 31, 2006, to \$10.02 (US\$8.55) for the three months ended March 31, 2007. The Company does not reduce the costs of production by credits for silver equivalents, as is the practice of many other silver mining companies, and has chosen to recognize the credits in revenues of the period in which the silver equivalents are sold.

### First Majestic Silver Non-GAAP Measures

	March 31,		December 31,	
	2007	2006	2006	2005
Cash Cost Calculations				
Silver Sales in ounces of equivalent	677,241	59,329	574,704	56,000
Average realized price per ounce (CAD\$)	15.00	11.32	14.16	8.65
Average realized price per ounce (US\$)	12.80	9.80	12.44	7.38
Total silver revenues	10,158,621	671,435	8,138,284	484,647
Cash cost of sales	6,782,891	596,949	7,871,517	570,939
Mine earnings (cash basis)	3,375,730	74,486	266,767	(86,292)
Cash cost per ounce of Silver (CAD\$)	10.02	10.06	13.70	10.20
Cash cost per ounce of Silver (US\$)	8.55	8.72	12.03	8.69

**“Cash Cost per ounce”** is a non-GAAP measure derived from the total direct costs of ounces produced (including mine site administration costs) less depletion and depreciation and other non-cash items. Cash costs per ounce and Mine Earnings (cash basis) are presented in this report as we believe they represent an industry standard of comparison; however it does not have a standardized meaning under GAAP. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. First Majestic does not record equivalent silver credits as reductions in cost of sales, and instead records silver credits as additional sales revenues from the sale of silver equivalents.

- On March 20, 2007, the Company completed the acquisition of Minera La Encantada S.A. de C.V. (“La Encantada”), a Mexican mining company whose primary asset is the La Encantada Silver Mine located at the Coahuila State in Mexico.
- Subsequent to the period end, the Company completed a private placement of special warrants for gross proceeds of \$34,415,000. 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.

### **Acquisition of Desmin S.A. de C.V.**

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



US\$500,000 was made on November 1, 2006. During the quarter ended March 31, 2007, the Company made the second payment of US\$500,000 due on January 31, 2007, and the final payment of US\$500,000 was made on April 30, 2007. The results of operations of Desmin were consolidated into the operations of the Company beginning on November 1, 2006. As the Company acquired La Encantada in the current quarter, Desmin and La Encantada are now considered to be the same operating segment, as together they are responsible for the operations of the La Encantada Silver Mine.

Desmin's primary asset is an exploitation contract which covers the operation of the La Encantada Silver Mine located in Coahuila State, Mexico. The exploitation contract gave Desmin the right to exploit all properties within a 986 hectare mining claim land package, including the operations of the mine and mill and all the ancillary installations and associated equipment. Prior to the Company acquiring La Encantada, Desmin paid to La Encantada a sliding scale Net Smelter Return ("NSR") royalty of 5% to 11% based on silver prices of US\$4.40 to US\$7.50 per ounce. An amount of \$319,580 (US\$272,772) was paid by Desmin to La Encantada in the quarter ended March 31, 2007, representing the production and shipment of 185,929 ounces of silver equivalent ounces in concentrate prior to the acquisition of La Encantada, and the subsequent cancellation of this royalty arrangement. (see "Acquisition of Minera La Encantada S.A. de C.V." below).

#### **Acquisition of Minera La Encantada S.A. de C.V.**

In December 2006, the Company signed a letter agreement to acquire 100% of the issued and outstanding shares of La Encantada, a Mexican mining company previously owned by Minas Peñoles S.A. de C.V. and Industrias Peñoles S. A. de C.V. (collectively referred to as "Peñoles") for the purchase price of US\$3,250,000 and a 4% NSR. La Encantada's primary asset is the La Encantada Silver Mine located in the Coahuila State, Mexico. A non-refundable deposit of US\$1,000,000 was made on the signing of the agreement in December 2006 and the balance was paid on closing, on March 20, 2007. Consistent with the terms of the letter agreement, the Company acquired the 4% NSR by issuing to Peñoles 382,582 common shares on March 20, 2007 at a value of \$5.23 per share (\$4.54 per share on December 18, 2006 upon entering into the agreement) and 191,291 warrants exercisable at a price of \$6.81 per share for a two-year period. At closing, all royalties underlying the La Encantada Silver Mine, including the royalty agreement with Desmin, were cancelled.

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

Consideration:	
Cash paid (US\$3,250,000)	\$ 3,798,896
382,582 common shares issued	2,000,904
Fair value of 191,291 share purchase warrants issued	333,443
	<u>\$ 6,133,244</u>
Allocation of purchase price	
Net working capital	\$ -
Mineral property interests	7,032,536
Property, plant and equipment	4,155,290
Asset retirement obligation	(2,305,800)
Future income taxes	(2,748,782)
	<u>\$ 6,133,244</u>

The preliminary determination of the fair value of the La Encantada's assets and liabilities acquired is based on management's best estimate at the date of these financial statements. The Company has not completed its assessment of the fair value of the assets acquired which includes obtaining

independent valuations for certain assets and liabilities, and expects to complete the process and finalize its estimates in the fiscal year. Any changes to the preliminary allocation of fair value of the La Encantada net assets acquired will be recorded in the period they are determined.

### ***La Parrilla Silver Mine, Durango, Mexico***

The wholly owned La Parrilla Silver Mine is located between the cities of Durango and Zacatecas in west central Mexico.

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 surrounding the La Parrilla Silver Mine. The Company has the right to purchase all the mining concessions, the mines, the data of historical 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. In addition to these payments, the agreements require a royalty payment of 1.5% NSR with a maximum ceiling amount of US\$2,500,000. The Company has the option to purchase the royalty stream at any time for US\$2,000,000. At March 31, 2007, option payments totalling US\$1,472,040 had been made by the Company.

During the three months ended March 31, 2007, 30,850 tonnes of ore were processed with an average head grade of 180 grams/tonne silver resulting in 140,381 equivalent ounces of silver produced with a recovery of 70% consisting of 123,987 ounces of silver, 91 ounces of gold and 196,330 pounds of lead. Total cash costs remained high at US\$11.14 per ounce primarily due to low production numbers during the start up phase of the new mill.

In January 2007, the expanded mill was commissioned and a ramp up of production commenced. The new 800 tpd mill start up process has taken longer than estimated due to delays in deliveries of equipment and the primary and secondary crushing area and tailings thickeners requiring upgrading due to the additional ore being fed through the mill. These issues were resolved as they occurred resulting in mill volumes reaching close to capacity in the second quarter.

In order to prepare for increased production levels within the mine, a permit application for a new tailings dam was prepared and presented to the Mexican environmental authorities in December 2006. The final permitting approvals were received on April 30, 2007. The contract for construction of the new tailings dam has been assigned and the construction is expected to be completed during the third quarter.

Development in the various mining areas within the La Parrilla property package continued with two objectives; first to prepare the necessary number of production stopes and second to upgrade the resources to reserves and define additional resources. A total of 1,724 meters of development were completed in the period focusing on Rosarios-La Rosa, Quebradillas, San Marcos mine and La Blanca area.

During the period, as a part of our aggressive exploration plan, 26 diamond drill holes with a total of 7,213 meters were completed. The focus was on several different areas within the property with the objective of increasing the present resources, assisting in mining activity and further directing the exploration and development program.

As a result of encouraging results from the ongoing drilling program and the discovery of new areas of interest, the Company acquired through staking two additional large land blocks. The Company staked 18,466 hectares surrounding the original 3,424 hectare La Parrilla land position and an adjacent land block of 31,347 hectares for a new grand total of 53,237 hectares. The Company is awaiting registration confirmation from the Mexican authorities on both new land blocks.

### ***San Martin Silver Mine, Jalisco, Mexico***

The wholly owned San Martin Silver Mine is located near the town of San Martin de Bolaños on the Bolaños River in Northern Jalisco State, Mexico, and was the Company's largest silver producing mine in 2006.

In the three months ended March 31, 2007, the San Martin mine and mill processed 60,575 tonnes of ore with an average grade of 182 grams of silver per tonne resulting in 304,933 ounces of silver, 428 ounces of gold and 13,691 pounds of lead. This represents 326,687 ounces of silver equivalent at a cash cost of US\$9.82 per ounce at a recovery of 86%.

During the quarter the Company completed 1,898 meters of development focusing on areas for mining in the upper part of the Zuloaga vein, such as the La Escondida and Pinolea areas. The Company has also initiated exploration at the old Rosario mine and has completed 1,436 meters of diamond drilling which included 653 meters of surface drilling over three holes and 783 meters of underground drilling covering 13 holes.

### ***La Encantada Silver Mine, Coahuila State, Mexico***

During the three months ended March 31, 2007, 45,222 tonnes of ore were processed with an average head grade of 324 grams/tonne silver resulting in 298,402 equivalent ounces of silver produced consisting of 291,073 ounces of silver and 117,796 pounds of lead. Total cash costs were US\$6.44 per ounce and recoveries were 62%.

Of the total tonnage milled, 25,901 tonnes were produced from the mine with an average grade of 432 grams/tonne Ag and 19,423 tonnes grading 129 grams/tonne Ag of old dumps where screened with a new screening plant purchased during the quarter. Mill rates reached an average of 65% of installed capacity during the quarter.

The La Encantada Silver Mine, in the short time it has been owned by the Company, has exceeded management's expectations of the potential of the mine and surrounding area. Management has commissioned a new technical report which it expects will recommend an investment plan in mine infrastructure development and diamond drill program.

During the quarter, the Company also staked additional land surrounding the original 985 hectares, increasing the total La Encantada Silver Mine land package to 2,826 hectares. The Company is awaiting registration confirmation from the Mexican authorities on the new land blocks.

### ***Chalchihuites Group of Properties, Zacatecas, Mexico***

The Company has entered into a number of agreements to acquire mining concessions located in Chalchihuites, Zacatecas, Mexico located approximately 45 kilometres southeast of the La Parrilla Silver Mine. To complete the options, the Company must pay a total of US\$5,825,000 in staged cash payments by March 1, 2008 (US\$3,730,000 has been paid as at March 31, 2007).

During the three months ended March 31, 2007, the Company completed the acquisition of the San Juan Silver Mine which forms part of the Chalchihuites Group of Properties by making the final

payments of US\$500,000 and US\$150,000 due January 7, 2007 and July 7, 2007, respectively, pursuant to the agreement. In connection therewith, a finder's fee in the amount of \$77,808 (US\$68,422) was paid to a director of the Company.

At the Perseverancia Silver Mine, a diamond drill program is underway. During the period, due to topography and angle of the targeted chimney, a 100 metre drift from surface was initiated. The drift was completed in the first quarter and drilling is presently underway to confirm the continuity of the Perseverancia chimneys at depth. A payment of US\$2,000,000 is due on June 8, 2007 to complete the acquisition of the Perseverancia Silver Mine. It is not yet determined whether the Company will proceed with this commitment.

### ***Candameña Mining District Property, 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. The payment schedules to these agreements were 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.

During the quarter, 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 are presently being evaluated.

To complete the options, the Company must pay a total of US\$7,600,000 in staged cash payments by November 29, 2008 (US\$1,025,000 has been paid as at March 31, 2007). Option payments totalling US\$100,000 which were due on or before February 28, 2007 were paid by the Company.

### ***Quitaboca Silver Project, Sinaloa, Mexico***

Through the acquisition of First Silver, the Company acquired an option to acquire a 100% interest in the Quitaboca Silver Project consisting of 5,104 hectares located in the State of Sinaloa, Mexico. To complete the option, the Company must pay a total of US\$2,500,000 in staged cash payments by November 25, 2010. A 2.5% NSR on the claims may be purchased for US\$500,000 during the term of the agreement or for a period of 12 months thereafter. A US\$100,000 option payment due May 25, 2007 was met by the Company.

During the three months ended March 31, 2007, the Company completed construction of a road and camp site. An underground drift of 100 meters was completed with the objective of intersecting the Colateral 1 vein. The vein was intersected subsequent to the quarter end and is currently being explored and tested with direct drifting on the vein. Sampling and assaying is in process and results are expected during the second quarter.

Through the acquisition of First Silver, the Company acquired an option to acquire a 100% interest in the Quitaboca Silver Project consisting of 5,104 hectares located in the State of Sinaloa, Mexico. To complete the option, the Company must pay a total of US\$2,500,000 in staged cash payments by November 25, 2010. A 2.5% NSR on the claims may be purchased for US\$500,000 during the term of the agreement or for a period of 12 months thereafter. A US\$125,000 option payment due May 25, 2007 was met by the Company.

### 1.3 Results of Operations

#### **Three months ended March 31, 2007 compared to three months ended March 31, 2006.**

Revenues increased significantly to \$10,158,621 for the three months ended March 31, 2007 compared to the \$671,435 for the three months ended March 31, 2006. This is due primarily to the ramping up of production at the La Parrilla Silver Mine, the acquisitions of First Silver and Desmin and the resulting production from the San Martin and La Encantada Silver Mines. Accordingly, mine earnings for the three months ended March 31, 2007 were \$3,375,730, up \$3,301,244 from \$74,486 for the three months ended March 31, 2006.

A loss of \$1,819,251 was incurred after general and administrative costs for the three months ended March 31, 2007, compared to a loss of \$1,069,840 for the three months ended March 31, 2006. Expenses were significantly higher in amortization, depreciation and depletion due to the addition of the San Martin mine, and additional plant and equipment investments at the La Parrilla mine. Office, administration, and stock based compensation are all higher due to the acquisition of First Silver and the general increase in operations resulting from acquiring the San Martin and the La Encantada mines. Interest expense of \$406,264 relates to the purchase of First Silver and will be reduced as a result of making capital payments of \$13.3 million each on May 31, 2007 and 2008.

Amortization and depreciation for the period was \$504,545, an increase of \$453,297 from \$51,248 for the three months ended March 31, 2006, due to the addition of the San Martin Silver Mine and the depreciation of its plant and equipment.

Depletion for the period was \$1,454,478, an increase of \$1,269,946 from \$184,532 for the three months ended March 31, 2006, due to the addition of the San Martin Silver Mine and the resulting depletion of the fair value of the producing mining property.

The loss before income taxes increased by \$1,143,665 to \$2,139,663 for the three months ended March 31, 2007, compared to \$995,998 for the three months ended March 31, 2006, due to the higher amortization, depreciation and depletion, and additional operating costs resulting from the extreme growth experienced between this period and the same period in the prior year.

The net loss after taxes increased to \$3,061,899 (\$0.06 per share) from \$995,998 (\$0.03 per share) due primarily to the additional amortization, depreciation and depletion, and additional operating expenses being experienced as a result in the large scale growth in the Company from \$25.5 million in total assets to \$189.7 million in total assets. The growth experienced is as a result of acquiring First Silver, La Encantada and Desmin, as well as the large investments in capital assets in the La Parrilla Silver Mine and mill. By way of comparison, the Company presently has three producing mines with a total operating capacity of 2,600 tonnes per day, whereas on March 31, 2006, only one mine was operating, the La Parrilla Silver Mine which had a capacity of 180 tonnes per day.

## 1.4 Summary of Quarterly Results

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

	Year ended December 31, 2007	Transition year ended December 31, 2006		Year ended June 30, 2006				Year ended June 30, 2005
	Q1	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	\$	\$	\$	\$	\$	\$	\$	\$
Net sales	10,158,621	8,138,284	4,616,681	2,725,624	671,435	484,647	277,586	202,518
Net loss	(3,061,899)	(3,893,758)	(3,694,434)	(3,151,860)	(995,998)	(829,114)	(688,914)	(978,743)
Basic and diluted net loss per common share	(0.06)	(0.09)	(0.09)	(0.07)	(0.03)	(0.03)	(0.03)	(0.04)

The results for the four most recent quarters include the operating results of the San Martin Silver Mine since June 1, 2006, and the La Encantada Silver Mine since November 1, 2006. Accordingly, the net losses are significantly affected by depletion and depreciation of the mine assets. Depletion was \$1,454,478 in the current quarter and \$1,242,525, \$1,498,350 and \$1,366,618, respectively, in the prior three quarters while depreciation was \$504,545 in the current quarter and \$28,357, \$327,743 and \$74,005, respectively, in the prior three quarters.

In the quarter ended December 31, 2006, the net loss included stock based compensation of \$1,400,603 relating to stock options vested during the quarter (\$919,344 in the quarter ended March 31, 2007). In addition, 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.

In the quarter ended September 30, 2006, the Company expensed mineral property interests totalling \$1,895,107 and \$191,151, relating to the Dios Padre Silver Project and the La Candelaria Silver Project, respectively.

## 1.5 Liquidity

At March 31, 2007, the Company had a working capital deficit of \$5,494,383 and cash and cash equivalents of \$8,926,581 compared to working capital of \$2,572,831 and cash and cash equivalents of \$17,870,712 at December 31, 2006. Current liabilities at March 31, 2007 include the current portion of a long-term vendor liability relating to the Acquisition of First Silver in the amount of \$13,341,380, the current portion of a liability relating to the First Silver Arrangement in the amount of \$388,836 and a liability relating to the acquisition of Desmin in the amount of \$576,450. By the date of this MD&A report, the Desmin liability had been fully paid, and the Company had completed a private placement of special warrants to fund operations and to eliminate the short term liability from the First Silver Arrangement.

On May 10, 2007, the Company completed a private placement of special warrants for gross proceeds of \$34,415,000. 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 is exercisable for one unit of the Company and will be automatically exercised for one unit of the Company on the date the Company obtains a final receipt for a prospectus qualifying the underlying shares. In the event the Company has not obtained a final receipt prior to the date that is eleven weeks after the closing date (July 26, 2007), each special warrant will be automatically exercised for 1.08 units. Each unit will entitle the holder to acquire one common share and one-half of one share purchase warrant. Each whole share purchase warrant will be 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.

Funds surplus to the Company's short-term operating needs are invested in highly liquid short-term investments with maturity 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.

During the three months ended March 31, 2007, the Company received \$1,242,450 pursuant to the exercise of 517,500 stock options and \$1,828,125 pursuant to the exercise of 812,500 share purchase warrants. Subsequent to the period end, the Company received an additional \$89,600 pursuant to the exercise of 40,000 stock options and \$816,250 pursuant to the exercise of 205,000 share purchase warrants.

During the three months ended March 31, 2007, the Company incurred net costs of \$2,991,966 (March 31, 2006 - \$1,196,616) in respect of expenditures on mineral property interests and \$2,448,527 (March 31, 2006 - \$429,488) in respect of plant and equipment.

## **1.6 Capital Resources**

### **Outlook**

The Company anticipates that silver, gold, and lead prices will remain strong throughout 2007. Based on current commodity prices we expect all three producing mines to produce increasing cash flows from production (excluding mine depletion and depreciation) during 2007.

On March 28, 2007, the Company announced the filing of a preliminary short form prospectus, and subsequently withdrew the prospectus, due to delays from the securities regulatory authorities in reviewing and approving its NI 43-101 technical reports for its principal properties. As it became unlikely that a receipt for the short form prospectus was going to be issued by securities regulatory authorities within the time required under the short form offering, the Company voluntarily withdrew the short form prospectus and proceeded with a private placement of special warrants in the amount of \$34,415,000 which was successfully completed on May 10, 2007. The external financing will be applied to operations and to retire debt related to the purchase of First Silver, and to fund the Company's growing operations. The Company's continued development is dependent on applying the capital raised to continue to expand operations, to generate a break even level of net income, and thereby in the near term to lessen its dependency on future financings.

The Company's primary capital assets consist of three silver producing mineral property interests in Mexico. The La Parrilla Silver Mine, the San Martin Silver Mine and the La Encantada Silver Mine are owned 100% by the Company, with the La Encantada mine having been acquired in the current quarter, and the San Martin mine having been acquired in two steps in the quarters ended June 30, 2006, and September 30, 2006. The Company is required to make certain property payments and to incur various amounts in development and exploration costs by certain dates to maintain its interest in certain exploration properties. These dates are outlined in the notes to the interim consolidated financial statements. Furthermore, the Company is required to make certain interest and cash payments to the former shareholders of First Silver.

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.

### **1.7 Off-Balance Sheet Arrangements**

At March 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.

### **1.8 Transactions with Related Parties**

During the period ended March 31, 2007, the Company:

- (a) incurred \$47,408 (March 31, 2006 - \$34,743) 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 (March 31, 2006 - \$9,000) for geological and technical services provided by directors and/or corporations controlled by the directors of the Company.
- (c) paid \$47,527 (March 31, 2006 - \$32,501) to the Chief Operating Officer for management and other services related to the mining operations of the Company in Mexico pursuant to a consulting agreement.
- (d) paid \$77,808 (US\$68,422) (March 31, 2006 - \$nil) to a director of the Company as a finder's fee upon the completion of the acquisition of the San Juan Silver Mine which forms part of the Chalchihuites Group Properties.

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.

### **1.9 Proposed Transactions**

The board of directors 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.

### **1.10 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 the six-month transition year



ended December 31, 2006. 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, 2006.

## 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.

## 1.11 Changes in Accounting Policies including Initial Adoption

### ***Significant accounting changes***

On January 1, 2007, the Company adopted four new accounting standards that were issued by the Canadian Institute of Chartered Accountants (CICA): Section 1530, Comprehensive Income; Section 3855, Financial Instruments - Recognition and Measurement; Section 3865, Hedges; and Section 325, Equity.

#### *(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 interim consolidated financial statements, a statement of comprehensive loss for the changes in these items during the first quarter of 2007. Cumulative changes in OCI are included in accumulated other comprehensive income ("AOCI"). Generally, gains and losses remain part of the balance of AOCI, until GAAP requires their recognition in net income. 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 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.

### *Impact on Adoption of Section 1530 and 3855*

The adoption of these four sections 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 period in the amount of \$3,131,250 and the cumulative translation adjustment at December 31, 2006 in the amount of \$7,910,502.

### **1.12 Financial Instruments and Other Instruments**

The Company's financial instruments consist of cash and cash equivalents, 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 relies on equity financing for its working capital requirements and to fund its development and exploration programs. There is no assurance that such financing will be available to the Company, or that it will be available on acceptable terms.

### **1.13 Other MD&A Requirements**

- (a) Additional information relating to the Company may be found on or in:
- SEDAR at [www.sedar.com](http://www.sedar.com),
  - the Company's Annual Information Form,
  - the Company's audited consolidated financial statements for the transition year ended December 31, 2006.

### **(b) Outstanding Share Data as of the Report Date**

As of the Report Date, May 30, 2007, the Company has the following securities outstanding:

Issued common shares:        53,657,337 common shares

Stock options:

Price \$	Options Outstanding	Options Exercisable	Expiry Dates
1.80	360,000	360,000	June 21, 2007
2.10	25,000	25,000	October 1, 2007
1.85	150,000	150,000	December 14, 2007
2.45	225,000	168,750	December 16, 2007
1.79	180,000	180,000	January 12, 2008
3.75	25,000	18,750	March 8, 2008
4.05	100,000	75,000	March 20, 2008
2.10	240,000	240,000	November 9, 2008
2.45	650,000	487,500	December 16, 2008
5.04	49,600	18,600	April 25, 2008
4.55	25,000	12,500	July 6, 2008
3.29	50,000	6,250	October 16, 2008
3.28	100,000	12,500	October 17, 2008
3.28	12,500	6,250	June 13, 2009
4.32	945,400	236,350	December 6, 2009
5.50	200,000	50,000	February 1, 2010
4.30	500,000	250,000	June 19, 2011
4.32	245,000	61,250	December 6, 2011
4.41	400,000	100,000	December 22, 2011
5.00	155,000	38,750	February 7, 2012
	<u>4,637,500</u>	<u>2,497,450</u>	

Share purchase warrants:

Exercise Price \$	Warrants Outstanding	Expiry Dates
2.25	176,323	October 20, 2007
4.00	420,000	October 20, 2007
5.00	3,464,999	October 20, 2007
2.60	1,475,000	December 14, 2007
4.25	2,212,449	November 27, 2008
6.81	191,291	March 20, 2009
	<u>7,940,062</u>	

Special Warrants:

6,883,000 Special Warrants

Each Special Warrant will be automatically exercised for one Unit of the Company on the date the Company obtains a final receipt for a prospectus qualifying the underlying shares. In the event the Company has not obtained a final receipt prior to the date that is eleven weeks after the closing date (July 26, 2007), each Special Warrant will be automatically exercised for 1.08 Units. Each Unit will entitle the holder to acquire one common share and one-half of one share purchase warrant. Each whole share purchase warrant will be exercisable at a price of \$6.50 expiring on November 10, 2008.

## **1.14 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 March 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 not effective as at and for the period ended March 31, 2007. As noted above, the Company recently completed the acquisition of First Silver in the quarter ended September 30, 2006, Desmin in the quarter ended December 31, 2006, and Minera La Encantada in the current quarter, all of which have resulted in a significant increase in the size, consistency and complexity of operations. There have been difficulties in obtaining timely and necessary information from recently acquired subsidiaries making it difficult to prepare timely consolidations, harmonize record keeping standards, and to ensure consistent administrative and accounting policies with the newly formed group of companies. Due to shortages in manpower, there have been difficulties and delays in reconciliation processes for accounts in recently acquired subsidiaries. Due to the volume of work and skills required to apply Canadian GAAP financial reporting standards to newly acquired subsidiaries, involving complex accounting transactions, management has not yet managed to harmonize disclosure controls and procedures due to the limited period of time since these significant and substantial acquisitions were completed.

### **Remedial Action Implemented and Planned**

The Company has taken steps to improve its disclosure controls and procedures through the appointment of more experienced and qualified staff in Mexico and Canada and through the ongoing installation of new accounting systems in all of the Mexican subsidiary locations, and the hiring of specialist contract services to enable the transition to a more professionally controlled organization consistent with the requirements of NI 52-109 and the expectations of shareholders. Significant time has been spent by senior financial staff reviewing the substantive financial results of the Mexican subsidiaries as at December 31, 2006, to ensure the risk of errors is mitigated and minimized. The Company is in the process of documenting and revising disclosure controls and procedures, and internal controls to ensure the adequacy of disclosure controls and procedures and internal controls for financial reporting, commensurate with NI 52-109 and the Company's expanding operations in 2007. Management and senior financial staff will continue to document controls, to closely monitor the financial reporting of its Mexican operations, and may engage additional external specialists where necessary to complete its implementation of appropriate disclosure controls and internal control over financial reporting as soon as possible.