FIRST MAJESTIC
SILVER CORP.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

JUNE 30, 2009 (UNAUDITED)

MANAGEMENT'S COMMENTS ON
UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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FIRST MAJESTIC SILVER CORP.
CONSOLIDATED BALANCE SHEETS
AS AT JUNE 30, 2009 (UNAUDITED) AND DECEMBER 31, 2008
(Expressed in Canadian dollars)

	June 30, 2009 $	December 31, 2008 $
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 4)	23,057,406	17,424,123
Accounts receivable	1,681,260	2,116,325
Other receivables (Note 5)	7,367,915	7,212,693
Inventories (Note 6)	3,284,534	4,941,340
Prepaid expenses and other (Note 7)	2,086,898	2,174,256
	37,478,013	**33,868,737**
MINING INTERESTS (Note 8)		
Producing properties	54,170,735	49,933,735
Exploration properties	104,815,245	102,760,230
Plant and equipment	51,201,933	42,127,380
	210,187,913	194,821,345
CORPORATE OFFICE EQUIPMENT (Note 8)	412,057	483,050
DEPOSITS ON LONG-TERM ASSETS (Note 10)	5,009,120	1,986,517
	253,087,103	**231,159,649**
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	17,477,418	17,339,624
Unearned revenue on silver bullion sales	42,008	110,258
Vendor liability and interest (Note 9)	14,485,759	13,940,237
Vendor liability on mineral property (Note 8(b))	651,892	1,372,973
Current portion of capital lease obligations (Note 15)	2,585,705	1,584,477
Income and other taxes payable	56,930	557,634
	35,299,712	**34,905,203**
FUTURE INCOME TAXES	28,638,629	30,690,087
CAPITAL LEASE OBLIGATIONS (Note 15)	1,784,043	1,898,396
OTHER LONG TERM LIABILITIES	824,672	832,769
ASSET RETIREMENT OBLIGATIONS (Note 16)	5,518,302	5,304,369
	72,065,358	**73,630,824**
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 11(a))	215,496,416	196,648,345
SHARE CAPITAL TO BE ISSUED (Note 11(d))	276,495	276,495
CONTRIBUTED SURPLUS	25,840,614	23,297,258
ACCUMULATED OTHER COMPREHENSIVE LOSS	(23,091,010)	(23,216,390)
DEFICIT	(37,500,770)	(39,476,883)
	181,021,745	**157,528,825**
	253,087,103	**231,159,649**

CONTINUING OPERATIONS (Note 1)
COMMITMENTS (Note 17)

APPROVED BY THE BOARD OF DIRECTORS

(signed) Keith Neumeyer Director ***(signed) Douglas Penrose*** Director

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

FIRST MAJESTIC SILVER CORP.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED JUNE 30, 2009 AND 2008 (UNAUDITED)
(Expressed in Canadian dollars, except share amounts)

	Three Months ended June 30,		Six Months ended June 30,	
	2009	2008	2009	2008
	$	$	$	$
Revenue (Note 12)	13,024,877	11,436,889	27,411,749	24,401,071
Cost of sales	9,459,868	7,629,755	17,758,681	14,146,811
Amortization and depreciation	943,553	877,252	1,802,391	1,664,431
Depletion	828,911	698,844	1,399,207	1,585,206
Accretion of reclamation obligation	117,171	50,367	233,210	95,842
Mine operating earnings	**1,675,374**	**2,180,671**	**6,218,260**	**6,908,781**
General and administrative	2,114,312	2,100,325	3,932,315	4,232,205
Stock-based compensation	800,808	670,616	1,697,548	1,778,832
	2,915,120	2,770,941	5,629,863	6,011,037
Operating (loss) income	**(1,239,746)**	**(590,270)**	**588,397**	**897,744**
Interest and other expenses	(404,765)	(226,872)	(764,971)	(565,699)
Investment and other income	222,173	644,057	512,017	781,450
Foreign exchange gain (loss)	840,958	542,846	(111,908)	533,034
(Loss) Income before taxes	(581,380)	369,761	223,535	1,646,529
Income tax - current	113,532	267,530	171,582	705,934
Income tax (recovery) - future	(1,731,328)	399,187	(1,924,160)	172,228
Income tax (recovery) expense	(1,617,796)	666,717	(1,752,578)	878,162
NET INCOME (LOSS) FOR THE PERIOD	**1,036,416**	**(296,956)**	**1,976,113**	**768,367**
EARNINGS PER COMMON SHARE				
BASIC & DILUTED	**$ 0.01**	**$ (0.00)**	**$ 0.02**	**$ 0.01**
WEIGHTED AVERAGE SHARES OUTSTANDING				
BASIC	**82,341,636**	**73,782,410**	**79,387,259**	**68,919,747**
DILUTED	**99,426,674**	**90,070,550**	**96,472,297**	**85,207,887**

FIRST MAJESTIC SILVER CORP.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008 (UNAUDITED)
(Expressed in Canadian dollars, except share amounts)

	Share capital				Accumulated Other Comprehensive Income (Loss)		Total	
	Shares	Amount $	To be issued $	Contributed Surplus $	("AOCI") (1) $	Deficit $	AOCI and deficit $	Total $
Balance at December 31, 2007	63,042,160	145,699,783	9,286,155	17,315,001	(15,186,207)	(34,332,099)	(49,518,306)	122,782,633
Net income	-	-	-	-	-	768,367	768,367	768,367
Other comprehensive income:								
Translation adjustment	-	-	-	-	11,242,916	-	11,242,916	11,242,916
Unrealized loss on marketable securities	-	-	-	-	(180,000)	-	(180,000)	(180,000)
Total comprehensive income							11,831,283	11,831,283
Shares issued for:								
Exercise of options	376,250	1,393,995	-	(263,407)	-	-	-	1,130,588
Exercise of warrants	7,500	31,875	-	-	-	-	-	31,875
First Silver arrangement	1,856,500	8,985,460	(8,985,460)	-	-	-	-	-
Public offering, net of issue costs (Note 11(a)(ii))	8,500,000	40,144,471	-	2,666,135	-	-	-	42,810,606
Stock option expense during the period	-	-	-	1,778,832	-	-	-	1,778,832
Balance at June 30, 2008	73,782,410	196,255,584	300,695	21,496,561	(4,123,291)	(33,563,732)	(37,687,023)	180,365,817
Balance at December 31, 2008	73,847,810	196,648,345	276,495	23,297,258	(23,216,390)	(39,476,883)	(62,693,273)	157,528,825
Net income	-	-	-	-	-	1,976,113	1,976,113	1,976,113
Other comprehensive income:								
Translation adjustment	-	-	-	-	124,630	-	124,630	124,630
Unrealized gain on marketable securities	-	-	-	-	750	-	750	750
Total comprehensive income							2,101,493	2,101,493
Shares issued for:								
Exercise of options	6,250	10,888	-	(2,950)	-	-	-	7,938
Public offering, net of issue costs (Note 11(a)(i))	8,487,576	18,837,183	-	848,758	-	-	-	19,685,941
Stock option expense during the period	-	-	-	1,697,548	-	-	-	1,697,548
Balance at June 30, 2009	82,341,636	215,496,416	276,495	25,840,614	(23,091,010)	(37,500,770)	(60,591,780)	181,021,745

(1) AOCI consists of the cumulative translation adjustment on self sustaining subsidiaries, except for the unrealized gain of $750 (2008 - unrealized loss of $180,000) on marketable securities classified as "available for sale".

FIRST MAJESTIC SILVER CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED JUNE 30, 2009 AND 2008 (UNAUDITED)
(Expressed in Canadian dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	$	$	$	$
OPERATING ACTIVITIES				
Net income (loss) for the period	1,036,416	(296,956)	1,976,113	768,367
Adjustment for items not affecting cash				
Depletion	828,911	698,844	1,399,207	1,585,206
Depreciation	943,553	906,483	1,802,391	1,727,752
Stock-based compensation	800,808	670,616	1,697,548	1,778,832
Accretion of reclamation obligation	117,171	50,367	233,210	95,842
Write-down of other assets	-	-	-	240,000
Future income taxes	(1,731,481)	399,187	(1,949,967)	172,228
Other income from derivative financial instruments	(212,380)	-	(479,197)	-
Unrealized foreign exchange and other	(1,310,042)	278,444	(1,004,365)	39,765
	472,956	2,706,985	3,674,940	6,407,992
Net change in non-cash working capital items				
(Increase) decrease in accounts receivable and other receivables	(662,399)	126,912	(266,919)	(592,683)
Decrease (increase) in inventories	2,192,939	(318,828)	1,656,806	(794,683)
(Increase) decrease in prepaid expenses and advances	(1,722,418)	(2,280,319)	(2,202,403)	(973,842)
(Decrease) increase in accounts payable and accrued liabilities	(496,077)	5,488,267	(2,834,288)	6,981,118
Decrease in unearned revenue	(336,122)	-	(68,250)	-
(Decrease) increase in taxes receivable and payable	(14,851)	400,741	(172,875)	422,737
Increase in vendor liability and interest	-	199,556	-	399,112
Decrease in vendor liability on mineral property	(370,521)	-	(721,081)	-
	(936,493)	6,323,314	(934,070)	11,849,751
INVESTING ACTIVITIES				
Expenditures on mineral property interests (net of accruals)	(3,174,554)	(2,834,191)	(5,022,028)	(5,993,053)
Additions to plant and equipment (net of accruals)	(5,888,016)	(8,036,238)	(7,473,675)	(12,537,258)
Decrease in silver futures contract deposits	281,335	-	969,628	-
Decrease (increase) in deposits on long term assets and other	380,708	(2,150,613)	-	(3,843,306)
Increase in restricted cash securitizing vendor liability (Note 9)	-	-	(545,522)	-
	(8,400,527)	(13,021,042)	(12,071,597)	(22,373,617)
FINANCING ACTIVITIES				
Issuance of common shares and warrants, net of issue costs	(19,798)	157,432	19,693,879	43,973,069
Payment of capital lease obligations	(678,606)	-	(1,061,074)	-
	(698,404)	157,432	18,632,805	43,973,069
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(10,035,424)	(6,540,296)	5,627,138	33,449,203
EFFECT OF EXCHANGE RATE CHANGES ON CASH HELD IN FOREIGN CURRENCY	5,891	(54,169)	6,145	(59,667)
CASH AND CASH EQUIVALENTS - BEGINNING OF THE PERIOD	33,086,939	52,819,184	17,424,123	12,835,183
CASH AND CASH EQUIVALENTS - END OF THE PERIOD	23,057,406	46,224,719	23,057,406	46,224,719
CASH AND CASH EQUIVALENTS IS COMPRISED OF:				
Cash	8,487,949	740,710	8,487,949	740,710
Short-term deposits	83,698	45,484,009	83,698	45,484,009
Restricted cash (Note 9)	14,485,759	-	14,485,759	-
	23,057,406	46,224,719	23,057,406	46,224,719
Interest paid	233,402	5,832	275,770	11,665
Income taxes paid	-	-	-	221,108
NON-CASH FINANCING AND INVESTING ACTIVITIES (NOTE 18)				

1. DESCRIPTION OF BUSINESS AND CONTINUING OPERATIONS

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

These consolidated financial statements have been prepared on the going concern basis which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. Of the Company's cash balance of $23.1 million at June 30, 2009, $14.5 million was restricted and subsequently on July 16, 2009, $14,258,332 of this amount was paid out in trust pending the outcome of the litigation described in Note 9. The Company's ability to continue as a going concern is dependent primarily on the price of silver in global commodity markets, and on maintaining sustained, profitable operations and/or obtaining funds from other sources as required for capital developments. If the Company were unable to continue as a going concern, then material adjustments would be required to the carrying value of assets and liabilities and the balance sheet classifications used.

2. BASIS OF PRESENTATION

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

The consolidated financial statements include the accounts of the Company and its direct wholly-owned subsidiaries: Corporación First Majestic, S.A. de C.V. ("CFM") and First Silver Reserve Inc. ("First Silver") as well as its indirect wholly-owned subsidiaries: First Majestic Plata, S.A. de C.V. ("First Majestic Plata"), Minera El Pilon, S.A. de C.V. ("El Pilon"), Minera La Encantada, S.A. de C.V. ("La Encantada") and Majestic Services S.A. de C.V. ("Majestic Services"). First Silver underwent a wind up and distribution of its assets and liabilities to the Company in December 2007 but First Silver has not been dissolved for legal purposes pending the outcome of litigation described in Note 9. Intercompany balances and transactions are eliminated on consolidation.

3. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

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

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

International Financial Reporting Standards ("IFRS")

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

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

4. RESTRICTED CASH

On July 22, 2008, the Company secured its outstanding vendor liability (Note 9) by entering into a Letter of Credit facility for $13,940,237, secured by cash and liquid short term investments. In addition, a further $545,522 was paid into the Supreme Court of British Columbia in January 2009 and the Letter of Credit increased to a total Restricted Cash balance of $14,485,759. On July 16, 2009, the Company agreed to a consent order whereby $14,258,332 was paid out of the Letter of Credit to the trust account of the lawyers of the prior Majority Shareholder of First Silver. The remaining $227,420 was paid out to the Company and the Letters of Credit were cancelled. The consent order requires that the $14,258,332 be held in trust pending the outcome of the litigation. This cash is not available for general corporate purposes. These funds will be accessible to the Company in the event of a favourable outcome to the litigation.

5. OTHER RECEIVABLES

Details of the components of other receivables are as follows:

	June 30, 2009	December 31, 2008
	$	$
Value added taxes recoverable	6,678,909	6,109,943
Other taxes recoverable	39,570	406,536
Interest receivable	85,408	188,111
Advances to employees	137,510	67,240
Advances to suppliers	426,518	440,863
	7,367,915	7,212,693

6. INVENTORIES

Inventories consist of the following:

	June 30, 2009	December 31, 2008
	$	$
Silver coins and bullion including in process shipments	178,779	572,149
Finished product - doré and concentrates	692,615	1,017,769
Ore in process	198,493	196,169
Stockpile	607,254	1,631,625
Materials and supplies	1,607,393	1,523,628
	3,284,534	4,941,340

7. PREPAID EXPENSES AND OTHER

Details of prepaid expenses and other are as follows:

	June 30, 2009	December 31, 2008
	$	$
Advances to suppliers and contractors	1,804,256	1,380,509
Deposits	231,517	252,941
Marketable securities	51,125	50,375
Derivative financial instruments	-	490,431
	2,086,898	2,174,256

8. MINING INTERESTS

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

	June 30, 2009			December 31, 2008		
	Cost	Accumulated depreciation and depletion	Net	Cost	Accumulated depreciation and depletion	Net
	$	$	$	$	$	$
Mining properties	175,055,187	16,069,207	158,985,980	167,130,756	14,436,791	152,693,965
Plant and equipment	58,968,528	7,766,595	51,201,933	48,271,432	6,144,052	42,127,380
	234,023,715	**23,835,802**	**210,187,913**	**215,402,188**	**20,580,843**	**194,821,345**

8. MINING INTERESTS (continued)

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

	June 30, 2009			December 31, 2008		
	Cost	Accumulated Depletion	Net Book Value	Cost	Accumulated Depletion	Net Book Value
MEXICO	$	$	$	$	$	$
Producing properties						
La Encantada (a)	11,263,775	2,665,513	8,598,262	8,922,466	2,276,963	**6,645,503**
La Parrilla (b)	20,954,533	2,489,093	18,465,440	18,644,777	2,038,223	**16,606,554**
San Martin (c)	38,021,634	10,914,601	27,107,033	36,803,283	10,121,605	**26,681,678**
	70,239,942	**16,069,207**	**54,170,735**	**64,370,526**	**14,436,791**	**49,933,735**
Exploration properties						
La Encantada (a)	3,410,253	-	3,410,253	2,858,043	-	**2,858,043**
La Parrilla (b)	9,331,386	-	9,331,386	8,722,897	-	**8,722,897**
San Martin (c) (1)	76,600,821	-	76,600,821	77,582,247	-	**77,582,247**
Del Toro (d)	12,781,534	-	12,781,534	11,881,557	-	**11,881,557**
Cuitaboca (e)	2,691,251	-	2,691,251	1,715,486	-	**1,715,486**
	104,815,245	**-**	**104,815,245**	**102,760,230**	**-**	**102,760,230**
	175,055,187	**16,069,207**	**158,985,980**	**167,130,756**	**14,436,791**	**152,693,965**

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

A summary of plant and equipment is as follows:

	June 30, 2009			December 31, 2008		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	$	$	$	$	$	$
La Encantada Silver Mine	29,940,249	1,657,553	**28,282,696**	19,541,421	1,221,301	**18,320,120**
La Parrilla Silver Mine	18,705,404	3,343,637	**15,361,767**	18,590,746	2,568,373	**16,022,373**
San Martin Silver Mine	10,322,875	2,765,405	**7,557,470**	10,139,265	2,354,378	**7,784,887**
Used in Mining Operations	**58,968,528**	**7,766,595**	**51,201,933**	**48,271,432**	**6,144,052**	**42,127,380**
Corporate office equipment	726,792	314,735	**412,057**	712,525	229,475	**483,050**
	59,695,320	**8,081,330**	**51,613,990**	**48,983,957**	**6,373,527**	**42,610,430**

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

	June 30, 2009			December 31, 2008		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	$	$	$	$	$	$
Land	2,301,252	-	2,301,252	2,302,273	-	2,302,273
Automobile	426,465	185,971	240,494	427,817	140,703	287,114
Buildings	6,270,911	520,709	5,750,202	6,250,748	399,982	5,850,766
Machinery and equipment	27,926,718	6,515,186	21,411,532	27,744,171	5,053,326	22,690,845
Computer equipment	533,750	250,823	282,927	566,511	239,162	327,349
Office equipment	599,219	481,198	118,021	600,413	447,405	153,008
Leasehold improvements	320,304	127,443	192,861	320,304	92,949	227,355
Construction in progress (1)	21,316,701	-	21,316,701	10,771,720	-	10,771,720
	59,695,320	**8,081,330**	**51,613,990**	**48,983,957**	**6,373,527**	**42,610,430**

(1) Construction in progress includes $18,897,156 relating to La Encantada, $517,693 relating to La Parrilla and $1,901,852 relating to San Martin.

8. MINING INTERESTS (continued)

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

	Del Toro Note 8(d) (US$)	Cuitaboca Note 8(e) (US$)	Total (US$)
Paid as at June 30, 2009	**5,925,000**	**1,175,000**	**7,100,000**
Payable November 25, 2009	**-**	275,000	**275,000**
Payable December 6, 2009	62,500	-	**62,500**
Payable before December 31, 2009	**62,500**	**275,000**	**337,500**
Payable in 2010 and beyond	**225,000**	**1,050,000**	**1,275,000**
Total Future Option Payments	**287,500**	**1,325,000**	**1,612,500**

(a) La Encantada Silver Mine, Coahuila State

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

The Company is constructing a 3,500 tonne per day cyanidation plant at La Encantada which is expected to begin commissioning in September 2009 and is expected to be fully commissioned by the end of 2009.

(b) La Parrilla Silver Mine, Durango State

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

In 2008, the Company amended payment terms to an optionor regarding the outstanding payments as at December 31, 2008 on the Quebradillas Mine. In regards to the aggregate of US$749,000 which was previously payable in 2008, the Company has agreed to make a series of payments in 2009 totaling US$1,121,160 which includes interest at a rate of 3% over three month LIBOR. During the six months ended June 30, 2009, the Company made payments totaling US$560,634 (of which US$10,332 related to interest) pursuant to the amended agreements.

There is a net smelter royalty agreement (“NSR”) of 1.5% of sales revenue from the Quebradillas Mine to a maximum of US$2,500,000 and an option to purchase the NSR at any time for US$2,000,000. For the period ended June 30, 2009, the Company paid US$64,846 (December 31, 2008 – US$69,000) relating to royalties.

8. MINING INTERESTS (continued)

(c) San Martin Silver Mine, Jalisco State

The San Martin Silver Mine is a producing underground mine located adjacent to the town of San Martin de Bolaños in Northern Jalisco State, Mexico. The mine is comprised of approximately 7,840 hectares of mineral rights, approximately 1,300 hectares of surface land rights surrounding the mine, and another 104 hectares of surface rights where the 950 tonnes per day cyanidation mill, flotation circuit, mine buildings and offices are located. The Company owns 100% of the San Martin Silver Mine.

(d) Del Toro Silver Mine, Zacatecas State

The Del Toro Silver Mine is located 60 km to the southeast from the Company's La Parrilla Silver Mine and consists of 320 contiguous hectares of mining claims plus an additional 100 hectares of surface rights covering the area surrounding the San Juan mine. The Del Toro operation represents the consolidation of two old silver mines, the Perseverancia and San Juan mines, which are approximately one kilometre apart.

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

(e) Cuitaboca Silver Project, Sinaloa State

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

The Company entered into an option agreement in November 2004 with Consorcio Minero Latinamericano, S.A. de C.V., a private Mexican company owned by a former director of First Silver, for the purchase of a 100% interest in seven mining claims covering 3,718 hectares located in Sinaloa State, Mexico. To purchase the claims, the Company needs to pay US$2,500,000 in staged cash payments through November, 2010 (US$1,175,000 paid as at June 30, 2009). A 2.5% NSR on the claims may be purchased at any time during the term of the agreement or for a period of 12 months thereafter for an additional US$500,000.

9. VENDOR LIABILITY AND INTEREST

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

In November 2007, an action was commenced by the Company and First Silver against the Majority Shareholder who previously was a director, President & Chief Executive Officer of First Silver. The Company and First Silver allege that, while holding the positions of director, President and Chief Executive Officer, the Majority Shareholder engaged in a course of deceitful and dishonest conduct in breach of his fiduciary and statutory duties owed to First Silver, which resulted in the Majority Shareholder acquiring a mine which was First Silver's right to acquire. Management believes that there are substantial grounds to this claim, however, the outcome of this litigation is not presently determinable.

9. VENDOR LIABILITY AND INTEREST (continued)

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

On July 16, 2009, the Company agreed to a consent order with the prior Majority Shareholder, with respect to the $14,485,759 posted by a Letter of Credit securing the vendor liability and interest. Pursuant to the order, $14,258,332 was paid out of the Letter of Credit to the trust account of the lawyers of the prior Majority Shareholder. The remaining $227,420 was paid out to the Company and the Letters of Credit were cancelled. The consent order requires that the $14,258,332 be held in trust pending the outcome of the litigation. These funds will be accessible to the Company in the event of a favourable outcome to the litigation.

10. DEPOSITS ON LONG-TERM ASSETS

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

	June 30, 2009 $	December 31, 2008 $
Deposit on equipment at La Encantada	3,520,034	1,986,517
Deposit on equipment at La Parrilla	1,489,086	-
	5,009,120	1,986,517

11. SHARE CAPITAL

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

Issued	Six Months ended June 30, 2009		Year ended December 31, 2008	
	Shares	$	Shares	$
Balance - beginning of the period	73,847,810	196,648,345	63,042,160	145,699,783
Issued during the period				
For cash:				
Exercise of options	6,250	7,938	436,650	1,398,566
Exercise of warrants	-	-	7,500	31,875
Public offering of units (i) (ii)	8,487,576	18,837,183	8,500,000	40,144,471
For First Silver Arrangement	-	-	1,861,500	9,009,660
Transfer of contributed surplus for stock options exercised	-	2,950	-	363,990
Balance - end of the period	82,341,636	215,496,416	73,847,810	196,648,345

11. SHARE CAPITAL (continued)

(i) On March 5, 2009, the Company completed a public offering with a syndicate of underwriters who purchased 8,487,576 units at an issue price of $2.50 per unit for net proceeds to the Company of $19,685,941, of which $18,837,183 was allocated to the common shares and $848,758 was allocated to the warrants. Each unit consisted of one common share in the capital of the Company and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one additional common share at a price of $3.50 expiring on March 5, 2011. The underwriters had an option, exercisable up until 30 days following closing of the offering, to purchase up to an additional 1,273,136 common shares at a price of $2.40 per share and up to an additional 636,568 warrants at a price of $0.20 per warrant. The underwriters did not exercise their option to purchase the option shares or warrants.

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

(b) Stock Options

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

The changes in stock options outstanding for the six months ended June 30, 2009 and the year ended December 31, 2008 are as follows:

	Six Months Ended June 30, 2009			Year Ended December 31, 2008		
	Number of Shares	Weighted Average Exercise Price ($)	Weighted Average Remaining Life	Number of Shares	Weighted Average Exercise Price ($)	Weighted Average Remaining Life
Balance, beginning of the period	6,862,500	3.84	2.78 years	5,892,500	4.04	2.75 years
Granted	1,275,000	2.03	3.75 years	2,672,500	2.93	3.67 years
Exercised	(6,250)	1.27	2.78 years	(436,650)	3.20	0.51 years
Forfeited or expired	(177,500)	4.10	1.59 years	(1,265,850)	3.05	0.45 years
Balance, end of the period	7,953,750	3.55	2.52 years	6,862,500	3.84	2.78 years

11. SHARE CAPITAL (continued)

(b) Stock Options (continued)

The following table summarizes both the stock options outstanding and those that are exercisable at June 30, 2009:

Price $	Options Outstanding	Options Exercisable	Expiry Dates
4.32	605,000	605,000	December 6, 2009
5.50	200,000	200,000	February 1, 2010
4.64	75,000	75,000	June 1, 2010
4.17	100,000	100,000	August 8, 2010
3.72	30,000	30,000	September 24, 2010
3.98	20,000	20,000	October 17, 2010
4.45	580,000	580,000	October 30, 2010
4.34	50,000	50,000	November 1, 2010
4.42	25,000	25,000	November 12, 2010
4.34	200,000	200,000	December 5, 2010
4.42	50,000	37,500	February 20, 2011
4.65	100,000	75,000	March 25, 2011
4.19	20,000	15,000	April 26, 2011
4.02	100,000	75,000	May 15, 2011
4.30	450,000	450,000	June 19, 2011
4.67	130,000	65,000	July 4, 2011
4.15	300,000	150,000	July 28, 2011
3.62	685,000	342,500	August 28, 2011
1.60	200,000	100,000	October 8, 2011
1.27	118,750	56,250	October 17, 2011
4.32	245,000	245,000	December 6, 2011
4.41	400,000	400,000	December 22, 2011
5.00	155,000	155,000	February 7, 2012
2.03	800,000	200,000	May 7, 2012
4.65	25,000	25,000	June 20, 2012
4.34	925,000	925,000	December 5, 2012
3.62	100,000	50,000	August 28, 2013
1.44	240,000	120,000	November 10, 2013
1.56	550,000	275,000	December 17, 2013
2.03	462,500	115,625	May 7, 2014
2.32	12,500	3,125	June 15, 2014
	7,953,750	5,765,000	

During the six months ended June 30, 2009, the Company granted stock options to directors, officers and employees to purchase 1,275,000 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, $1,697,548 has been recorded as an expense in the six months ended June 30, 2009 relating to all stock options.

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

	Six Months ended June 30, 2009	Six Months ended June 30, 2008
Risk-free interest rate	0.9%	2.8%
Estimated volatility	80.3%	53.1%
Expected life	2.44 years	1.9 years
Expected dividend yield	0%	0%

11. SHARE CAPITAL (continued)

(b) Stock Options (continued)

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

(c) Share Purchase Warrants

The changes in share purchase warrants for the six months ended June 30, 2009 and the year ended December 31, 2008 are as follows:

	Six months ended June 30, 2009			Year ended December 31, 2008		
	Number of Warrants	Weighted Average Exercise Price ($)	Weighted Average Term to Expiry	Number of Warrants	Weighted Average Exercise Price ($)	Weighted Average Term to Expiry
Balance, beginning of the period	5,078,791	6.99	1.19 years	5,845,240	5.66	0.89 years
Issued (i) (ii) (iii)	4,243,788	3.50	2.00 years	4,887,500	7.00	2.00 years
Exercised	-	0.00	0.00 years	(7,500)	4.25	0.86 years
Cancelled or expired	(191,291)	6.81	0.00 years	(5,646,449)	5.62	0.00 years
Balance, end of the period	9,131,288	5.37	1.17 years	5,078,791	6.99	1.19 years

(i) On March 5, 2009, the Company issued 4,243,788 warrants exercisable at a price of $3.50 per share exercisable for a period of two years. The warrants were detachable warrants issued in connection with the 8,487,576 unit offering. The fair value of the warrants was estimated using the *Black-Scholes Option Pricing Model* (assumptions include a risk free rate of 1.5%, market sector volatility of 35%, expected life of 2 years and expected dividend yield of 0%) and $848,758 was credited to contributed surplus.

(ii) On March 25, 2008, the Company issued 4,250,000 warrants exercisable at a price of $7.00 per share exercisable for a period of two years. The warrants were detachable warrants issued in connection with the 8.5 million unit offering. The fair value of the warrants was estimated using the *Black-Scholes Option Pricing Model* (assumptions include a risk free rate of 2.74%, market sector volatility of 42%, expected life of 2 years and expected dividend yield of 0%) and $2,380,000 was credited to contributed surplus.

(iii) On April 4, 2008, the Company issued 637,500 warrants exercisable at a price of $7.00 per share exercisable for a period of two years under the over-allotment option in connection with the March 25, 2008 public offering. Each warrant entitles the holder to acquire one additional common share at a price of $7.00 until March 25, 2010. The fair value of the warrants was estimated using the *Black-Scholes Option Pricing Model* (assumptions include a risk free rate of 2.74%, market sector volatility of 42%, expected life of 2 years and expected dividend yield of 0%) and $357,000 was credited to contributed surplus.

The following table summarizes the share purchase warrants outstanding at June 30, 2009:

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

11. SHARE CAPITAL (continued)

(d) Share Capital to be Issued

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

At June 30, 2009, the prior shareholders of First Silver had yet to exchange the remaining 114,254 shares of First Silver, exchangeable for 57,127 shares of First Majestic resulting in a remaining balance of shares to be issued of $276,495.

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

12. REVENUE

Details of the components of revenue are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	$	$	$	$
Combined revenue - silver doré bars, concentrates, coins and ingots	18,003,518	14,290,892	35,467,655	30,536,815
Less: intercompany eliminations	(2,223,922)	-	(2,223,922)	-
Consolidated gross revenue	15,779,596	14,290,892	33,243,733	30,536,815
Less: refining and smelting charges	(2,165,720)	(2,345,331)	(4,706,462)	(5,146,566)
Less: metal deductions	(588,999)	(508,672)	(1,125,522)	(989,178)
Net revenue	13,024,877	11,436,889	27,411,749	24,401,071

13. RELATED PARTY TRANSACTIONS

During the period ended June 30, 2009, the Company:

a) incurred $147,748 for the six month period ended June 30, 2009 and $71,255 for the quarter ended June 30, 2009 (six months ended June 30, 2008 - $120,273; quarter ended June 30, 2008 - $75,088) 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 $146,462 for the six month period ended June 30, 2009 and $72,829 for the quarter ended June 30, 2009 (six months ended June 30, 2008 - $139,105; quarter ended June 30, 2008 - $78,849) to a director and Chief Operating Officer for management and other services related to the mining operations of the Company in Mexico pursuant to a consulting agreement.

c) incurred $1,269,751 of service fees during the six month period ended June 30, 2009 and $nil for the quarter ended June 30, 2009 (six months ended June 30, 2008 - $4,207,123; quarter ended June 30, 2008 - $2,271,223) to a mining services company sharing our premises in Durango Mexico. This related party provided management services and paid mining contractors who provided services at the Company's mines in Mexico for the period January 1 to February 28, 2009. Of the fees incurred, $627,578 was unpaid as at June 30, 2009 (2008 - $1,635,365). This relationship was terminated in February 2009.

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

14. SEGMENTED INFORMATION

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

These reportable operating segments are summarized in the table below:

	Three months ended June 30, 2009				
	El Pilon operations	**First Majestic Plata operations**	**La Encantada operations**	**Corporate and Other Eliminations**	**Total**
	$	**$**	**$**	**$**	**$**
Revenue	5,128,241	5,206,431	2,678,133	12,072	**13,024,877**
Cost of sales	3,326,950	3,436,485	2,588,633	107,800	**9,459,868**
Amortization, depreciation and accretion	238,154	547,730	274,840	-	**1,060,724**
Depletion	463,081	228,188	137,642	-	**828,911**
Mine operating earnings (loss)	1,100,056	994,028	(322,982)	(95,728)	**1,675,374**
General and administrative	-	-	-	2,114,312	**2,114,312**
Stock-based compensation	-	-	-	800,808	**800,808**
Net interest, other income (expense) and foreign exchange	(73,230)	(603,422)	(417,616)	435,902	**(658,366)**
Income tax expense (recovery)	121,398	(58,486)	(599,696)	(1,081,012)	**(1,617,796)**
Net income (loss)	1,051,888	1,655,936	694,330	(2,365,738)	**1,036,416**
Capital expenditures	874,235	1,903,461	6,419,379	131,485	**9,328,560**
Total assets	118,788,430	62,249,122	49,559,957	22,489,594	**253,087,103**

	Three months ended June 30, 2008				
	El Pilon operations	**First Majestic Plata operations**	**La Encantada operations**	**Corporate and Other Eliminations**	**Total**
	$	**$**	**$**	**$**	**$**
Revenue	3,343,546	4,057,696	4,035,647	-	**11,436,889**
Cost of sales	2,792,146	3,256,004	1,581,605	-	**7,629,755**
Amortization, depreciation and accretion	214,009	549,597	145,952	18,061	**927,619**
Depletion	270,305	228,044	200,495	-	**698,844**
Mine operating earnings (loss)	67,086	24,051	2,107,595	(18,061)	**2,180,671**
General and administrative	-	-	-	2,100,325	**2,100,325**
Stock-based compensation	-	-	-	670,616	**670,616**
Net interest, other income (expense) and foreign exchange	160,866	(1,011,351)	(60,199)	(49,347)	**(960,031)**
Income tax (recovery) expense	(351,764)	659,229	964,573	(605,321)	**666,717**
Net income (loss)	257,984	376,173	1,203,221	(2,134,334)	**(296,956)**
Capital expenditures	4,118,671	7,596,329	2,248,968	(146,923)	**13,817,045**
Total assets	131,020,870	57,759,525	21,227,658	47,789,874	**257,797,927**

14. SEGMENTED INFORMATION (continued)

	Six months ended June 30, 2009				
	El Pilon operations $	First Majestic Plata operations $	La Encantada operations $	Corporate and Other Eliminations $	Total $
Revenue	9,584,207	9,142,290	8,126,458	558,794	**27,411,749**
Cost of sales	6,060,176	6,137,789	5,072,929	487,787	**17,758,681**
Amortization, depreciation and accretion	491,301	1,012,489	531,811	-	**2,035,601**
Depletion	714,521	379,067	305,619	-	**1,399,207**
Mine operating earnings	2,318,209	1,612,945	2,216,099	71,007	**6,218,260**
General and administrative	-	-	-	3,932,315	**3,932,315**
Stock-based compensation	-	-	-	1,697,548	**1,697,548**
Net interest, other income and foreign exchange	220,403	(255,927)	(136,896)	537,282	**364,862**
Income tax (recovery) expense	(53,295)	(105,744)	(25,659)	(1,567,880)	**(1,752,578)**
Net income (loss)	2,151,101	1,974,616	2,378,654	(4,528,258)	**1,976,113**
Capital expenditures	1,567,128	3,789,716	12,342,385	146,301	**17,845,530**
Total assets	118,788,430	62,249,122	49,559,957	22,489,594	**253,087,103**

	Six months ended June 30, 2008				
	El Pilon operations $	First Majestic Plata operations $	La Encantada operations $	Corporate and Other Eliminations $	Total $
Revenue	5,553,108	9,055,725	9,792,238	-	**24,401,071**
Cost of sales	4,257,678	5,827,499	4,061,634	-	**14,146,811**
Amortization, depreciation and accretion	499,273	904,477	292,987	63,536	**1,760,273**
Depletion	748,980	418,846	417,380	-	**1,585,206**
Mine operating earnings	47,177	1,904,903	5,020,237	(63,536)	**6,908,781**
General and administrative	-	-	-	4,232,205	**4,232,205**
Stock-based compensation	-	-	-	1,778,832	**1,778,832**
Net interest, other income and foreign exchange	169,012	681,246	(23,919)	(77,554)	**748,785**
Income tax (recovery) expense	(437,839)	750,886	1,170,436	(605,321)	**878,162**
Net income (loss)	654,028	1,835,263	3,825,882	(5,546,806)	**768,367**
Capital expenditures	6,920,925	13,079,039	3,644,492	20,506	**23,664,962**
Total assets	131,020,870	57,759,525	21,227,658	47,789,874	**257,797,927**

15. CAPITAL LEASE OBLIGATIONS

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

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

The following is a schedule of future minimum lease payments under the capital leases at June 30, 2009:

	$US	$CA
2009 Gross lease payments	1,314,651	1,528,939
2010 Gross lease payments	2,108,858	2,452,603
2011 Gross lease payments	653,453	759,966
2012 Gross lease payments	132,549	154,154
	4,209,511	4,895,662
Less: interest	(452,204)	(525,914)
Total payments, net of interest	3,757,307	4,369,748
Less: current portion	(2,223,306)	(2,585,705)
Capital Lease Obligation	**1,534,001**	**1,784,043**

16. ASSET RETIREMENT OBLIGATIONS

	Six months ended June 30, 2009 $	Year ended December 31, 2008 $
Balance, beginning of the period	5,304,369	2,290,313
Effect of change in estimates	-	2,979,726
Interest accretion	233,210	200,477
Effect of translation of foreign currencies	(19,277)	(166,147)
	5,518,302	5,304,369

Asset retirement obligations allocated by mineral properties are as follows:

	Anticipated Date	June 30, 2009 $	December 31, 2008 $
La Encantada Silver Mine	2018	1,940,922	1,865,674
La Parrilla Silver Mine	2022	1,674,518	1,609,602
San Martin Silver Mine	2016	1,902,862	1,829,093
		5,518,302	5,304,369

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

17. COMMITMENTS

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

As at June 30, 2009, the Company is obligated to make a series of payments totalling US$560,526 before the end of 2009 with respect to property payments at the Quebradillas Mine at La Parrilla.

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

The Company has office lease commitments of $77,900 per annum in 2009 through 2011 and $29,220 in 2012. Additional annual operating costs are estimated at $101,110 per year ($8,426 per month) over the term of the lease. The Company provided a deposit of one month of rent equaling $20,151.

As at June 30, 2009, the Company is committed to construction contracts of approximately $13.8 million (US$11.9 million) (December 31, 2008 - $5.9 million or US$4.9 million) relating to the La Encantada Project which is currently being constructed.

17. COMMITMENTS (continued)

The Company is committed to making severance payments amounting to US$605,000 (December 31, 2008 - US$540,000) to four officers in the event of a change of control of the Company.

18. NON-CASH FINANCING AND INVESTING ACTIVITIES

	Three months ended		Six months ended	
	June 30, 2009 $	June 30, 2008	June 30, 2009 $	June 30, 2008
NON-CASH FINANCING AND INVESTING ACTIVITIES:				
Fair value of warrants upon completion of public offering	-	286,135	848,758	2,666,135
Issuance of shares for First Silver Arrangement	-	-	-	8,985,460
Transfer of contributed surplus to common shares for options exercised	-	-	2,950	263,407
Assets acquired by capital lease	-	1,989,227	2,259,380	1,989,227

19. SUBSEQUENT EVENTS

Subsequent to June 30, 2009:

(a) On July 16, 2009, the Company agreed to a consent order with the prior Majority Shareholder of First Silver with respect to the funds represented by a Letter of Credit securing the vendor liability and interest described in Note 9. Pursuant to the order, $14,258,332 was paid out of the Letter of Credit to the trust account of the lawyers of the prior Majority Shareholder. The remaining $227,420 was paid out to the Company and the Letters of Credit were cancelled. The consent order requires that the $14,258,332 be held in trust pending the outcome of the litigation. These funds will be accessible to the Company in the event of a favourable outcome to the litigation.

(b) On August 10, 2009, 12,500 stock options were granted at a price of $2.40 per share expiring on August 10, 2012.

(c) On August 12, 2009, the Company reported a non-brokered private placement offering consisting of up to 4,000,000 units to be issued at a price of $2.30 per unit for gross proceeds of up to $9.2 million. Each unit will consist of one common share and one-half of one common share purchase warrant with each full warrant entitling the holder to purchase one additional common share of the Company at an exercise price of $3.30 per share for a period of two years after closing. The Company plans to use the net proceeds of the offering as general working capital in respect to its three operating silver mines in Mexico. A finder's fee of 6% cash will be payable on a portion of this private placement to an arm's length party. Closing of the private placement is subject to receipt of all required regulatory approvals including the consent of the Toronto Stock Exchange.

(d) On August 12, 2009, the Company reported that it will settle certain debts of its subsidiaries in the aggregate amount of up to $4,000,000 and has entered into debt settlement agreements with those creditors to settle such debt by the issuance of up to 1,739,130 common shares of the Company at a deemed price of $2.30 per share. Closing of the debt settlement is subject to receipt of all required regulatory approvals including the consent of the Toronto Stock Exchange.

20. COMPARATIVE FIGURES

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE QUARTER ENDED JUNE 30, 2009

Forward-Looking Statements

Certain information contained herein constitutes forward-looking statements. Forward-looking statements are frequently characterized by words such as "plan", "expect", "forecast", "project", "intend", "believe", "anticipate", "outlook" and other similar words, or statements that certain events or conditions "may" or "will" occur. Forward-looking statements are based on the opinions and estimates of management at the dates the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include the inherent risks involved in the mining, exploration and development of mineral properties, the uncertainties involved in interpreting drilling results and other geological data, fluctuating metal prices, the possibility of project cost overruns or unanticipated costs and expenses, uncertainties related to the availability of and costs of financing needed in the future and other factors described in the Company's Annual Information Form under the heading "Risk Factors". The Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change. The reader is cautioned not to place undue reliance on forward-looking statements.

PRELIMINARY INFORMATION

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

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

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

QUALIFIED PERSON*S*

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

FIRST MAJESTIC SILVER CORP.

MANAGEMENT'S DISCUSSION & ANALYSIS

All financial information in this MD&A is prepared in accordance with Canadian GAAP, and all dollar amounts are expressed in Canadian dollars unless otherwise indicated. All information contained in this MD&A is current as of August 13, 2009, unless otherwise stated.

FINANCIAL PERFORMANCE AND HIGHLIGHTS

- In the second quarter ended June 30, 2009, the Company sold 1,073,129 silver equivalent ounces including 103,867 ounces of coins, ingots and bullion, with a combined average price of $14.70 per ounce (US$12.60) compared to 892,406 equivalent ounces of silver (with no coin sales) in the quarter ended June 30, 2008 at an average price of $16.01 (US$15.86) per ounce and 996,595 equivalent ounces, with 67,620 ounces of coins, ingots and bullion (none in 2008), at a combined average price of $17.52 per ounce (US$14.07) in the first quarter ended March 31, 2009. The average spot price of silver in the second quarter of 2009 was US$13.76 per ounce compared to US$17.18 per ounce in the second quarter of 2008, and US$12.61 per ounce in the first quarter ended March 31, 2009.

- Consolidated gross revenue for the second quarter ended June 30, 2009, prior to smelting and refining charges and metal deductions, was $15.8 million (US$13.5 million) compared to $14.3 million (US$14.1 million) in the second quarter of 2008, and $17.5 million (US$14.0 million) in the first quarter of 2009.

- Sales revenue (after smelting and refining charges and metals deductions) for the quarter ended June 30, 2009 was $13.0 million; an increase of 14% compared to $11.4 million for the quarter ended June 30, 2008. Smelting and refining charges and metal deductions decreased to 17% of gross revenue in the second quarter ended June 30, 2009 compared to 20% in the second quarter ended June 30, 2008 and 18% in the first quarter ended March 31, 2009. This decrease is attributed to the revised smelting and refining agreements renegotiated effective December 1, 2008; as well as the new smelting and refining relationships entered into in February and May 2009. Average smelting charges for doré in the quarter ended June 30, 2009 were US$0.32 per equivalent silver ounce whereas for concentrates they were US$3.21 per equivalent ounce.

- The Company generated net income after taxes of $1.0 million for the quarter ended June 30, 2009 compared to a net loss after taxes of $0.3 million for the quarter ended June 30, 2008, and a net income after taxes of $0.9 million for the first quarter ended March 31, 2009. The net income after taxes for this quarter was after recording non-cash stock-based compensation expense of $0.8 million, a foreign exchange gain of $0.8 million, and an income tax recovery of $1.6 million.

- Total production for the quarter ended June 30, 2009 was 957,936 ounces of silver equivalents consisting of 827,720 ounces of silver, 746 ounces of gold and 1,493,162 pounds of lead. This compares to the 1,271,141 ounces of silver equivalents produced in the quarter ended June 30, 2008, which consisted of 1,109,821 ounces of silver, 482 ounces of gold, 1,987,551 pounds of lead and 134,644 pounds of zinc. Total production for the quarter ended March 31, 2009 was 1,040,117 ounces of silver equivalents which included 929,964 ounces of silver, 491 ounces of gold and 1,828,739 pounds of lead.

- Direct cash costs per ounce of silver for the quarter ended June 30, 2009 increased to US$6.31 per ounce of silver, compared to US$4.84 per ounce of silver for the quarter ended June 30, 2008, due to reduced silver production, lower by-product credits, lower average silver grades and lower recoveries in the second quarter of 2009. Direct cash costs for the quarter ended March 31, 2009 and the six months ended June 30, 2009 were US$4.94 per ounce and US$5.58 per ounce, respectively.

- Mine operating earnings for the quarter ended June 30, 2009 were $1.7 million, a decrease of $0.5 million or 23% compared to mine operating earnings of $2.2 million for the quarter ended June 30, 2008, and mine operating earnings of $4.5 million for the quarter ended March 31, 2009. The La Encantada Silver Mine experienced some ground condition instability in the second quarter which interrupted the mining in the Milagros and San Javier Breccia areas which contain a higher grade of ore. This higher grade tonnage was temporarily replaced by lower grade ore from the Azul y Oro and Buenos Aires areas and dumps. This resulted in lower head grades at the mill, higher manganese content and lower recoveries. The ground conditions were remedied subsequent to the quarter and production from the Milagros and San Javier Breccias resumed in August.

- The Company had an operating loss of $1.2 million for the second quarter ended June 30, 2009 compared to an operating loss of $0.6 million for the quarter ended June 30, 2008, an increase of $0.6 million or 110%. Operating income for the first quarter ended March 31, 2009 was $1.8 million.
- At the La Encantada Silver Mine, construction is progressing on the 3,500 tonnes per day ("tpd") cyanidation plant. The plant is scheduled to begin commissioning in September 2009 and to be fully operational by the end of 2009. Once completed, the new plant is anticipated to produce over four million ounces of silver annually in the form of doré bars.
- The Company has revised its estimated capital expenditures for the completion of the new 3,500 tpd mill at the La Encantada from US$24.5 million to US$27.5 million. The primary reason for the increase in capital expenditures is related to a decision to revise the tailings pond design to use a paste and filter design which will allow the new cyanidation plant to significantly reduce power and water consumption once fully operational by year end.
- Total capitalized construction in progress consisted of $18.9 million (US$16.2 million) with a further $3.5 million (U$3.0 million) advanced to contractors for equipment.
- During the quarter ended June 30, 2009, the Company invested $3.2 million on its mineral properties and a further $5.9 million in additions to plant and equipment on a cash basis. This compares to $2.8 million invested on its mineral properties, and a further $8.0 million on additions to plant and equipment in the quarter ended June 30, 2008, and $1.8 million invested on its mineral properties, and a further $1.6 million on additions to plant and equipment in the first quarter ended March 31, 2009.
- On August 12, 2009, the Company reported a non-brokered private placement offering consisting of up to 4,000,000 units to be issued at a price of $2.30 per unit for gross proceeds of up to $9.2 million. Each unit will consist of one common share and one-half of one common share purchase warrant with each full warrant entitling the holder to purchase one additional common share of the Company at an exercise price of $3.30 per share for a period of two years after closing. The Company plans to use the net proceeds of the offering as general working capital for its three operating silver mines in Mexico.
- On August 12, 2009, the Company reported that it will settle certain debts of its subsidiaries in the aggregate amount of up to $4,000,000 and has entered into debt settlement agreements with those creditors to settle such debt by the issuance of up to 1,739,130 common shares of the Company at a deemed price of $2.30 per share. Closing of the debt settlement is subject to receipt of all required regulatory approvals including the consent of the Toronto Stock Exchange.

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

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

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

MINING OPERATING RESULTS

Quarter Ended June 30,		CONSOLIDATED FIRST MAJESTIC RESULTS	Year to date June 30,	
2009	**2008**		**2009**	**2008**
204,873	**213,995**	Ore processed/tonnes milled	**420,920**	**372,393**
189	**229**	Average silver grade (g/tonne)	**206**	**237**
66%	**70%**	Recovery (%)	**63%**	**71%**
827,720	**1,109,821**	Silver ounces produced	**1,757,683**	**2,005,178**
746	**482**	Gold ounces produced	**1,237**	**722**
49,857	**25,128**	Equivalent ounces from gold	**83,340**	**37,812**
1,493,162	**1,987,551**	Pounds of lead produced	**3,321,901**	**3,845,448**
80,359	**129,243**	Equivalent ounces from lead	**157,030**	**267,136**
-	**134,644**	Pounds of zinc produced	**-**	**401,297**
-	**6,950**	Equivalent ounces from zinc	**-**	**22,735**
957,936	**1,271,141**	Total production - ounces silver equiv.	**1,998,053**	**2,332,862**
1,073,129	**892,406**	Ounces of silver equivalents sold (1)	**2,069,724**	**1,911,896**
$6.31	**$4.84**	Total US cash cost per ounce (2) (3)	**$5.58**	**$5.00**
4,918	**7,162**	Underground development (m)	**9,529**	**15,472**
363	**20,325**	Diamond drilling (m)	**5,411**	**35,488**
$36.97	**$47.04**	Total US production cost per tonne (3)	**$34.79**	**$43.37**

Quarter Ended June 30,		LA ENCANTADA RESULTS	Year to date June 30,	
2009	**2008**		**2009**	**2008**
68,481	**63,194**	Ore processed/tonnes milled	**145,037**	**116,075**
237	**290**	Average silver grade (g/tonne)	**273**	**305**
50%	**63%**	Recovery (%)	**51%**	**64%**
263,321	**374,163**	Silver ounces produced	**648,297**	**727,145**
-	**-**	Gold ounces produced	**-**	**-**
-	**-**	Equivalent ounces from gold	**-**	**-**
569,712	**836,425**	Pounds of lead produced	**1,472,084**	**1,340,213**
28,109	**53,399**	Equivalent ounces from lead	**65,828**	**90,449**
-	**-**	Pounds of zinc produced	**-**	**-**
-	**-**	Equivalent ounces from zinc	**-**	**-**
291,430	**427,562**	Total production - ounces of silver equiv.	**714,125**	**817,594**
289,753	**391,404**	Ounces of silver equivalents sold	**707,970**	**757,328**
$7.14	**$3.67**	Total US cash cost per ounce (2) (3)	**$5.23**	**$3.49**
2,230	**1,761**	Underground development (m)	**4,327**	**5,460**
-	**2,501**	Diamond drilling (m)	**2,397**	**8,186**
$44.56	**$66.46**	Total US production cost per tonne (3)	**$41.19**	**$53.80**

(1) Includes 40,278 ounces in the second quarter ended June 30, 2009 and 39,736 ounces in the six months ended June 30, 2009 (after adjustments for intercompany eliminations) sold as coins, ingots and bullion from Canadian operations.

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

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

Quarter Ended June 30,		LA PARRILLA RESULTS	Year to date June 30,	
2009	**2008**		**2009**	**2008**
63,548	**72,650**	Ore processed/tonnes milled	**129,454**	**127,949**
196	**243**	Average silver grade (g/tonne)	**193**	**257**
81%	**66%**	Recovery (%)	**74%**	**70%**
324,972	**376,528**	Silver ounces produced	**593,301**	**744,397**
221	**154**	Gold ounces produced	**371**	**292**
14,408	**8,017**	Equivalent ounces from gold	**25,252**	**15,241**
923,450	**1,098,773**	Pounds of lead produced	**1,849,817**	**2,344,107**
52,250	**72,144**	Equivalent ounces from lead	**91,202**	**164,858**
-	**-**	Pounds of zinc produced	**-**	**-**
-	**-**	Equivalent ounces from zinc	**-**	**-**
391,630	**456,688**	Total production - ounces of silver equiv.	**709,754**	**924,496**
423,674	**307,260**	Ounces of silver equivalents sold	**724,855**	**733,779**
$4.72	**$3.61**	Total US cash cost per ounce (1) (2)	**$4.95**	**$3.52**
1,982	**2,505**	Underground development (m)	**3,787**	**4,552**
-	**10,569**	Diamond drilling (m)	**2,038**	**19,116**
$40.58	**$43.89**	Total US production cost per tonne (2)	**$38.14**	**$38.33**

Quarter Ended June 30,		SAN MARTIN RESULTS	Year to date June 30,	
2009	**2008**		**2009**	**2008**
72,844	**78,151**	Ore processed/tonnes milled	**146,430**	**128,369**
138	**168**	Average silver grade (g/tonne)	**150**	**156**
74%	**85%**	Recovery (%)	**73%**	**83%**
239,427	**359,130**	Silver ounces produced	**516,086**	**533,636**
525	**328**	Gold ounces produced	**866**	**430**
35,449	**17,111**	Equivalent ounces from gold	**58,088**	**22,571**
-	**52,353**	Pounds of lead produced	**-**	**161,128**
-	**3,700**	Equivalent ounces from lead	**-**	**11,829**
-	**134,644**	Pounds of zinc produced	**-**	**401,297**
-	**6,950**	Equivalent ounces from zinc	**-**	**22,735**
274,876	**386,891**	Total production - ounces of silver equiv.	**574,174**	**590,772**
319,424	**193,742**	Ounces of silver equivalents sold	**597,163**	**420,789**
$7.54	**$7.35**	Total US cash cost per ounce (1) (2)	**$6.76**	**$9.12**
707	**2,896**	Underground development (m)	**1,414**	**5,460**
363	**7,255**	Diamond drilling (m)	**976**	**8,186**
$26.71	**$34.26**	Total US production cost per tonne (2)	**$25.50**	**$38.97**

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

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

Reconciliation of Cash Costs to GAAP		Three Months Ended June 30, 2009				Three Months Ended June 30, 2008				Year to Date June 30, 2009				Year to Date June 30, 2008			
		San Martin	La Parrilla	La Encantada	2009	San Martin	La Parrilla	La Encantada	2009	San Martin	La Parrilla	La Encantada	2009	San Martin	La Parrilla	La Encantada	2009
DIRECT MINING EXPENSES(MMI)	US$	2,182,816	2,195,447	2,073,855	6,452,118	2,729,893	3,107,950	1,862,447	7,700,290	4,145,517	4,296,055	3,963,705	12,405,277	4,949,332	5,318,964	3,284,553	13,552,849
PROFIT SHARING	US$	-	-	59,120	59,120	-	-	217,949	217,949	-	-	59,120	59,120	-	-	234,538	234,538
OTHER SELLING COSTS (TRANSPORT, ETC.)	US$	179,173	130,757	201,786	511,716	37,834	81,735	67,762	187,331	205,444	188,425	228,124	621,993	68,269	125,618	139,349	333,236
THIRD PARTY SMELTING	US$	139,277	1,045,512	1,170,930	2,355,719	39,416	1,828,318	2,827,218	4,694,952	245,293	2,002,611	2,583,496	4,831,400	134,259	2,282,555	3,709,755	6,126,569
BYPRODUCT CREDITS	US$	(555,958)	(793,202)	(394,725)	(1,743,885)	(129,574)	(1,829,156)	(557,610)	(2,516,340)	(862,605)	(1,549,946)	(801,516)	(3,214,067)	(148,981)	(2,822,445)	(889,137)	(3,860,563)
LESS PROFIT SHARING	US$	-	-	(59,120)	(59,120)	-	-	(217,949)	(217,949)	-	-	(59,120)	(59,120)	-	-	(234,538)	(234,538)
TOTAL CASH COSTS	US$	1,945,308	2,578,514	3,051,846	7,575,668	2,677,569	3,188,847	4,199,817	10,066,233	3,733,649	4,937,145	5,973,809	14,644,603	5,002,879	4,904,692	6,244,520	16,152,091
CASH COST PER OUNCE PRODUCED	US$/OZ	8.12	7.93	11.59	9.15	7.46	8.47	11.22	9.07	7.23	8.32	9.21	8.33	9.38	6.59	8.59	8.06
SMELTING/REFINING/TRANSPORTATION COST PER OUNCE	US$/OZ	(0.58)	(3.22)	(4.45)	(2.85)	(0.11)	(4.86)	(7.56)	(4.23)	(0.48)	(3.38)	(3.99)	(2.75)	(0.25)	(3.07)	(5.10)	(3.06)
DIRECT MINING EXPENSES CASH COST	US$/OZ	7.54	4.72	7.14	6.31	7.35	3.61	3.67	4.84	6.76	4.95	5.23	5.58	9.12	3.52	3.49	5.00
TONNES PRODUCED	TONNES	72,844	63,548	68,481	204,873	78,151	72,650	63,194	213,995	146,430	129,453	145,037	420,920	128,369	127,949	116,075	372,393
OUNCES OF SILVER PRODUCED	OZ	239,427	324,972	263,321	827,720	359,130	376,528	374,163	1,109,821	516,086	593,300	648,297	1,757,683	533,636	744,398	727,145	2,005,179
OUNCES OF SILVER EQ PRODUCED	OZ EQ	35,449	66,658	28,109	130,216	27,761	80,161	53,999	161,921	58,088	116,454	65,828	240,370	57,135	180,099	90,449	327,683
TOTAL OZ OF SILVER EQ PRODUCED	OZ EQ	274,876	391,630	291,430	957,936	386,891	456,689	427,562	1,271,142	574,174	709,754	714,125	1,998,053	590,771	924,497	817,594	2,332,862
MINING	$/Tonne	11.80	12.68	14.06	12.83	15.31	17.41	9.89	14.42	10.38	12.36	12.75	11.81	18.13	14.68	9.52	14.26
MILLING	$/Tonne	12.96	16.61	9.82	13.04	9.76	20.67	6.08	12.38	12.60	16.05	8.96	12.41	10.00	20.70	5.04	12.13
INDIRECT	$/Tonne	5.21	5.26	6.40	5.62	9.86	4.70	13.50	9.18	5.32	4.77	5.62	5.26	10.42	6.20	13.74	10.00
DIRECT CASH COST	$/Tonne	29.97	34.55	30.28	31.49	34.93	42.78	29.47	35.98	28.31	33.19	27.33	29.47	38.56	41.57	28.30	36.39
SELLING AND TRANSPORT COSTS	$/Tonne	2.46	2.06	2.95	2.50	0.48	1.13	1.07	0.88	1.40	1.46	1.57	1.48	0.53	0.98	1.20	0.89
SMELTING AND REFINING COSTS	$/Tonne	1.91	16.45	17.10	11.50	0.50	25.17	44.74	21.94	1.68	15.47	17.81	11.48	1.05	17.84	31.96	16.45
BY PRODUCT CREDITS	$/Tonne	(7.63)	(12.48)	(5.76)	(8.51)	(1.66)	(25.18)	(8.82)	(11.76)	(5.89)	(11.97)	(5.53)	(7.64)	(1.16)	(22.06)	(7.66)	(10.37)
DIRECT COST PER TONNE	$/Tonne	26.71	40.58	44.56	36.97	34.26	43.89	66.46	47.04	25.50	38.14	41.19	34.79	38.97	38.33	53.80	43.37
MINING	$/Oz.	3.59	2.48	3.66	3.17	3.33	3.36	1.67	2.78	2.95	2.70	2.85	2.83	4.36	2.52	1.52	2.65
MILLING	$/Oz.	3.94	3.25	2.56	3.23	2.12	3.99	1.03	2.39	3.58	3.50	2.00	2.97	2.41	3.56	0.80	2.25
INDIRECT	$/Oz.	1.59	1.03	1.67	1.39	2.14	0.91	2.28	1.77	1.51	1.04	1.26	1.26	2.51	1.06	2.19	1.86
DIRECT CASH COST	$/Oz.	9.12	6.76	7.88	7.80	7.60	8.25	4.98	6.94	8.03	7.24	6.11	7.06	9.27	7.15	4.52	6.76
SELLING AND TRANSPORT COSTS	$/Oz.	0.75	0.40	0.77	0.62	0.11	0.22	0.18	0.17	0.40	0.32	0.35	0.35	0.13	0.17	0.19	0.17
SMELTING AND REFINING COSTS	$/Oz.	0.58	3.22	4.45	2.85	0.11	4.86	7.56	4.23	0.48	3.38	3.99	2.75	0.25	3.07	5.10	3.06
BY PRODUCT CREDITS	$/Oz.	(2.32)	(2.44)	(1.50)	(2.11)	(0.36)	(4.86)	(1.49)	(2.27)	(1.67)	(2.61)	(1.24)	(1.83)	(0.28)	(3.79)	(1.22)	(1.93)
CASH COST PER OUNCE	$/Oz.	8.12	7.93	11.59	9.15	7.46	8.47	11.22	9.07	7.23	8.32	9.21	8.33	9.38	6.59	8.59	8.06

INVENTORY RECONCILIATION (See Note 1):		Three months ended June 30, 2009					Year to date June 30, 2009				
		San Martin	La Parrilla	La Encantada	Vancouver	2009	San Martin	La Parrilla	La Encantada	Vancouver	2009
Opening stockpile inventory	OZ EQ	116,400	93,350	54,070	-	263,820	147,932	193,165	88,555		429,652
Reduction of stockpile	OZ EQ	(88,377)	(12,088)	(14,047)	-	(114,512)	(119,909)	(111,903)	(48,532)	-	(280,344)
Ending Stockpile inventory	OZ EQ	28,023	81,262	40,023	-	149,308	28,023	81,262	40,023	-	149,308
Opening in process inventory	OZ EQ	13,641	9,763	-	-	23,404	13,992	8,524	-	-	22,516
Inventory adjustments	OZ EQ	525	1,077	-	-	1,602	174	2,316	-	-	2,490
Ending in process inventory	OZ EQ	14,166	10,840	-	-	25,006	14,166	10,840	-	-	25,006
Opening finished goods inventory	OZ EQ	55,350	37,567	45,948	-	138,865	33,276	20,368	48,111	-	101,755
Production - silver equivalent ounces	OZ EQ	274,876	391,630	291,430	-	957,936	574,174	709,754	714,130	-	1,998,058
Shipments - silver equivalent ounces	OZ EQ	(319,424)	(423,674)	(289,753)	-	(1,032,851)	(596,621)	(724,855)	(707,970)	-	(2,029,446)
Purchased material for processing	OZ EQ	-	16,584	-	-	16,584	-	16,584	-	-	16,584
Inventory adjustments	OZ EQ	794	(5,973)	(684)	-	(5,863)	767	(5,302)	(7,330)	-	(11,865)
Ending finished goods inventory	OZ EQ	11,596	16,134	46,941	-	74,671	11,596	16,549	46,941	-	75,086
Total inventory before transfers	OZ EQ	53,785	108,236	86,964	-	248,985	53,785	108,236	86,964	-	248,985
Transfers to Coins, Ingots and Bullion inventory	OZ EQ			-	50,000	50,000	-	-	-	146,769	146,769
Inventory adjustments	OZ EQ	-	-	-	(616)	(616)	-	-	-	(616)	(616)
Opening inventory of coins, ingots and bullion	OZ EQ	-	-	-	71,602	71,602	-	-	-	42,453	42,453
Sales of coins, ingots and bullion	OZ EQ	-	-	-	(103,867)	(103,867)	-	-	-	(171,487)	(171,487)
Closing inventory of coins, ingots and bullion	OZ EQ	-	-	-	17,119	17,119	-	-	-	17,119	17,119
Total inventory, all stages and products	OZ EQ	53,785	108,236	86,964	17,119	266,104	53,785	108,236	86,964	17,119	266,104
Value of ending inventory - (Note 1)	CDN$	386,807	476,945	634,610	178,779	1,677,141	386,807	476,945	634,610	178,779	1,677,141
Value of ending inventory - Cdn$ per oz	CDN$	7.19	4.41	7.30	10.44	6.30	7.19	4.41	7.30	10.44	6.30
Month end exchange rate - June 30, 2009		1.1630	1.1630	1.1630	1.1630	1.1630	1.1630	1.1630	1.1630	1.1630	1.1630
Value of ending inventory - US$ per oz	US$	6.18	3.79	6.27	8.98	5.42	6.18	3.79	6.27	8.98	5.42

Cost of Sales Reconciliation		Three Months ended June 30, 2009					Year to Date June 30, 2009				
		San Martin	La Parrilla	La Encantada	Vancouver	2009	San Martin	La Parrilla	La Encantada	Vancouver	2009
Cash Cost	US$	1,945,308	2,578,514	3,051,846	-	7,575,668	3,733,649	4,937,145	5,973,809	-	14,644,603
Inventory changes	US$	480,054	293,018	(117,518)	-	655,554	794,173	250,400	(33,830)	-	1,010,743
Byproduct credits	US$	555,958	793,202	394,725	-	1,743,885	862,605	1,549,946	801,516	-	3,214,067
Smelting and refining	US$	(139,277)	(1,045,512)	(1,170,930)	-	(2,355,719)	(245,293)	(2,002,611)	(2,583,496)	-	(4,831,400)
Other	US$	(88,361)	277,285	(36,608)	-	152,316	(109,833)	366,561	(7,306)	-	249,422
Cost of sales - Calculated	US$	2,753,682	2,896,507	2,121,515	-	7,771,704	5,035,301	5,101,441	4,150,693	-	14,287,435
Average CDN/US Exchange Rate		0.82769	0.84287	0.81955	-	0.83101	0.83088	0.83115	0.81820	-	0.82726
Booked Cost of Sales	CDN$	3,326,950	3,436,485	2,588,633	-	9,352,068	6,060,176	6,137,789	5,072,929	-	17,270,894
Vancouver Cost of Sales (See Note 2)	CDN$	-	-	-	107,800	107,800	-	-	-	487,787	487,787
Total Cost of Sales as Reported	CDN$				107,800	9,459,868				487,787	17,758,681

Note 1 - The inventory reconciliation above consists of silver coins, bullion, doré, concentrates, ore in process and stockpile but excludes materials and supplies.
Note 2 - Net of intercompany eliminations of $1,671,393 for the second quarter ended June 30, 2009 and $2,375,383 for the year to date ended June 30, 2009.

REVIEW OF MINING OPERATING RESULTS

The silver production for the second quarter of 2009 consisted of 827,720 ounces of silver representing a decrease of 102,245 ounces or 11% compared to the first quarter of 2009. In the quarter, 1,493,162 pounds of lead were produced, representing a decrease of 335,577 pounds or 18% compared to the first quarter of 2009. Gold produced in the second quarter of 2009 was 746 ounces, representing an increase of 255 ounces or 52% compared to the first quarter of 2009.

The ore processed during the quarter at the Company's three operating silver mines: La Parrilla Silver Mine, the San Martin Silver Mine and La Encantada Silver Mine; amounted to 204,873 tonnes which is a decrease of 11,174 tonnes or 5% over the first quarter of 2009.

The average silver head grade in the quarter for the three mines decreased to 189 g/t silver compared to 222 g/t Ag in the first quarter of 2009 and 229 g/t in the second quarter of 2008.

Total combined recoveries of silver at the Company’s three mills improved in the second quarter to 66% compared to 60% in the first quarter of 2009.

A total of 4,918 meters of underground development was completed in the second quarter of 2009 compared to 4,610 metres completed in the first quarter of 2009. This program is important as it provides access to new areas within the different mines and prepares the mines for continued growth of silver production going forward. A total of 363 meters of diamond drilling was completed during the second quarter of 2009 compared to 5,048 metres drilled in the first quarter of 2009.

The Company's production levels are slightly behind schedule mostly due to the enormous efforts ongoing for completing the major construction project at the La Encantada mine. The completion of this new 3,500 tonne-per-day cyanidation mill is expected to have a dramatic effect on production and profitability and management has focused most of its efforts on completing this project. In addition, production was also impacted at La Encantada due to some ground instability in the second quarter which interrupted high grade ore mining efforts in the Milagros and San Javier Breccias. The Company mitigated the lost high grade production with an increase in mining of low grade dumps and mining in the Azul y Oro and Buenos Aires veins where the manganese in the ore could not be diluted with the high grade ore from the Breccias and this caused reduced recoveries at La Encantada. The Breccias have been stabilized and mining has resumed in these high grade areas. It should be noted that once the new cyanidation mill is up and running, ore containing manganese can be processed without affecting recoveries.

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

MINE UPDATES

La Encantada Silver Mine

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

The La Encantada operation is undergoing an expansion to add a new 3,500 tpd cyanidation plant. The current flotation mill is operating on average at approximately 900 tpd to produce a silver rich lead concentrate. To date, the Company has spent approximately US$15.6 million on the new plant which is expected to be fully commissioned by the end of 2009. Once completed, the La Encantada Silver Mine is expected to produce 4.3 million ounces of silver doré annually.

Tonnes milled in the second quarter of 2009 decreased by 11% to 68,481 tonnes from the 76,556 tonnes milled in the first quarter of 2009. The reduction of tonnes milled in the second quarter of 2009 was due to problems accessing certain areas of the mine due to safety recommendations related to some structural instability issues. Access to those areas has now been re-established and the tonnage is expected to increase in the third quarter of 2009. The average head grade was 237 grams per tonne ("g/t") in the second quarter of 2009, representing a decrease of 68 g/t or 22% when compared to 305 g/t in the first quarter of 2009. This decrease was originated by the temporary closure of certain areas of the mine, resulting in an increase in the production from lower grade areas. Silver recovery in the second quarter of 2009 was 50%, comparable to the 51% achieved in the first quarter of 2009. These low recoveries were caused by the high manganese content in the ore from Azul y Oro and Buenos Aires areas. Steps are being taken to improve recoveries including dilution with high grade breccia ore; however, until the new 3,500 tpd cyanidation plant is completed, metallurgical recoveries are only expected to increase modestly.

A total of 291,430 equivalent ounces of silver were produced during the second quarter of 2009, which represents a decrease of 131,265 ounces or 31% from the 422,695 equivalent ounces of silver produced in the first quarter of 2009. Silver production consisted of 263,321 ounces of silver, representing a decrease of 32% compared with the 384,976 ounces in the first quarter of 2009. Lead production for the second quarter of 2009 was 569,712 pounds, representing a decrease of 332,660 pounds or 37% compared to 902,372 pounds of lead produced in the first quarter of 2009.

Underground mine development consisted of 2,230 metres completed in the second quarter of 2009 compared to 2,097 metres of development completed in the first quarter of 2009, representing an increase of 6%. The focus of this program was several targets including the San Javier/Milagros Breccias, Azul y Oro and the new Buenos Aires areas and a new developed area between the 660 and the Ojuelas ore bodies. The purpose of the ongoing underground development program is to prepare for increased production levels in 2009, to confirm additional Reserves and Resources, and for exploration and exploitation purposes going forward. No exploration diamond drilling was completed at La Encantada in the second quarter of 2009.

La Parrilla Silver Mine

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

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

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

Tonnes milled at La Parrilla were 63,548 tonnes in the second quarter of 2009, representing a decrease of 2,357 tonnes or 4%, when compared with the 65,905 tonnes milled in the first quarter of 2009. The average head grade increased to 196 g/t from 191 g/t in the first quarter of 2009. Recoveries of silver increased significantly to 81% in the second quarter of 2009, compared to 66% in the second quarter of 2008 and the first quarter of 2009, respectively.

Total silver production was 391,630 equivalent ounces of silver in the second quarter of 2009, representing an increase of 73,506 ounces or 23% when compared to the 318,124 ounces of silver equivalent produced in the first quarter of 2009. The composition of the silver equivalent production in the second quarter of 2009 included 324,972 ounces of silver, 221 ounces of gold and 923,450 pounds of lead. This compares with 268,329 ounces of silver, 150 ounces of gold and 926,367 pounds of lead in the first quarter of 2009.

No diamond drilling was completed in the second quarter of 2009. This compares to the 2,038 metres of drilling completed in the first quarter of 2009. A total of 1,982 metres of underground development was completed in the second quarter of 2009, compared to 1,806 metres in the first quarter of 2009.

San Martin Silver Mine

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

An expansion program of the mill was launched in July 2008. The program included additional leaching tanks, thickeners and a third ball mill. The plan was to expand this mill from the historic 800 tpd to 1,200 tpd by April 2009. However, due to market conditions and the need to preserve cash, the expansion program was suspended in November 2008 resulting in the current mill capacity of 950 tpd. The mill is currently running at a monthly average 890 tpd in the last quarter, after factoring in maintenance and statutory holidays. The completed upgrades included the construction of a new thickener, new clarifiers and new filter presses to complete the expansion of the cyanidation process. Other upgrades completed included the pouring of cement floors around the leaching and thickeners areas and the repair and reinforcement of the older leaching tanks. These improvements are part of the process of achieving a “Clean Industry Certification” from PROFEPA.

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

Tonnes milled at the San Martin mine were 72,844 tonnes in the second quarter of 2009, representing a slight decrease when compared to 73,586 tonnes milled in the first quarter of 2009. The average head grade was 138 g/t in the second quarter of 2009, representing a decrease of 16% when compared to the 163 g/t in the first quarter of 2009, due to higher volume of ore feed from the old dumps.

Recoveries of silver in the second quarter of 2009 increased to 74%, from 72% achieved in the first quarter of 2009. Total production of 274,876 ounces of silver equivalent in the second quarter of 2009 was modestly lower than the 299,298 equivalent ounces of silver produced in the first quarter of 2009. The equivalent ounces of silver in the second quarter of 2009 consisted of 239,427 ounces of silver and 525 ounces of gold. This compares to 276,659 ounces of silver and 341 ounces of gold produced in the first quarter of 2009.

During the second quarter of 2009, a total of 363 metres of diamond drilling was completed. This compares to 613 metres drilled in the first quarter of 2009.

During the second quarter of 2009, a total of 707 metres of underground development was completed; this is similar to the 707 metres completed in the first quarter of 2009.

Del Toro Silver Mine, Zacatecas, Mexico

The Del Toro Silver Mine is located 60 km to the southeast from the Company's La Parrilla Silver Mine and consists of 320 contiguous hectares of mining claims plus an additional 100 hectares of surface rights covering the area surrounding the San Juan mine. The Del Toro operation represents the consolidation of two old silver mines; the Perseverancia and San Juan mines which are approximately 1 kilometre apart.

The Del Toro Silver Mine is an advanced stage development project that has undergone an aggressive drilling program since 2005 to explore the various areas of interest within the Del Toro property holdings. The Company has been extracting development ore from the mine and shipping it to its La Parrilla mill for mixing into La Parrilla's production and for batch metallurgical testing. In the second quarter of 2009, 2,417 tonnes of development ore were extracted and fed into the La Parrilla mill for production compared to the 15,089 tonnes in the first quarter of 2009. The Perseverancia area is presently being upgraded and rehabilitated to increase production from the high grade chimney areas.

Presently, permitting is underway for the construction of a new mill at Del Toro. Assuming all permitting is completed in 2009 and funds are available for this project, a new 500 tpd mill is anticipated to be operating towards the end of 2010.

EXPLORATION PROPERTY UPDATES

Cuitaboca Silver Project, Sinaloa, Mexico

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

Jalisco Group of Properties, Jalisco, Mexico

The Company acquired a group of mining claims totalling 5,131 hectares located in various mining districts located in Jalisco State, Mexico. During 2008, surface geology and mapping began with the purpose of defining future drill targets; however, exploration has been discontinued pending an improvement in market conditions.

RESULTS OF OPERATIONS

Three Months ended June 30, 2009 compared to Three Months ended June 30, 2008.

	For the Quarter Ended		
	June 30, 2009	June 30, 2008	
	$	$	
Gross Revenue	15,779,596	14,290,892	(1)
Net Revenue	13,024,877	11,436,889	(2)
Cost of sales	9,459,868	7,629,755	(3)
Amortization and depreciation	943,553	877,252	
Depletion	828,911	698,844	
Accretion of reclamation obligation	117,171	50,367	
Mine operating earnings	**1,675,374**	**2,180,671**	(4)
General and administrative	2,114,312	2,100,325	
Stock-based compensation	800,808	670,616	
	2,915,120	2,770,941	
Operating loss	**(1,239,746)**	**(590,270)**	(5)
Interest and other expenses	(404,765)	(226,872)	(6)
Investment and other income	222,173	644,057	(7)
Foreign exchange gain	840,958	542,846	(8)
(Loss) income before taxes	(581,380)	369,761	
Income tax - current	113,532	267,530	
Income tax (recovery) - future	(1,731,328)	399,187	
Income tax (recovery) expense	(1,617,796)	666,717	(9)
NET INCOME (LOSS) FOR THE QUARTER	**1,036,416**	**(296,956)**	(10)

1. Consolidated gross revenue (prior to smelting and refining and metal deductions) for the quarter ended June 30, 2009 was $15,779,596 or $14.70 (US$12.60) per ounce compared to $14,290,892 or $16.01 (US$15.86) per ounce for the quarter ended June 30, 2008 for an increase of $1,488,704, or 10%. A 20% increase in silver ounces sold in the current quarter and a weaker Canadian dollar compared to the U.S. dollar contributed to the increase in spite of lower U.S. revenue per ounce in the current quarter.
2. Net revenue for the three months ended June 30, 2009 increased by $1,587,988 or 14% to $13,024,877, from $11,436,889 in the second quarter of 2008, due to the increase in the silver ounces sold and the lower smelting and refining charges from two new smelting and refining agreements entered into in February and May 2009.
3. Cost of sales increased by $1,830,113 or 24% due to the increase in ounces sold of 180,723 ounces or 20% from the quarter ended June 30, 2009 compared to the quarter ended June 30, 2008. This increase in ounces sold was achieved through a reduction of 114,512 ounces of stockpile at a cost of $281,104.
4. Mine operating earnings decreased by 23% to $1,675,374 for the quarter ended June 30, 2009 from $2,180,671 for the same quarter the prior year. This is primarily due to the operational challenges and instability experienced at La Encantada which led to revenue exceeding cost of sales by 3%. In comparison, La Encantada's revenue from operations exceeded cost of sales by 155% in the second quarter of 2008.
5. Operating loss increased by $649,476 or 110% to $1,239,746 for the quarter ended June 30, 2009, from $590,270 for the quarter ended June 30, 2008, due to reduced mine operating earnings described above and a $130,192 increase in stock-based compensation relating to the granting of stock options in May 2009.
6. Interest and other expenses increased by $177,893 or 78% in the quarter ended June 30, 2009 compared to the quarter ended June 30, 2008. The increase is primarily attributed to additional interest on capital leases and financing cost relating to advance payments on silver shipments.

7. Investment and other income decreased by $421,884 or 66% due to declining interest rates on short-term investments; however, the Company realized a gain of $212,380 on derivative financial instruments in the quarter ended June 30, 2009.

8. The foreign exchange gain increased to $840,958 in the quarter ended June 30, 2009 from $542,846 in the quarter ended June 30, 2008 due to the effect of a weakening U.S. dollar on outstanding U.S .dollar denominated liabilities.

9. During the quarter ended June 30, 2009, the Company recorded an income tax recovery of $1,617,796 compared to a tax expense of $666,717 in the quarter ended June 30, 2008, and this is attributed to the recovery of future income taxes arising from temporary timing differences and tax loss carryforwards compared to 2008. Included in the current recovery is a Canadian dollar equivalent of $542,906 for the adjusted tax deductibility of energy expenses which has increased the tax loss carryforwards.

10. Net income for the quarter ended June 30, 2009 was $1,036,416 or $0.01 per common share compared to a net loss of $296,956 or $0.00 per common share in the quarter ended June 30, 2008, for an increase of $1,333,372.

Six Months ended June 30, 2009 compared to Six Months ended June 30, 2008.

	For the Six Months Ended		
	June 30, 2009	**June 30, 2008**	
	$	**$**	
Gross Revenue	33,243,733	30,536,815	(1)
Net Revenue	27,411,749	24,401,071	(2)
Cost of sales	17,758,681	14,146,811	(3)
Amortization and depreciation	1,802,391	1,664,431	
Depletion	1,399,207	1,585,206	(4)
Accretion of reclamation obligation	233,210	95,842	(5)
Mine operating earnings	**6,218,260**	**6,908,781**	
General and administrative	3,932,315	4,232,205	
Stock-based compensation	1,697,548	1,778,832	
	5,629,863	6,011,037	
Operating income	**588,397**	**897,744**	(6)
Interest and other expenses	(764,971)	(565,699)	(7)
Investment and other income	512,017	781,450	(8)
Foreign exchange (loss) gain	(111,908)	533,034	(9)
Income before taxes	223,535	1,646,529	
Income tax - current	171,582	705,934	
Income tax (recovery) - future	(1,924,160)	172,228	
Income tax (recovery) expense	(1,752,578)	878,162	(10)
NET INCOME FOR THE PERIOD	**1,976,113**	**768,367**	(11)

1. Gross revenue (prior to smelting and refining and metal deductions) for the six month period ended June 30, 2009 was $33,243,733 compared to $30,536,815 for the six month period ended June 30, 2008 for an increase of $2.7 million or 9%. A 9% increase in silver equivalent ounces sold in the first half of 2009, compared to the first half of 2008, contributed to this increase. Although silver prices were lower in 2009, the weaker Canadian dollar compared to the U.S. dollar contributed to the favourable increase in gross revenue as silver shipments are valued in U.S dollars and translated into Canadian dollars for financial statement presentation. The average gross revenue per ounce sold on a consolidated basis was Cdn$16.06 (US$13.32) per ounce for the six months ended June 30, 2009 compared to Cdn$15.97 (US$15.86) per ounce for the six months ended June 30, 2008.

2. Net revenue for the six months ended June 30, 2009 increased by $3.0 million or 12%, from $24,401,071 in the first half of 2008 to $27,411,749 in the first half of 2009. Smelting and refining charges and metal deductions were reduced by 5% during the six-month period ended June 30, 2009 compared to the six months ended

June 30, 2008, and reflects the reductions in smelting and refining charges related to two new smelting and refining agreements entered into in February and May 2009 for doré and concentrate smelting. Net revenue in the current year to date period also included the incremental revenue of $778,159 from the sales of coins, ingots and bullion to consumers and individual retail investors over the Company's website.

3. Cost of sales increased by $3,611,870 or 26% from $14,146,811 to $17,758,681 for the six months ended June 30, 2009. Total equivalent ounces of silver sold for six months ended June 30, 2009, was 2,069,724 ounces whereas for the six months ended June 30, 2008, the total equivalent ounces of silver sold was 1,911,896 ounces, for an increase of 157,828 equivalent ounces or 8%. Also contributing to the increase of cost of sales in the six months ended June 30, 2009 was a significant consumption of stockpile inventories amounting to $1,024,371, which is categorized as an inventory effect and is excluded from the cash costs, but is included in cost of sales for the current year-to-date period. The Ore Stockpile has been reduced from 429,652 equivalent ounces or $1,631,625 at the beginning of the year to 149,307 equivalent ounces or $607,254 at June 30, 2009, a reduction of 280,345 equivalent ounces of Ore Stockpile inventory. Due to losses in recoveries, equivalent pricing variations, and normal contribution to tailings, the 280,345 equivalent ounce reduction of the Ore Stockpile ounces converted to 216,650 equivalent ounces of silver production on a year to date basis.

4. Depletion expense decreased by $185,999 or 12% to $1,399,207 in the six months ended June 30, 2009 compared to $1,585,206 for the six months ended June 30, 2008 and is primarily related to the San Martin mine as less tonnage was extracted from reserves, and more tonnage was extracted from areas outside of reserves.

5. Accretion of reclamation obligations has increased by $137,368, from $95,842 in the second quarter of 2008 to $233,210 in the second quarter of 2009, due to the updated cost estimates for reclamation activities as determined in late 2008.

6. Operating income decreased by $309,347 or 34%, from $897,744 for the period ended June 30, 2008 to $588,397 for the period ended June 30, 2009. The decrease is attributable to the $690,521 reduction of mine operating earnings, but it was partially offset by a $299,890 reduction of general and administrative expenses and a $81,284 reduction in stock-based compensation.

7. Interest and other expenses increased by $199,272 or 35% in the six month period ended June 30, 2009 compared to the prior year and is primarily attributed to additional interest on capital leases and financing cost relating to advance payments on silver shipments.

8. Investment and other income decreased by $269,433 or 34%. Interest rates on short-term investments continued to decline in the first half of 2009 but this was offset by a gain of $479,197 that was realized on derivative financial instruments.

9. There was a foreign exchange loss of $111,908 for the six month period ended June 30, 2009, compared to a gain of $533,034 in the six month period ended June 30, 2008, due to the effect of a weakening U.S. dollar on outstanding U.S .dollar denominated liabilities.

10. During the six months ended June 30, 2009, the Company recorded an income tax recovery of $1,752,578 compared to a tax expense of $878,162 in the six months ended June 30, 2008. This is attributed to the recovery of future income taxes arising from temporary timing differences and tax loss carryforwards compared to 2008. Included in the current recovery is a Canadian dollar equivalent of $542,906 for the adjusted tax deductibility of energy expenses which has increased the tax loss carryforwards.

11. Net income for the six months ended June 30, 2009 was $1,976,113 or $0.02 per common share (basic) compared to net income of $768,367 or $0.01 per common share in 2008, for an increase of $1.2 million.

SUMMARY OF QUARTERLY RESULTS

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

	Quarter	Net sales revenues $	Net income (loss) after taxes $	Basic and diluted net income (loss) per common share $	Stock based compensation (1) $	Property write downs $	Note
Year ended December 31, 2009	Q2	13,024,877	1,036,416	0.01	800,808	-	2
	Q1	14,386,872	939,698	0.01	896,739	-	3
Year ended December 31, 2008	Q4	9,106,605	(5,538,906)	(0.08)	865,415	-	4
	Q3	10,817,211	(374,245)	(0.01)	1,035,864	-	
	Q2	11,436,889	(296,956)	0.00	670,616	-	5
	Q1	12,964,182	1,065,323	0.02	1,108,216	-	
Year ended December 31, 2007	Q4	11,631,477	(1,292,631)	(0.03)	1,446,821	-	
	Q3	10,288,478	(2,070,082)	(0.04)	723,992	1,703,591	6

Notes:

(1) Stock-based Compensation - the net losses are affected significantly by varying stock based compensation amounts in each quarter. Stock based compensation results from the issuance of stock options in any given period, as well as factors such as vesting and the volatility of the Company's stock, and is a calculated amount based on the *Black-Scholes Option Pricing Model* of estimating the fair value of stock option issuances.

(2) In the quarter ended June 30, 2009, net sales revenue decreased due to losses on final settlements for which provisional payments had already been received in the prior quarter.

(3) In the quarter ended March 31, 2009, a stronger U.S. dollar compared to the Canadian dollar accounted for the increase of revenue. Although silver prices were lower in the first quarter of 2009, the average gross revenue per ounce sold was Cdn$17.52 (US$14.07) per ounce on a consolidated basis for the three-month period ended March 31, 2009. Also contributing to an increase in net sales is $1,194,452 from the sale of coins, ingots and bullion in the three months ended March 31, 2009.

(4) In the quarter ended December 31, 2008, net sales revenue was negatively affected by declining silver prices and losses on final metal settlements, for which provisional payments had already been received. While the average gross revenue per ounce was US$14.66 for the year ended December 31, 2008, the average gross revenue per ounce for the fourth quarter of 2008 was US$11.67 per ounce. In addition, the strengthening U.S. dollar relative to the Mexican peso and Canadian dollar gave rise to a foreign exchange loss of $3.7 million in the fourth quarter of 2008.

(5) In the quarter ended June 30, 2008, the Company had a revision to its smelting charges imposed, resulting in an incremental charge and reduction of net sales of $1.9 million (US$1,852,830) in the quarter. Effective December 1, 2008, smelting and refining charges were reduced. In addition, in February 2009, the Company entered into two new smelting agreements which further reduced smelting charges for doré and concentrate.

(6) Write downs of mineral properties – net losses are impacted by managements' decision not to pursue certain mineral properties. In the quarter ended September 30, 2007, management elected not to proceed with the acquisitions of the Candameña Mining District and accordingly, included a $1,703,591 one time write down of the carrying value of the Candameña mineral property to its estimated proceeds from disposal.

Revenues Per Canadian GAAP (expressed in CDN$)

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

Revenue Analysis	Quarter Ended June 30, 2009 $	Quarter Ended June 30, 2008 $	Year to Date June 30, 2009 $	Year to Date June 30, 2008 $
MEXICO				
Gross revenues - silver dore bars and concentrates	16,195,889	14,290,892	32,465,574	30,536,815
Less: refining and smelting charges	(2,165,720)	(2,345,331)	(4,706,462)	(5,146,566)
Less: metal deductions	(588,999)	(508,672)	(1,125,522)	(989,178)
Net revenue from silver dore and concentrates	13,441,170	11,436,889	26,633,590	24,401,071
Equivalent ounces of silver sold	1,032,851	892,406	2,029,446	1,911,896
Average gross revenue per ounce sold ($CDN)	15.68	16.01	16.00	15.97
Average exchange rate in the period ($US/$CDN)	1.1672	1.0100	1.2062	1.0070
Average gross revenue per ounce sold ($US)	13.43	15.86	13.26	15.86
CANADA				
Gross revenues - silver coins, ingots and bullion	1,807,629	-	3,002,081	-
Equivalent ounces of silver sold, from Mexican production	103,867	-	171,487	-
Average gross revenue per ounce sold ($CDN)	17.40	-	17.51	-
Average exchange rate in the period ($US/$CDN)	1.1672	-	1.2062	-
Average gross revenue per ounce sold ($US)	14.91	-	14.51	-
CONSOLIDATED				
Combined gross revenues - silver dore, concentrates, coins, ingots and bullion	18,003,518	14,290,892	35,467,655	30,536,815
Less: intercompany eliminations (Note 1)	(2,223,922)	-	(2,223,922)	-
Consolidated gross revenues - silver dore, concentrates, coins, ingots and bullion	15,779,596	14,290,892	33,243,733	30,536,815
Less: refining and smelting charges	(2,165,720)	(2,345,331)	(4,706,462)	(5,146,566)
Less: metal deductions	(588,999)	(508,672)	(1,125,522)	(989,178)
Consolidated net revenue from silver dore, concentrates, coins, ingots and bullion	13,024,877	11,436,889	27,411,749	24,401,071
Equivalent ounces of silver sold (after interco. eliminations)	1,073,129	892,406	2,069,724	1,911,896
Average gross revenue per ounce sold ($CDN)	14.70	16.01	16.06	15.97
Average exchange rate in the period ($CDN/$US)	1.1672	1.0100	1.2062	1.0070
Average gross revenue per ounce sold ($US)	12.60	15.86	13.32	15.86
Average market price of per ounce of silver per LBMA.ORG.UK ($US)	13.76	17.18	13.17	17.38

Note 1: Intercompany eliminations in Q2-2009 includes $650,830 relating to Q1-2009 that was previously adjusted through Mexico's gross revenues (as reported in the Q1-2009 MD&A). To adjust for the new presentation in this MD&A, $650,830 was added to the intercompany elimination in Q2-2009 and to the year-to-date gross revenue of Mexico.

LIQUIDITY

At June 30, 2009, the Company had working capital of $2.2 million and cash and cash equivalents of $23.1 million compared to a working capital deficiency of $1.0 million and cash and cash equivalents of $17.4 million at December 31, 2008. Current liabilities at June 30, 2009 include the long-term vendor liability and associated interest relating to the acquisition of First Silver in the amount of $14.5 million. On July 22, 2008, the Company secured its outstanding vendor liability by entering into a Letter of Credit facility for $13,940,237, secured by cash and liquid short term investments. In addition, a further $545,522 was paid into the Supreme Court of British Columbia in January 2009 and the Letter of Credit increased to a total Restricted Cash balance of $14,485,759. On July 16, 2009, the Company agreed to a consent order whereby $14,258,332 was paid out of the Letter of Credit to the trust account of the lawyers of the prior Majority Shareholder of First Silver. The remaining $227,420 was paid out to the Company and the Letters of Credit were cancelled. The consent order requires that the $14,258,332 be held in trust pending the outcome of the litigation. This cash is not available for general corporate purposes. Also included in current liabilities as at June 30, 2009 is the current portion of capital lease obligations of $2.6 million.

On August 12, 2009, the Company reported a non-brokered private placement offering consisting of up to 4,000,000 units to be issued at a price of $2.30 per unit for gross proceeds of up to $9.2 million. Each unit will consist of one common share and one-half of one common share purchase warrant with each full warrant entitling the holder to purchase one additional common share of the Company at an exercise price of $3.30 per share for a period of two years after closing. The Company plans to use the net proceeds of the offering as general working capital in respect to its three operating silver mines in Mexico.

On August 12, 2009, the Company reported that it will settle certain debts of its subsidiaries in the aggregate amount of up to $4,000,000 and has entered into debt settlement agreements with those creditors to settle such debt by the issuance of up to 1,739,130 common shares of the Company at a deemed price of $2.30 per share. Closing of the debt settlement is subject to receipt of all required regulatory approvals including the consent of the Toronto Stock Exchange.

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

On March 25, 2008, the Company completed a public offering with a syndicate of underwriters issuing 8,500,000 Units at an issue price of $5.35 per unit for net proceeds to the Company of $40,144,471. Each unit consisted of one common share in the capital of the Company and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one additional common share at a price of $7.00 expiring March 25, 2010. In addition, the Company received $1,130,588 pursuant to the exercise of 376,250 stock options and $31,875 pursuant to the exercise of 7,500 warrants during the six months ended June 30, 2008.

During the six months ended June 30, 2009, the Company invested $5.0 million (June 30, 2008 - $6.0 million) on its mineral properties of and a further $7.5 million (June 30, 2008 - $12.5 million) on plant and equipment. In late 2008, the Company took actions to reduce its rate of spending on exploration and development expenditures. Although the Company has expended approximately US$15.6 million to date on its capital expansion at La Encantada, the capital expansion is expected to be a total of US$27.5 million and to increase capacity to 3,500 tonnes per day.

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

2009 OUTLOOK

Management is revising its production outlook for 2009 in response to the delayed commissioning of the new La Encantada cyanidation plant. Please be cautioned, these are forward-looking estimates and subject to the cautionary note regarding the risks associated with forward looking statements at the beginning of this MD&A.

PRODUCTION PROJECTIONS – 2009 (Revised for Q2/2009)	La Encantada	La Parrilla	San Martin	Consolidated
Tonnes Milled	594,200	265,300	250,900	1,110,400
Silver head grades (grams/tonne)	212	250	150	207
Silver recoveries	55%	75%	75%	65%
Silver ounces	2,011,000	1,546,000	911,000	4,468,000
Gold ounces	50	475	1,700	2,225
Lead tonnes	3,500	3,800	-	7,300
Silver equivalent ounces (1)	2,228,000	1,740,000	1,032,000	5,000,000

(1) Pricing assumptions for equivalents – Au = US$850/oz., Pb = US$0.65/oz.

PRODUCTION PROJECTIONS – 2009 (As Previously Presented – Q1/2009)	La Encantada	La Parrilla	San Martin	Consolidated
Tonnes Milled	587,100	265,300	250,800	1,103,200
Silver head grades (grams/tonne)	212	250	150	205
Silver recoveries	60%	75%	80%	68%
Silver ounces	2,470,300	1,545,700	967,700	4,983,700
Gold ounces	15	465	1,187	1,667
Lead tonnes	944	1,322	-	2,266
Silver equivalent ounces (1)	2,563,300	1,703,600	1,032,200	5,300,000

(2) Pricing assumptions for equivalents – Au = US$800/oz., Pb = US$0.55/oz.

Silver production is expected to increase in late 2009 when the La Encantada plant expansion is completed and plant capacity has been increased from 1,000 tpd to 3,500 tpd. The Company expects to gradually bring the new cyanidation plant into production beginning with production of 1,000 tpd in the first month, 2,000 tpd in the second month, 3,000 tpd in the third month, and achieving full capacity of 3,500 tpd by December 2009. The delay in scaling up production at La Encantada has delayed the expected increase in monthly production levels and caused the annual production outlook to be reduced for 2009 as per the above table. However, the Company will continue to operate its flotation circuit in parallel with cyanidation throughout the balance of 2009.

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

The Company has revised its estimated capital expenditures for the completion of the new 3,500 tpd mill at the La Encantada from US$24.5 million to US$27.5 million. The primary reason for the increase in capital expenditures is related to a decision to revise the tailings pond design to use a paste and filter design which will allow the new cyanidation plant to significantly reduce power and water consumption once fully operational by year end. As at June 30, 2009, the Company had expended US$16.2 million toward the completion of the 3,500 tonne per day mill project.

Sales of coins, ingots and bullion are expected to remain at 10% of total sold ounces for the balance of 2009. These sales result in approximately a 10% increase in selling price over normal quoted selling prices in any quarter. Additional information on the Company's silver coins, ingots and bullion, including how to place an order, may be found on the Company's website at www.firstmajestic.com.

OFF-BALANCE SHEET ARRANGEMENTS

At June 30, 2009, the Company had no material off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that generate financing, liquidity, market or credit risk to the Company, other than those disclosed in this MD&A and the consolidated financial statements and the related notes.

RELATED PARTY TRANSACTIONS

During the period ended June 30, 2009, the Company:

a) incurred $147,748 for the six month period ended June 30, 2009 and $71,255 for the quarter ended June 30, 2009 (six months ended June 30, 2008 - $120,273; quarter ended June 30, 2008 - $75,088) 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 $146,462 for the six month period ended June 30, 2009 and $72,829 for the quarter ended June 30, 2009 (six months ended June 30, 2008 - $139,105; quarter ended June 30, 2008 - $78,849) to a director and Chief Operating Officer for management and other services related to the mining operations of the Company in Mexico pursuant to a consulting agreement.

c) incurred $1,269,751 of service fees during the six month period ended June 30, 2009 and $nil for the quarter ended June 30, 2009 (six months ended June 30, 2008 - $4,207,123; quarter ended June 30, 2008 - $2,271,223) to a mining services company sharing our premises in Durango Mexico. This related party provided management services and paid mining contractors who provided services at the Company's mines in Mexico for the period January 1 to February 28, 2009. Of the fees incurred, $627,578 was unpaid as at June 30, 2009 (2008 - $1,635,365). This relationship was terminated in February 2009.

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

PROPOSED TRANSACTIONS

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

CONTRACTUAL OBLIGATIONS

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

	Payments Due By Period				
	Total	Less than 1 year	1- 3 years	4 - 5 years	After 5 years
Capital Lease Obligations	$ 4,369,748	$ 2,585,705	$ 1,784,043	$ -	$ -
Purchase Obligations (1)	13,830,388	13,830,388	-	-	-
Vendor Liability on Mineral Property (2)	651,892	651,892	-	-	-
Total Contractual Obligations (3)	$ 18,852,028	$ 17,067,985	$ 1,784,043	$ -	$ -

(1) Contract commitments for construction materials and equipment for the La Encantada Mill Expansion Project (US$11.9 million).

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

(3) Amounts above do not include payments related to the Company's future asset retirement obligations (see Note 16), nor do they include accounts payable and accrued liabilities of $17.5 million.

CRITICAL ACCOUNTING ESTIMATES

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

All of the Company's significant accounting policies and the estimates are included in Note 2 in the annual consolidated financial statements for the year ended December 31, 2008. While all of the significant accounting policies are important to the Company's consolidated financial statements, the following accounting policies and the estimates have been identified as being critical:

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

<u>Carrying Values of Property, Plant and Equipment and Other Mineral Property Interests</u>

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

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

Depletion and Depreciation of Property, Plant and Equipment

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

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

Asset Retirement Obligations and Reclamation Costs

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

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

As the estimate of obligations is based on future expectations, in the determination of closure provisions, management makes a number of assumptions and judgments. The liability is accreted over time to the amount ultimately payable through periodic charges to earnings. The undiscounted amount of estimated cash flows required to settle the Company's estimated obligations is discounted using a credit adjusted risk free rate of 8.5%. The closure provisions are more uncertain the further into the future the mine closure activities are to be carried out. Actual costs incurred in future periods related to the disruption to date could differ materially from the discounted future value estimated by the Company at June 30, 2009.

Income Taxes

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

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

Management executed a corporate restructuring for tax purposes that became effective January 1, 2008, enabling it on a limited basis to consolidate its tax losses of certain subsidiaries against the taxable incomes of other subsidiaries. Co-incident with the tax consolidation, Mexico introduced an alternative minimum tax known as the IETU, effective January 1, 2008, to attempt to limit certain companies from avoiding paying taxes on their cash earnings in Mexico. Management has reviewed its IETU obligations and its consolidated tax position at June 30, 2009, and management assessed whether the Company is "more likely than not" to benefit from these tax losses prior to recording a benefit from the tax losses.

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

Stock-Based Compensation

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

FUTURE ACCOUNTING CHANGES

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

The CICA issued the new Handbook Section 3064, "Goodwill and Intangible Assets", which establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard is effective for the Company beginning January 1, 2009. The Company has determined there is no impact on its consolidated financial statements.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

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

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

Based upon the recent assessment of the effectiveness of the internal control over financial reporting and disclosure controls and procedures, including consideration of detailed analyses by supervisory personnel to mitigate any exposure or weaknesses, the Company's Chief Executive Officer and Chief Financial Officer have concluded that there are weaknesses in Mexico but these are compensated by head office supervisory controls and as a result management has concluded that there are no material unmitigated weaknesses, and the design and implementation of internal control over financial reporting and disclosure controls and procedures were effective as at June 30, 2009.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

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

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

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

OTHER MD&A REQUIREMENTS

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

- SEDAR at www.sedar.com,
- the Company's Annual Information Form,
- the Company's audited consolidated financial statements for the year ended December 31, 2008.