TRUSTED TO DELIVER

FIRST MAJESTIC
SILVER CORP.

2006 ANNUAL REPORT

FIRST MAJESTIC
SILVER CORP.

COMMITTED TO
GROWTH

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MISSION

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

SILVER MINING IN MEXICO: A WORLD OF OPPORTUNITIES

Mexico is a colorful nation of people, deep in tradition, with a rich history of mining. Situated between the United States to the north and Guatemala and Belize to the south, Mexico is the most populous Spanish-speaking country in the world. Mexico, which covers an area of 1.97 million square kilometers, boasts a population of 107 million. The coastline stretches 9,300 kilometers with the Caribbean Sea to the east and the Pacific Ocean and Sea of Cotez to the west.

Mining preceded the arrival of the Spaniards. Pre-Columbian populations held gold and other metals in high esteem. In the name of Spain, Hernando Cortez came to Mexico in 1521. During the next 300 years of Spanish rule, Mexico became widely recognized as one of the world's premier mining regions. Today, Mexico still maintains its position amongst the world's largest metal producers.

APPLYING ADVANCED MINING AND EXPLORATION TECHNIQUES TO PROVEN SILVER DISTRICTS.

Although best known for its production of silver – over 10 billion ounces have been produced to date – the country also mines significant quantities of copper, gold, lead and zinc.

As an established and active mining company operating in Mexico, First Majestic Silver Corp. is proud to be associated with a country and its people that share its vision for safe, responsible mining and exploration. We are united in growth and in the quest for a better future.

People, Projects, Production: A New Year Beckons…

LETTER TO SHAREHOLDERS

The result of Management's continued pursuit of growth has begun to pay off and resulted in First Majestic exiting 2006 with three producing silver mines.

2006 was an exciting year by any measure; First Majestic entered the year owning one operating mine, the La Parrilla Silver Mine, producing a modest amount of silver and exited the year, headed into 2007, with the addition of two producing mines; the San Martin Silver Mine and the La Encantada Silver Mine, which both immediately added silver ounces to our credit.

Going back to late 2003, when our Chief Operating Officer, Ramon Davila and I launched our business strategy to build one of the largest silver producers in North America, we knew initially we needed the right team of mining and geological professionals to execute our plan. Once the team was assembled, the right assets could then be acquired to position the Company for strong and sustained growth well into the future.

Over the past two years we have been fortunate to assemble a very experienced and qualified team of professional mining staff from companies such as Penoles, Grupo Mexico, Hecla, Luismin (Goldcorp) and several others. This team has been integrated within our mines and our head offices in Durango. We feel our team is one of the best operating staffs throughout Mexico. The vision we shared with our management was that First Majestic was intending to grow aggressively through acquisition, and thus, additional operating mines would be added to our stable over time.

Thanks to the depth of our team in Mexico, First Majestic has been successful in executing its acquisition strategy and is now the owner of three operating silver mines, all of which bring substantial upside to our future. The San Martin Silver Mine was first visited in late 2003 and had always been on our radar screen as a potential acquisition target. In early 2006 when it became apparent that the majority shareholder of First Silver Reserve Inc. was ready to sell, we moved in quickly and within a few short months, were successful in taking over operations of the mine. This soon led to the merger of the two companies, giving First Majestic 100% ownership of this great silver mine.

Management of First Majestic has been very selective in its acquisitions. Several opportunities were presented throughout the year, but simply did not make sense. In order to maintain the highest possible percentage of revenue in silver, several potential acquisition opportunities were turned down.

After completing our initial due-diligence, the La Encantada Silver Mine became an obvious fit. This mine has historically been a very high grade silver operation that lacked the investment capital, as was the case with both the La Parrilla and San Martin mines. For First Majestic to gain control of the La Encantada mine, it was necessary to first acquire the Mexican company which operated it. Once this was accomplished in late 2006, the purchase of the mine and surrounding areas was negotiated with the owner and subsequently acquired in early 2007.

The results of this ambitious corporate activity in 2006 has transformed First Majestic from a single mine, small silver producer, into a multi-mine mid tier producer on its way to become a senior silver producing mining company. The Company has grown from about 80 employees to over 850 employees, producing over 10 times the amount of silver monthly as we exited the year; it is still continuing to grow.

In addition to the continued growth in silver production over the coming months, shareholders and investors will witness a continuation of the resource and reserve development that has been ongoing over the past year. We intend to update our resource numbers at least twice for each mine in 2007, which is anticipated to materially increase our resources and reserves over the year.

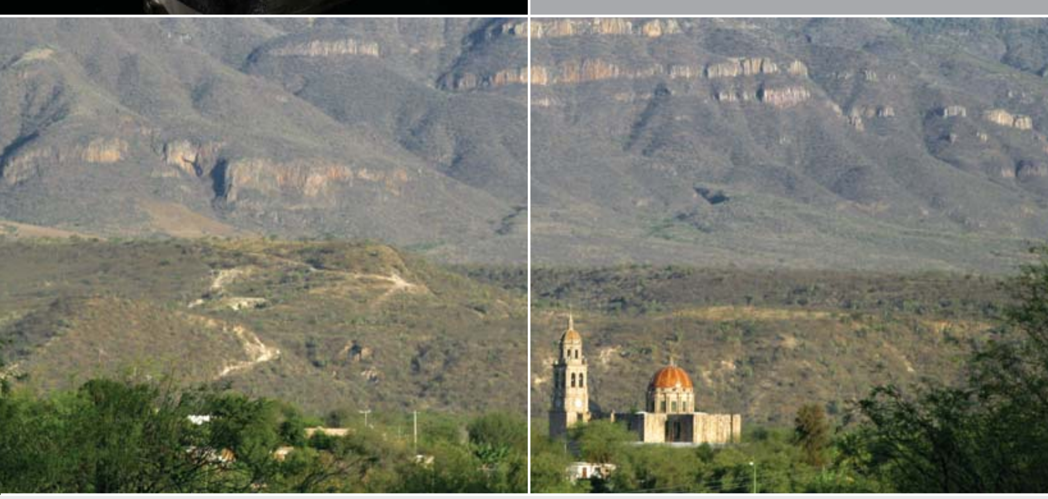
Due to our rapid development, I often get asked, "What's next for First Majestic?" With the dramatic growth that the Company has experienced over the past 10 months, we believe it is very important to take a step back and focus on running the business first. Management needs to fully integrate operations and to harmonize the necessary controls and procedures required to manage such a large organization. It is expected that it will take the first two quarters of 2007 to fully implement and adapt to this growth. However, once this transition has completed shareholders can expect the continuation of the same growth strategy that has taken First Majestic to where it is today.

Moving forward, I want shareholders to fully understand our goals and how we intend to reach them. I also want to show shareholders that our highly aggressive growth strategy is generating value. I regard these two missions as my central vision as President & CEO of First Majestic Silver Corp.

Keith Neumeyer
President & CEO

HIGHLIGHTS

- Acquisition of the San Martin Silver Mine and the La Encantada Silver Mine
- Expansion of the flagship La Parrilla Silver Mine
- 90% of corporate revenues attributed to silver
- Continuous program of upgrading and developing NI 43-101 compliant silver resources



MINING IN MEXICO

Mexico is one of the top three producers of silver world wide; and by making a commitment to foreign trade and investment, it continues to grow and provide new opportunities for First Majestic.

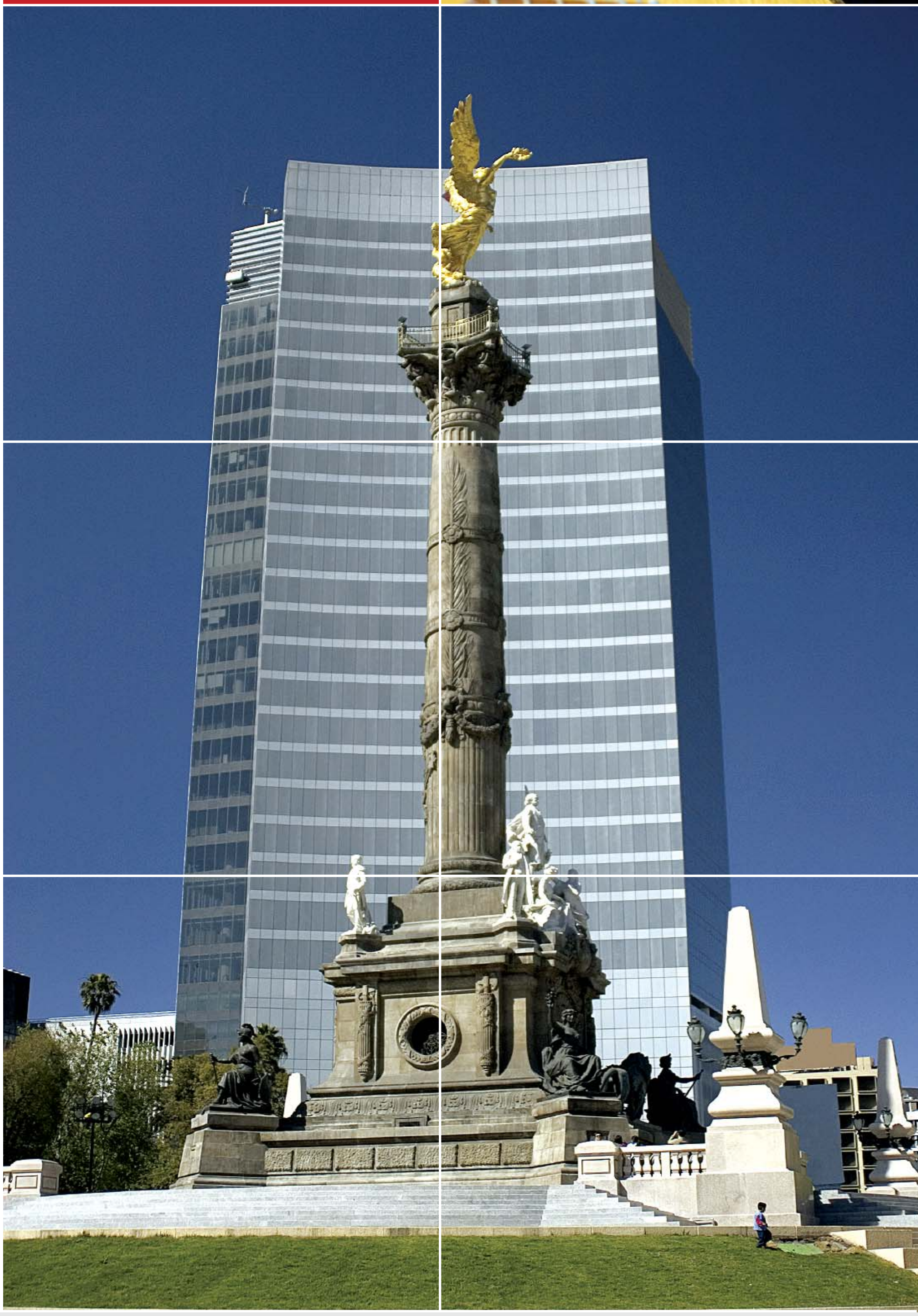
As a member of the North American Free Trade Agreement (NAFTA), Mexico offers the security and regulatory controls on investment required for a successful operation. In addition to modern communication and transportation infrastructure, Mexico also offers a strategic geographical location for a Canadian mining company.

The history of silver mining in Mexico stretches as far back as the early 1500's, when silver started to flow from Mexican mines into the Spanish treasury. Today, Mexican mining legislation allows for exploration, exploitation and beneficial ownership of mineral resources which takes precedence over any other use of Mexican land. Under Mexican law, which permits up to 100% private ownership First Majestic has acquired and owns 100% of three operating silver mines.

First Majestic COO, Ramon Davila is a former President of the Mexico Association of Mining Metallurgists and Geologists, and now serves as a member of the Board of Directors of the Chamber of Mines representing First Majestic in Mexico. Over the last 30 years, Mr. Davila has built long-standing relationships in the mining industry, which bring added value and benefit to the Company.

There are now over 200 publicly traded Canadian companies involved in mining activities and exploration in Mexico. However, with the in-country experience and excellent government, industry and community relationships, First Majestic has positioned itself above its competitors as a key participant in the Mexican mining sector.

Mexico's natural beauty, quality of life, combined with the people of Mexico and government support give First Majestic the advantage it needs to be a leading silver producing company.



YEAR IN REVIEW:

Three Producing Silver Mines Set Stage for Future Growth.

SILVER USES

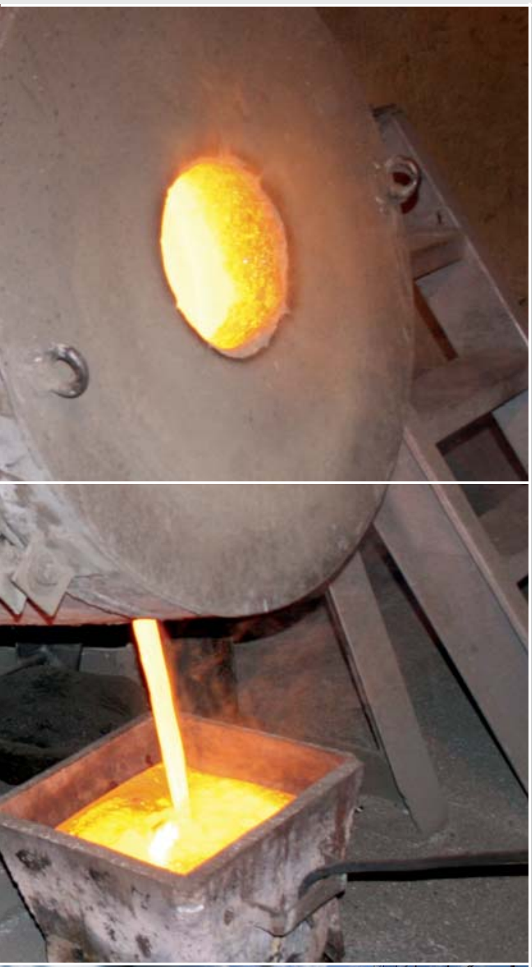
Once fancied, now critical

In an ever-changing world, never before has silver played a more important role. For more than 65 years, increasing silver use has led to rising demand and a shortage of supply. As a result, today's world silver inventories are at the lowest point in 200 years.

Not surprisingly, this escalating demand has also had a profound effect on the silver market, witnessed by silver prices which rose from an average of US$4.39 per ounce in 2001 to more than US$13 per ounce in 2006. This sharp increase is attributed to a persistent shortfall between supply and demand from investors and new "high-tech" industrial uses for silver, now used extensively in a wide variety of emerging products ranging from computers and solar panels to digital technology and telecommunications.

According to the Silver Institute, industrial usage is now the largest component of silver demand, surpassing the traditional jewelry, silverware and photographic sectors.

As new uses for silver continue to expand every day, the market outlook for silver is expected to be bullish for decades to come –resulting in further increases in the price of silver.



SILVER APPLICATIONS

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

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

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

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

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

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

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

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

BRAZING & SOLDERING
Silver facilitates the joining of materials (called brazing when done at temperatures above 600^{o}Celsius and soldering when below) and produces naturally smooth, leak-tight and corrosion-resistant joints.

COINS
Silver, being a rare and noble metal, was a more desirable medium of exchange than beads, feathers, shells, and the like.

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

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

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

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

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

Source: www.silverinstitute.org

SOCIAL RESPONSIBILITY

As a growing company, we understand that good corporate citizenship is paramount to our success. The social and economic benefits of maintaining this commitment will continue to pay dividends for all involved.

Our experience has shown that community building is most effective when it is tailored to meet local needs and priorities as defined by the communities themselves. It takes both financial and human involvement to make a real difference. First Majestic embraces its community building responsibilities at each of our mines.

People and Employment

First Majestic employs the majority of its workforce from the local communities in which it operates. The Company has invested substantially in job training and education for its workers. The focus is not solely on preparing the mining workforce; the Company also provides training and assistance for local entrepreneurs in sustainable jobs unrelated to mining. For example, several actions were executed this past year to help the agriculture and cattle activities by the Ejido people such as helping build a corral for their cattle, providing the use of machinery in cleaning a water reservoir and lending economic support to build a bean cleaning plant, which helped the producers to directly market their product.

Health and Support

Several actions were initiated to help the community to obtain water for human and animal consumption, which included building a solar panel well to provide much needed water to the community from the Quebradillas mine. Development of alternate sources of work and wealth for the community included the creation of five contractors doing works related with the mine such as freight, fence building, cleaning and environmental activities along with the creation and support of a small factory to manufacture clothing for mine workers.

Youth and Education

Youth and education continues to be a high priority for First Majestic. To this end, the Company helped supply portable water to the primary school and assisted the high school to waterproof its roof. In addition to donating computers and other equipment to the high school and helping build a field for multi-sports, the Company made several improvements to the local roads and provided training to students on environmental and forestry matters, which included providing scholarships to four undergraduate students.

Social Activities

First Majestic likes to embrace the rich heritage of Mexico and its citizens. The Company takes pride in coordinating events such as the celebration of Mother's Day at the school, Christmas at the kinder, primary and high schools, basketball tournaments and free movies for the kids in town. During the month of August the church has a regional fiesta; this year the Company was pleased to provide support with equipment to fix roads and the fiesta area and a fun time was had for all involved.

First Majestic intends to continue its support of local communities within the regions of its mining activities throughout Mexico.

"We are setting a new precedent in the regions in which we work within Mexico, areas that have historically seen continuous mining activities dating back to the 16th century. We are committed to the betterment of the region and its people."

Keith Neumeyer
President and Chief Executive Officer


Coca-Cola
ABARROTES NAVA
FARMACIA REX
DE TURNO

LA PARRILLA SILVER MINE

La Parrilla Silver Mine beginning to mature into a major long term sustainable silver producer.

The La Parrilla Silver Mine is located approximately 1km from the village of San Juan de La Parrilla and 75km SE of the city of Durango in central Mexico. The original land holding, when acquired back in 2004, was less then 300 hectares. It was thought at that time, the original mine contained sufficient silver to restart the mill and the surrounding land contained excellent potential to yield additional ounces of silver to maintain operations for several years to come.

The La Parrilla, First Majestic's first mine acquisition, was acquired as an initial stepping stone into the Mexican mining scene. Since this acquisition, the mine has proven to be much larger then originally anticipated. The Company has spent the past two years improving the operations through a variety of mechanical improvements, modernizations, underground development, and resource definition, in advance of increased silver production.

With six diamond drill rigs presently operating on-site, and excellent drill results to date, which have been focused on resource and reserve development, it was determined during 2006 that additional land should be added to the Company's holdings. As a result, 3,424 hectares surrounding the mine and mill was acquired from Grupo Mexico and a claim block of 18,466 hectares was staked surrounding this land package. In addition, an adjacent block of land equalling 31,347 hectares was also staked. The Company's new grand total of land held in the region is now 53,237 hectares.

Among the several large vein systems included within the new La Parrilla property boundaries, the Company is focusing on the La Rosa/Los Rosarios, San Marcos, San José, San Nicolás, Vacas, Quebradilla, La Luz and Recuerdo structures. Mining activity is presently taking place in the La Rosa/ Los Rosarios, San Marcos, San José and Quebradillas areas.

Since the mine began operations in late 2004, over 5,550 metres of underground development has occurred and over 130 diamond drill holes totaling over 35,000

New mine and mill improvements are anticipated to boost silver production dramatically.

metres have been drilled. This ongoing program of development and exploration designed primarily to assist in mining activity and resource and reserve definition, continues to confirm management's view that the potential at the La Parrilla is immense and will become a much larger operation in the years ahead.

Once management was convinced that the La Parrilla could produce substantially more silver, construction of a new 800 tonne per day mill was commissioned in May 2006. With this the new mill, the Company now has four times the capacity of the original mill. It was hoped that the new mill could be fully operational by November 2006, however, due to delays affecting the entire mining sector, the mill was not completed until late January 2007. As the mill began operations with its higher capacity, it became evident that the primary and secondary crushing areas within the mill needed upgrading as well. New equipment was added in April 2007, which should result in the mill reaching its 800 tpd capacity in the second quarter 2007. The new mill consists of two different circuits; one being a 400 tpd cyanidation circuit and the second being a 400 tpd flotation circuit. It is anticipated that the mill will be further expanded again in the future.

First Majestic intends to publish updated NI 43-101 compliant resource calculations each four to six months throughout 2007 covering the La Parrilla Silver Mine. These reports can be viewed at any time and will be posted as they become public on the Company's website at www.firstmajestic.com and also on SEDAR (www.sedar.com).

SAN MARTIN SILVER MINE

With renewed investment, the San Martin Silver Mine will once again reach its status as one of the most significant producers of silver in Mexico.

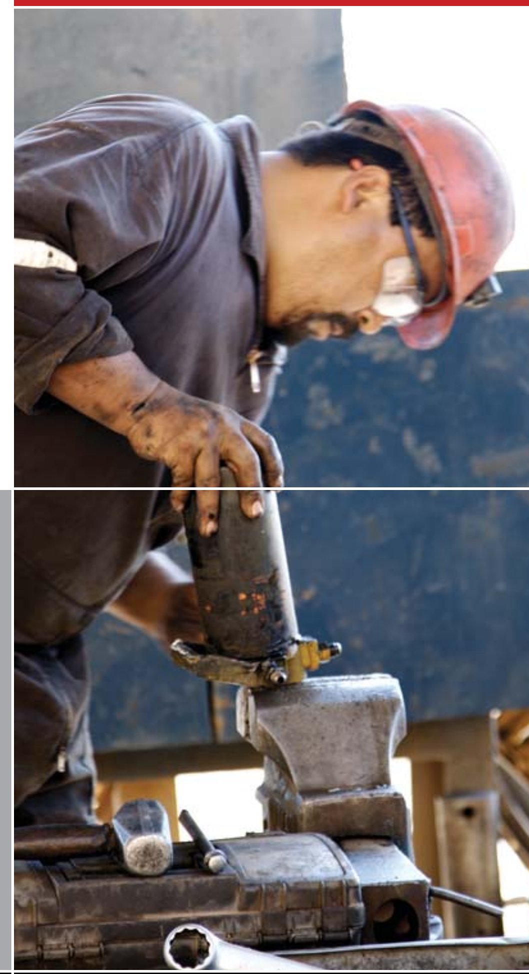
The San Martín Silver Mine is located near the town of San Martín de Bolaños in the Bolaños River valley, in the northern portion of the State of Jalisco in México. The San Martín is 150 kilometers away by air or 250 kilometers drive by paved road north from Guadalajara. The property consists of 7,841 hectares of land that for the most part has never been explored using modern mining or exploration techniques.

The San Martin is presently First Majestic's largest silver producing operation, and was acquired partly in June 2006 by taking ownership of a controlling interest in First Silver Reserve Inc. In September 2006, the remaining shares of First Silver were acquired through a merger between the two companies, which resulted in First Majestic owning 100% of the San Martin.

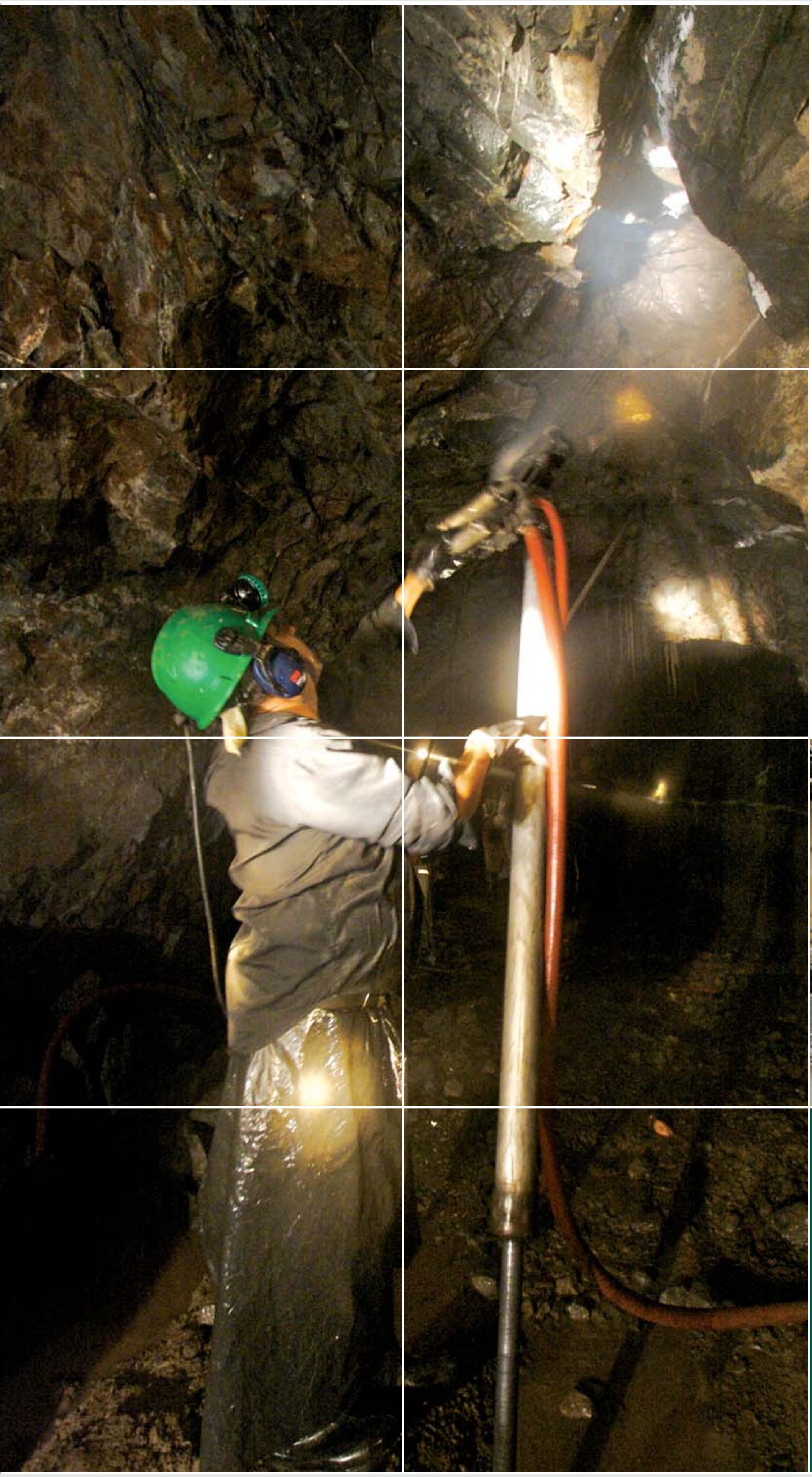
Mining activity at the San Martin has historically taken place in the oxide areas within the upper parts of the Zuloaga vein and in the adjacent La Blanca vein. At lower levels within the mine, these structures transition to sulphide ores, as would normally be expected. However, as the mill presently has only a cyanide circuit, which is suitable for oxide ores, the sulphide ores have been left for future mining operations.

Since First Majestic took over operations of the San Martin, it was determined that the upper levels of the mine, left behind by the previous owners, could be rehabilitated and expanded to gain access to much higher grades of silver in oxides. This development program began in late 2006, and continues today in order to build on these resources for immediate mining purposes. In addition to these known areas, it is thought that these ore bodies extend along strike and to surface. An extensive exploration and development program is under way, and is planned to continue throughout the year, in order to develop and explore these regions.

Management understood that production levels would decline in the last quarters of 2006, and the first two quarters into 2007 before silver production would grow again. However, the present strategy of development will ensure continued long term sustainability of the mining operations from both the oxide and sulphide areas of the mine. Also, a three year program was implemented to replace the entire fleet of underground scoop trams and trucks. Several new underground vehicles have already arrived, resulting in more efficient mining practices.



The facelift underway at San Martin will revitalize this important mine.



The focus in 2007 at the San Martin is firstly to expand the higher grade oxide ore resources and to upgrade these areas of the mine in anticipation of increased silver production, and; secondly, to explore with modern technologies and techniques the many parallel and intersecting veins and structures within proximity of the main mine, and; thirdly, to continue to upgrade the mill, equipment and vehicles to improve the overall efficiency and effectiveness of operations.

Management is planning the addition of a new floatation circuit within the mill facility to take advantage of the large sulphide ore body that exists at depth. It has not yet been determined how large this circuit will be, however, when combined with the cyanide circuit running at full capacity with higher grades of oxide ores and with the floatation circuit in place it is clear the San Martin Silver Mine will be contributing a significant amount of silver production to First Majestic for years to come.

LA ENCANTADA SILVER MINE

The La Encantada Silver Mine, our most recent acquisition, is proving to have substantial upside for dramatic growth in silver production going forward.

The La Encantada Silver Mine is located in the northwest corner of the State of Coahuila in Mexico, and can be reached via small plane or paved road. The original land holdings consisted of 930 hectares, until the Company decided to acquire through staking an additional land holding of about 3,200 hectares, which now adequately covers the entire structural zone containing the main mineralization, as well as four large magnetic anomalies that have never previously been explored.

Operational control of the La Encantada was gained in November 2006 by way of the acquisition of Desmin, S.A. de C.V., the previous operator of the mine under an exploitation agreement with Penoles. The mine ownership remained with Penoles until early 2007, when ownership transferred to First Majestic by way of an acquisition as a result of negotiations that took place in late 2006.

The 1000 tpd mill had been running at approximately 30% capacity over the past three years. The prior operators high graded the underground mining areas for a period of 20 days each month and the resulting ore feed would then be run through the mill for 10 days each month. The ore being selected for mining was a high grade oxide ore. The mill, being a floatation mill, was only capable of recovering 50-60% of the contained silver.

First Majestic has begun operating the mill at close to 90% capacity by mixing several grades of ores, resulting in much higher silver production. Recoveries still remain low due to the wrong process within the mill, however, plans for 2007 consist of adding a cyanidation circuit, which is expected to increase recoveries to 75-80% of contained silver. As a result of First Majestic's changes, silver production in 2007 is expected to be much greater than in 2006. In addition, increases in silver production will continue into 2008 as the underground mine is developed and expanded, and as the new cyanidation circuit comes on line.

A substantial amount of historic data was acquired through the acquisition of the La Encantada. First Majestic has been digitizing much of this data in modern mining and exploration software programs in order to develop and expand the resources and to plan exploration programs. A number of historic areas within the mine are expected to be re-entered this year for development and mining.

First Majestic is also focusing on developing a NI 43-101 compliant resource to be published in the coming months, and is planning to update the resource again prior to the year

end. The La Encantada property, as is the case with many mining properties in Mexico, has never been properly explored using modern exploration techniques. Our geologists are very excited about many areas within the region and are in the process of designing an extensive exploration program, including a diamond drilling program that will continue well into next year.

First Majestic intends to substantially build on La Encantada's current annual silver production.

ADVANCED STAGE EXPLORATION PROJECTS

THE CHALCHIHUITES GROUP OF PROPERTIES

This land package of highly mineralized properties consisted of nine separate project areas when it was first acquired through an option in 2004. During the 2006 exploration program seven of the areas showed insufficient silver mineralization to maintain the options on these properties. Two projects within this land group remain of significant interest to First Majestic: the San Juan Silver Mine and the Perseverancia Silver Mine.

The San Juan Silver Mine – This historic high grade silver mine has been under development by First Majestic for most of 2006. A diamond drill program identified the vein structure at depth that was mined by the previous owner. It was decided in mid 2006 that a drift into this structure made the most sense. This drift was completed and did in fact reach the main vein. Other areas within the mine are presently being explored from underground while the surface drill program is continuing. Approximately 50 tonnes per day of high grade silver ore is being extracted from this mine and is being shipped directly to First Majestic's mill at La Parrilla, approximately 65 kilometres away. As a result of the successes to date at San Juan, the Company exercised its option in early 2007 and now has full ownership of this project.

The Perseverancia Silver Mine – The previous operators of this mine were extracting very high grade silver ore averaging around 1.5 kilos of silver per tonne. The interior of the mine remains in very good shape due to the owners reinforcing the underground with concrete and steel. It is known that several thousand tonnes of ore remain in the mine. However, for First Majestic to determine whether it could economically re-open this mine, an exploration program was launched in 2005. Geophysics, geochemistry and drilling has taken place in an attempt to identify whether the ore body (chimney) does in fact extend sufficiently to depth. Due to the topography in the region of the chimney, drilling has been difficult. It was decided that a drift was needed to be built into the side of the opposing hill. This would allow the Company to better place a drill rig to gain an appropriate angle to more accurately hit the chimney at depth. This part of the exploration program is anticipated to determine by mid year 2007 whether the Company should exercise its option to acquire this old mine.

QUITABOCA SILVER PROJECT

The Quitaboca property is located in the municipality of Sinaloa de Leyva in the State of Sinaloa, Mexico, and is approximately 150 km north-northwest of the city of Culiacan. The property consists of 5,134 hectares of mining claims which are known to encompass all known mineralized showings in the district. Mineralisation has been detected in two main areas known as Pinos Altos and Quitaboca. A total of six veins are known to contain silver mineralization. During 2006 a road was constructed to access two of those veins. No drilling has occurred to date, however, an underground drift of approximately 100 metres is under construction and is targeted to reach one of the veins in early 2007.

CANDAMEÑA MINING DISTRICT

The Candameña property covers an entire district of 5,215 hectares and is located in a remote area of the NW Sierra Madre Occidental in the State of Chihuahua. The two primary areas of interest are the La Verde Silver Mine and the La Prieta Silver Mine. Road construction began in June 2006 to provide access to drilling equipment and crews. Mapping, surveying and drilling has been on-going in these areas since mid 2006. Due to the difficulty of accessing this region, and the focus First Majestic has had on its producing assets, a restructuring of the option agreement was negotiated in order to give the Company more time to determine whether it would continue to explore in this property.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

"Keith Neumeyer"

Keith Neumeyer
President & CEO
April 30, 2007

Deloitte.

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Auditors' report

To the Shareholders of
First Majestic Silver Corp.
(formerly First Majestic Resource Corp.)

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

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

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

Deloitte & Touche LLP

Chartered Accountants
April 30, 2007

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31, 2006 AND JUNE 30, 2006

	December 31, 2006 $	June 30, 2006 $
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	17,870,712	16,571,788
Accounts receivable and advances	7,093,900	3,357,157
Unrealized gain on derivative instruments	-	50,752
Silver futures contract deposits (Note 3)	-	930,018
Inventory (Note 4)	1,688,451	1,019,608
Prepaid expenses	61,025	164,648
	26,714,088	**22,093,971**
MINERAL PROPERTY INTERESTS (Notes 5 and 6)	138,870,884	81,753,787
PROPERTY, PLANT AND EQUIPMENT (Note 10)	19,776,682	8,827,115
	185,361,654	**112,674,873**
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	8,557,624	4,492,232
Current portion of long-term vendor liability (Note 6)	13,341,380	13,341,380
Current portion of Arrangement liability (Note 7)	388,836	-
Liability for the acquisition of Desmin (Note 8)	1,165,300	-
Employee profit sharing payable (Note 19)	293,989	239,816
Income taxes payable	394,128	666,997
	24,141,257	**18,740,425**
LONG TERM VENDOR LIABILITY (Note 6)	13,341,380	13,341,380
LONG TERM ARRANGEMENT LIABILITY (Note 7)	388,836	-
FUTURE INCOME TAXES (Note 15)	36,784,192	21,158,636
OTHER LONG TERM LIABILITIES (Note 18)	1,518,304	1,208,302
ASSET RETIREMENT OBLIGATION (Note 21)	3,898,085	2,238,523
	80,072,054	**56,687,266**
NON-CONTROLLING INTEREST (Note 20)	**-**	**2,077,940**
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 11)	103,466,619	43,780,469
SHARE CAPITAL TO BE ISSUED (Note 7)	9,294,020	-
SPECIAL WARRANTS (Note 11)	-	25,524,894
CONTRIBUTED SURPLUS (Note 12)	11,720,436	4,272,294
CUMULATIVE TRANSLATION ADJUSTMENT	7,910,502	(154,205)
DEFICIT	(27,101,977)	(19,513,785)
	105,289,600	**53,909,667**
	185,361,654	**112,674,873**

CONTINUING OPERATIONS (Note 1)
CONTINGENT LIABILITIES (Note 17)
COMMITMENTS (Note 19)

APPROVED BY THE BOARD OF DIRECTORS

(Signed) Keith Neumeyer Director

(Signed) Douglas Penrose Director

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

FOR THE PERIODS ENDED DECEMBER 31, 2006 AND JUNE 30, 2006

	Six months ended December 31, 2006	Twelve months ended June 30, 2006 (Note 2)
	$	$
REVENUE		
Sales	12,754,965	4,159,292
Cost of sales (excluding accretion of the asset reclamation obligation, depreciation and depletion)	11,068,717	3,788,564
	1,686,248	**370,728**
EXPENSES		
Accounting and administration services	1,267,242	618,353
Accretion of reclamation obligation	81,391	89,597
Audit and other professional fees	288,158	454,608
Corporate development	367,196	470,947
Depletion	2,740,875	1,773,640
Depreciation	356,100	223,875
Directors' fees	44,707	22,000
Exploration	3,394	9,987
Interest expense	824,347	135,972
Investor relations	13,965	70,059
Legal	168,992	127,640
Management fees	91,039	135,697
Office and other	293,318	194,527
Printing and stationery	12,811	46,629
Regulatory, AGM and transfer agent fees	48,472	69,166
Rent	89,009	164,805
Salaries and benefits	273,505	162,679
Stock-based compensation	1,558,892	1,604,969
Travel	179,987	304,109
Write-down of mineral property interests (Note 5(f))	2,860,512	384,930
	11,563,912	7,064,189
LOSS BEFORE OTHER ITEMS	**(9,877,664)**	**(6,693,461)**
OTHER ITEMS		
Interest and other income	685,777	277,662
Foreign exchange gain	729	64,913
Loss on dilution of investment in subsidiary	-	(89,283)
	686,506	253,292
LOSS BEFORE INCOME TAXES	**(9,191,158)**	**(6,440,169)**
INCOME TAX (RECOVERY) EXPENSE		
Current	260,517	203,490
Future	(1,140,920)	(408,391)
	(880,403)	(204,901)
NET LOSS BEFORE NON-CONTROLLING INTEREST	**(8,310,755)**	**(6,235,268)**
NON-CONTROLLING INTEREST	722,563	569,382
NET LOSS	**(7,588,192)**	**(5,665,886)**
DEFICIT - BEGINNING OF THE PERIOD	19,513,785	13,847,899
DEFICIT - END OF THE PERIOD	27,101,977	19,513,785
BASIC AND DILUTED LOSS PER COMMON SHARE	**(0.17)**	**(0.16)**
WEIGHTED AVERAGE SHARES OUTSTANDING	**43,728,690**	**35,024,657**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE PERIODS ENDED DECEMBER 31, 2006 AND JUNE 30, 2006

	Six months ended December 31, 2006 $	Twelve months ended June 30, 2006 $
OPERATING ACTIVITIES		
Net loss for the period	(7,588,192)	(5,665,886)
Adjustment for items not affecting cash		
Depletion	2,740,875	1,773,640
Depreciation	356,100	223,875
Stock-based compensation	1,558,892	1,604,969
Accretion of reclamation obligation	81,391	89,597
Unrealized gain on futures contracts	-	(182,917)
Write-down of mineral property interests	2,860,512	384,930
Gain on sale of fixed assets	(25,695)	-
Future income taxes	(1,140,920)	(408,391)
Unrealized foreign exchange	(7,576)	(186,919)
Loss on dilution of investment in subsidiary	-	89,283
Non-controlling interest	(722,563)	(569,382)
	(1,887,176)	(2,847,201)
Net change in non-cash working capital items		
Increase in accounts receivable and advances	(2,980,216)	(836,663)
Decrease in asset on derivative instrument	50,752	-
(Increase) decrease in inventory	(471,567)	217,340
Decrease in prepaid expenses	106,244	78,910
Increase in accounts payable and accrued liabilities	3,848,426	856,913
Increase in employee profit sharing payable	(123,317)	156,692
(Decrease) increase in taxes payable	(1,099,888)	168,164
	(2,556,742)	(2,205,845)
INVESTING ACTIVITIES		
Decrease in silver futures contract deposits	930,018	449,876
Acquisition of First Silver Reserve Inc. less cash acquired (Notes 6 and 7)	(929,558)	(23,348,787)
Acquisition costs of Desmin S.A. de C.V. less cash acquired (Note 8)	(43,164)	-
Additions to plant and equipment	(10,035,282)	(3,434,209)
Expenditures on mineral property interests	(2,861,099)	(5,351,760)
Proceeds from sale of fixed assets	77,790	-
	(12,861,295)	(31,684,880)
FINANCING ACTIVITIES		
Issuance of common shares and subscriptions, net of issue costs	16,716,961	20,829,539
Issuance of special warrants, net of issue costs	-	26,074,894
Shares issued by subsidiary to non-controlling interest	-	153,357
	16,716,961	47,057,790
INCREASE IN CASH AND CASH EQUIVALENTS	1,298,924	13,167,065
CASH AND CASH EQUIVALENTS - BEGINNING OF THE PERIOD	16,571,788	3,404,723
CASH AND CASH EQUIVALENTS - END OF THE PERIOD	17,870,712	16,571,788
CASH AND CASH EQUIVALENTS IS COMPRISED OF:		
Cash	7,066,680	5,606,367
Term deposits	10,804,032	10,965,421
	17,870,712	16,571,788
NON CASH INVESTING AND FINANCING ACTIVITIES:		
Liability for Desmin S.A. de C.V. (Note 8)	1,165,300	-
First Silver Arrangement liability (Note 7)	777,672	-
Shares issued for First Silver Arrangement (Note 7)	32,486,850	-
Conversion of special warrants to common shares (Note 11)	25,524,894	-
Contributed surplus on warrants issued upon conversion of special warrants	2,607,000	-
Fair value of warrants upon completion of private placements (Note 12)	3,046,000	1,470,000
Fair value of finder's warrants issued for private placement (Note 12)	257,000	-
Contributed surplus for First Majestic options issued for First Silver options (Note 12)	173,250	-
Transfer of contributed surplus to common shares for options exercised	194,000	329,100
Issuance of shares for mineral property interests (Note 11)	-	450,000
Issuance of vendor liability on the acquisition of First Silver (Note 6)	-	26,682,759
Fair value of compensation options issued as part of special warrants (Note 12)	-	550,000

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

1. DESCRIPTION OF BUSINESS AND CONTINUING OPERATIONS

First Majestic Silver Corp. (the "Company" or "First Majestic") is in the business of the production, development, exploration and acquisition of mineral properties focusing on silver in Mexico. The Company trades on the TSX Venture Exchange under the symbol "FR".

These consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and satisfaction of liabilities in the normal course of business. During the six months ended December 31, 2006, the Company recorded a net loss of $7,588,192 (June 30, 2006 - $5,665,886) and at December 31, 2006 the Company had working capital of $2,572,831.

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, First Majestic Resources Mexico, S.A. de C.V. ("FMR Mexico"), First Silver Reserve Inc. ("First Silver") and its subsidiary, Minera El Pilon S.A. de C.V., (see Notes 6 and 7) and Desmin S.A. de C.V. ("Desmin") (see Note 8). Inter-company balances and transactions are eliminated on consolidation.

In 2006, the Company changed its fiscal year end from June 30 to December 31. As a result, these financial statements include the financial position as at December 31, 2006 and the results of operations and changes in cash flows for the six months then ended. The comparative figures include the financial position as at June 30, 2006 and the results of operations and changes in cash flows for the year then ended.

Measurement Uncertainties

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

Cash and Cash Equivalents

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

Inventories

Ore in process is valued at the lower of cost and net realizable value. Cost is determined as the average production cost of saleable silver and metal byproduct. Materials and supplies are valued at the lower of cost and replacement cost.

Mineral Property Interests

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral Property Interests (continued)

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

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

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

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

Asset Retirement Obligations and Reclamation Costs

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

Translation of Foreign Currencies

(i) Subsidiary Financial Statements

The Company considers FMR Mexico to be operationally integrated with the parent company and, therefore, it uses the temporal method to translate the accounts of FMR Mexico. Under this method, monetary items are translated at the rate of exchange in effect at the balance sheet date. Non-monetary items are translated at average rates in effect during the period in which they were earned or incurred. Gains and losses resulting from the fluctuation of foreign exchange rates have been included in the determination of income.

The Company considers First Silver and Desmin to be self-sustaining foreign operations that are financially and operationally independent of the parent company and, therefore, it uses the current rate method to translate the accounts of First Silver and its wholly owned subsidiary, Minera El Pilon S.A. de C.V. ("El Pilon"), and Desmin. Under this method, assets and liabilities have been translated at the period-end rate and revenues and expenses at the average exchange rate during the period. Unrealized translation gains or losses are deferred as a separate component of shareholders' equity.

(ii) Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities are translated at the exchange rates in effect at the time of acquisition or issue. Revenues and expenses are translated at rates approximating the exchange rates in effect at the time of the transactions. All exchange gains and losses are included in operations.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

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

Property, Plant and Equipment

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

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

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

Revenue Recognition

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

Impairment of Long-Lived Assets

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

Loss Per Share

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

Stock Based Compensation

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives

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

New Accounting Standards Applicable in 2007

In January 2005, the CICA issued three new standards relating to financial instruments intended to increase harmonization with U.S. GAAP and International Financial Reporting Standards. These standards are applicable for fiscal years beginning on or after October 1, 2006. The Company will adopt these standards beginning on January 1, 2007.

Financial Instruments – Recognition and Measurement, Section 3855

This standard prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and whether fair value or cost-based measures are used. This standard also specifies how financial instrument gains and losses are to be presented.

Derivative contracts and embedded derivatives in non-derivative contracts are to be recorded on the balance sheet at their respective fair values, with any mark-to-market adjustments included in net income.

Hedges, Section 3865

This standard is applicable when a company chooses to designate a hedging relationship for accounting purposes. It builds on the existing AcG-13 "Hedging Relationships" and Section 1650 "Foreign Currency Translation", by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

Comprehensive Income, Section 1530

This standard requires the presentation of comprehensive income and its components. Other comprehensive income includes holding gains and losses on certain investments that are classified as available-for-sale, gains and losses on certain derivative instruments and foreign currency gains and losses relating to self-sustaining foreign operations, all of which are not included in the calculation of net earnings until they are realized.

Management is evaluating the effects of the adoption of these standards on the Company's financial statements.

3. SILVER FUTURES CONTRACTS

At December 31, 2006, the Company had no futures contracts outstanding. On June 30, 3006, the Company had futures contracts for the receipt of 85,000 ounces of silver at a price of US$10.384 per ounce. In connection with these contracts, the Company provided deposits of $nil (June 30, 2006 - $930,018). The fair value of these contracts at December 31, 2006 is $nil (June 30, 2006 - $50,752).

4. INVENTORIES

	December 31, 2006	June 30, 2006
	$	$
Finished product (silver dore and concentrates)	15,223	7,129
Ore in process	182,064	187,729
Materials and supplies	1,491,164	824,750
	1,688,451	1,019,608

5. MINERAL PROPERTY INTERESTS

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

	December 31, 2006			June 30, 2006		
	Acquisition Costs	Deferred Exploration Costs	Total Costs	Acquisition Costs	Deferred Exploration Costs	Total Costs
	$	$	$	$	$	$
MEXICO						
Producing properties						
La Parrilla (a)	4,791,406	1,527,602	6,319,008	3,384,535	1,225,156	4,609,691
San Martin (b)	23,493,057	-	23,493,057	13,173,118	-	13,173,118
	28,284,463	**1,527,602**	**29,812,065**	**16,557,653**	**1,225,156**	**17,782,809**
Exploration properties						
San Martin (b)	101,284,020	-	101,284,020	57,502,776	-	57,502,776
La Encantada (1)	1,741,643	20,056	1,761,699	-	-	-
Chalchihuites (c) (f)	2,730,020	1,068,199	3,798,219	2,345,459	613,978	2,959,437
Candamena (d)	1,695,509	297,956	1,993,465	1,522,137	92,725	1,614,862
Quitaboca (e) (2)	118,713	102,703	221,416	-	-	-
Dios Padre (f)	-	-	-	1,136,239	567,117	1,703,356
La Candelaria (f)	-	-	-	106,423	84,124	190,547
	107,569,905	**1,488,914**	**109,058,819**	**62,613,034**	**1,357,944**	**63,970,978**
	135,854,368	**3,016,516**	**138,870,884**	**79,170,687**	**2,583,100**	**81,753,787**

(1) Exploitation rights for the La Encantada Silver Mine. See Note 8.

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

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

(a) La Parrilla Silver Mine, Durango

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

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

In August 2006, the Company entered into three agreements to acquire the Quebradillas and Viboras Silver Mines and a contiguous land package of 3,126 hectares of mining concessions located in the La Parrilla Mining District in Durango State, Mexico. The Company has the option to purchase all the mining concessions, the mines, the data of past diamond drill programs and the assets located within the mine areas for a total purchase price of US$3,000,000 payable over a period of two years.

The above amounts are paid and future option payments are due as follows (all amounts in US$):

5. MINERAL PROPERTY INTERESTS (continued)

(a) La Parrilla Silver Mine, Durango (continued)

For land	$ 4,000
August 21, 2006	479,160
August 22, 2006	509,520
November 21, 2006	116,160
November 22, 2006	123,520
Paid	***$ 1,232,360***
February 21, 2007 (subsequently paid)	116,160
February 22, 2007 (subsequently paid)	123,520
May 21, 2007	116,160
May 22, 2007	123,520
August 21, 2007	116,160
August 22, 2007	123,520
November 21, 2007	145,200
November 22, 2007	154,400
February 21, 2008	145,200
February 22, 2008	154,400
May 21, 2008	217,800
May 22, 2008	231,600
Future Option Payments	***$ 1,767,640***
Total	***$ 3,000,000***

In addition to these payments, the agreements call for a net smelter royalty ("NSR") of 1.5% of sales revenues to a maximum of US$2,500,000. The Company has the option to purchase the NSR at any time for US$2,000,000.

(b) San Martin Silver Mine, Jalisco State

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

(c) Chalchihuites Group Properties, Zacatecas

On June 8, 2004, the Company entered into an option agreement to purchase five mining concessions and one mining exploration concession covering with a total of 88.84 hectares located in Chalchihuites, Zacatecas, Mexico in consideration of cash payments in the aggregate amount of US$4,000,000 payable over a three-year period to June 8, 2007 (US$2,000,000 paid as at December 31, 2006) and incurring a total of US$500,000 of expenditures on the property over the same three-year period (US$875,685 incurred at December 31, 2006).

On July 7, 2004, the Company entered into an option agreement to acquire ten additional concessions comprising of 204 hectares adjoining the north-west boundary of the land package. The total consideration is US$1,650,000 payable over a three-year period (US$1,000,000 paid as at December 31, 2006). The terms of this option agreement were satisfied in the subsequent period (see Note 22(f)).

On August 29, 2005, the Company entered into an option agreement to acquire the La Esperanza and the San Rafael mining concessions comprising approximately 29 hectares in the Chalchihuites area for a total purchase price of US$175,000 payable over a three-year period (US$50,000 paid as at December 31, 2006).

5. MINERAL PROPERTY INTERESTS (continued)

(c) Chalchihuites Group Properties, Zacatecas (continued)

The above amounts are paid and future option payments are due as follows (all amounts in US$):

June 8, 2004	$ 100,000
July 7, 2004	10,000
December 8, 2004	100,000
January 7, 2005	20,000
June 8, 2005	300,000
July 7, 2005	220,000
August 31, 2005	10,000
December 8, 2005	500,000
January 7, 2006	250,000
March 1, 2006	20,000
June 8, 2006	500,000
July 7, 2006	500,000
September 1, 2006	20,000
December 8, 2006	500,000
Paid	***$ 3,050,000***
January 7, 2007 (subsequently paid)	500,000
March 1, 2007 (subsequently paid)	30,000
June 8, 2007	2,000,000
July 7, 2007 (subsequently paid) (Note 22(h))	150,000
September 1, 2007	30,000
March 1, 2008	65,000
Future Option Payments	***$ 2,775,000***
Total	***$ 5,825,000***

A finder's fee in the aggregate of US$241,549 (2005 - US$303,750) is payable to a director of the Company, only in the event that all of the option agreements are exercised. Subsequent to the period end, a finder's fee in the amount of US$68,422 was paid to the director. See Note 22(f).

(d) Candameña Mining District Property, Chihuahua

In December 2004, the Company signed two option agreements for the purchase of the Candameña Mining District Property ("Candameña") located in the eastern Sierra Madre Mountain range about midway between Hermosillo and Chihuahua in east central Sonora Mexico. The purchase includes all properties, assets and equipment and all mining concessions consisting of 5,215 hectares. The payment schedule to one of the agreements was amended on May 24, 2005 and November 30, 2006 and a 1% NSR, payable up to a maximum of US$4,000,000, was cancelled on November 30, 2006.

The Company will now pay US$7,600,000 over a four-year period (US$925,000 paid as at December 31, 2006) pursuant to the terms of the option agreements.

The above amounts are paid and future option payments are due as follows (all amounts in US$):

5. MINERAL PROPERTY INTERESTS (continued)

(d) Candameña Mining District Property, Chihuahua (continued)

November 29, 2004	$	150,000
February 28, 2005		50,000
May 29, 2005		150,000
November 29, 2005		175,000
May 29, 2006		250,000
November 29, 2006		150,000
Paid	***$***	***925,000***
February 28, 2007 (subsequently paid)		100,000
May 29, 2007		200,000
August 29, 2007		150,000
November 29, 2007		675,000
February 29, 2008		600,000
May 29, 2008		1,575,000
November 29, 2008		3,375,000
Future option payments	***$***	***6,675,000***
Total	***$***	***7,600,000***

(e) Quitaboca Silver Project, Sinaloa, Mexico

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

November 25, 2004	$	20,000
May 25, 2005		30,000
November 25, 2005		50,000
May 25, 2006		75,000
November 25, 2006		100,000
Paid	***$***	***275,000***
May 25, 2007		125,000
November 25, 2007		150,000
May 25, 2008		175,000
November 25, 2008		200,000
May 25, 2009		250,000
November 25, 2009		275,000
May 25, 2010		500,000
November 25, 2010		550,000
Future Option Payments	***$***	***2,225,000***
Total	***$***	***2,500,000***

5. MINERAL PROPERTY INTERESTS (continued)

(f) Properties Written Off

During the period ended December 31, 2006, management elected not to proceed with the acquisitions of the Dios Padre Silver Project, the La Candelaria Silver Project and five of the Chalchihuites Group properties (Beatriz, Esmeraldita, Nueva India, Tayoltita and Verdiosa). Accordingly, the historical investments in these properties totalling $1,899,789, $292,753 and $688,766, respectively, were written off during the period. In addition, certain exploration costs of $14,428 relating to the La Parrilla property were written off at December 31, 2006.

During the period ended June 30, 2006, management wrote off acquisition and exploration costs totaling $384,930 on two of the Chalchihuites properties known as El Magistral and La Esmeralda.

6. ACQUISITION OF FIRST SILVER RESERVE INC.

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

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

The Shareholder has an outstanding legal dispute which could result in a settlement increasing his shareholding of First Silver by 3,700,000 shares. The Shareholder has agreed to sell the 3,700,000 shares of First Silver to First Majestic on the same terms set out above if he is awarded these shares.

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

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

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

7. PLAN OF ARRANGEMENT WITH FIRST SILVER RESERVE INC.

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

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

At closing First Silver option holders exchanged, on a two for one basis, 25,000 stock options of First Silver exercisable at a price of $1.64 per share expiring on June 13, 2009 and 1,100,000 stock options of First Silver exercisable at a price of $2.15 per share expiring on June 19, 2011 for 12,500 stock options of First Majestic exercisable at a price of $3.28 per share expiring on June 13, 2009 and 550,000 stock options of First Majestic exercisable at a price of $4.30 per share expiring on June 19, 2011, respectively. The stock options granted were valued at $693,000 using the *Black-Scholes Option Pricing Model* (assumptions include a risk free rate of 4.02%, estimated volatility of 68%, expected life of 2 to 3 years and expected dividend yield of 0%). At December 31, 2006, $275,682 of this amount was credited to contributed surplus and $417,318 was designated as deferred compensation and will be credited to contributed surplus in future periods as the related stock options vest.

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

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

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

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

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

7. PLAN OF ARRANGEMENT WITH FIRST SILVER RESERVE INC. (continued)

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

8. ACQUISITION OF DESMIN S.A. DE C.V.

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

The above amounts are paid and payable as follows (all amounts in US$):

November 1, 2006	$ 500,000
Paid	***$ 500,000***
January 31, 2007 (subsequently paid)	500,000
April 30, 2007 (subsequently paid)	500,000
Payable	***$ 1,000,000***
Total	***$ 1,500,000***

Desmin's primary asset is an exploitation contract which covers the operation of the La Encantada Silver Mine located in Coahuila State, Mexico. The exploitation contract provides Desmin the right to exploit all properties within a 985 hectare land package, including the operations of the mine and mill and all the ancillary installations and associated equipment. In addition, Desmin has an option to purchase the La Encantada Silver Mine including the mill and surrounding mining claims.

Desmin had a sliding scale royalty arrangement with Minera La Encantada S.A. de C.V. which was subsequently cancelled upon the Company acquiring Minera La Encantada S.A. de C.V. in the subsequent period (Note 9).

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

8. ACQUISITION OF DESMIN S.A. DE C.V. (continued)

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

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

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

9. ACQUISITION OF MINERA LA ENCANTADA S.A. DE C.V.

In December 2006, the Company signed a letter agreement to acquire 100% of the issued and outstanding shares of Minera La Encantada S.A. de C.V. ("La Encantada"), a Mexican mining company owned by Minas Peñoles S.A. de C.V. and Industrias Peñoles S. A. de C.V. (collectively referred to as "Peñoles" herein) for the purchase price of US$3,250,000 and a 4% NSR. La Encantada's primary asset is the La Encantada Silver Mine in Coahuila State, Mexico. A non-refundable deposit of US$1,000,000 was made on the date of the agreement and the balance was paid upon closing. Pursuant to the terms of the agreement, the Company exercised its option to acquire the 4% NSR in exchange for 382,582 common shares and 191,291 warrants exercisable at a price of $6.81 per share for a two-year period. At closing, all royalties underlying the La Encantada Silver Mine, including the royalty agreement with Desmin (Note 8), were cancelled. This acquisition was completed subsequent to December 31, 2006 (Note 22(g)).

10. PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment are as follows:

	December 31, 2006			June 30, 2006		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	$	$	$	$	$	$
La Parrilla Silver Mine	13,835,500	416,209	13,419,291	6,437,069	318,214	6,118,855
San Martin Silver Mine	6,116,717	213,952	5,902,765	2,714,773	22,220	2,692,553
La Encantada Silver Mine	435,225	57,268	377,957	-	-	-
Other	104,303	27,634	76,669	34,236	18,529	15,707
	20,491,745	**715,063**	**19,776,682**	**9,186,078**	**358,963**	**8,827,115**

10. PROPERTY, PLANT AND EQUIPMENT (continued)

	December 31, 2006			June 30, 2006		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	$	$	$	$	$	$
Land	66,049	-	66,049	54,740	-	54,740
Automobile	262,552	18,317	244,235	189,476	10,868	178,608
Buildings	1,005,504	71,551	933,953	1,015,030	46,396	968,634
Machinery and equipment	7,751,740	577,649	7,174,091	4,017,264	281,041	3,736,223
Computer equipment	48,646	12,686	35,960	29,557	1,741	27,816
Office equipment	184,759	34,605	150,154	118,207	18,917	99,290
Construction in progress	11,172,495	255	11,172,240	3,761,804	-	3,761,804
	20,491,745	**715,063**	**19,776,682**	**9,186,078**	**358,963**	**8,827,115**

11. SHARE CAPITAL

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

Issued	December 31, 2006		June 30, 2006	
	Shares	**$**	**Shares**	**$**
Balance - beginning of period	35,038,157	43,780,469	23,644,717	23,488,473
Issued during the period				
For cash:				
Exercise of options	255,000	579,750	710,000	963,900
Exercise of warrants	184,316	414,711	4,407,066	7,887,245
Private placements	4,429,250	12,419,500	6,076,374	10,661,751
For exercise of special warrants (i)	7,000,000	22,885,359	-	-
For mineral properties	-	-	200,000	450,000
For First Silver Arrangement (Note 7)	4,791,907	23,192,830	-	-
Transfer of contributed surplus for stock options exercised	-	194,000	-	329,100
Balance - end of the period	**51,698,630**	**103,466,619**	**35,038,157**	**43,780,469**

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

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

11. SHARE CAPITAL (continued)

(b) Stock Options

In September 2006, the Company adopted a new stock option plan (the "2006 Plan") to replace the previous stock option plan, approved by the Company's shareholders on December 15, 2005. The maximum number of shares reserved for issuance under the 2006 Plan is 10% of the issued shares on a rolling basis. Options may be exercisable over periods of up to five years as determined by the board of directors of the Company and the exercise price shall not be less than the closing price of the shares on the day preceding the award date, subject to regulatory approval. All stock options are subject to vesting with 25% vesting upon issuance and 25% vesting each six months thereafter.

The changes in stock options outstanding for the period ended December 31, 2006, are as follows:

	December 31, 2006			June 30, 2006		
	Number of Shares	Weighted Average Exercise Price ($)	Weighted Average Remaining Life	Number of Shares	Weighted Average Exercise Price ($)	Weighted Average Remaining Life
Balance, beginning of the period	2,954,600	2.43	1.46 years	2,065,000	1.68	1.65 years
Granted	2,427,900	4.26	3.86 years	1,694,600	2.89	2.29 years
Exercised	(255,000)	2.27	0.31 years	(710,000)	1.36	0.83 years
Cancelled or expired	(75,000)	3.97	1.53 years	(95,000)	2.29	1.77 years
Balance, end of the period	5,052,500	3.30	2.34 years	2,954,600	2.43	1.46 years

The following table summarizes both the stock options outstanding and those that are exercisable at December 31, 2006:

Price $	Options Outstanding	Options Exercisable	Expiry Dates
1.42	250,000	250,000	February 10, 2007
2.25	100,000	100,000	April 1, 2007
2.39	50,000	50,000	April 18, 2007
1.80	360,000	360,000	June 21, 2007
2.10	25,000	18,750	October 1, 2007
1.85	150,000	150,000	December 14, 2007
2.45	225,000	168,750	December 16, 2007
1.79	200,000	200,000	January 12, 2008
3.75	25,000	12,500	March 8, 2008
4.05	100,000	50,000	March 20, 2008
2.10	240,000	180,000	November 9, 2008
2.45	650,000	487,500	December 16, 2008
4.35	200,000	100,000	April 13, 2008
5.04	49,600	24,800	April 25, 2008
4.55	25,000	6,250	July 6, 2008
3.29	50,000	12,500	October 16, 2008
3.28	100,000	25,000	October 17, 2008
3.28	12,500	3,125	June 13, 2009
4.32	1,045,400	261,350	December 6, 2009
4.30	550,000	137,500	June 19, 2011
4.32	245,000	61,250	December 6, 2011
4.41	400,000	100,000	December 22, 2011
	5,052,500	2,759,275	

During the period ended December 31, 2006, the Company granted stock options to directors, officers, employees and consultants to purchase 2,427,900 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, $1,558,892 has been recorded as an expense in the period relating to these options.

11. SHARE CAPITAL (continued)

(b) Stock Options (continued)

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

	December 31, 2006	June 30, 2006
Risk-free interest rate	3.9%	3.8%
Estimated volatility	80.5%	45.7%
Expected life	2.9 years	1.3 years
Expected dividend yield	0%	0%

The weighted average fair value per share of the options granted during the period ended December 31, 2006 was $2.01 (June 30, 2006 - $0.66). For the period ended December 31, 2006, stock based compensation in the amount of $3,654,750 relating to previously granted stock options will be recognized as an expense in future periods.

(c) Share Purchase Warrants

The changes in share purchase warrants for the period ended December 31, 2006 are as follows:

	December 31, 2006			**June 30, 2006**		
	Number of Warrants	**Weighted Average Exercise Price ($)**	**Average Number of Periods to Expiry**	**Number of Warrants**	**Weighted Average Exercise Price ($)**	**Average Number of Periods to Expiry**
Balance, beginning of the year	2,693,139	2.44	1.38 years	4,062,018	1.75	0.57 years
Issued (i) (ii)	6,257,448	4.65	1.50 years	3,038,187	2.42	2.00 years
Exercised	(184,316)	2.25	1.02 years	(4,407,066)	1.79	0.24 years
Balance, end of the year	8,766,271	4.02	1.12 years	2,693,139	2.44	1.38 years

(i) The Company filed a short form prospectus dated July 19, 2006 qualifying the distribution of 7,000,000 common shares and 3,499,999 share purchase warrants issued upon the exercise of 7,000,000 special warrants and 420,000 broker warrants issued upon the exercise of 420,000 compensation options. Each share purchase warrant is exercisable to purchase one common share at $5.00 per share until October 20, 2007. Each broker warrant is exercisable to purchase one common share at $4.00 per share until October 20, 2007.

(ii) On November 28, 2006, the Company issued 2,214,625 share purchase warrants exercisable at a price of $4.25 per share expiring on November 27, 2008 pursuant to a private placement of 4,429,250 units at a price of $3.60 per unit. In connection therewith, 122,824 finder's warrants exercisable at a price of $4.25 per share expiring on November 27, 2008 were issued.

The following table summarizes the share purchase warrants outstanding at December 31, 2006:

Exercise Price $	**Warrants Outstanding**	**Expiry Dates**
2.25	1,008,823	October 20, 2007
4.00	420,000	October 20, 2007
5.00	3,499,999	October 20, 2007
2.60	1,500,000	December 14, 2007
4.25	2,337,449	November 27, 2008
	8,766,271	

12. CONTRIBUTED SURPLUS

The components of contributed surplus are as follows:

	Six months ended December 31, 2006 $	Year ended June 30, 2006 $
Balance, beginning of the period	4,272,294	1,333,137
Stock option expense during the period	1,558,892	528,112
Stock option expense of subsidiary, net of non-controlling interest portion of $356,712	-	720,145
Fair value of First Majestic options exchanged for First Silver options	173,250	-
Compensation options issued during the period	-	550,000
Conversion of special warrants	2,607,000	-
Warrants issued during the period	3,046,000	1,470,000
Finder's warrants issued during the period	257,000	-
Transfer to share capital for options exercised during the period	(194,000)	(329,100)
	11,720,436	4,272,294

13. RELATED PARTY TRANSACTIONS

During the period ended December 31, 2006, the Company:

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

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

(c) paid $92,792 (June 30, 2006 - $187,588) to the Chief Operating Officer for management and other services related to the mining operations of the Company in Mexico pursuant to a consulting agreement.

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 four operating segments as a result of the acquisitions of First Silver and Desmin. These reportable operating segments are summarized in the table below.

	Six months ended December 31, 2006				
	First Silver Mexican operations	First Majestic Mexican operations	Desmin Mexican operations	Corporate and other eliminations (1)	Totals
Silver sales	$ 9,456,895	$ 1,530,722	$ 1,767,348	$ -	**$ 12,754,965**
Cost of sales	8,336,816	1,584,409	1,147,492	-	**11,068,717**
Depreciation and depletion	2,833,663	180,458	73,749	9,105	**3,096,975**
Loss (earnings) from operations	2,725,760	3,472,650	(185,764)	3,865,018	**9,877,664**
Net interest and other income	133,957	(861,466)	22,388	1,391,627	**686,506**
Income tax recovery	(742,252)	-	(138,151)	-	**(880,403)**
Net earnings (loss)	(1,849,551)	(4,334,115)	346,303	(1,750,829)	**(7,588,192)**
Total long lived assets	130,901,258	25,529,983	2,139,656	76,669	**158,647,566**

(1) All corporate operations are in Canada.

14. SEGMENTED INFORMATION (continued)

	Year ended June 30, 2006				
	First Silver Mexican operations	**First Majestic Mexican operations**	**Desmin Mexican operations**	**Corporate and other eliminations (1)**	**Totals**
Silver sales	$ 2,083,243	$ 2,076,049	$ -	$ -	$ 4,159,292
Cost of sales	1,525,260	2,263,304	-	-	3,788,564
Depreciation and depletion	1,233,931	754,143	-	9,441	1,997,515
Loss (earnings) from operations	(2,054,382)	(1,971,364)	-	(2,667,715)	(6,693,461)
Net interest, income and other items	(309,235)	(17,733)	-	580,260	253,292
Income tax recovery	(204,901)	-	-	-	(204,901)
Net earnings (loss)	(1,215,953)	(1,916,240)	-	(2,533,693)	(5,665,886)
Total long lived assets	73,368,446	17,159,691	-	52,765	90,580,902

(1) All corporate operations are in Canada.

15. INCOME TAXES

At December 31, 2006, the Company has approximately $4,842,000 of non-capital losses and $125,000 of capital losses carried forward, and has available cumulative unclaimed resource deductions and capital cost pools of approximately $5,393,000, which in certain circumstances may offset future taxable income in Canada. The non-capital losses expire commencing 2007 through 2026. The net capital loss can be utilized to reduce taxes on future capital gains and may be carried forward indefinitely. The cumulative resource deductions and capital cost pools may be carried forward indefinitely.

In addition, subject to certain restrictions, the Company has tax pools of approximately $6,515,000 available to offset future taxable income in Mexico.

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

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

	December 31, 2006	**June 30, 2006**
	$	**$**
Combined federal and provincial income tax rate	34.12%	34.12%
Income tax benefit computed at Canadian statutory rates	3,136,023	2,226,373
Foreign tax rates different from statutory rates	(228,649)	(64,620)
Non-deductible expenses	(1,484,865)	(652,219)
Unrecognized benefit of income tax losses	(542,106)	(1,304,633)
	880,403	204,901

15. INCOME TAXES (continued)

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

	December 31, 2006 $	June 30, 2006 $
Future income tax assets		
Net tax losses carried forward	3,325,276	3,771,087
Temporary differences on assets	1,712,236	1,980,726
Share issue costs	975,393	829,516
Valuation allowance for future income tax assets	(4,148,223)	(5,369,116)
Net future income tax assets	1,864,682	1,212,213
Future income tax liabilities		
Excess of carrying value of mineral property assets over tax value	(38,648,874)	(22,370,849)
Future income tax liabilities, net	(36,784,192)	(21,158,636)

16. FINANCIAL INSTRUMENTS, CREDIT AND OTHER RISKS

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

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

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

17. CONTINGENT LIABILITIES

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

Under Mexican regulations, the Company may be obligated to remit taxes to the government on payments made for the acquisition of mineral claims in the event that the recipients of such payments fail to make the required tax remittances relating to those payments. The maximum potential remittance is approximately $3.15 million however the Company believes it has substantial defences to any claims.

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

18. OTHER LONG TERM LIABILITIES

In 1992, El Pilon entered into a contract with a Mexican bank, whereby the bank committed to advance cash to El Pilon in exchange for silver to be delivered in future installments. The bank failed to advance the fully agreed amount, and El Pilon therefore refused to deliver the silver. El Pilon sued the bank for breach of contract. The Company believes it will retain the advance received from the bank, but the ultimate outcome is uncertain. The aggregate potential liability including interest and penalties amounts to $1,518,304. The Company recorded this liability at its best estimate of fair value in the amount of $1,286,788 as part of the acquisition of First Silver (Note 6).

19. COMMITMENTS

The Company is obligated to make certain payments and issue shares, as described in Note 5, in connection with the acquisition of its mineral property interests.

The Company is obligated to make certain interest, share and cash payments, as described in Notes 6, 7 and 8, in connection with the acquisition of a controlling interest in First Silver, the Arrangement with First Silver and the acquisition of Desmin, respectively.

The Company is committed to making severance payments amounting to US$270,000 to two officers in the event that there is a change of control of the Company.

The Company is committed to office lease payments totalling $96,724 until July 31, 2007.

Under Mexican regulations, employees (excluding directors and senior management) are eligible for a profit sharing bonus of 10% of annual profit (before taxes). The amount of the profit sharing bonus accrued as a component of cost of sales at December 31, 2006 is $293,989 (June 30, 2006 - $239,816) which will be paid to the employees of El Pilon and Desmin in May 2007.

20. NON-CONTROLLING INTEREST

During the period, the Company had a non-controlling interest in First Silver. The non-controlling interest is comprised of the following:

	December 31, 2006 $	June 30, 2006 $
Balance, beginning of the period	(2,077,940)	-
Initial interest arising upon acquisition of First Silver	-	(2,226,893)
Non-controlling interest's share of loss	722,563	569,382
Increase in non-controlling interest arising from share issuance of subsidiary during the year	-	(89,283)
Non-controlling interest's share of contributed surplus arising from stock options and cumulative translation adjustment for the period	-	(331,146)
Acquisition of remaining 36.25% of First Silver	1,355,377	-
Balance, end of period	-	(2,077,940)

21. ASSET RETIREMENT OBLIGATION

	December 31, 2006 $	June 30, 2006 $
Balance, beginning of the period	2,238,523	1,125,842
Amount acquired upon the acquisition of First Silver	1,151,521	1,140,520
Increase of estimate	434,226	-
Interest accretion	81,391	89,597
Effect of translation of foreign currencies	(7,576)	(117,436)
	3,898,085	2,238,523

The total undiscounted amount of estimated cash flows required to settle the Company's estimated obligations is US$4,405,000, which has been discounted using a credit adjusted risk free rate of 8.5%. US $2,228,000 of the reclamation obligation relates to the La Parrilla Silver Mine and is expected to be paid in 2014. The balance of the obligation relates to the San Martin Silver Mine and is expected to be paid in 2016. The present value of the reclamation liabilities may be subject to change based on management's current estimates, changes in the remediation technology or changes to the applicable laws and regulations. Such changes will be recorded in the accounts of the Company as they occur.

22. SUBSEQUENT EVENTS

Subsequent to December 31, 2006:

(a) The Company issued 557,500 common shares for proceeds of $1,332,050 pursuant to the exercise of stock options.

(b) The Company issued 972,500 common shares for proceeds of $2,534,375 pursuant to the exercise of share purchase warrants.

(c) The Company issued 375 common shares at a price of $4.84 per share for First Silver shares tendered pursuant to the Arrangement.

(d) The Company granted 200,000 stock options exercisable at a price of $5.50 per share expiring on February 1, 2010 and 155,000 stock options exercisable at a price of $5.00 per share expiring on February 7, 2011 to directors and officers of the Company.

(e) The Company cancelled 100,000 stock options exercisable at a price of $4.30 per share originally expiring on April 15, 2008, 75,000 stock options exercisable at a price of $4.32 per share originally expiring on December 6, 2009 and 37,500 stock options exercisable at a price of $4.35 per share originally expiring on June 19, 2011.

(f) On January 31, 2007, the Company completed the acquisition of the San Juan Silver Mine which forms part of the Chalchihuites Group Properties by making the final payments of US$500,000 and US$150,000 due January 7, 2007 and July 7, 2007, respectively, pursuant to the agreement. In connection therewith, a finder's fee in the amount of US$68,422 was paid to a director of the Company.

(g) On March 20, 2007, the Company issued 382,582 common shares at a price of $5.23 per share and 191,291 share purchase warrants exercisable at a price of $6.81 per share expiring on March 20, 2009 pursuant to the acquisition of La Encantada (Note 9).

(h) On April 20, 2007, the Company engaged Cormark Securities Inc. (formerly Sprott Securities Inc.) and CIBC World Markets Inc. (as co-lead underwriters) and Blackmont Capital Inc. (the "Underwriters") as underwriters to purchase on an underwritten basis up to 4,000,000 Special Warrants of the Company at a price of $5.00 per Special Warrant (the "Issue Price") for aggregate gross proceeds to the Company of $20 million. The Underwriters will have the option to sell up to an additional $24 million of the Offering at the Issue Price at any time prior to the closing date. Each Special Warrant will be exercisable for one Unit of the Company and will be automatically exercised for one Unit of the Company on the date the Company obtains a final receipt for a prospectus qualifying the underlying shares. In the event the Company has not obtained a final receipt prior to the date that is eleven weeks after the closing date, each Special Warrant will be automatically exercised for 1.08 Units. Each Unit will entitle the holder to acquire one common share and one-half of one share purchase warrant. Each whole share purchase warrant will be exercisable at a price of $6.50 for a period of 18 months from the date of closing. The Underwriters will receive a commission of 5.5% of the gross proceeds of the offering at closing. The offering is scheduled to close on or about May 10, 2007 and is subject to certain conditions including, but not limited to, satisfactory due diligence and the receipt of all necessary approvals including the approval of the TSX Venture Exchange.

CONSOLIDATED SCHEDULE OF MINERAL PROPERTY INTERESTS

FOR THE PERIOD ENDED DECEMBER 31, 2006

SCHEDULE "A"

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

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

(2) See Note 8 – Acquisition of Desmin S.A. de C.V.

(See Note 5)

CONSOLIDATED SCHEDULE OF MINERAL PROPERTY INTERESTS

FOR THE YEAR ENDED JUNE 30, 2006

SCHEDULE "B"

	La Parrilla $	San Martin $	Chalchihuites $	Dios Padre $	Candamena $	Candelaria $	Quitaboca $	Total $
Balance - beginning of the year	4,022,330	-	886,513	576,173	497,954	-	-	**5,982,970**
Expenditures during the year								
Consulting	24,978	-	50,031	61,104	37,895	37,831	-	**211,839**
Filing fees	5,947	-	9,924	5,851	17,265	260	-	**39,247**
Mine exploration costs	596,397	-	382,242	405,028	4,925	34,619	-	**1,423,211**
Reports and assays	7,974	-	12,956	43,383	1,017	11,415	-	**76,745**
	635,296	-	455,153	515,366	61,102	84,125	-	**1,751,042**
Acquisition costs during the year (net)	513,994	71,887,605	2,002,701	611,817	1,055,806	106,422	-	**76,178,345**
Less: write off of mineral properties	-	-	(384,930)	-	-	-	-	**(384,930)**
Less: depletion	(561,929)	(1,211,711)	-	-	-	-	-	**(1,773,640)**
Balance, end of the year	**4,609,691**	**70,675,894**	**2,959,437**	**1,703,356**	**1,614,862**	**190,547**	**-**	**81,753,787**
		(1)					(1)	

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

(See Note 5)

MANAGEMENT'S DISCUSSION & ANALYSIS

Forward-Looking Statements

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

1.0 Preliminary Information

The following Management's Discussion and Analysis ("MD&A") of First Majestic Silver Corp. ("First Majestic" or "the Company") should be read in conjunction with the accompanying audited consolidated financial statements for the six-month transition year ended December 31, 2006 and the audited consolidated financial statements for the year ended June 30, 2006, both of which are available on the SEDAR website at www.sedar.com. Additional information on the Company, including the Company's Annual Information Form, is also available on SEDAR at www.sedar.com.

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

This MD&A of First Majestic relates to the consolidated operations of the Company and its four wholly owned subsidiaries: Desmin S.A. de C.V. ("Desmin"), First Majestic Resources Mexico, S.A. de C.V. ("FMR Mexico"), First Silver Reserve Inc. ("First Silver") and its wholly owned subsidiary Minera El Pilon S.A. de C.V. ("El Pilon"). The Company acquired a fifth subsidiary, Minera La Encantada, ("La Encantada") on March 20, 2007, which resulted in the Company acquiring the property, plant and equipment of the La Encantada mine. The Company had previously acquired the right to exploit the La Encantada mine and mill via the mining exploitation rights it acquired through its purchase of Desmin on November 1st, 2006.

During the period ended December 31, 2006, the Company changed its fiscal year-end from June 30 to December 31 to be consistent with the fiscal year ends of its three operating subsidiaries, First Majestic Resources Mexico, S.A. de C.V. ("FMR Mexico"), Minera El Pilon S.A. de C.V. ("El Pilon") and Desmin S.A. de C.V. ("Desmin"). To facilitate the change, the Company is reporting a one-time, six-month transition year covering the six month period ended December 31, 2006. Subsequent to the transition year, the first full financial year will cover the period January 1, 2007 to December 31, 2007.

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

All information contained in this MD&A is as of April 30, 2007, unless otherwise stated.

Qualified Persons

Unless otherwise indicated Leonel Lopez, C.P.G., P.G. of Pincock Allen & Holt is the Qualified Person for the Company who has reviewed the technical information herein for the San Martin Silver Mine. The Company has relied upon Jan Helsen, PhD, as the Qualified Person for National Instrument 43-101 technical reports on the La Parrilla Silver Mine and the La Encantada Silver Mine. Reports can be found on www.sedar.com.

1.1 Background

Nature of Business

The Company is in the business of the production, development, exploration and acquisition of mineral properties focusing on silver in Mexico. The common shares of the Company trade on the TSX Venture Exchange under the symbol "FR". The common shares are also quoted on the "Grey Market" in the U.S. under the symbol "FRMSF" and on the Frankfurt, Berlin, Munich and Stuttgart Stock Exchanges under the symbol "FMV".

1.2 Overall Operating Performance and Highlights

- Average realized silver price was $12.55 (US$11.10) per ounce of silver for the six month period ended December 31, 2006 ($8.29 or US$6.98 for the same six month period in 2005).
- Average realized silver price was $14.16 (US$12.44) per ounce of silver for the quarter ended December 31, 2006 ($8.65 or US$7.38 for the same quarter in 2005).
- For the six month period ended December 31, 2006, the Company's three operating mines produced a combined 1,016,583 ounces of silver equivalent to the Company at a cash cost of US$9.63 per ounce of silver which consisted of 956,292 ounces of silver, 1,075 ounces of gold and 82,450 pounds of lead. Production for the period increased by more than 253% compared to the prior six months of production of 271,278 equivalent ounces of silver and was an increase of 1005% over the 92,000 ounces of silver equivalent produced over the same six month period ending December 31, 2005.

First Majestic Silver Non-GAAP Measures

	Quarter Ended December 31,		Six Months Ended December 31,	
	2006	2005	2006	2005
Cash Cost Calculations				
Silver Sales in ounces of equivalent	574,704	56,000	1,016,583	92,000
Average realized price per ounce ($CAD)	14.16	8.65	12.55	8.29
Average realized price per ounce ($US)	12.44	7.38	11.10	6.98
Total silver revenues	8,138,284	484,647	12,754,965	762,233
Cash cost of sales	7,871,517	570,939	11,068,717	1,033,024
Cash cost per ounce of Silver ($CAD)	13.70	10.20	10.89	11.23
Cash cost per ounce of Silver ($US)	12.03	8.69	9.63	9.46

"Cash Cost per ounce" is a non GAAP measure derived from the total direct costs, including mine site administration costs, of ounces produced less depletion and depreciation and other non cash items, as a measure of total ounces produced. Cash costs are presented as we believe they represent and industry standard of comparison.

- On November 1, 2006, the Company completed the acquisition of Desmin, a privately held Mexican mining company whose primary asset is an exploitation contract covering the operation of the La Encantada Silver Mine located in the Coahuila State of Mexico.
- On November 28, 2006, the Company completed a non-brokered private placement consisting of 4,429,250 units at a price of $3.60 per unit for gross proceeds of $15,945,300. The net proceeds of the offering will be used for exploration, development and capital expenditures on the La Parrilla Silver Mine, the San Martin Silver Mine and the La Encantada Silver Mine and for general working capital purposes.
- At December 31, 2006, the Company had a cash position of $17,870,712.
- On March 20, 2007, the Company completed the acquisition of Minera La Encantada S.A. de C.V. ("La Encantada"), a Mexican mining company whose primary asset is the La Encantada Silver Mine located at the Coahuila State in Mexico.

- On April 20, 2007, the Company engaged Cormark Securities Inc. (formerly Sprott Securities Inc.) and CIBC World Markets Inc. (as co-lead underwriters) and Blackmont Capital Inc. (the "Underwriters") as underwriters to purchase on an underwritten basis up to 4,000,000 Special Warrants of the Company at a price of $5.00 per Special Warrant (the "Issue Price") for aggregate gross proceeds to the Company of $20 million. The Underwriters will have the option to sell up to an additional $24 million of the Offering at the Issue Price, exercisable at any time prior to the closing date. Each Special Warrant will be exercisable for one Unit of the Company and will be automatically exercised for one Unit of the Company on the date the Company obtains a final receipt for a prospectus qualifying the underlying shares. In the event the Company has not obtained a final receipt prior to the date that is eleven weeks after the closing date, each Special Warrant will be automatically exercised for 1.08 Units. Each Unit will entitle the holder to acquire one common share and one-half of one share purchase warrant. Each whole share purchase warrant will be exercisable at a price of $6.50 for a period of 18 months from the date of closing. The Underwriters will receive a commission of 5.5% of the gross proceeds of the offering at closing. The offering is scheduled to close on or about May 10, 2007 and is subject to certain conditions including, but not limited to, satisfactory due diligence and the receipt of all necessary approvals including the approval of the TSX Venture Exchange.
- With the completion of the acquisition of the San Martin Silver Mine in September 2006 and the takeover of operations in November 2006 of the La Encantada Silver Mine, combined with the La Parrilla Silver Mine, the Company has begun 2007 operating three producing silver mines in Mexico that are transforming the company into a significant silver producer.
- With another record for silver production in this period, the Company has established a substantial platform for future growth in silver production based on its three producing silver mines, the La Parrilla, the La Encantada and the San Martin. Aggressive development and exploration programs in each mine are currently underway in an effort to grow the silver reserves and resources as well as the ounces of silver to be produced in 2007 and 2008, and beyond.

Acquisition of First Silver Reserve Inc.

First Majestic entered into an irrevocable share purchase agreement dated for reference April 3, 2006 (the "Share Purchase Agreement") to purchase 63.75% of the issued and outstanding shares of First Silver from its majority shareholder (the "Shareholder"). First Silver's wholly owned subsidiary, El Pilon, is the sole owner of the San Martin Silver Mine in Jalisco State, Mexico.

First Majestic purchased 24,649,200 common shares of First Silver (the "Acquisition") at a price of $2.165 per share for an aggregate of $53,587,857 payable to the Shareholder in three instalments. The first instalment of $26,682,757 represented 50% of the purchase price and was paid on closing of the Acquisition on May 30, 2006. Two additional instalments of $13,341,380, each representing 25% of the purchase price, are payable on each of the first and second anniversaries of the closing of the Acquisition. The first of the two instalments is due May 30, 2007. An interest amount of 6% per annum is payable quarterly on the two outstanding payments due after closing.

The Shareholder has an outstanding legal dispute which could result in a settlement increasing his shareholding of First Silver by 3,700,000 shares. The Shareholder has agreed to sell the 3,700,000 shares of First Silver to First Majestic on the same terms set out above if he is awarded these shares.

Plan of Arrangement with First Silver Reserve Inc.

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

The Arrangement was approved at a special meeting of shareholders of First Silver on September 7, 2006 and became effective on September 14, 2006. At closing, First Silver option holders exchanged on a two for one basis 25,000 stock options of First Silver exercisable at a price of $1.64 per share expiring on June 13, 2009 and 1,100,000 stock options of First Silver exercisable at a price of $2.15 per share expiring on June 19, 2011 for 12,500 stock options of First Majestic exercisable at a price of $3.28 per share expiring on June 13, 2009 and 550,000 stock options of First Majestic exercisable at a price of $4.30 per share expiring on June 19, 2011, respectively. The common shares of First Silver were delisted from the Toronto Stock Exchange at the close of business on September 18, 2006.

Upon approval of the acquisition of First Silver, and pursuant to a resolution passed by shareholders on September 7, 2006, the Company changed its name from "First Majestic Resource Corp." to "First Majestic Silver Corp." effective November 22, 2006.

The former shareholders of First Silver had until December 13, 2006 to deposit their completed Letters of Transmittal and to elect to receive either cash or shares of First Majestic on such terms as further described herein, after which time the former shareholders of First Silver would only be entitled to receive shares of First Majestic. At December 31, 2006, 4,791,907 shares of First Majestic had been issued at a value of $4.84 per share, $777,672 had been paid to the former shareholders of First Silver and $9,294,020 was recorded in shareholder equity for the value of the remaining 1,920,252 shares of First Majestic to be issued pursuant to the Arrangement.

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

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

In August 2006, the Company signed a letter agreement to acquire 100% of the issued and outstanding shares of Desmin, a privately held Mexican mining company. The Company agreed to pay US$1.5 million over a six-month period, from November 1, 2006 to April 30, 2007, for all the issued and outstanding shares of Desmin, resulting in Desmin becoming a wholly owned subsidiary of the Company. During the six months ended December 31, 2006, the first payment of US$500,000 was made, and the second US$500,000 payment was made in the subsequent period. The final US$500,000 payment was made on April 30, 2007, with the Company now having fully paid the US$1.5 million consideration required by the letter agreement. Desmin's operating results for the period from November 1, 2006 to December 31, 2006 have been consolidated into the operations of the Company from the date of acquisition for the current six month period ended December 31, 2006.

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

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

Desmin's primary asset is an exploitation contract which covers the operation of the La Encantada Silver Mine located in Coahuila State, Mexico. The exploitation contract gives Desmin the right to exploit all properties within a 986 hectare mining claim land package, including the operations of the La Encantada Silver Mine and mill and all the ancillary installations and associated equipment. In addition, Desmin also has an option to purchase the La Encantada Silver Mine including the mill and surrounding mining claims.

Prior to the Company acquiring La Encantada, Desmin paid to La Encantada a sliding scale Net Smelter Return ("NSR") royalty of 5% to 11% based on silver prices of US$4.40 to US$7.50 per ounce. An amount of $192,839 (US$ 168,782) was paid by Desmin to La Encantada in November and December representing the production and shipment of 181,413 ounces of silver equivalent in concentrate. Upon closing the acquisition of La Encantada in the subsequent period, on March 20, 2007, this royalty arrangement was cancelled (see "Acquisition of Minera La Encantada S.A. de C.V." below).

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

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

La Parrilla Silver Mine, Durango, Mexico

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

In August 2006, the Company entered into three agreements to acquire the Quebradillas and Viboras Silver Mines and a contiguous land package of 3,126 hectares of mining concessions surrounding the Company's La Parrilla Silver Mine. The Company has the right to purchase all the mining concessions, the mines, the data of historical diamond drill programs and the assets located within the mine areas for a total purchase price of US$3,000,000 payable over a period of two years. In addition to these payments, the agreements require a royalty payment of 1.5% NSR with a maximum ceiling amount of US$2,500,000. The Company has the option to purchase the royalty stream at any time for US$2,000,000. At December 31, 2006, payments totalling US$1,232,360 had been made by the Company.

During the construction of the Company's new 800 tonne per day ("tpd") mill at La Parrilla, several interruptions interfered with the full time operations of the mill. The periodic shut downs were necessary in order to assemble capital improvements in areas of the new mill facility. In addition, relatively high dilution within the mine occurred during the period due to improvements being made to old areas within the mine, in an effort to open these areas up for larger scale operation. Management decided to continue operating under these conditions in order to benefit from timely and necessary training for the mine and mill personnel. Disruptions are now reducing and production is improving.

During the six month period ended December 31, 2006, a total of 29,057 tonnes of ore were processed with an average head grade of 172 grams of silver per tonne resulting in a total of 110,114 equivalent ounces (a 66% recovery of silver) of silver produced consisting of 106,486 ounces of silver and 72 ounces of gold. Total cash costs remained high at $14.44 per ounce primarily due to low production numbers during the start up phase of the new mill.

Subsequent to the end of the period, in January 2007, the expanded mill was commissioned and a ramp up of production commenced. The new 800 tpd mill start up process has taken longer than estimated and presented a number of challenges. The primary and secondary crushing area and the tailings thickeners required upgrading as additional ore was fed through the mill. These problems are being addressed and were resolved as they occurred, mainly in the primary and secondary crushing area and at the tailings thickeners.

In order to prepare for increased production levels within the mine, a permit for a new tailings dam was prepared and presented to the Mexican environmental authorities in December 2006. The final permitting approvals were received on April 30, 2007. The contract for construction of the new tailings dam has been assigned and the construction is expected to be completed within 6 months from commencement.

Development in the various mining areas within the La Parrilla property package continued with two objectives; first to prepare the necessary number of production stopes and second to upgrade the resources to reserves and define additional resources. A total of 2,529 meters of development were completed in the period focusing on Rosarios-La Rosa, Quebradillas and San Marcos mines.

During the period, as a part of our aggressive exploration plan, a 64 diamond drill holes with a total of 15,077 meters, were drilled. The focus was on several different areas within the property with the objective of increasing the present resources and assisting with additional direction for the exploration program, and to define further targets.

As a result of the ongoing encouraging drill program and the discovery of a number of new areas of interest, the Company decided to acquire additional land through staking two additional large land blocks. One 18,466 hectare block of land encircling the original 3,424 hectare land package surrounding the La Parrilla mine for a new total of 21,890 hectares, and a second adjacent land block of 31,347 hectares for a new grand total of land held in the region of 53,237 hectares. The Company is awaiting registration confirmation from the Mexican authorities on both new land blocks.

San Martin Silver Mine, Jalisco, Mexico

The 100% owned San Martin Silver Mine is located near the town of San Martin de Bolaños on the Bolaños River in Northern Jalisco State, Mexico, and was the Company's largest silver producing mine in 2006.

The San Martin mine and mill, in the six month period ended December 31, 2006, processed 128,175 tonnes of ore with an average grade of 192 grams of silver per tonne resulting in 673,815 ounces of silver and 1004 ounces of gold produced which represented 725,055 ounces of silver equivalent at a cash cost of US$9.50 per ounce (a 85% recovery of silver). Total tonnes processed were 13% lower than planned due to new underground development initiated by the Company after its acquisition of San Martin in June 2006. As a result, production levels are anticipated to increase in the coming quarters.

During the six month period ended December 31, 2006, an intensive underground development program was commenced at the San Martin Silver Mine, with the objective of accessing new resources from additional production areas and to increasing production and head grades. This development effort consisted of 3,400 meters of underground development and drifting and was complemented with 3,515 meters of diamond drilling consisting of four holes from surface and 12 underground holes.

An ongoing surface exploration program was continued at San Martin on the 7,840 hectares that the company holds in the area, especially covering the Rosario-Condesa and the El Melon and Esperanza areas which represent vein structures similar to the main Zuloaga vein that has been in operation for the last 20 years.

La Encantada Silver Mine, Coahuila State, Mexico

First Majestic acquired a 100% interest in Desmin, a privately held Mexican mining company. Desmin's primary asset is an exploitation contract with La Encantada. Desmin's exploitation contract covers the operations of the La Encantada Silver Mine located at the Coahuila State in Mexico. The purpose of this acquisition was to gain operational control over the La Encantada Silver Mine. Subsequent to the December 31, 2006 year end, the Company purchased from Penoles, 100% of the outstanding shares of Encantada the Mexican mining company that owns the assets of the La Encantada mine and mill. La Encantada's primary asset is the La Encantada Silver Mine located in Coahuila State in the northern part of Mexico.

The purchase of Desmin, which closed on November 1, 2006, immediately became accretive to production, cash flow, and earnings. During the period January to December, 2006, the La Encantada Silver Mine produced 945,000 ounces of silver at a cash cost of US$4.25 per ounce. The 1000 tpd mill was operating at approximately 30% of capacity during the 2006 calendar year. The closing date for the acquisition of Desmin was November 1, 2006, and as a result First Majestic consolidated production from Desmin for the months of November and December 2006, including 14,521 tonnes of ore mined and milled with an average grade of 566 grams of silver per tonne, resulting in 175,991 ounces of silver produced with a total of 37.4 tonnes (82,452 pounds) of contained lead, or a production of 181,413 ounces of silver equivalents (67% recovery of silver). Total cash cost per tonne was US$56.00 resulting in an average cost of US$4.49 per ounce of silver produced.

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

Shortly after the acquisition of Desmin and a subsequent review of the available geological data it was determined the potential for the area was high and warranted the acquisition through staking of 3,100 hectares of ground overlapping the original 986 hectares bringing the total land holdings around the La Encantada Silver Mine to 3,100 hectares.

Chalchihuites Group of Properties, Zacatecas, Mexico

The Company has entered into a number of agreements to acquire mining concessions located in Chalchihuites, Zacatecas, Mexico located approximately 45 kilometres southeast of the La Parrilla Silver Mine. The Chalchihuites Group of Properties consisted of several small historic mines of silver, lead, zinc, gold and copper. Over the past two years, the Company carried out an exploration program, consisting of geochemical analysis, geophysical analysis and drilling. First Majestic's primary focus is silver, thus areas known as the La Esmeralda and Magistral were dropped during the period leaving 293 hectares of mining claims remaining in the land package. The present focus of development and exploration is the high grade Perseverancia Silver Mine and the San Juan Silver Mine.

Subsequent to the period end, the Company completed the acquisition of the San Juan Silver Mine which forms part of the Chalchihuites Group of Properties, which included 10 mining claims with a total surface area of 204 hectares. The final payment of US$650,000 was made, exercising the original option agreement signed in 2004. The total amount paid for the property was of US$1,650,000. In connection therewith, a finder's fee in the amount of US$68,422 was paid to a director of the Company.

During the period, exploration and development at the San Juan Silver Mine consisted of 1,893 metres of diamond drilling in six holes and 278 meters of underground drifting. This program has confirmed the existence of an ore body that is in the process of being defined. Additional diamond drilling and development is underway. The Company is presently sending an average of 50 tonnes of development ore per day to the La Parrilla mill in order to conduct batch tests on both the oxide and sulphide ores.

At the Perseverancia Silver Mine, a diamond drill program has been underway. During the period a drift for the diamond drill station was developed and 127 metres of underground drilling consisting of two holes was completed. Due to the topography and angle of the targeted chimney a 100 metre drift from surface was initiated. Once the drift is completed the Company plans to complete a diamond drill station to confirm the continuity of the Perseverancia chimneys at depth.

Candameña Mining District Property, Mexico

The Company has two option agreements for the purchase of the Candameña Mining District Property ("Candameña") located in the eastern Sierra Madre Mountain range about midway between Hermosillo and Chihuahua in east central Chihuahua, Mexico. The option agreements include all properties, assets, equipment and all mining concessions consisting of 5,215 hectares. The payment schedules to these agreements were amended on May 24, 2005 and November 30, 2006 and a 1% NSR, payable up to a maximum of US$4,000,000, was cancelled on November 30, 2006.

The Company has an option to pay US$7,600,000 over a four-year period (US$925,000 paid as at December 31, 2006) pursuant to the terms of the option agreements. Option payments totalling US$150,000 due on or before November 29, 2006 were paid by the Company.

During the six month period ending December 31, 2006, a team of geologists worked on the Candameña property focusing on the silver bearing areas of La Verde and La Prieta. A total of 10 kilometres of road access was developed in order to give access to the drilling equipment, and a diamond drill program was initiated with a total of 638 meters drilled over three holes. The drilling program continued into the subsequent quarter and assays are pending. Depending on the results, further exploration will be decided in the second quarter of 2007.

Quitaboca Silver Project, Sinaloa, Mexico

Through the acquisition of First Silver, the Company has an option agreement to acquire a 100% interest in seven mining claims (known as the Quitaboca Silver Project) consisting of 3,718 hectares located in the State of Sinaloa, Mexico. To complete the option, the Company is required to pay a total of US$2,500,000 in staged cash payments by November 25, 2010. A 2.5% NSR on the claims may be purchased for US$500,000 during the term of the agreement or for a period of 12 months thereafter. A US$100,000 option payment due November 25, 2006 was paid by the Company.

An additional mining claim was staked by Minera El Pilon with a surface of 1,386 hectares to increase the Quitaboca Silver Project land position to 5,104 hectares.

The Company continued to access the five different areas of geological interest. Construction of roads was necessary and a camp site was constructed for geological personnel. An underground drift was initiated at the Colateral 1 vein with a total of 35 meters completed. Subsequent to the period end, the access level was completed and the vein was reached. It is presently being explored and tested.

La Candelaria Silver Project, Hostotipaquillo, Jalisco, Mexico

In November, 2006, management elected not to proceed with the acquisition of the La Candelaria Silver Project. Accordingly, management has written off the historical investment in this property totalling $292,753 during the six month period ended December 31, 2006.

Dios Padre Silver Project, Sonora, Mexico

In November, 2006, management elected not to make further option payments on the Dios Padre Silver Project. Accordingly, management has written off the historical investment in this property totalling $1,899,789 during the six month period ended December 31, 2006.

1.3 Selected Annual Information

	Transition year Six months ended Dec. 31, 2006		Six months ended Dec. 31, 2005	(1)	Years ended June 30, 2006		Years ended June 30, 2005
Total revenues	$ 12,754,965	(2)	$ 762,233	(2)	$ 4,159,292	(2), (3)	$ 914,000
Mine earnings	1,686,247		(270,791)		370,728		(326,527)
Net loss for the period	(7,588,192)		(1,518,028)		(5,665,886)		(3,708,028)
Basic and diluted loss per share	(0.17)		(0.06)		(0.16)		(0.17)
Total assets	185,361,654	(4)	23,936,992		112,674,873	(4)	12,455,745
Total long term liabilities	$ 55,930,797	(5)	$ 1,109,407		$ 37,946,841	(5)	$ 1,125,842

(1) An additional column representing the six months ended December 31, 2005 has been inserted in the table of selected annual information to facilitate a more meaningful comparison to the transitional year of six months ended December 31, 2006.

(2) During the six month transitional year ended December 31, 2006, revenue increased by $11,992,732 over the same period of the prior year. In the six months ended December 31, 2006, total silver production was 1,016,583 ounces of silver equivalent, up from 363,278 ounces of silver equivalent for the year ended June 30, 2006, and 92,000 equivalent ounces for the same six month period in 2005. Increased production of silver has resulted from the ramping up of the La Parrilla mill, and the acquisition of San Martin in June 2006, and Desmin (exploiting La Encantada) on November 1, 2006. More details follow comparing six months ended December 31, 2006, to the same period in 2005, and to the year ended June 30, 2006:

- La Parrilla Silver Mine - during the six month period ended December 31, 2006, a total of 29,057 tonnes of ore were processed with an average head grade of 172 grams per tonne of silver resulting in a total of 110,114 equivalent ounces of silver produced, consisting of 106,486 ounces of silver and 72 ounces of gold. For the year ended June 30, 2006, there were 202,925 equivalent ounces of silver produced, and for the year ended June 30, 2006, there were 130,000 equivalent ounces of silver produced.
- San Martin Silver Mine – (acquired June 5, 2006, no comparative for 2005) the San Martin mine and mill, over the six month period ended December 31, 2006, processed 128,175 tonnes of ore with an average grade of 192 grams per tonne of silver resulting in 673,815 ounces of silver and 1004 ounces of gold produced which represented 725,055 ounces of silver equivalent at a cash cost of US$9.50 per ounce. Total tonnes processed were 13% lower than planned due to new underground development initiated by the Company after its acquisition of the San Martin. In the one month of production (June 2006) since being acquired by the Company, San Martin produced 160,353 equivalent ounces of silver.
- La Encantada Silver Mine – (acquired November 1, 2006, no comparative for 2005) during the six month period ended December 31, 2006, 175,991 equivalent ounces of silver were produced in November and December after the acquisition of Desmin and its right to exploit the La Encantada Silver Mine.

(3) During the year ended June 30, 2006, a total of 363,278 equivalent ounces of silver was produced, whereas for June 30, 2005, 130,000 equivalent ounces of silver was produced.

(4) During the six month period ended December 31, 2006, the Company completed a private placement of $15.9 million, and also completed the $34.4 million Arrangement to acquire the remaining 36.25% of First Silver, making First Silver a wholly owned subsidiary of First Majestic as of September 14, 2006. The Arrangement added $48.5 million in total assets to the consolidated balance sheet of the Company for the period ended December 31, 2006, and was a significant contributor toward increasing total assets from $112.7 million to $175.4 million.

(5) Also affecting long term liabilities change between June 30, 2006 and December 31, 2006, is $13.2 million of Future Income Taxes associated with the Arrangement (36.25%) acquisition of First Silver (the parent of Mineral El Pilon which owns the San Martin mine and mill) completed in the period.

Over the past two fiscal years the Company has focused on rapid growth and expansion, which it has achieved through expansion of its existing La Parrilla mine and mill facilities, as well as via the acquisitions of First Silver and Desmin, which were wholly owned subsidiaries as at December 31, 2006, and via the acquisition of 100% of Mineral La Encantada on March 20, 2007.

The Company has not paid any dividends since incorporation and it has no plans to pay dividends for the foreseeable future.

1.4 Results of Operations

Transitional year (6 months) ended December 31, 2006, compared to twelve months ended June 30, 2006.

During the period the Company changed its fiscal year end from June 30 to December 31 to be consistent with the fiscal year ends of its three operating subsidiaries, FMR Mexico, El Pilon and Desmin. To facilitate the change, the Company is reporting a one-time, six-month transition year covering the period ended December 31, 2006. Subsequent to the transition year, the first full financial year will cover the period January 1, 2007 to December 31, 2007.

- Revenues for the six months ended December 31, 2006 were $12,754,965 compared to the $4,159,292 for the year ended June 30, 2006, due principally to the ramping up of production at the La Parrilla mine and mill, and the acquisition of First Silver, its wholly owned subsidiary Minera El Pilon, and its principal asset the San Martin silver mine and mill, the result of which was to increase production to 1,016,583 ounces of silver equivalent, up from 363,278 equivalent ounces for the year ended June 30, 2006;

- Mine earnings for the six months ended December 31, 2006 was $1,686,247, up $1,315,519 from $370,728 for the year ended June 30, 2006, due primarily to the addition of production from the San Martin Silver Mine (725,055 equivalent ounces of silver in the period), as well as two months of production from the La Encantada mine and mill (175,991 equivalent ounces of silver) received by the Company via Desmin's exploitation agreement with La Encantada (Operational control of the La Encantada Silver Mine began on November 1, 2006 by way of the acquisition of Desmin).
- Depreciation and depletion for the period was $3,096,975, an increase of $1,099,460 from $1,997,515 for the year ended June 30, 2006, due to the addition of the San Martin Silver Mine and depreciation of its mine and mill assets, and the resulting depletion of the fair value of the producing mining property which was recorded at fair value as a result of the acquisition of First Silver Reserve, and for the six month period ended December 31, 2006, whereas on June 30, 2006, when the Company had acquired the San Martin mine and mill at the beginning of June, only one month of San Martin's depreciation and depletion were recorded.
- A loss of $9,877,664 was incurred after general and administrative costs and depletion and depreciation for the six months ended December 31, 2006, in comparison to the loss for the twelve month period ending June 30, 2006 of $6,693,461. Management decided to focus its efforts on its three producing mines (La Parrilla, San Martin, and La Encantada) while writing off in the period its mineral property interests relating to the Dios Padre project, and seven properties within the Chalchuites project, all amounting to $2,882,581. In addition to the one time write off, the Company experienced higher levels of depreciation and depletion, related to the acquisition of the San Martin mine, the Company also had much higher levels of corporate office activity as well as $824,347 in interest costs associated with the acquisition of First Silver, all of which contributed to the increased loss for the six months ended December 31, 2006. Interest payments will approximately be cut in half in May 2007, upon the payment of $13.3 million of the $26.6 million debt associated with the majority acquisition of First Silver;
- The loss before income taxes increased to $9,191,158 for six months ended December 31, 2006, compared to $6,440,169 for the twelve month period ended June 30, 2006, due to the $2,860,512 mineral property write down, and the higher depreciation and depletion due to the acquisition of San Martin.
- The net loss after taxes and non-controlling interest increased to $7,588,192 ($0.17 per share) from $5,665,886 ($0.16 per share) due primarily to the write-down of mineral properties and additional depreciation and depletion regarding the San Martin mine and mill.
- Subsequent to the period end, the Company completed the construction of a new 800 tpd mill at the La Parrilla, and began increasing its production from its facilities.

1.5 Summary of Quarterly Results

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

	Transition year 2006		2006				2005	
	Q2	Q1 (restated)	Q4	Q3	Q2	Q1	Q4	Q3
	$	$	$	$	$	$	$	$
Net sales	8,138,284	4,616,681	2,725,624	671,435	484,647	277,586	202,518	271,510
Net loss	(3,893,758)	(3,694,434)	(3,151,860)	(995,998)	(829,114)	(688,914)	(978,743)	(750,323)
Basic and diluted net loss per common share	(0.09)	(0.09)	(0.07)	(0.03)	(0.03)	(0.03)	(0.04)	(0.03)

The results for the most recent three quarters include the operating results of First Silver, included the operating results of the San Martin Silver Mine, from June, 2006, through to December 2006.

In the quarter ended September 30, 2006, the Company also expensed mineral property interests totalling $1,895,107 and $191,151, relating to Dios Padre Silver Project and the La Candelaria Silver Project, respectively, and in addition, $774,254 was written off in the quarter ended December 31, 2006.

In the quarter ended December 31, 2006, stock based compensation was $1,558,892, and included expense related to options issued to directors, officers, employees, and consultants in the quarter, as well as additional expense related to options issued in prior periods, matched to the services provided in the current period.

Depletion was $1,242,525 in the quarter ended December 31, 2006.

1.6 Liquidity

At December 31, 2006, the Company had working capital of $2,572,831 and cash and cash equivalents of $17,870,712 compared to working capital of $3,353,546 and cash and cash equivalents of $16,571,788 at June 30, 2006. Current liabilities at December 31, 2006 include the current portion of a long-term vendor liability relating to the Acquisition of First Silver in the amount of $13,341,380, the current portion of a liability relating to the First Silver Arrangement in the amount of $388,836 and a liability relating to the acquisition of Desmin in the amount of $1,165,300. By the date of this MD&A report, Desmin liability had been fully paid, and the Company had engaged Cormark Securities Inc. for a private placement to fund operations and to eliminate the short term liability from the First Silver Arrangement (see below).

On April 20, 2007, the Company entered into an engagement with Cormark Securities Inc. (formerly Sprott Securities Inc.) and CIBC World Markets Inc. (as co-lead underwriters) and Blackmont Capital Inc. (the "Underwriters") as underwriters to purchase on an underwritten basis up to 4,000,000 Special Warrants of the Company at a price of $5.00 per Special Warrant (the "Issue Price") for aggregate gross proceeds to the Company of $20 million. The Underwriters will have the option to sell up to an additional $24 million of the Offering at the Issue Price at any time prior to the closing date. Each Special Warrant will be exercisable for one Unit of the Company and will be automatically exercised for one Unit of the Company on the date the Company obtains a final receipt for a prospectus qualifying the underlying shares. In the event the Company has not obtained a final receipt prior to the date that is eleven weeks after the closing date, each Special Warrant will be automatically exercised for 1.08 Units. Each Unit will entitle the holder to acquire one common share and one-half of one share purchase warrant. Each whole share purchase warrant will be exercisable at a price of $6.50 for a period of 18 months from the date of closing. The Underwriters will receive a commission of 5.5% of the gross proceeds of the offering at closing. The offering is scheduled to close on or about May 10, 2007 and is subject to certain conditions including, but not limited to, satisfactory due diligence and the receipt of all necessary approvals including the approval of the TSX Venture Exchange.

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

During the six months ended December 31, 2006, the Company completed a non-brokered private placement consisting of 4,429,250 units at a price of $3.60 per unit for gross proceeds of $15,945,300. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder thereof to purchase one additional common share of the Company at a price of $4.25 per share until November 27, 2008. A finder's fee of $189,500 cash and 122,824 warrants exercisable at a price of $4.25 per share for a two-year period was paid on a portion of this private placement. The fair value of the warrants and the finder's warrants was estimated using the *Black-Scholes Option Pricing Model* (assumptions include a risk free rate of 3.91%, estimated volatility of 82.02%, expected life of 2 years and expected dividend yield of 0%) and $3,303,000 was credited to contributed surplus. All of the securities were subject to a four-month hold period in accordance with applicable securities laws, expiring March 28, 2007.

During the six months ended December 31, 2006, the Company received $458,000 pursuant to the exercise of 200,000 stock options and $415,711 pursuant to the exercise of 184,316 share purchase warrants. Subsequent to the period end, the Company received an additional $1,382,100 pursuant to the exercise of 582,500 stock options and $1,828,125 pursuant to the exercise of 812,500 share purchase warrants.

During the prior fiscal year, the Company completed three private placements for gross proceeds of $40.4 million. On October 20, 2005, the Company completed a non-brokered private placement for gross proceeds of $5,691,291 consisting of 3,076,374 units of the Company at a price of $1.85 per unit. Each unit consisted of one common share and one-half of one common share purchase warrant with each full warrant entitling the holder to purchase an additional common share of the Company at an exercise price of $2.25 per share for a period of two years after the closing of the offering. Finder's fees totalling $120,237, legal fees totalling $7,250 and filing fees totalling $30,000 were paid in respect of this private placement and are recorded as a reduction of gross proceeds. The fair value of the warrants was estimated using the *Black-Scholes Option Pricing Model* (assumptions include a risk free rate of 3.47%, estimated volatility of 46.34%, expected life of 2 years and expected dividend yield of 0%) and $647,000 was credited to contributed surplus.

On December 19, 2005, the Company completed a private placement for gross proceeds of $6,750,000 consisting of 3,000,000 units at a price of $2.25 per unit. Each unit consisted of one common share and one-half of one common share purchase warrant with each full warrant entitling the holder to purchase an additional common share of the Company at an exercise price of $2.60 per share for a period of two years after the closing of the offering. Finder's fees totalling $122,053 and filing fees totalling $30,000 were paid in respect of this private placement and are recorded as a reduction of gross proceeds. The fair value of the warrants was estimated using the *Black-Scholes Option Pricing Model* (assumptions include a risk free rate of 3.79%, estimated volatility of 42.76%, expected life of 2 years and expected dividend yield of 0%) and $823,000 was credited to contributed surplus.

On April 20, 2006, the Company completed a private placement financing of 7,000,000 special warrants at a price of $4.00 per special warrant for total gross proceeds of $28 million and net proceeds after expenses of the issue of $22,885,359. Each special warrant entitled the holder to receive, without further consideration, upon exercise or deemed exercise, one common share and one half common share purchase warrant. Each whole warrant will be exercisable at a price of $5.00 until October 20, 2007. The offering was completed through a sole underwriter, Cormark Securities Inc. (formerly Sprott Securities Inc.). The Company filed a short form prospectus dated July 19, 2006 qualifying the distribution of 7,000,000 common shares and 3,499,999 share purchase warrants issued upon the exercise of 7,000,000 special warrants and 420,000 broker warrants issued upon the exercise of 420,000 compensation options. The fair value of the compensation options was estimated using the B*lack-Scholes Option Pricing Model* (assumptions include a risk free rate of 4.19%, estimated volatility of 49.55%, expected life of 1.5 years and expected dividend yield of 0%) and $550,000 was credited to contributed surplus. The fair value of the warrants was estimated using the *Black-Scholes Option Pricing Model* (assumptions include a risk free rate of 4.19%, estimated volatility of 49.55%, expected life of 1.5 years and expected dividend yield of 0%) and $2,607,000 was credited to contributed surplus.

During the six months ended December 31, 2006, the Company incurred net costs of $11,347,195 (June 30, 2006 - $5,351,760) in respect of expenditures on mineral property interests and $11,305,668 (June 30, 2006 - $3,434,209) in respect of plant and equipment.

Subsequent to the period end, the Company entered into an agreement with Cormark Securities Inc. (formerly Sprott Securities Inc.) and CIBC World Markets Inc. (as co-lead underwriters) and Blackmont Capital Inc. (the "Underwriters") as underwriters to purchase on an underwritten basis up to 4,000,000 Special Warrants of the Company at a price of $5.00 per Special Warrant (the "Issue Price") for aggregate gross proceeds to the Company of $20 million. In connection with this offering, the Company filed a preliminary short form prospectus dated March 27, 2007 with the securities regulatory authorities in each of the Provinces of Canada, other than Quebec. The Company subsequently withdrew that prospectus and has been asked by the securities regulatory authorities to update its National Instrument 43-101 technical reports for its principal properties.

1.7 Capital Resources

Outlook

The Company anticipates that silver, gold, and lead prices will remain strong throughout 2007. In the first quarter of 2007, the Company produced 792,196 equivalent ounces of silver (719,993 ounces of silver, 532 ounces of gold and 339,512 pounds of lead). Recovery rates of silver from the three producing mills were 66% for La Parrilla, 85% for San Martin, and 67% for La Encantada in 2006. We expect recovery rates to continue for San Martin and La Encantada and to improve at La Parrilla, as mill enhancements and refinements are ongoing. Based on current commodity prices we expect all three producing mines to produce positive cash flow from production (excluding mine depletion and depreciation) during 2007.

The Company requires considerable external financing to retire debt related to the purchase of First Silver, and to fund its growth in operations. The Company's continued development is contingent upon its ability to raise sufficient financing. The Company has successfully relied on external financing, including the issuance of equity securities, to fund activities to date and it will continue to require external financing for the foreseeable future. There are no guarantees that additional sources of funding will be available to the Company and management is committed to pursuing all possible sources of financing.

The Company's primary capital assets are producing mineral property interests focused on silver in Mexico. Except for the La Parrilla Silver Mine, the San Martin Silver Mine and the La Encantada Silver Mine which are owned 100%, the Company is required to make property payments and incur various amounts in development and exploration costs by certain dates to maintain its interest in the properties. These dates are outlined in the notes to the interim consolidated financial statements. Furthermore, the Company is required to make certain interest and cash payments to the former shareholders of First Silver (see "Acquisition of First Silver Reserve Inc." and "Plan of Arrangement with First Silver Reserve Inc.") and to the vendors of Desmin (see "Acquisition of Desmin S.A. de C.V.").

Future costs to retire an asset including dismantling, remediation and ongoing treatment and monitoring of the site are recognized and recorded as a liability at fair value at the date the liability is incurred. The liability is accreted over time to the estimated amount ultimately payable through periodic charges to earnings. Future site restoration costs are capitalized as part of the carrying value of the related mineral property at its initial value and amortized over the mineral property's useful life based on a units-of-production method. The present value of the Company's reclamation liabilities may be subject to change based on management's current estimates, changes in the remediation technology or changes to the applicable laws and regulations. Such changes will be recorded in the accounts of the Company as they occur.

1.8 Off-Balance Sheet Arrangements

At December 31, 2006, 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 trigger financing, liquidity, market or credit risk to the Company.

1.9 Transactions with Related Parties

During the period ended December 31, 2006, the Company:

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

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

(c) paid $92,792 (June 30, 2006 - $187,588) to the Chief Operating Officer for management and other services related to the mining operations of the Company in Mexico pursuant to a consulting agreement.

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.

Stock Option Plan

During the period ended December 31, 2006, the Company adopted a new stock option plan (the "2006 Plan") whereby the maximum number of shares reserved for issuance under the 2006 Plan is 10% of the issued shares on a rolling basis. All stock options under the 2006 Plan are subject to vesting with no more than 25% vesting upon issuance and 25% vesting each six months thereafter. During this period, the Company granted 2,427,900 stock options with a weighted average exercise price of $4.26 per share and weighted average expiry periods of 3.86 years to directors, officers, employees and consultants.

Subsequent to the period end, the Company granted 200,000 stock options exercisable at a price of $5.50 per share expiring on February 1, 2010 and 155,000 stock options exercisable at a price of $5.00 per share expiring on February 7, 2011 to directors and officers of the Company. It also cancelled 100,000 stock options exercisable at a price of $4.30 per share originally expiring on April 15, 2008, 75,000 stock options exercisable at a price of $4.32 per share originally expiring on December 6, 2009 and 37,500 stock options exercisable at a price of $4.35 per share originally expiring on June 19, 2011.

1.10 Fourth Quarter (of Calendar 2006)

This analysis relates to the quarter ending December 31, 2006, and a comparison of significant variances between this quarter and the quarter ended September 30, 2006.

Accounting and administrative services increased to $860,202, in the fourth quarter from $407,040 in the previous quarter due to additional accounting and administrative expenses consolidated from First Silver, as well as from additional independent professional support required to complete the acquisition and reporting of the First Silver purchase.

The Company wrote down mineral property interests in the amount $774,254 in the fourth quarter relating to two of the Chalchihuites Group of Properties, known as El Magistral and La Esmeralda. In the prior quarter, a mineral property interests write down of $2,086,258 was recorded.

Depreciation was $28,357 in the quarter ended December 31, 2006, compared to $327,743, in the prior quarter as it was determined that the prior quarter had been over accrued.

In the fourth quarter stock based compensation increased to $1,400,603 from $158,289 in the previous quarter reflecting the fair market value of option grants in the quarter, and in the prior quarter, allocated to the service periods of directors, officers, consultants and employees.

1.11 Proposed Transactions

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

1.12 Critical Accounting Estimates

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

All of the Company's significant accounting policies and the estimates derived therefrom are included in Note 2 to the annual consolidated financial statements for the six-month transition year ended December 31, 2006. While all of the significant accounting policies are important to the Company's consolidated financial statements, the following accounting policies, and the estimates derived therefrom, have been identified as being critical:

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

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

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

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

Depletion and Depreciation of Property, Plant and Equipment

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

Capital projects in progress are not depreciated until the capital asset has been put into operation.

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

Reclamation and Remediation Obligations

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

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

As the estimate of obligations is based on future expectations, in the determination of closure provisions, management makes a number of assumptions and judgments. The closure provisions are more uncertain the further into the future the mine closure activities are to be carried out. Actual costs incurred in future periods related to the disruption to date could differ materially from the discounted future value estimated by the Company at December 31, 2006.

Income Taxes

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

The determination of the ability of the Company to utilize tax loss carry-forwards to offset future income tax payable requires management to exercise judgment and make assumptions about the future performance of the Company. Management is required to assess whether the Company is "more likely than not" to benefit from these tax losses. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses.

Stock-Based Compensation

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

1.13 Changes in Accounting Policies including Initial Adoption

There have been no changes in Accounting Policies or the initial adoption of any policies in the transition year, six month period ended December 31, 2006.

New Accounting Standards Applicable in 2007

In January 2005, the CICA issued three new standards relating to financial instruments intended to increase harmonization with U.S. GAAP and International Financial Reporting Standards. These standards are applicable for fiscal years beginning on or after October 1, 2006. The Company will adopt these standards beginning on January 1, 2007, and they are described as follows:.

Financial Instruments – Recognition and Measurement, Section 3855

This standard prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and whether fair value or cost-based measures are used. This standard also specifies how financial instrument gains and losses are to be presented.

Derivative contracts and embedded derivatives in non-derivative contracts are to be recorded on the balance sheet at their respective fair values, with any mark-to-market adjustments included in net income.

Hedges, Section 3865

This standard is applicable when a company chooses to designate a hedging relationship for accounting purposes. It builds on the existing AcG-13 "Hedging Relationships" and Section 1650 "Foreign Currency Translation", by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

Comprehensive Income, Section 1530

This standard requires the presentation of comprehensive income and its components. Other comprehensive income includes holding gains and losses on certain investments that are classified as available-for-sale, gains and losses on certain derivative instruments and foreign currency gains and losses relating to self-sustaining foreign operations, all of which are not included in the calculation of net earnings until they are realized.

Management is evaluating the effects of the adoption of these standards on the Company's financial statements.

1.14 Financial Instruments and Other Instruments

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

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

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

The prices of metals and minerals fluctuate widely and are affected by many factors outside of the Company's control. The relative prices of metals and minerals and future expectations for such prices have a significant impact on the market sentiment for investment in mining and mineral exploration companies. The Company relies on equity financing for its working capital requirements and to fund its development and exploration programs. There is no assurance that such financing will be available to the Company, or that it will be available on acceptable terms.

1.15 Other MD&A Requirements

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

(b) Outstanding Share Data as of the Report Date

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

Issued common shares: 53,611,587 common shares

Stock options:

Price $	Options Outstanding	Options Exercisable	Expiry Dates
1.80	360,000	360,000	June 21, 2007
2.10	25,000	25,000	October 1, 2007
1.85	150,000	150,000	December 14, 2007
2.45	225,000	168,750	December 16, 2007
1.79	180,000	180,000	January 12, 2008
3.75	25,000	18,750	March 8, 2008
4.05	100,000	75,000	March 20, 2008
2.10	240,000	240,000	November 9, 2008
2.45	650,000	487,500	December 16, 2008
5.04	49,600	37,200	April 25, 2008
4.55	25,000	12,500	July 6, 2008
3.29	50,000	25,000	October 16, 2008
3.28	100,000	50,000	October 17, 2008
3.28	12,500	6,250	June 13, 2009
4.32	945,400	236,350	December 6, 2009
5.50	200,000	50,000	February 1, 2010
4.30	500,000	250,000	June 19, 2011
4.32	245,000	61,250	December 6, 2011
4.41	400,000	100,000	December 22, 2011
5.00	155,000	38,750	February 7, 2012
	4,637,500	2,572,300	

Share purchase warrants:

Exercise Price $	Warrants Outstanding	Expiry Dates
2.25	196,323	October 20, 2007
4.00	420,000	October 20, 2007
5.00	3,464,999	October 20, 2007
2.60	1,500,000	December 14, 2007
4.25	2,212,449	November 27, 2008
6.81	191,291	March 20, 2009
	7,985,062	

1.16 Disclosure Controls and Procedures

The Company's officers and management are responsible for establishing and maintaining disclosure controls and procedures for the Company. These disclosure controls and procedures are designed to provide reasonable assurance that any information required to be disclosed by the Company under securities legislation is recorded, processed, summarized and reported within the applicable time periods and to ensure that required information is gathered and communicated to the Company's management so that decisions can be made about timely disclosure of that information.

Based upon the recent evaluation of the effectiveness of the disclosure controls and procedures regarding the Company's consolidated financial statements for the transition year ended December 31, 2006, and this MD&A, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the design and implementation of disclosure controls and procedures were not effective as at and for the period ended December 31, 2006. As noted above, the Company has recently acquired First Silver and this has resulted in a significant increase in the size and complexity of operations. There have been difficulties in obtaining timely and necessary information from the recently acquired subsidiaries to allow the timely consolidation, and to harmonize record keeping standards consistent with the acquiring group of companies. There have also been difficulties and delays in the reconciliation processes for the accounts in the recently acquired subsidiaries. There have been accounting staff resource constraints relative to the rate of acquiring new entities, and due to the volume of work and required skills to achieve Canadian GAAP financial reporting of complex accounting transactions related to consolidating numerous operations in a short period of time.

Remedial Action Implemented and Planned

The Company has taken steps to improve its internal controls through the appointment of more experienced and qualified staff in Mexico and Canada and through the hiring of specialist services particularly in relation to Mexican taxation, and regulatory matters. Significant time has been spent by senior financial staff reviewing the financial results of the Mexican subsidiaries as at December 31, 2006, and the Company intends to implement additional disclosure controls commensurate with the its expanding operations in 2007. Management and senior financial staff will continue to closely monitor the financial reporting of its Mexican operations and intends to engage additional external specialists to accelerate its improvements in the design and implementation of internal control for financial reporting procedures, including a timely schedule for the review and approval of interim and annual financial information.

CORPORATE INFORMATION

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Chairman & Director

Keith Neumeyer
President, Chief Executive Officer and Director

Ramon Davila, Ing (M.Sc.Eng.)
Chief Operating Officer and Director

Raymond Polman, B.Sc (Econ), CA
Chief Financial Officer

Jude Fawcett
Corporate Secretary

Douglas Penrose, CA[1,3]
Director

Tony Pezzotti[1,2]
Director

David A.Shaw, Ph.D[2,3]
Director

Robert Young, P.Eng[2]
Director

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[1] *Audit committee*
[2] *Human resources, compensation and nominating committee*
[3] *Corporate governance committee*

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ANNUAL AND SPECIAL MEETING

Date: Thursday, June 7, 2007
Time: 10:00am

Fairmont Waterfront Hotel
900 Canada Place Way
Vancouver, B.C. Canada V6C 3L5

MARKET INFORMATION

Trading Symbol: FR
Stock Exchange: TSX Venture
Frankfurt/Berlin: FMV wkn A0LHKJ
Pink Sheets: FRMSF

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