



**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE THREE AND NINE MONTHS ENDED

SEPTEMBER 30, 2012

(UNAUDITED)

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#### **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The condensed interim consolidated financial statements of First Majestic Silver Corp. (the "Company") are the responsibility of the Company's management. The condensed interim consolidated financial statements are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board 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 condensed interim consolidated financial statements prior to their submission to the Board of Directors for approval.

The condensed interim consolidated financial statements have not been audited.

***"Keith Neumeyer"***

Keith Neumeyer  
President & CEO  
November 13, 2012

***"Raymond Polman"***

Raymond Polman, CA  
Chief Financial Officer  
November 13, 2012

# First Majestic Silver Corp.

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(tabular amounts are expressed in thousands of United States dollars, except share and per share amounts - unaudited)

	Note	Three Months Ended September 30,		Nine Months Ended September 30,	
		2012	2011	2012	2011
Revenues	6	\$ 63,581	\$ 61,407	\$ 176,170	\$ 184,713
Cost of sales		20,912	15,473	56,061	50,404
<b>Gross margin</b>		<b>42,669</b>	<b>45,934</b>	<b>120,109</b>	<b>134,309</b>
Depletion, depreciation and amortization		6,832	3,467	17,544	9,405
<b>Mine operating earnings</b>		<b>35,837</b>	<b>42,467</b>	<b>102,565</b>	<b>124,904</b>
General and administrative expense	7	5,044	3,710	14,556	11,248
Share-based payments		2,546	937	7,776	4,598
Acquisition costs	25	1,830	-	2,611	-
Accretion of decommissioning liabilities		133	107	335	338
Foreign exchange loss		483	799	266	1,108
<b>Operating earnings</b>		<b>25,801</b>	<b>36,914</b>	<b>77,021</b>	<b>107,612</b>
Investment and other income (loss)	8	5,389	(1,395)	7,343	2,461
Finance costs		(501)	(390)	(1,368)	(896)
<b>Earnings before income taxes</b>		<b>30,689</b>	<b>35,129</b>	<b>82,996</b>	<b>109,177</b>
<b>Income taxes</b>					
Current income tax expense		1,031	2,120	2,808	15,788
Deferred income tax expense		4,789	5,237	13,640	11,154
		5,820	7,357	16,448	26,942
<b>Net earnings for the period</b>		<b>\$ 24,869</b>	<b>\$ 27,772</b>	<b>\$ 66,548</b>	<b>\$ 82,235</b>
<b>Earnings per common share</b>					
Basic		\$ 0.22	\$ 0.27	\$ 0.61	\$ 0.80
Diluted		\$ 0.21	\$ 0.26	\$ 0.60	\$ 0.77
<b>Weighted average shares outstanding</b>					
Basic	9	115,307,418	104,583,335	108,872,377	102,627,618
Diluted	9	117,049,419	107,726,703	111,004,089	107,103,155

APPROVED BY THE BOARD OF DIRECTORS

Keith Neumeyer (signed)

Director

Douglas Penrose (signed)

Director

The accompanying notes are an integral part of the condensed interim consolidated financial statements

# First Majestic Silver Corp.

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(tabular amounts are expressed in thousands of United States dollars - unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Net earnings for the period</b>	\$ 24,869	\$ 27,772	\$ 66,548	\$ 82,235
<b>Other comprehensive income</b>				
Available for sale investments:				
Unrealized (loss) gain on fair value of investments	(537)	(1,107)	(4,015)	527
Currency translation gain (loss)	365	(3,069)	535	(2,350)
<b>Other comprehensive loss</b>	(172)	(4,176)	(3,480)	(1,823)
<b>Total comprehensive income for the period</b>	\$ 24,697	\$ 23,596	\$ 63,068	\$ 80,412

The accompanying notes are an integral part of the condensed interim consolidated financial statements

# First Majestic Silver Corp.

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(tabular amounts are expressed in thousands of United States dollars - unaudited)

	Three Months Ended September 30,			Nine Months Ended September 30,	
	Note	2012	2011	2012	2011
<b>OPERATING ACTIVITIES</b>					
Net earnings for the period		\$ 24,869	\$ 27,772	\$ 66,548	\$ 82,235
Adjustments for:					
Share-based payments		2,546	937	7,776	4,598
Depletion, depreciation and amortization		6,832	3,467	17,544	9,405
Accretion of decommissioning liabilities		133	107	335	338
(Gain) loss from derivative financial instruments and fair value through profit or loss marketable securities	8	(4,976)	1,504	(6,769)	(2,041)
Current income tax expense		1,031	2,120	2,808	15,788
Deferred income tax expense		4,789	5,237	13,640	11,154
Finance costs		501	390	1,368	896
Unrealized foreign exchange (loss) gain and other		128	428	338	951
Operating cash flows before movements in working capital and income taxes		35,853	41,962	103,588	123,324
Net change in non-cash working capital items	22	(8,278)	(390)	(3,724)	(3,578)
Income taxes paid		(1,305)	(6,306)	(11,890)	(12,108)
<b>Cash generated by operating activities</b>		<b>26,270</b>	<b>35,266</b>	<b>87,974</b>	<b>107,638</b>
<b>INVESTING ACTIVITIES</b>					
Expenditures on mineral property interests		(17,048)	(18,581)	(57,792)	(30,163)
Acquisition of property, plant and equipment		(22,295)	(13,789)	(47,767)	(30,604)
Increase in deposits on long-term assets		(7,971)	(720)	(13,623)	(11,138)
Realized gain of derivative financial instruments		7,938	4,958	5,894	8,369
Acquisition of Silvermex, net of cash paid	25	11,354	-	11,354	-
Acquisition of derivative financial instruments		-	(3,700)	-	(3,700)
Proceeds from disposal of marketable securities		2,419	-	5,222	-
Investment in marketable securities		-	-	(10,349)	-
<b>Cash used in investing activities</b>		<b>(25,603)</b>	<b>(31,832)</b>	<b>(107,061)</b>	<b>(67,236)</b>
<b>FINANCING ACTIVITIES</b>					
Proceeds from exercise of stock options and share warrants		3,437	4,532	7,142	27,443
Payment of lease obligations, net of proceeds		(1,875)	(893)	(4,589)	(1,785)
Finance costs paid		(501)	(390)	(1,368)	(896)
(Repayment of) proceeds from debt facility		(500)	(714)	(1,273)	1,566
Proceeds from lease financing		-	-	-	2,474
Payment of other long-term liabilities		-	-	-	(76)
<b>Cash (used in) generated by financing activities</b>		<b>561</b>	<b>2,535</b>	<b>(88)</b>	<b>28,726</b>
Effect of exchange rate on cash held in foreign currencies		643	(4,725)	752	(4,069)
<b>Increase (decrease) in cash and cash equivalents</b>		<b>1,228</b>	<b>5,969</b>	<b>(19,175)</b>	<b>69,128</b>
Cash and cash equivalents, beginning of period		70,890	104,978	91,184	41,163
<b>Cash and cash equivalents, end of period</b>		<b>\$ 72,761</b>	<b>\$ 106,222</b>	<b>\$ 72,761</b>	<b>\$ 106,222</b>
<b>Supplemental cash flow information</b>					
Cash		\$ 69,589	\$ 106,140	\$ 69,589	\$ 106,140
Restricted cash	24	3,172	-	3,172	-
Short-term investments		-	82	-	82
<b>Cash and cash equivalents, end of period</b>		<b>\$ 72,761</b>	<b>\$ 106,222</b>	<b>\$ 72,761</b>	<b>\$ 106,222</b>

Supplemental cash flow information

22

The accompanying notes are an integral part of the condensed interim consolidated financial statements

# First Majestic Silver Corp.

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT SEPTEMBER 30, 2012 AND DECEMBER 31, 2011

(tabular amounts are expressed in thousands of United States dollars - unaudited)

	Note	September 30, 2012	December 31, 2011
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	24	\$ 72,761	\$ 91,184
Trade and other receivables	10	21,084	15,593
Income taxes receivable		9,095	9,734
Inventories	11	24,985	14,661
Other financial assets	12	7,293	4,865
Prepaid expenses and other	13	2,675	1,535
<b>Total current assets</b>		<b>137,893</b>	<b>137,572</b>
<b>Non-current assets</b>			
Mining interests	14	344,902	157,865
Property, plant and equipment	15	191,114	129,040
Goodwill	25	24,591	-
Deferred tax assets		12,115	8,331
Deposits on long-term assets	16	17,928	10,504
<b>Total assets</b>		<b>\$ 728,543</b>	<b>\$ 443,312</b>
<b>Liabilities and Equity</b>			
<b>Current liabilities</b>			
Trade and other payables	17	\$ 38,610	\$ 22,433
Current portion of lease obligations	18	7,623	4,269
Debt facilities		512	784
Income taxes payable		7,140	-
Other financial liabilities		-	383
<b>Total current liabilities</b>		<b>53,885</b>	<b>27,869</b>
<b>Non-current liabilities</b>			
Lease obligations	18	11,719	9,825
Decommissioning liabilities		9,057	6,123
Deferred tax liabilities		88,175	48,897
<b>Total liabilities</b>		<b>162,836</b>	<b>92,714</b>
<b>Shareholders' equity</b>			
Share capital	19(a)	419,346	273,304
Equity reserves	20	30,363	27,844
Retained earnings		115,998	49,450
<b>Total equity</b>		<b>565,707</b>	<b>350,598</b>
<b>Total liabilities and equity</b>		<b>\$ 728,543</b>	<b>\$ 443,312</b>

Contingent liabilities (Note 24)

Subsequent events (Note 26)

The accompanying notes are an integral part of the condensed interim consolidated financial statements

# First Majestic Silver Corp.

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(tabular amounts are expressed in thousands of United States dollars, except share amounts - unaudited)

	Share Capital		Equity Reserves				Retained earnings	Total equity
	Shares	Amount	Share-based payment	Available for sale revaluation	Foreign currency translation	Total equity reserves	(Accumulated deficit)	
<b>Balance at December 31, 2010</b>	97,560,417	\$ 239,770	\$ 25,170	\$ 18	\$ 621	\$ 25,809	\$ (54,124)	\$ 211,455
Net earnings	-	-	-	-	-	-	82,235	82,235
Share-based payment, net of related tax benefits	-	-	6,764	-	-	6,764	-	6,764
Other comprehensive income	-	-	-	527	(2,350)	(1,823)	-	(1,823)
Shares issued for:								
Exercise of options	2,251,600	9,490	-	-	-	-	-	9,490
Exercise of warrants	5,118,093	17,953	-	-	-	-	-	17,953
Conversion of shares to be issued (Note 19(d))	4,062	-	-	-	-	-	-	-
Transfer of equity reserve upon exercise of options and warrants	-	4,685	(4,685)	-	-	(4,685)	-	-
<b>Balance at September 30, 2011</b>	<b>104,934,172</b>	<b>\$ 271,898</b>	<b>\$ 27,249</b>	<b>\$ 545</b>	<b>\$ (1,729)</b>	<b>\$ 26,065</b>	<b>\$ 28,111</b>	<b>\$ 326,074</b>
<b>Balance at December 31, 2011</b>	105,135,372	\$ 273,304	\$ 27,394	\$ 1,127	\$ (677)	\$ 27,844	\$ 49,450	\$ 350,598
Net earnings	-	-	-	-	-	-	66,548	66,548
Share-based payment, net of related tax benefits	-	-	8,145	-	-	8,145	-	8,145
Other comprehensive (loss) income	-	-	-	(4,015)	535	(3,480)	-	(3,480)
Shares issued for:								
Acquisition of Silvermex Resources Inc. (Note 25)	9,451,641	136,317	-	-	-	-	-	136,317
Exercise of options	1,473,850	7,142	-	-	-	-	-	7,142
Conversion of shares to be issued (Note 19(d))	250	-	-	-	-	-	-	-
Share warrants issued (Note 19(c))	-	-	646	-	-	646	-	646
Expiry of shares to be issued (Note 19(d))	-	(209)	-	-	-	-	-	(209)
Transfer of equity reserve upon exercise of options	-	2,792	(2,792)	-	-	(2,792)	-	-
<b>Balance at September 30, 2012</b>	<b>116,061,113</b>	<b>\$ 419,346</b>	<b>\$ 33,393</b>	<b>\$ (2,888)</b>	<b>\$ (142)</b>	<b>\$ 30,363</b>	<b>\$ 115,998</b>	<b>\$ 565,707</b>

The accompanying notes are an integral part of the condensed interim consolidated financial statements

# First Majestic Silver Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars - unaudited)

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### 1. NATURE OF OPERATIONS

First Majestic Silver Corp. (the “Company” or “First Majestic”) is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia. The Company is in the business of silver production, development, exploration, and acquisition of mineral properties with a focus on silver production in Mexico. The Company’s shares trade on the New York Stock Exchange under the symbol “AG” and on the Toronto Stock Exchange under the symbol “FR”.

The Company’s head office and principal address is located at 925 West Georgia Street, Suite 1805, Vancouver, British Columbia, Canada, V6C 3L2.

### 2. BASIS OF PREPARATION

#### Statement of Compliance

These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standard (“IAS”) 34, “*Interim Financial Reporting*” using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and the Interpretations of the IFRS Interpretations Committee (“IFRIC”) and using the accounting policies consistent with those in the audited consolidated financial statements as at and for the year ended December 31, 2011. As these condensed interim consolidated financial statements do not include all disclosures for annual consolidated financial statements, they should be read in conjunction with the Company’s audited consolidated financial statements as at and for the year ended December 31, 2011.

#### Statement of Consolidation and Presentation

These condensed interim consolidated financial statements have been prepared on an historical cost basis except for certain items that are measured at fair value including derivative financial instruments and available for sale investments. All dollar amounts presented are in United States dollars unless otherwise specified. The accounting policies in Note 3 of the Company’s audited consolidated financial statements as at and for the year ended December 31, 2011 have been applied in preparing these condensed interim consolidated financial statements.

These condensed interim consolidated financial statements incorporate the financial statements of the Company and its controlled subsidiaries. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: Corporación First Majestic, S.A. de C.V. (“Corporación”), First Silver Reserve Inc. (“First Silver”), First Majestic Plata, S.A. de C.V., Minera El Pilón, S.A. de C.V., Minera La Encantada, S.A. de C.V., First Majestic Del Toro, S.A. de C.V., Majestic Services S.A. de C.V., Minera Real Bonanza, S.A. de C.V., Servicios Minero-Metalúrgicos e Industriales, S.A. de C.V., Mantenimiento Central Para Equipo Minero, S.A. de C.V., Administración y Servicios Integrales ASI, S.A. de C.V., FMS Investment Coöperatie U.A., FMS Investco B.V., FMS Trading AG, FMS Capital AG, Silvermex Resources Inc., La Guitarra Compania Minera S.A. de C.V., Servicios para La Industria Minera S.A. de C.V., Silver One Mining Corp., Minera La Rastra S.A. de C.V., and Minera Terra Plata S.A. de C.V. First Silver underwent a wind-up and distribution of its assets and liabilities to the Company in December 2007 but First Silver has not been dissolved for legal purposes pending the outcome of litigation. Intercompany balances and transactions, income and expenses are eliminated on consolidation.

The preparation of condensed interim consolidated financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions about future events that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management’s best knowledge of the amounts, events or actions, actual results may differ from these estimates.



# First Majestic Silver Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

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### 3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

Critical judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the condensed interim consolidated financial statements include: economic recoverability and probability of future economic benefits of exploration; evaluation and development costs; and commencement of commercial production and production levels intended by management.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments include: impairment of property, plant and equipment and mining interests; depreciation and amortization rates for property, plant and equipment and depletion rates for mining interests; estimated reclamation and closure costs; mineral reserve estimates; inventory valuation; valuation of share-based payments; and income taxes.

### 4. RECENT ACCOUNTING PRONOUNCEMENTS

#### Financial instruments

The IASB intends to replace IAS 39 – *Financial Instruments: Recognition and Measurement* (“IAS 39”) in its entirety with IFRS 9 – *Financial Instruments* (“IFRS 9”) in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39, and is effective for annual periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company will evaluate the impact the final standard will have on its consolidated financial statements when issued.

#### Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 - *Consolidated Financial Statements* (“IFRS 10”) and IFRS 12 - *Disclosure of Interests in Other Entities* (“IFRS 12”). IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 12 outlines the disclosure requirements for interests in subsidiaries and other entities to enable users to evaluate the risks associated with interests in other entities and the effects of those interests on an entity’s financial position, financial performance and cash flows. IFRS 10 and IFRS 12 are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted if adopted along with IFRS 11, IFRS 12, IAS 27 (revised) and IAS 28 (revised). The Company is evaluating the impact of these new standards on its consolidated financial statements.

#### Joint Arrangements

In May 2011, the IASB issued IFRS 11 - *Joint Arrangements* (“IFRS 11”), which provides guidance on accounting for joint arrangements. IFRS 11 classifies joint arrangements as either joint operations or joint ventures, depending on the rights and obligations of the parties involved. An entity accounts for a joint operation by recognizing its portion of the assets, liabilities, revenues and expenses. A joint venture is accounted for using the equity method and proportionate consolidation is no longer permitted. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company does not anticipate these new standards to have a significant impact on its consolidated financial statements.

#### Fair Value Measurement

In May 2011, the IASB issued IFRS 13 - *Fair Value Measurement* (“IFRS 13”). This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 sets out a single IFRS framework for measuring fair value and outlines disclosure requirements about fair value measurements. IFRS 13 is effective for annual periods on or after January 1, 2013, with earlier application permitted. This IFRS is to be applied prospectively as of the beginning of the annual period in which it is initially applied and the disclosure requirements do not need to be applied in comparative periods before initial application. The Company is currently assessing the impact of this standard on its financial statements.

# First Majestic Silver Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

### 4. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

#### Items of Other Comprehensive Income

In June 2011, the IASB issued an amendment to IAS 1 (“amendments to IAS1”) – *Presentation of Items of Other Comprehensive Income*. The amendments to IAS1 require items of other comprehensive income (“OCI”), along with their tax effects, to be grouped into those that will and will not subsequently be reclassified to profit or loss. The measurement and recognition of items of profit or loss and OCI are not affected by the amendments. This amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The Company does not anticipate this amendment to have a material impact on its consolidated financial statements.

### 5. SEGMENTED INFORMATION

The Company has four operating segments located in Mexico, two development projects in Mexico, one retail market segment in Canada and one silver trading segment in Europe. All of the Company’s operations are within the mining industry and its major products are silver doré and lead-silver concentrate. Transfer prices between business segments are set on an arm’s-length basis in a manner similar to transactions with third parties.

An operating segment is defined as a component of the Company:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity’s chief operating decision maker; and
- for which distinct financial information is available.

Management evaluates segment performance based on mine operating earnings as other expenses are not generally allocated to the segments. Significant information relating to the Company’s reporting operating segments is summarized in the table below:

	Three Months Ended September 30, 2012					Three Months Ended September 30, 2011				
	Revenue	Cost of sales	Depletion, depreciation and amortization	Mine operating earnings (loss)	Capital expenditures	Revenue	Cost of sales	Depletion, depreciation and amortization	Mine operating earnings (loss)	Capital expenditures
<b>Mexico</b>										
San Martin	\$ 5,595	\$ 3,426	\$ 472	\$ 1,697	\$ 4,096	\$ 9,344	\$ 3,093	\$ 528	\$ 5,723	\$ 4,137
La Parrilla	22,502	9,641	2,840	10,021	14,569	15,568	3,425	990	11,153	20,107
La Encantada	23,834	8,879	2,208	12,747	8,068	36,457	9,182	1,673	25,602	8,147
La Guitarra	2,993	2,673	518	(198)	4,155	-	-	-	-	-
Del Toro	-	-	-	-	19,537	-	-	-	-	4,528
La Luz	-	-	-	-	838	-	-	-	-	948
<b>Canada</b>										
Coin Sales	997	889	-	108	108	8,586	8,070	-	516	-
<b>Europe</b>										
Silver Sales	49,449	36,985	-	12,464	-	-	-	-	-	-
<b>Corporate and Eliminations</b>	<b>(41,789)</b>	<b>(41,581)</b>	<b>794</b>	<b>(1,002)</b>	<b>986</b>	<b>(8,548)</b>	<b>(8,297)</b>	<b>276</b>	<b>(527)</b>	<b>200</b>
<b>Consolidated</b>	<b>\$ 63,581</b>	<b>\$ 20,912</b>	<b>\$ 6,832</b>	<b>\$ 35,837</b>	<b>\$ 52,357</b>	<b>\$ 61,407</b>	<b>\$ 15,473</b>	<b>\$ 3,467</b>	<b>\$ 42,467</b>	<b>\$ 38,067</b>

	Nine Months Ended September 30, 2012					Nine Months Ended September 30, 2011				
	Revenue	Cost of sales	Depletion, depreciation and amortization	Mine operating earnings (loss)	Capital expenditures	Revenue	Cost of sales	Depletion, depreciation and amortization	Mine operating earnings (loss)	Capital expenditures
<b>Mexico</b>										
San Martin	\$ 16,544	\$ 9,087	\$ 2,076	\$ 5,381	\$ 15,395	\$ 28,660	\$ 9,875	\$ 1,354	\$ 17,431	\$ 11,633
La Parrilla	60,190	22,258	7,519	30,413	43,497	41,609	10,915	2,826	27,868	39,351
La Encantada	65,369	25,451	6,637	33,281	26,913	113,473	29,786	4,436	79,251	17,482
La Guitarra	2,993	2,673	518	(198)	4,155	-	-	-	-	-
Del Toro	-	-	-	-	43,014	-	-	-	-	8,344
La Luz	-	-	-	-	1,759	-	-	-	-	1,979
<b>Canada</b>										
Coin and Doré Sales	2,795	2,883	-	(88)	108	27,034	24,726	-	2,308	-
<b>Europe</b>										
Silver Sales	132,323	97,902	-	34,421	-	-	-	-	-	-
<b>Corporate and Eliminations</b>	<b>(104,044)</b>	<b>(104,193)</b>	<b>794</b>	<b>(645)</b>	<b>2,540</b>	<b>(26,063)</b>	<b>(24,898)</b>	<b>789</b>	<b>(1,954)</b>	<b>431</b>
<b>Consolidated</b>	<b>\$ 176,170</b>	<b>\$ 56,061</b>	<b>\$ 17,544</b>	<b>\$ 102,565</b>	<b>\$ 137,381</b>	<b>\$ 184,713</b>	<b>\$ 50,404</b>	<b>\$ 9,405</b>	<b>\$ 124,904</b>	<b>\$ 79,220</b>

# First Majestic Silver Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

### 5. SEGMENTED INFORMATION (continued)

	At September 30, 2012		At December 31, 2011	
	Total assets	Total liabilities	Total assets	Total liabilities
<b>Mexico</b>				
San Martin	\$ 80,513	\$ 20,740	\$ 69,288	\$ 19,734
La Parrilla	163,391	40,797	116,651	13,358
La Encantada	131,175	27,151	127,491	21,929
La Guitarra	174,864	36,691	-	-
Del Toro	87,964	16,984	31,795	1,685
La Luz	25,163	455	23,313	659
<b>Canada</b>				
Coin and Doré Sales	482	251	728	139
<b>Europe</b>				
Silver Sales	37,180	4,142	30,483	4,484
<b>Corporate and Eliminations</b>	<b>27,811</b>	<b>15,625</b>	<b>43,563</b>	<b>30,726</b>
<b>Consolidated</b>	<b>\$ 728,543</b>	<b>\$ 162,836</b>	<b>\$ 443,312</b>	<b>\$ 92,714</b>

### 6. REVENUES

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Gross revenue from payable ounces of silver equivalents	\$ 67,693	\$ 62,976	\$ 187,612	\$ 189,644
Less: refining & smelting, net of intercompany eliminations	(4,112)	(1,569)	(11,442)	(4,931)
<b>Revenues</b>	<b>\$ 63,581</b>	<b>\$ 61,407</b>	<b>\$ 176,170</b>	<b>\$ 184,713</b>

### 7. GENERAL AND ADMINISTRATIVE EXPENSES

The general and administrative expenses of the Company are comprised of the following:

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Corporate administration	\$ 1,651	\$ 1,487	\$ 4,281	\$ 3,593
Salaries and benefits	2,207	1,639	5,916	4,837
Audit, legal and professional fees	821	479	3,084	1,819
Filing and listing fees	14	(84)	360	517
Directors fees and expenses	170	108	495	269
Depreciation	181	81	420	213
	<b>\$ 5,044</b>	<b>\$ 3,710</b>	<b>\$ 14,556</b>	<b>\$ 11,248</b>

### 8. INVESTMENT AND OTHER INCOME (LOSS)

The Company's investment and other income (loss) is comprised of the following:

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Gain (loss) from investment in derivatives and fair value through profit or loss ("FVTPL") marketable securities	\$ 4,976	\$ (1,504)	\$ 6,769	\$ 2,041
Interest income and other	413	109	574	420
	<b>\$ 5,389</b>	<b>\$ (1,395)</b>	<b>\$ 7,343</b>	<b>\$ 2,461</b>

# First Majestic Silver Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

### 9. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share for the three and nine months ended September 30, 2012 and 2011 are based on the following:

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net earnings for the period	\$ 24,869	\$ 27,772	\$ 66,548	\$ 82,235
Weighted average number of shares on issue - basic	115,307,418	104,583,335	108,872,377	102,627,618
Adjustments for:				
Share options	1,742,001	3,052,870	2,131,712	3,595,619
Warrants	-	90,498	-	879,918
Weighted average number of shares on issue - diluted <sup>(1)</sup>	117,049,419	107,726,703	111,004,089	107,103,155
Earnings per share - basic	\$ 0.22	\$ 0.27	\$ 0.61	\$ 0.80
Earnings per share - diluted	\$ 0.21	\$ 0.26	\$ 0.60	\$ 0.77

(1) Weighted average number of shares excludes 1,148,800 (2011 – 42,500) options and 338,295 (2011 – nil) warrants that were anti-dilutive for the three and nine months ended September 30, 2012.

### 10. TRADE AND OTHER RECEIVABLES

Trade and other receivables of the Company are comprised of:

	September 30, 2012	December 31, 2011
Trade receivables	\$ 7,956	\$ 6,269
Value added taxes and other taxes recoverable	12,285	8,872
Loan receivable from supplier and other	843	452
	<b>\$ 21,084</b>	<b>\$ 15,593</b>

The Company does not hold any collateral for any receivable amounts outstanding at September 30, 2012 and December 31, 2011. Trade and other receivables include \$607,000 (December 31, 2011 - \$557,000) in value added taxes ("VAT") recoverable that have been outstanding for more than one year. The Company expects full recovery of the amounts outstanding and therefore no impairment has been recorded against these receivables.

VAT recoverable includes an allowance of \$5,370,000 related to VAT receivables acquired as part of the acquisition of Silvermex Resources Inc. (see Note 25), pending outcome of various court trials with the Mexican tax authorities. No additional allowance was recorded by the Company during the period.

### 11. INVENTORIES

	September 30, 2012	December 31, 2011
Finished product - doré and concentrates	\$ 2,648	\$ 799
Work in process	4,647	4,027
Stockpile	2,933	409
Materials and supplies	14,560	8,934
Silver coins and bullion including in-process shipments	197	492
	<b>\$ 24,985</b>	<b>\$ 14,661</b>

The amount of inventories recognized as an expense during the period is equivalent to cost of sales for the period and no inventory write-downs were recorded or reversed during the periods presented.

# First Majestic Silver Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

### 12. OTHER FINANCIAL ASSETS

	September 30, 2012	December 31, 2011
Marketable securities - available for sale	\$ 1,641	\$ 4,865
Marketable securities - fair value through profit or loss	5,652	-
	<b>\$ 7,293</b>	<b>\$ 4,865</b>

As at September 30, 2012, the Company holds various investments designated as available for sale ("AFS") marketable securities with total fair value of \$1,641,000 (December 31, 2011 - \$4,865,000) and cost of \$4,505,000 (December 31, 2011 - \$3,713,000). Changes in fair value on AFS marketable securities are recognized in other comprehensive income or loss, unless there is objective evidence of impairment.

As at September 30, 2012, the Company has 400,000 units of Sprott Physical Silver Trust (PSLV) with fair value of \$5,652,000, which were acquired at a cost of \$13.20 per unit. These trust units are classified as fair value through profit or loss ("FVTPL") marketable securities, with changes in fair value recorded through profit or loss. During the three and nine months ended September 30, 2012, the Company recognized a gain of \$1,424,000 (2011 - \$nil) and \$875,000 (2011 - \$nil), respectively, related to its FVTPL marketable securities.

For the three and nine months ended September 30, 2012, the Company recorded a gain of \$3,552,000 (2011 - loss of \$1,504,000) and \$5,894,000 (2011 - 2,041,000), respectively, related to investment in silver futures, recognized in income during the period.

### 13. PREPAIDS EXPENSES AND OTHER

The Company's prepaid expenses and other are comprised of:

	September 30, 2012	December 31, 2011
Prepayments to suppliers and contractors	\$ 2,034	\$ 1,138
Deposits	641	397
	<b>\$ 2,675</b>	<b>\$ 1,535</b>

### 14. MINING INTERESTS

The Company's mining interest is composed of the following:

	September 30, 2012	December 31, 2011
Producing properties	\$ 174,175	\$ 91,116
Exploration properties (non-depletable)	170,727	66,749
	<b>\$ 344,902</b>	<b>\$ 157,865</b>

# First Majestic Silver Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

### 14. MINING INTERESTS (continued)

Producing properties are allocated as follows:

	La Encantada	La Parrilla	San Martin	La Guitarra	Total
Producing properties	Silver Mine	Silver Mine	Silver Mine	Silver Mine	
<b>Cost</b>					
<b>At December 31, 2010</b>	\$ 17,512	\$ 27,452	\$ 38,337	\$ -	\$ 83,301
Additions	8,305	15,869	3,571	-	27,745
Change in decommissioning liabilities	(25)	(525)	164	-	(386)
Transfer from exploration properties	1,472	4,394	5	-	5,871
<b>At December 31, 2011</b>	\$ 27,264	\$ 47,190	\$ 42,077	\$ -	\$ 116,531
Acquired from Silvermex (Note 25)	-	-	-	46,719	46,719
Additions	9,723	24,802	3,752	2,202	40,479
<b>At September 30, 2012</b>	\$ 36,987	\$ 71,992	\$ 45,829	\$ 48,921	\$ 203,729
<b>Accumulated depletion and amortization</b>					
<b>At December 31, 2010</b>	\$ (4,200)	\$ (3,829)	\$ (12,531)	\$ -	\$ (20,560)
Depletion and amortization	(1,840)	(1,573)	(1,442)	-	(4,855)
<b>At December 31, 2011</b>	\$ (6,040)	\$ (5,402)	\$ (13,973)	\$ -	\$ (25,415)
Depletion and amortization	(1,031)	(1,754)	(1,186)	(168)	(4,139)
<b>At September 30, 2012</b>	\$ (7,071)	\$ (7,156)	\$ (15,159)	\$ (168)	\$ (29,554)
<b>Carrying value</b>					
<b>At December 31, 2011</b>	\$ 21,224	\$ 41,788	\$ 28,104	\$ -	\$ 91,116
<b>At September 30, 2012</b>	\$ 29,916	\$ 64,836	\$ 30,670	\$ 48,753	\$ 174,175

Exploration properties are allocated as follows:

	La Encantada	La Parrilla	San Martin	La Guitarra	Del Toro	La Luz	Other	Total
Exploration properties	Silver Mine	Silver Mine	Silver Mine	Silver Mine	Silver Mine	Silver Project	Properties <sup>(1)</sup>	
<b>Cost</b>								
<b>At December 31, 2010</b>	\$ 2,935	\$ 7,790	\$ 15,432	\$ -	\$ 11,640	\$ 19,122	\$ -	\$ 56,919
Exploration and evaluation expenditures	2,057	2,274	3,008	-	10,472	1,242	-	19,053
Proceeds from option payment (f)	-	-	(3,400)	-	-	-	-	(3,400)
Change in decommissioning liabilities	-	-	-	-	-	48	-	48
Transfer to producing properties	(1,472)	(4,394)	(5)	-	-	-	-	(5,871)
<b>At December 31, 2011</b>	\$ 3,520	\$ 5,670	\$ 15,035	\$ -	\$ 22,112	\$ 20,412	\$ -	\$ 66,749
Acquired from Silvermex (Note 25)	-	-	-	53,000	-	-	18,568	71,568
Exploration and evaluation expenditures	3,128	2,437	5,735	1,234	18,778	1,241	297	32,850
Proceeds from option payment (f)	-	-	(440)	-	-	-	-	(440)
<b>At September 30, 2012</b>	\$ 6,648	\$ 8,107	\$ 20,330	\$ 54,234	\$ 40,890	\$ 21,653	\$ 18,865	\$ 170,727

(1) Other exploration properties consist of Plomosas Silver Project, Penasco Quemado Silver Project, La Frazada Silver Project and Los Lobos Silver Project acquired from Silvermex Resources Inc.

# First Majestic Silver Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

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### 14. MINING INTERESTS (continued)

#### (a) La Encantada Silver Mine, Coahuila State

The La Encantada Silver Mine is a producing underground mine located in northern Mexico, 708 kilometres north east of Torreon, Coahuila and is accessible via a 1.5 hour flight from Torreon, Coahuila. The La Encantada Silver Mine consists of a 4,000 tpd cyanidation plant which achieved commercial production on April 1, 2010, a 1,000 tpd flotation plant (currently in care-and-maintenance), a village with 180 houses as well as administrative offices, laboratory, general store, hospital, schools, church, airstrip and all the infrastructure required for such an operation. The mine is comprised of 4,076 hectares of mining rights and surface land ownership of 1,343 hectares. The closest town, Muzquiz, is 225 km away via mostly paved road. The Company owns 100% of the La Encantada Silver Mine.

#### (b) La Parrilla Silver Mine, Durango State

The La Parrilla Silver Mine, located approximately 65 kilometres southeast of the city of Durango, Mexico, is a group of producing underground operations consisting of the Rosarios / La Rosa and La Blanca mines which are inter-connected through underground workings, and the San Marcos and the Quebradillas mines which are connected via gravel road ways. La Parrilla includes a 2,000 tpd processing plant consisting of the new 1,000 tpd cyanidation and 1,000 tpd flotation circuits, buildings, offices and associated infrastructure. The Company owns 100% of the La Parrilla Silver Mine.

There is a net smelter royalty ("NSR") agreement of 1.5% of sales revenue associated with the Quebradillas Mine, with a maximum payable of \$2.5 million. The Company has an option to purchase the NSR at any time for an amount of \$2.0 million. For the three and nine months ended September 30, 2012, the Company paid royalties of \$273,000 (2011 - \$44,000) and \$698,000 (2011 - \$71,000), respectively, which are recognized in cost of sales. As at September 30, 2012, the cumulative total of royalties paid to date for the Quebradillas NSR is \$1,388,000.

#### (c) San Martin Silver Mine, Jalisco State

The San Martin Silver Mine is a producing underground mine located adjacent to the town of San Martin de Bolaños, in northern Jalisco State, Mexico, 290 km north east of Guadalajara, Mexico, and is owned 100% by the Company. The mine comprises approximately 7,841 hectares of mineral rights, 1,300 hectares of surface rights surrounding the mine, and another 104 hectares of surface rights where the 950 tpd cyanidation plant and 500 tpd flotation plant (currently in care and maintenance), mine buildings, offices and related infrastructure. During 2011, several improvements were made including the installation of a new ball mill, replacing an older and smaller mill, the replacement of the filter presses in the Merrill-Crowe circuit, and the addition of two new induction furnaces.

#### (d) La Guitarra Silver Mine, State of Mexico

The acquisition of Silvermex Resources Inc. (Note 25) included the 100% owned La Guitarra Silver Mine, which is the Company's fourth producing asset in Mexico.

The La Guitarra Silver Mine is located in the Temascaltepec Mining District in the State of Mexico, near Toluca, Mexico and approximately 130 kilometres south west from Mexico City. The 100% owned mine covers 39,714 hectares of mining claims within the Temascaltepec Mining District. The La Guitarra mine consists of two underground operation centers and a flotation mill with a capacity of 350 tpd, producing approximately 800,000 ounces of silver equivalent per year. The Company plans to maintain production levels at current levels of 350 tpd for the remainder of 2012.

# First Majestic Silver Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

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### 14. MINING INTERESTS (continued)

#### (e) Del Toro Silver Mine, Zacatecas State

The Del Toro Silver Mine is located 60 km to the southeast of the Company's La Parrilla Silver Mine and consists of 405 contiguous hectares of mining claims, including the Dolores area, plus an additional 129 hectares of surface rights covering the area surrounding the San Juan mine. The Del Toro operation represents the consolidation of two old silver mines, the Perseverancia and San Juan mines, which are approximately one kilometre apart. Del Toro was previously an operating division of the Company's First Majestic Plata, S.A. de C.V. subsidiary. During the second quarter of 2012, assets of Del Toro were transferred into a newly formed subsidiary, First Majestic Del Toro, S.A. de C.V., to better isolate its operating results from the La Parrilla Mine as the plant begins production in late 2012. First Majestic owns 100% of the Del Toro Silver Mine.

#### (f) La Luz Silver Project, San Luis Potosi State

The La Luz Silver Project, is located 25 km west of the town of Matehuala in San Luis Potosi State, Mexico, near the village of Real de Catorce and was acquired in November 2009, through the acquisition of Normabec Mining Resources Ltd. ("Normabec"). The Company owns 100% of the La Luz Silver Project and all of the associated mining claims of what was historically known as the Santa Ana mine and consists of 36 mining concessions covering 4,977 hectares, with estimated historical production of 230 million ounces between 1773 and 1990.

#### (g) Plomosas Silver Project, State of Sinaloa

With the acquisition of Silvermex Resources Inc. (Note 25), the Company acquired the Plomosas (formerly known as Rosario) mining concession for a total of 16,279 hectares in southeast State of Sinaloa, Mexico. The mining concession represents a mining district and consolidates three past producing mines: Plomosas, San Juan and San Marcial. Extensive infrastructure is in place at Plomosas, including a fully functional mining camp facility at the Plomosas mine. Facilities and infrastructure at Plomosas include a 20 year surface rights agreement in good standing, a 30 year water use permit, tailings dam, 60 km of 33 kilowatt power line, 120 person camp, infirmary, offices, shops and warehouses, and assay lab.

#### (h) Jalisco Group of Properties, Jalisco State

The Company also owns the Jalisco Group of Properties which consist of 5,240 hectares of mining claims in Jalisco State, Mexico. On April 15, 2011, a definitive agreement was entered into with Sonora Resources Corp. (the "Optionee") whereby the Optionee has an option to acquire up to 90% in the Jalisco Group of Properties (the "Properties") located in Jalisco State, Mexico. The Optionee issued 10 million shares of common stock with a fair value of \$3.4 million to the Company and is committed to spend \$3 million over the first three years to earn a 50% interest and \$5 million over five years to earn a 70% interest. In order to obtain a 90% interest, the Optionee is required to complete a bankable feasibility study within seven years. First Majestic will retain a 10% free carried interest and a 2.375% NSR. The fair value of common shares received from the Optionee was recorded in other financial assets with a corresponding reduction in the carrying value of the San Martin mining interests.

In May 2012, the Company received an additional two million common shares of the Optionee, valued at \$440,000 as a result of their failure to file a registration statement qualifying the original 10 million shares of common stock issued for free trading. The fair value of the common shares received from the Optionee was recorded as a reduction in the carrying value of mining interest in the second quarter of 2012.

#### (i) Other Exploration Properties

With the acquisition of Silvermex Resources Inc. (Note 25), the Company acquired numerous exploration stage properties in Mexico, including the Penasco Quemado Silver Project in the State of Sonora, the La Frazada Silver Project in the State of Nayarit and the Los Lobos Silver Project in the State of Sonora.



# First Majestic Silver Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

### 15. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are composed of the following:

	Land and Buildings	Machinery and equipment	Assets under construction	Other	Total
<b>Cost</b>					
At December 31, 2010	\$ 14,953	\$ 67,032	\$ 2,731	\$ 2,078	\$ 86,794
Additions	5,722	25,066	34,671	1,675	67,134
At December 31, 2011	\$ 20,675	\$ 92,098	\$ 37,402	\$ 3,753	\$ 153,928
Acquired from Silvermex (Note 25)	2,126	6,724	1,710	267	10,827
Additions	14,206	12,467	35,067	2,312	64,052
Transfers	6,876	28,336	(35,212)	-	-
At September 30, 2012	\$ 43,883	\$ 139,625	\$ 38,967	\$ 6,332	\$ 228,807
<b>Accumulated depreciation and amortization</b>					
At December 31, 2010	\$ (3,485)	\$ (9,801)	\$ -	\$ (1,125)	\$ (14,411)
Depreciation and amortization	(1,846)	(7,501)	-	(1,130)	(10,477)
At December 31, 2011	\$ (5,331)	\$ (17,302)	\$ -	\$ (2,255)	\$ (24,888)
Depreciation and amortization	(3,201)	(8,683)	-	(921)	(12,805)
At September 30, 2012	\$ (8,532)	\$ (25,985)	\$ -	\$ (3,176)	\$ (37,693)
<b>Carrying value</b>					
At December 31, 2011	\$ 15,344	\$ 74,796	\$ 37,402	\$ 1,498	\$ 129,040
At September 30, 2012	\$ 35,351	\$ 113,640	\$ 38,967	\$ 3,156	\$ 191,114

(1) Included in land and buildings is \$5,213,000 (December 31, 2011 - \$4,181,000) of land properties which are not subject to depreciation.

(2) Included in property, plant and equipment is \$21,992,000 (December 31, 2011 - \$14,789,000) of equipment under finance lease.

Mining assets, including land and buildings, machinery and equipment, assets under construction and other assets above are allocated as follow:

	La Encantada Silver Mine	La Parrilla Silver Mine	San Martin Silver Mine	La Guitarra Silver Mine	Del Toro Silver Mine	La Luz Silver Project	Corporate	Total
<b>Cost</b>								
At December 31, 2010	\$ 51,788	\$ 19,546	\$ 11,068	\$ -	\$ 1,944	\$ 1,357	\$ 1,091	\$ 86,794
Additions	13,949	37,808	8,215	-	5,061	1,316	785	67,134
At December 31, 2011	\$ 65,737	\$ 57,354	\$ 19,283	\$ -	\$ 7,005	\$ 2,673	\$ 1,876	\$ 153,928
Acquired from Silvermex (Note 25)	-	-	-	9,352	-	-	1,475	10,827
Additions	14,062	16,258	5,908	719	24,236	518	2,351	64,052
At September 30, 2012	\$ 79,799	\$ 73,612	\$ 25,191	\$ 10,071	\$ 31,241	\$ 3,191	\$ 5,702	\$ 228,807
<b>Accumulated depreciation and amortization</b>								
At December 31, 2010	\$ (4,224)	\$ (5,539)	\$ (4,006)	\$ -	\$ -	\$ (37)	\$ (605)	\$ (14,411)
Depreciation and amortization	(6,385)	(2,846)	(917)	-	-	(36)	(293)	(10,477)
At December 31, 2011	\$ (10,609)	\$ (8,385)	\$ (4,923)	\$ -	\$ -	\$ (73)	\$ (898)	\$ (24,888)
Depreciation and amortization	(5,897)	(4,867)	(1,344)	(325)	-	(12)	(360)	(12,805)
At September 30, 2012	\$ (16,506)	\$ (13,252)	\$ (6,267)	\$ (325)	\$ -	\$ (85)	\$ (1,258)	\$ (37,693)
<b>Carrying value</b>								
At December 31, 2011	\$ 55,128	\$ 48,969	\$ 14,360	\$ -	\$ 7,005	\$ 2,600	\$ 978	\$ 129,040
At September 30, 2012	\$ 63,293	\$ 60,360	\$ 18,924	\$ 9,746	\$ 31,241	\$ 3,106	\$ 4,444	\$ 191,114

# First Majestic Silver Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

### 16. DEPOSITS ON LONG-TERM ASSETS

The Company's deposits on long-term assets are comprised of the following:

	September 30, 2012	December 31, 2011
Deposits on equipment	\$ 16,596	\$ 6,006
Deposits on equipment under finance leases	275	2,812
Deposits on services	1,057	1,686
	<b>\$ 17,928</b>	<b>\$ 10,504</b>

### 17. TRADE AND OTHER PAYABLES

The Company's trade and other payables are primarily comprised of amounts outstanding for purchases relating to mining operations, exploration and evaluation activities and corporate office expenses. The normal credit period for these purchases is between 30 to 90 days.

Trade and other payables are comprised of the following items:

	September 30, 2012	December 31, 2011
Trade payables	\$ 16,925	\$ 6,512
Accrued liabilities	21,342	15,903
Unearned revenue	343	18
	<b>\$ 38,610</b>	<b>\$ 22,433</b>

### 18. LEASE OBLIGATIONS

The Company has entered into leases for various mining and plant equipment. These leases have terms of 36 to 48 months with interest rates ranging from 7.9% to 9.1%. Assets under finance leases are pledged as security against the lease obligation.

The following is a schedule of future minimum lease payments under the finance leases:

	September 30, 2012	December 31, 2011
Less than one year	\$ 8,899	\$ 5,238
More than one year but not more than five years	12,493	10,795
	21,392	16,033
Less: future finance charges	(2,050)	(1,939)
<b>Present value of minimum lease payments</b>	<b>\$ 19,342</b>	<b>\$ 14,094</b>
Included in the financial statements as:		
Current portion of lease obligations	7,623	4,269
Lease obligations	11,719	9,825
<b>Present value of minimum lease payments</b>	<b>\$ 19,342</b>	<b>\$ 14,094</b>

# First Majestic Silver Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

### 19. SHARE CAPITAL

#### (a) Authorized and issued capital

The Company has unlimited authorized common shares with no par value. The movement in the Company's issued and outstanding capital during the period is as follows:

	Shares	Amount
<b>Balance at December 31, 2010</b>	97,560,417	\$ 239,770
Shares issued for:		
Exercise of options	2,449,750	10,428
Exercise of warrants	5,118,093	17,943
Conversion of shares to be issued (Note 19(d))	7,112	-
Transfer of equity reserve upon exercise of options and warrants	-	5,163
<b>Balance at December 31, 2011</b>	<b>105,135,372</b>	<b>\$ 273,304</b>
Shares issued for:		
Acquisition of Silvermex Resources Inc. (Note 25)	9,451,641	136,317
Exercise of options	1,473,850	7,142
Conversion of shares to be issued (Note 19(d))	250	-
Expiry of shares to be issued (Note 19(d))		(209)
Transfer of equity reserve upon exercise of options	-	2,792
<b>Balance at September 30, 2012</b>	<b>116,061,113</b>	<b>\$ 419,346</b>

#### (b) Stock options

Under the terms of the Company's Stock Option Plan, the maximum number of shares reserved for issuance under the Plan is 10% of the issued shares on a rolling basis. Options may be exercisable over periods of up to five years as determined by the Board of Directors of the Company and the exercise price shall not be less than the closing price of the shares on the day preceding the award date, subject to regulatory approval. All stock options granted prior to May 19, 2011 are subject to vesting with 25% vesting upon issuance and 25% vesting each six months thereafter. All stock options granted thereafter are subject to vesting with 25% vesting on first anniversary from the date of grant, and 25% vesting each six months thereafter.

The following table summarizes the information about stock options outstanding and exercisable at September 30, 2012:

Exercise prices (CAD\$)	Options Outstanding			Options Exercisable		
	Number of Options	Weighted Average Exercise Price (CAD\$/Share)	Weighted Average Remaining Life (Years)	Number of Options	Weighted Average Exercise Price (CAD\$/Share)	Weighted Average Remaining Life (Years)
2.01 - 3.00	180,000	2.03	1.60	180,000	2.03	1.60
3.01 - 4.00	657,500	3.64	0.88	657,500	3.64	0.88
4.01 - 5.00	600,000	4.29	0.29	600,000	4.29	0.29
10.01 - 21.99	3,156,775	15.53	3.51	1,239,650	13.04	2.31
	4,594,275	11.83	2.64	2,677,150	8.03	1.46

# First Majestic Silver Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

### 19. SHARE CAPITAL (continued)

#### (b) Stock options (continued)

As of September 30, 2012, incentive stock options represent 4% (December 31, 2011 - 5%) of issued and outstanding share capital. The aggregate intrinsic values of vested share options (the market value less the exercise value) at September 30, 2012 and December 31, 2011 were \$40.8 million and \$40.1 million, respectively.

The changes in stock options issued during the nine months ended September 30, 2012 and the year ended December 31, 2011 are as follows:

	Nine Months Ended September 30, 2012		Year Ended December 31, 2011	
	Number of Options	Weighted Average Exercise Price (CAD\$/Share)	Number of Options	Weighted Average Exercise Price (CAD\$/Share)
Balance, beginning of the period	4,934,375	8.31	6,464,875	5.61
Granted	1,260,000	17.83	939,500	16.13
Exercised	(1,473,850)	4.79	(2,449,750)	4.15
Expired	(126,250)	16.65	(20,250)	12.44
Balance, end of the period	4,594,275	11.83	4,934,375	8.31

During the nine months ended September 30, 2012, 1,473,850 (September 30, 2011 – 2,251,600) stock options were exercised. The weighted average closing share price at date of exercise for the nine months ended September 30, 2012 was CAD\$19.36 (2011 - CAD\$19.27).

During the nine months ended September 30, 2012, 1,260,000 (2011 – 52,500) stock options were granted for an aggregate fair value of CAD\$9,776,000 (2011 – CAD\$494,000).

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

	Nine Months Ended September 30,	
	2012	2011
Weighted average fair value at grant date (\$)	7.76	9.40
Expected dividend yield (%)	-	-
Average risk-free interest rate (%)	1.24	1.83
Expected life (years)	3.38	3.07
Expected volatility (%)	64.57	77.45
Forfeiture rate (%)	5.00	5.00

The expected volatility assumption is based on the historical and implied volatility of the Company's Canadian dollar common share price on the Toronto Stock Exchange. The risk-free interest rate assumption is based on yield curves on Canadian government zero-coupon bonds with a remaining term equal to the stock options' expected life.

# First Majestic Silver Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

### 19. SHARE CAPITAL (continued)

#### (c) Share purchase warrants

The following table summarizes the information about share purchase warrants outstanding and exercisable at September 30, 2012:

Exercise prices (C\$)	Warrants Outstanding and Exercisable		
	Number of Warrants	Weighted Average Exercise Price (CAD\$/Share)	Weighted Average Remaining Life (Years)
20.00	8,918	20.00	0.21
25.36	329,377	25.36	1.21
	338,295	25.22	1.18

The changes in share purchase warrants during the nine months ended September 30, 2012 and the year ended December 31, 2011 are as follows:

	Nine Months Ended September 30, 2012		Year Ended December 31, 2011	
	Number of Warrants	Weighted Average Exercise Price (CAD\$/Share)	Number of Warrants	Weighted Average Exercise Price (CAD\$/Share)
Balance, beginning of the period	-	-	5,142,277	3.44
Issued	338,295	25.22	-	-
Exercised	-	-	(5,118,093)	3.44
Cancelled or expired	-	-	(24,184)	3.50
Balance, end of the period	338,295	25.22	-	-

During the nine months ended September 30, 2012, as part of consideration for the acquisition of Silvermex, the Company issued 338,295 replacement warrants with an aggregate fair value of \$646,000. No share purchase warrants were issued in the prior year.

The fair value of share purchase warrants issued is estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	Nine Months Ended September 30,	
	2012	2011
Weighted average fair value at grant date (\$)	1.93	n/a
Expected dividend yield (%)	-	n/a
Average risk-free interest rate (%)	1.05	n/a
Expected life (years)	1.43	n/a
Expected volatility (%)	62.10	n/a
Forfeiture rate (%)	-	n/a

# First Majestic Silver Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

### 19. SHARE CAPITAL (continued)

#### (d) Share capital to be issued

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

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

During the nine months ended September 30, 2012, 250 (2011 – 2,500) shares were redeemed by prior shareholders of First Silver. The remaining 98,530 shares of First Silver, exchangeable for 49,265 shares of First Majestic, were deemed cancelled. As a result, the remaining value of shares to be issued of \$209,000 was realized as other income during the current period.

### 20. EQUITY RESERVES

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
<b>Available for sale revaluation reserve (a)</b>		
Balance at beginning of period	\$ 1,127	\$ 18
(Loss) gain on available for sale securities	(4,015)	527
Balance at end of period	(2,888)	545
<b>Share-based payments reserve (b)</b>		
Balance at beginning of period	27,394	25,170
Share-based payments recognized in profit and loss and related tax benefit	8,145	6,764
Share warrants issued (Note 20(c))	646	-
Reclassified to share capital for exercise of stock options and warrants	(2,792)	(4,685)
Balance at end of period	33,393	27,249
<b>Foreign currency translation reserve (c)</b>		
Balance at beginning of period	(677)	621
Currency translation gain (loss)	535	(2,350)
Balance at end of period	(142)	(1,729)
<b>Total equity reserves per statement of financial position</b>	<b>\$ 30,363</b>	<b>\$ 26,065</b>

(a) The available for sale reserve principally records the fair value gains or losses related to available-for-sale financial instruments.

(b) The share-based payments reserve records the cumulative amount recognized under IFRS 2 in respect of options granted and shares purchase warrants issued but not exercised to acquire shares of the Company and related tax benefits of \$369,000.

(c) The foreign currency translation reserve represents exchange differences arising on the translation of non-US dollar functional currency operations within the Company into the US dollar presentation currency.

# First Majestic Silver Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

### 21. FINANCIAL INSTRUMENTS

#### (a) Capital risk management

The Company's objective when managing capital is to maintain its ability to continue as a going concern while at the same time maximizing growth of its business and providing returns to its shareholders' investments. The Company's overall strategy with respect to capital risk management remains unchanged from the prior year ended December 31, 2011.

The capital of the Company consists of equity, comprising issued capital, share capital to be issued, equity reserves and retained earnings, debt facilities, net of cash and cash equivalents as follows:

	September 30, 2012	December 31, 2011
Equity	\$ 565,707	\$ 350,598
Debt facilities	512	784
Less: cash and cash equivalents	(72,761)	(91,184)
	<b>\$ 493,458</b>	<b>\$ 260,198</b>

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Company's Board of Directors.

#### (b) Financial risk management

There are no significant changes in financial risk management compared to the Company's consolidated financial statements for the year ended December 31, 2011, except for the following:

##### i) Credit Risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its contractual obligations. The Company's credit risk relates primarily to trade receivables in the ordinary course of business and value added tax and other receivables. The Company sells and receives payment upon delivery of its silver doré and by-products primarily through three international organizations. Additionally, silver-lead concentrates and related base metal by-products are sold primarily through one international organization with a good credit rating. Payments of receivables are scheduled, routine and received within 60 days of submission; therefore, the balance of overdue trade receivables owed to the Company in the ordinary course of business is not significant. The Company has a Mexican value added tax receivable of \$11.3 million as at September 30, 2012 (2011 - \$8.7 million), of which \$0.6 million (2011 - \$0.6 million) have been outstanding for more than one year. The Company is proceeding through a review process with Mexican tax authorities, but the Company expects to fully recover these amounts. In addition, as part of the acquisition of Silvermex (see Note 25), the Company acquired \$5.4 million in VAT receivables that were fully offset by a provision. The recoverability of these VAT receivables is pending outcome of various court trials with Mexican tax authority.

The carrying amount of financial assets recorded in the condensed interim consolidated financial statements represents the Company's maximum exposure to credit risk. The Company believes it is not exposed to significant credit risk and overall, the Company's credit risk has not changed significantly from the prior year.

# First Majestic Silver Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

### 21. FINANCIAL INSTRUMENTS (continued)

#### (b) Financial risk management (continued)

##### ii) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they arise. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and to support its expansion plans. As at September 30, 2012, the Company has outstanding trade payables of \$16.9 million (December 31, 2011 - \$6.5 million) which are generally payable in 90 days or less and accrued liabilities of \$21.3 million (December 31, 2011 - \$15.9 million) which are generally payable within 12 months. The Company believes it has sufficient cash on hand to meet operating requirements as they arise for at least the next 12 months. The Company's liabilities and commitments have maturities which are summarized below:

	Payments Due By Period				
	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Trade and other payables	\$ 38,610	\$ 38,610	\$ -	\$ -	\$ -
Debt facilities	512	512	-	-	-
Finance lease obligations	21,392	8,899	12,493	-	-
Decommissioning liabilities	11,466	-	-	-	11,466
<b>Total Obligations</b>	<b>\$ 71,980</b>	<b>\$ 48,021</b>	<b>\$ 12,493</b>	<b>\$ -</b>	<b>\$ 11,466</b>

##### iii) Currency Risk

Financial instruments that impact the Company's net earnings or other comprehensive income due to currency fluctuations include Canadian dollar and Mexican peso denominated assets and liabilities. The sensitivity of the Company's net earnings and other comprehensive income due to changes in the exchange rate between the Canadian dollar and the Mexican peso against the U.S. dollar is included in the table below:

	September 30, 2012				December 31, 2011			
	Cash and cash equivalents	Trade and other receivables	Trade and other payables	Net assets (liabilities) exposure	Effect of +/- 10% change in currency	Net assets (liabilities) exposure	Effect of +/- 10% change in currency	
Canadian dollar	\$ 15,361	\$ 614	\$ (1,898)	\$ 14,077	\$ 1,408	\$ 40,787	\$ 4,079	
Mexican peso	4,588	10,140	(27,842)	(13,114)	(1,311)	(7,433)	(549)	
	<b>\$ 19,949</b>	<b>\$ 10,754</b>	<b>\$ (29,740)</b>	<b>\$ 963</b>	<b>\$ 97</b>	<b>\$ 33,354</b>	<b>\$ 3,530</b>	

### 22. SUPPLEMENTAL CASH FLOW INFORMATION

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
<b>Net change in non-cash working capital items:</b>				
Increase in trade and other receivables	\$ (3,952)	\$ (2,204)	\$ (4,789)	\$ (4,384)
Increase in inventories	(2,414)	(1,478)	(7,179)	(2,988)
(Increase) decrease in prepaid expenses and other	(2,665)	3,600	(977)	(410)
Increase in trade and other payables	(1,110)	2,029	(4,654)	5,728
Increase (decrease) in taxes payable	1,863	(2,337)	13,875	(1,524)
	<b>\$ (8,278)</b>	<b>\$ (390)</b>	<b>\$ (3,724)</b>	<b>\$ (3,578)</b>
<b>Non-cash investing and financing activities:</b>				
Shares issued for acquisition of Silvermex (Note 25)	\$ 136,317	\$ -	\$ 136,317	\$ -
Warrants issued for acquisition of Silvermex (Note 25)	646	-	646	-
Transfer of share-based payments reserve upon exercise of options and warrants	1,379	1,444	2,792	4,686
Assets acquired by finance lease	(340)	(4,804)	(9,837)	(9,004)



# First Majestic Silver Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

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### 23. VENDOR LIABILITY AND INTEREST

In May 2006, First Majestic acquired a controlling interest in First Silver for \$50,776,000. The purchase price was payable to the seller (the "Seller") in three instalments ("the Agreement"). The first instalment of \$25,388,000, for 50% of the purchase price, was paid upon closing on May 30, 2006. An additional 25% instalment of \$12,694,000 was paid on May 30, 2007. The final 25% instalment of \$12,694,000, together with accrued interest of \$872,000 was paid into a trust account of the Company and First Silver in May 2008, and a Letter of Credit deposited in court, pending the outcome of the claims.

In November 2007, an action was commenced by the Company and First Silver against the Seller who was previously a director, President & Chief Executive Officer of First Silver. The Company and First Silver alleged that, while holding the positions of director, President and Chief Executive Officer, the Seller engaged in a course of deceitful and dishonest conduct in breach of his fiduciary and statutory duties owed to First Silver, which resulted in the Seller acquiring a mine which was First Silver's right to acquire. These allegations are denied by the Seller but management believes that there are substantial grounds to this claim.

On March 14, 2008, the Seller filed a Counterclaim in the Action against the Company in which he claimed for unpaid amounts and interest arising out of the Agreement. As of July 16, 2009, the claimed unpaid amount, together with interest calculated at the contractual interest rate of 6% amounted to \$14,160,000.

On July 16, 2009, an Order was granted by the Court, with the consent of all parties, under which the Seller obtained a judgment in the amount of \$14,160,000. The Company agreed that \$13,566,000 under the Letter of Credit would be paid into the Seller's lawyer's trust account (the "Trust Funds") in partial satisfaction of the Judgment. The Consent Order requires that the Trust Funds be held pending the outcome of the Action. In his counterclaim, the Seller is also seeking, among other things, interest at 6% compounded annually and calculated daily on the Trust Funds and reimbursements of all costs and expenses, including his legal fees, incurred by the Seller in pursuing his claims against the Company. The trial commenced in the Supreme Court of British Columbia, Vancouver, British Columbia in April 2012 and adjourned in June 2012. Additional trial dates are scheduled in November 2012 and January 2013 as the trial did not complete during the previously scheduled dates. The Consent Order does not affect the standing of the Company's claims for relief against the Seller in the Action. The Trust Funds could potentially become accessible to the Company in the event of a favourable outcome to the litigation. However, the outcome of this litigation is not presently determinable and no amounts are recognized in the consolidated statement of financial position.

### 24. CONTINGENT LIABILITIES

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

During 2011, Minera El Pilón, S.A. de C.V., a subsidiary of the Company, received tax assessments from the Mexican tax authority for fiscal years 2004 to 2007 relating to various tax treatments with a maximum potential remittance of approximately \$5.6 million (75.7 million Mexican pesos). The Company is currently defending the tax treatments amounting to \$3.2 million (43.4 million Mexican pesos) related to 2007 via the administrative appeal process and believes it has a strong defense against the claims. The tax reassessments for 2004 to 2006 amounting to \$2.4 million (32.3 million Mexican pesos) were pursued through tax court, pledged with certain properties of the San Martin mine as guarantees. In July 2012, the Company successfully won its appeal for the 2004 tax reassessment of \$0.7 million (10.0 million Mexican pesos). Final resolutions for 2005 and 2006 tax years are expected in the fourth quarter of 2012. The Company believes it is probable that it will defend itself successfully in all claims and therefore has not recorded a provision for the potential tax exposure relating to these assessments.

# First Majestic Silver Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

### 24. CONTINGENT LIABILITIES (continued)

During 2010, Minera La Guitarra, S.A. de C.V., a newly acquired subsidiary of the Company, received tax assessment from the Mexican tax authority for fiscal year 2003 relating to ineligible VAT refunds and tax treatment of intercompany loans with a maximum potential remittance of \$3.2 million (40.8 million Mexican pesos). The Company has posted cash as collateral ("Restricted Cash") for a bond held with Servicio de Administracion Tributaria for \$3.2 million (40.8 million Mexican pesos). During 2012, the Company received an initial judgment in favour of the Mexican tax authorities. This judgment is not considered a final legal ruling until the conclusion of the appeals mechanism. The Company has recorded an income tax payable of \$3.2 million related to the tax assessment.

### 25. ACQUISITION OF SILVERMEX RESOURCES INC.

On July 3, 2012, the Company completed the plan of arrangement (the "Arrangement") previously announced on April 3, 2012 to acquire all of the issued and outstanding common shares of Silvermex Resources Inc. Shareholders of Silvermex received 0.0355 First Majestic shares and CAD\$0.0001 for each share of Silvermex. Pursuant to closing of the transaction, First Majestic issued 9,451,654 common shares, 338,295 replacement warrants and \$26,000 in cash for the acquisition. The total consideration was valued at \$137.0 million (CAD\$138.7 million) at the acquisition date. Total transaction costs for the acquisition was \$2.6 million which were expensed in the current year.

The acquisition strengthens First Majestic's position, adding the La Guitarra Silver Mine as the Company's fourth producing asset with additional growth potential. La Guitarra will further diversify production and cash flow across the Company's robust portfolio of producing mines and development projects in Mexico.

Total consideration for the acquisition and preliminary purchase price allocation, in accordance with IFRS 3 - *Business Combinations*, are estimated as follows:

Consideration:	
9,451,654 First Majestic common shares	\$ 136,317
338,295 First Majestic replacement warrants (Note 19(c))	646
Cash paid (266.2 million Silvermex shares x CAD\$0.0001 per share)	26
<b>Total consideration</b>	<b>\$ 136,989</b>
Allocation of purchase price	
Cash and cash equivalents	\$ 11,380
Inventories	3,145
Mining interests	118,287
Property, plant and equipment	10,827
Goodwill	24,591
Deposit on long-term assets	482
Other net working capital	(7,665)
Decommissioning liabilities	(1,954)
Deferred tax liabilities, net	(22,104)
	<b>\$ 136,989</b>

Goodwill of \$24.6 million was recognized as a result of the requirement under IFRS to record deferred tax liability on the excess of the fair value of the acquired assets over their corresponding tax bases, with the corresponding offset recorded as goodwill.

# First Majestic Silver Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of United States dollars- unaudited)

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### 25. ACQUISITION OF SILVERMEX RESOURCES INC. (continued)

Financial and operating results of Silvermex are included in the Company's condensed interim consolidated financial statements effective July 3, 2012. During the three and nine months ended September 30, 2012, the acquisition of Silvermex contributed revenues of \$2,993,000 and loss of \$553,000 to the Company's net earnings.

Had the business combination been affected at January 1, 2012, revenues of the Company would have been \$181,027,000 and earnings would have been \$60,334,000 for the nine months ended September 30, 2012. Management considers these "pro forma" numbers to represent an approximate measure of the performance of the consolidated entity during the period.

In determining the "pro forma" revenue and net earnings had Silvermex been acquired at the beginning of the current year, management has:

- Calculated depletion of mining interests acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amount recognized in the pre-acquisition financial statements
- Capitalized certain development and exploration drilling costs in conformity with First Majestic's accounting policies
- Recognized the deferred income tax expense effect related to the above adjustments
- Excluded acquisition costs of the acquiree as a one-off transaction

As at the date these condensed interim consolidated financial statements were issued, the allocation of the purchase price is based on preliminary estimates and has not been finalized. The Company is currently in the process of determining the fair values of identifiable assets acquired and liabilities assumed, measuring the associated deferred income tax assets and liabilities and potential goodwill. The actual fair values of the assets and liabilities may differ materially from the amounts disclosed in the preliminary purchase price allocation and are subject to change.

### 26. SUBSEQUENT EVENTS

Subsequent to September 30, 2012:

- a) A total of 279,000 options were exercised for gross proceeds of CAD\$1,490,000; and
- b) A total of 50,000 options were cancelled.

### 27. APPROVAL OF FINANCIAL STATEMENTS

The condensed interim consolidated financial statements of First Majestic Silver Corp. for the three and nine months ended September 30, 2012 were approved and authorized for issue by the Board of Directors on November 13, 2012.



## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE QUARTER ENDED SEPTEMBER 30, 2012

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This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited condensed interim consolidated financial statements of First Majestic Silver Corp. ("First Majestic" or "the Company") for the three and nine months ended September 30, 2012 and audited consolidated financial statements for the year ended December 31, 2011, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein. All dollar amounts are expressed in United States ("US") dollars and tabular amounts are expressed in thousands of dollars unless otherwise indicated. All information contained in this MD&A is current as of November 12, 2012 unless otherwise stated.

### **Forward-Looking Statements**

*Certain information contained herein constitutes forward-looking statements. Forward-looking statements are frequently characterized by words such as "plan", "expect", "forecast", "project", "intend", "believe", "anticipate", "outlook" and other similar words, or statements that certain events or conditions "may" or "will" occur. Forward-looking statements are based on the opinions and estimates of management at the dates the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include the inherent risks involved in the mining, exploration and development of mineral properties, the uncertainties involved in interpreting drilling results and other geological data, fluctuating metal prices, the possibility of project cost overruns or unanticipated operating costs and expenses, uncertainties related to the necessity of financing, 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 other than as required by securities laws. The reader is cautioned not to place undue reliance on forward-looking statements.*

### **Qualified Persons**

*Leonel Lopez, C.P.G., P.G. of Pincock Allen & Holt is the independent Qualified Person for the Company. Ramon Davila, Ing., the Company's Chief Operating Officer, is also a certified Qualified Person. Leonel Lopez has reviewed the technical information reported in the National Instrument 43-101 technical reports regarding the La Parrilla Silver Mine, the La Encantada Silver Mine, the San Martin Silver Mine and the Del Toro Silver Mine. Ramon Davila has reviewed this MD&A for QP technical disclosures. All National Instrument 43-101 technical reports can be found on the Company's website at [www.firstmajestic.com](http://www.firstmajestic.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).*

Additional information on the Company, including the Company's Annual Information Form, is also available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.firstmajestic.com](http://www.firstmajestic.com).

## 2012 THIRD QUARTER HIGHLIGHTS

	Third Quarter 2012	Third Quarter 2011	Change	Second Quarter 2012	Change
<b>Operating</b>					
Silver Equivalent Ounces Produced	2,438,085	1,791,770	36%	2,102,222	16%
Silver Ounces Produced (excluding equivalent ounces from by-products)	2,205,237	1,708,865	29%	1,917,248	15%
Payable Silver Ounces Produced <sup>(1)</sup>	2,127,056	1,655,297	28%	1,888,132	13%
Total Cash Costs per Ounce <sup>(2)</sup>	\$9.19	\$8.39	10%	\$8.83	4%
Total Production Cost per Tonne <sup>(2)</sup>	\$30.05	\$26.86	12%	\$26.97	11%
Average Revenue per Payable Equivalent Ounces Sold (\$/eq. oz.) <sup>(2)</sup>	\$30.48	\$38.83	-22%	\$28.69	6%
<b>Financial</b>					
Revenues (\$ millions)	\$63.6	\$61.4	4%	\$54.8	16%
Mine Operating Earnings (\$ millions)	\$35.8	\$42.5	-16%	\$31.1	15%
Net Earnings (\$ millions)	\$24.9	\$27.8	-10%	\$15.3	62%
Operating Cash Flows Generated Before Movements in Working Capital (\$ millions)	\$35.9	\$42.0	-15%	\$30.6	17%
Cash and Cash Equivalents at September 30 and June 30 (\$ millions)	\$72.8	\$106.2	-31%	\$70.9	3%
Working Capital at September 30 and June 30 (\$ millions)	\$84.0	\$97.9	-14%	\$94.6	-11%
<b>Shareholders</b>					
Earnings Per Share ("EPS") - Basic	\$0.22	\$0.27	-19%	\$0.14	49%
Cash Flow Per Share <sup>(2)</sup>	\$0.31	\$0.40	-23%	\$0.29	7%
Weighted Average Shares Outstanding for the Periods Ended September 30 and June 30	115,307,418	104,583,335	10%	105,798,950	9%

(1) Payable Silver Ounces Produced is equivalent to Silver Ounces Produced less metal deductions from smelters and refineries.

(2) The Company reports non-GAAP measures which include Total Cash Costs per Ounce, Total Production Cost per Tonne, Average Revenue per Payable Equivalent Ounces Sold and Cash Flow Per Share. These measures are widely used in the mining industry as a benchmark for performance, but do not have a standardized meaning and may differ from methods used by other companies with similar descriptions. See Reconciliation to IFRS on pages 16 and 17.

- Generated Net Earnings after Taxes of \$24.9 million for the third quarter of 2012 (EPS of \$0.22), an increase of 62% compared to \$15.3 million (EPS of \$0.14) in the second quarter of 2012.
- Adjusted EPS (a non-GAAP measure) for the third quarter of 2012 was \$0.25, after excluding non-cash share-based payments, deferred income tax expense, acquisition costs for Silvermex Resources Inc., gains from silver futures and marketable securities and legal fees for the First Silver (Bolaños) trial.
- The Company completed the acquisition of Silvermex Resources Inc. ("Silvermex") during the quarter and the La Guitarra Silver Mine, located in the State of Mexico, has now become First Majestic's fourth operating mine. Since taking over operations of the mine on July 3, 2012, management has implemented various operational efficiency measures which have resulted in significant cost savings at the mine. Production costs have been reduced to \$65.09 per tonne, compared to \$128.00 per tonne in the second quarter of 2012 and \$115.69 per tonne in the third quarter of 2011.
- The acquisition of Silvermex resulted in a 9% dilution to the Company's weighted average shares outstanding for the quarter ended September 30, 2012. Without the dilutive effect of the acquisition, the Company's EPS for the third quarter would have been \$0.23. Management believes that the dilutive effect is only short-term, as the acquisition will over time become accretive to the Company as additional expansions of the La Guitarra mine occur, beginning in early 2013. During the third quarter of 2012, the La Guitarra mine produced 237,803 silver equivalent ounces of silver, an increase of 10% compared to the second quarter of 2012 and an increase of 40% compared to the third quarter of 2011.
- Operating results in the third quarter were marginally impacted by higher costs per tonne and cash costs at the newly acquired La Guitarra mine. Cash cost per ounce for the third quarter of 2012 was \$9.19, an increase of 4% compared to the second quarter of 2012 and 10% compared to the third quarter of 2011. Cash cost per ounce at the La Guitarra mine were \$13.62 per ounce during the third quarter compared to average cash cost per ounce of \$8.90 for the Company's other three operating mines. Production costs per tonne for the four mines were \$30.05 per tonne, impacted by the \$65.09 per tonne costs at La Guitarra while the other three operations averaged \$27.76 per tonne. The Company continues to focus on improving operating efficiencies and cost reduction at La Guitarra.
- The Company increased silver equivalent production by 16% to a record 2,438,085 ounces, compared to 2,102,222 ounces in the second quarter of 2012. The increase was primarily due to the addition of production from the La Guitarra mine which accounts for approximately 11% of the 16% increase.

- Increased silver equivalent production by 36% compared to 1,791,770 silver equivalent ounces produced in the third quarter of 2011, resulting in 4% increase in revenues despite a 22% decline in silver prices.
- Produced a record 2,205,237 ounces of silver compared to 1,917,248 ounces of silver in the second quarter of 2012 and 1,708,865 ounces of silver produced in the third quarter of 2011.
- Generated revenues of \$63.6 million for the third quarter of 2012, an increase of 4% compared to the third quarter of 2011 and 16% compared to the second quarter of 2012, primarily due to increase in production.
- Recognized mine operating earnings of \$35.8 million compared to \$42.5 million in the third quarter of 2011, a decrease of 16%, due to lower margin as a result of 22% decline in silver prices and higher depreciation, depletion and amortization expense. Mine operating earnings for the quarter increased 15% compared to the second quarter of 2012 as a result of 16% increase in production.
- Cash flows from operations before movements in working capital and income taxes in the third quarter of 2012 increased by 17% to \$35.9 million (\$0.31 per share) compared to \$30.6 million (\$0.29 per share) in the second quarter of 2012, and decreased by 15% compared to \$42.0 million (\$0.40 per share) in the third quarter of 2011.

## REVIEW OF OPERATING RESULTS

### Selected Production Results on a Mine-by-Mine Basis for the Past Eight Quarters

Production Highlights	2012				2011				2010			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>Ore processed/tonnes milled</b>												
La Encantada	388,462	382,172	337,940	369,310	366,308	333,710	314,712	319,908				
La Parrilla	175,630	169,786	147,938	121,109	89,972	77,363	74,503	78,537				
San Martin	72,257	63,841	72,305	74,584	73,879	71,004	67,291	68,730				
La Guitarra <sup>(1)</sup>	30,339	-	-	-	-	-	-	-				
<b>Consolidated</b>	<b>666,688</b>	<b>615,799</b>	<b>558,183</b>	<b>565,003</b>	<b>530,159</b>	<b>482,077</b>	<b>456,506</b>	<b>467,175</b>				
<b>Silver ounces produced</b>												
La Encantada	1,068,863	1,022,094	846,391	1,076,096	1,020,467	1,133,654	1,136,419	1,049,811				
La Parrilla	708,021	690,954	719,143	628,836	449,771	395,716	319,405	395,161				
San Martin	238,514	204,200	261,269	252,725	238,627	251,009	313,384	312,360				
La Guitarra <sup>(1)</sup>	189,839	-	-	-	-	-	-	-				
<b>Consolidated</b>	<b>2,205,237</b>	<b>1,917,248</b>	<b>1,826,803</b>	<b>1,957,657</b>	<b>1,708,865</b>	<b>1,780,379</b>	<b>1,769,208</b>	<b>1,757,332</b>				
<b>Silver equivalent ounces produced</b>												
La Encantada	1,090,966	1,041,292	861,506	1,092,189	1,029,336	1,139,336	1,138,624	1,050,911				
La Parrilla	851,628	843,307	860,739	738,919	511,301	443,304	363,648	448,592				
San Martin	257,688	217,623	284,974	270,420	251,133	261,190	323,094	328,484				
La Guitarra <sup>(1)</sup>	237,803	-	-	-	-	-	-	-				
<b>Consolidated</b>	<b>2,438,085</b>	<b>2,102,222</b>	<b>2,007,219</b>	<b>2,101,528</b>	<b>1,791,770</b>	<b>1,843,830</b>	<b>1,825,366</b>	<b>1,827,987</b>				
<b>Cash cost per ounce</b>												
La Encantada	\$ 8.19	\$ 8.35	\$ 9.69	\$ 7.49	\$ 8.04	\$ 7.61	\$ 7.17	\$ 7.71				
La Parrilla	\$ 8.58	\$ 8.35	\$ 8.14	\$ 8.22	\$ 7.90	\$ 8.84	\$ 10.66	\$ 7.06				
San Martin	\$ 12.96	\$ 12.75	\$ 8.67	\$ 9.70	\$ 10.74	\$ 10.72	\$ 9.85	\$ 8.87				
La Guitarra <sup>(1)</sup>	\$ 13.62	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
<b>Consolidated</b>	<b>\$ 9.19</b>	<b>\$ 8.83</b>	<b>\$ 8.96</b>	<b>\$ 8.01</b>	<b>\$ 8.39</b>	<b>\$ 8.32</b>	<b>\$ 8.26</b>	<b>\$ 7.78</b>				
<b>Production cost per tonne</b>												
La Encantada	\$ 21.52	\$ 21.30	\$ 23.27	\$ 20.78	\$ 21.46	\$ 24.09	\$ 23.80	\$ 23.30				
La Parrilla	\$ 36.32	\$ 33.46	\$ 38.87	\$ 42.46	\$ 41.32	\$ 45.88	\$ 42.60	\$ 38.07				
San Martin	\$ 45.94	\$ 43.66	\$ 38.64	\$ 38.64	\$ 37.20	\$ 40.67	\$ 45.34	\$ 43.05				
La Guitarra <sup>(1)</sup>	\$ 65.09	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
<b>Consolidated</b>	<b>\$ 30.05</b>	<b>\$ 26.97</b>	<b>\$ 29.24</b>	<b>\$ 27.47</b>	<b>\$ 26.86</b>	<b>\$ 30.03</b>	<b>\$ 30.04</b>	<b>\$ 28.70</b>				

(1) The above table only includes La Guitarra's operating results since the mine was acquired by the Company on July 3, 2012.

## Consolidated Production Results for the Three and Nine Months Ended September 30, 2012 and 2011

<u>Quarter Ended September 30,</u>		<b>CONSOLIDATED FIRST MAJESTIC RESULTS</b>	<u>Year to Date Ended September 30,</u>	
<b>2012</b>	<b>2011</b>		<b>2012</b>	<b>2011</b>
666,688	530,159	Ore processed/tonnes milled <sup>(3)(4)</sup>	1,840,670	1,468,742
167	188	Average silver grade (g/t)	169	199
62%	53%	Recovery (%)	59%	56%
2,205,237	1,708,865	Total silver ounces produced	5,949,288	5,258,452
-	34,316	Pre-commercial silver ounces produced <sup>(3)(4)</sup>	28,639	34,316
2,205,237	1,674,549	Commercial silver ounces produced	5,920,649	5,224,136
2,127,056	1,655,297	Payable silver ounces produced <sup>(1)</sup>	5,781,348	5,168,304
1,537	409	Gold ounces produced	2,681	1,097
3,307,944	1,891,991	Pounds of lead produced	9,489,815	4,472,035
844,953	-	Pounds of zinc produced	3,589,569	26,103
4,673	3,075	Tonnes of iron ore produced	13,897	5,212
2,438,085	1,791,770	Total production - ounces silver equivalent	6,547,526	5,460,966
\$9.19	\$8.39	Total cash cost per ounce <sup>(1)(3)(4)</sup>	\$9.02	\$8.32
\$9.41	\$8.50	Total production cost per ounce <sup>(1)(2)(3)(4)</sup>	\$9.12	\$8.17
\$30.05	\$26.86	Total production cost per tonne <sup>(1)(2)(3)(4)</sup>	\$28.77	\$28.89
14,595	10,129	Underground development (m)	42,465	25,334
44,670	18,558	Diamond drilling (m)	109,829	36,797

(1) The Company reports non-GAAP measures which include production costs per tonne, production costs per ounce and cash cost (including smelting and refining charges) per ounce of payable silver, in order to manage and evaluate operating performance at each of the Company's mines. These measures, established by the Silver Institute (Production Cost Standards, June 2011), are widely used in the silver mining industry as a benchmark for performance, but do not have a standardized meaning. See Reconciliation to IFRS on page 16.

(2) Total production cost per ounce and total production cost per tonne includes mining, processing and direct overhead at the mill site and does not include smelting and refining, transportation and other selling costs.

(3) At September 30, 2011, the La Parrilla mill expansion project had not been commissioned, therefore the net margin of \$1.1 million (Net Revenue of \$1.4 million less Cost of Sales of \$0.3 million) in connection with the sale of concentrates containing 34,316 silver ounces during the pre-operating period was recorded as a reduction of construction in progress during the quarter ended September 30, 2011. The table above includes the production from the mill expansion, however, average silver grade, recovery, total cash costs per ounce, total production cost per ounce and total production cost per tonne are based on production excluding pre-commercial stage production of 5,952 tonnes of ore processed and 34,316 silver ounces during the quarter ended September 30, 2011.

(4) The cyanidation circuit for the La Parrilla mill expansion project was commissioned effective March 1, 2012. During the quarter ended March 31, 2012, the net margin of \$0.6 million (Net Revenue of \$1.0 million less Costs of Sales of \$0.4 million) in connection with the sale of 30,456 ounces of silver equivalent during the pre-operating period was recorded as a reduction of construction in progress. The tables above include the production from the cyanidation circuit expansion, however, average silver grade, recovery, total cash costs per ounce, production cost per ounce and total production cost per tonne are based on production excluding pre-commercial stage production of 9,118 tonnes of ore processed and 30,456 ounces of silver equivalent during the quarter ended March 31, 2012.

### **Production**

Total production for the third quarter of 2012 was 2,438,085 ounces of silver equivalents consisting of 2,205,237 ounces of silver, 1,537 ounces of gold, 3,307,944 pounds of lead, 844,953 pounds of zinc and 4,673 tonnes of iron ore. Silver equivalent production increased by 36% compared to the 1,791,770 ounces of silver equivalents produced in the third quarter of 2011, which consisted of 1,708,865 ounces of silver, 409 ounces of gold, 1,891,991 pounds of lead, and 3,075 tonnes of iron ore. Compared to the second quarter of 2012, production increased by 16% from ounces of silver equivalents, which consisted of 1,917,248 ounces of silver, 3,005,209 pounds of lead, 533 ounces of gold, 1,423,890 pounds of zinc and 4,628 tonnes of iron ore. The increase in production was primarily due to production of 237,803 silver equivalent ounces from the La Guitarra mine, which was included in First Majestic's third quarter operating results as the acquisition was completed on July 3, 2012.

### **Cash Cost per Ounce**

Total cash costs per ounce (including smelting, refining, transportation and other selling costs, and by-product credits), which is a non-GAAP measure and a standard of the Silver Institute, for the third quarter of 2012 was \$9.19 per ounce of silver compared to \$8.39 in the third quarter of 2011 and \$8.83 in the second quarter of 2012.

Cash cost per ounce for the third quarter consists of production costs of \$9.41 per ounce, transportation, smelting and refining costs of \$2.53 per ounce, royalty cost (La Parrilla's Quebradillas mine) of \$0.07 per ounce, net of by-product credits of \$2.82. Production costs per ounce increased \$0.91 per ounce compared to the third quarter of 2011, primarily due to higher production costs at the La Guitarra mine. Transportation, smelting and refining costs increased by \$1.07 per ounce on average in the third quarter of 2012 compared to the third quarter of 2011, due to an increase in shipments of concentrates from the La Guitarra mine and the increased production from the new La Parrilla flotation circuit. Smelting and refining costs per ounce for the La Guitarra mine was \$8.20 per ounce during the quarter, significantly higher than the average of the Company's other three operating mines, as its silver/gold concentrates are being treated at La Parrilla cyanidation plant requiring a higher amount of cyanide consumption during the leaching process. Management is currently looking into alternatives to reduce processing costs of these concentrates. On the other hand, by-product credits have increased by \$1.25 per ounce compared to the third quarter of 2011 due to higher gold production from the La Guitarra mine and increased lead and zinc production from the new La Parrilla flotation plant.

### ***Head Grades and Recoveries***

The overall average head grade for the third quarter of 2012 was 167 grams per tonne ("g/t"), a 3% increase compared to 164 g/t in the second quarter. The increase was attributed to the addition of the La Guitarra mine, which had an average head grade of 225 g/t for the quarter.

Combined recoveries for all mines in the third quarter was 62% compared to 53% in the third quarter of 2011 and 59% in the second quarter of 2012. Since installing a new ball mill at La Encantada in mid-April, recoveries have been consistently improving due to a higher proportion of fresh ore being processed and a better mixture with the tailings of dam #1. Although the tailings of dam #1 have lower grades, they have historically resulted in better recoveries. These factors resulted in an increase in La Encantada's recoveries from 44% in the third quarter of 2011 to 50% in the third quarter of 2012. Efforts are continuing to optimize the recoveries at La Encantada. Management is also continuing with a number of metallurgical studies and pilot tests, which are expected to further improve recoveries. The latest metallurgical test was based on roasting the tailings, which has shown promising results and a pilot plant is being designed and is expected to start operations in the first quarter of 2013.

### ***Development and Exploration***

The underground development in all of the Company's operations and projects continued aggressively with the objective of preparing the different areas within the mines for future expanded production. A total of 14,595 metres of underground development were completed in the third quarter of 2012 compared to 13,627 metres completed in the second quarter of 2012 and 10,129 metres in the third quarter of 2011. In the first nine months of 2012, a total of 42,465 metres of underground development were completed compared to 25,334 metres in the first nine months of 2011. Total development in the third quarter increased 44% compared to the same quarter of the prior year in order to maintain the pace for increased fresh ore production rates at La Encantada, expanded production at La Parrilla and La Guitarra and preparation at the Del Toro mine for future production expected to commence late in the fourth quarter of 2012.

Diamond drilling programs are progressing aggressively on a companywide basis during the third quarter of 2012 with 44,670 metres from 237 holes consisting primarily of definition drilling and surface exploration drilling, representing a 24% increase from the 35,965 metres drilled in the second quarter of 2012. A total of 109,829 metres of diamond drilling were completed in the first nine months of 2012, an increase of 198% compared to 36,797 metres in the first nine months of 2011. A significant project is underway at Del Toro to define the ore bodies at the San Juan and Perseverancia mines to support production planning. In addition, new exploration areas are being evaluated to continue to extend the life of the Del Toro mine. Currently, the Company has a total of 17 diamond drill rigs operating on its properties.

During the quarter ended September 30, 2012, the Company spent \$30.9 million on its mineral properties and a further \$19.3 million on plant and equipment. This compares to \$18.6 million invested in mineral properties and \$13.8 million in plant and equipment in the third quarter of 2011. The increase in capital expenditures was primarily attributed to the underground development at Del Toro, and the equipment purchased for the new Del Toro processing plant. The Company is also aggressively increasing its exploration and development programs to prepare for additional mill expansions at the San Martin and La Guitarra mines and to drive further resource upgrades.



## La Encantada Silver Mine, Coahuila, Mexico

### Production Results for the Three and Nine Months Ended September 30, 2012 and 2011

<u>Quarter Ended September 30,</u>		<b>LA ENCANTADA</b>	<u>Year to Date Ended September 30,</u>	
<b>2012</b>	<b>2011</b>		<b>2012</b>	<b>2011</b>
		<b>RESULTS</b>		
388,462	366,308	Ore processed/tonnes milled	1,108,574	1,014,730
171	195	Average silver grade (g/t)	173	209
50%	44%	Recovery (%)	48%	48%
1,068,863	1,020,467	Total silver ounces produced	2,937,348	3,290,540
1,063,652	1,015,364	Payable silver ounces produced <sup>(1)</sup>	2,922,661	3,274,086
86	21	Gold ounces produced	168	71
4,673	3,075	Tonnes of iron ore produced	13,897	5,212
1,090,966	1,029,336	Total production - ounces silver equivalent	2,993,764	3,307,296
\$8.19	\$8.04	Total cash cost per ounce <sup>(1)</sup>	\$8.68	\$7.59
\$7.86	\$7.74	Total production cost per ounce <sup>(1)(2)</sup>	\$8.34	\$7.14
\$21.52	\$21.46	Total production cost per tonne <sup>(1)(2)</sup>	\$21.97	\$23.05
3,328	2,808	Underground development (m)	10,784	8,366
4,715	4,381	Diamond drilling (m)	16,204	8,915

(1) The Company reports non-GAAP measures which include production costs per tonne, production costs per ounce and total cash cost (including smelting and refining charges) per ounce of payable silver, in order to manage and evaluate operating performance at each of the Company's mines. These measures, established by the Silver Institute (Production Cost Standards, June 2011), are widely used in the silver mining industry as a benchmark for performance, but do not have a standardized meaning. See Reconciliation to IFRS on page 16.

(2) Total production cost per ounce and total production cost per tonne includes mining, processing and direct overhead at the mill site and does not include smelting and refining, transportation and other selling costs.

The La Encantada Silver Mine is a producing underground mine located in northern Mexico 708 kilometres north east of Torreon, Coahuila and is accessible via a 1.5 hour flight from Torreon, Coahuila. The La Encantada Silver Mine consists of a 4,000 tpd cyanidation plant, a 1,000 tpd flotation plant (currently in care-and-maintenance except for the crushing, grinding and thickener areas), a village with 180 houses as well as administrative offices, laboratory, general store, hospital, schools, church, airstrip and all the infrastructure required for such an operation. The mine is comprised of 4,076 hectares of mining rights and surface land ownership of 1,343 hectares. The closest town, Muzquiz, is 225 kilometres away via mostly-paved road. The Company owns 100% of the La Encantada Silver Mine.

With more operating days than planned and adjustments made to the tailings screening intake systems, and to the tailings filter presses, the plant, initially inaugurated with a capacity of 3,500 tpd, has been able to consistently achieve in excess of 4,000 tpd processing throughput and was re-rated to 4,000 tpd. In the third quarter of 2012, the processing mill averaged 4,625 tpd of blended ore throughput. The three operating ball mills continue to process fresh mine ore at a rate of approximately 1,800 tpd with the remaining balance of throughput coming from reprocessed tailings. Silver recoveries and grades continue to show positive operating improvements as a result of the increase in fresh ore from the mine. The average throughput for the first nine months of 2012 was 4,280 tpd.

A total of 1,090,966 equivalent ounces of silver were produced by the La Encantada plant during the third quarter of 2012, which was an increase of 5% compared with the 1,041,292 equivalent ounces of silver produced in the preceding quarter, primarily attributable to higher fresh ore input, and an increase of 6% compared to the 1,029,336 equivalent ounces of silver produced in the third quarter of 2011.

Tonnes milled in the third quarter increased 2% to 388,462 tonnes processed compared to 382,172 tonnes processed in the second quarter of 2012 and increased 6% compared to the 366,308 tonnes processed in the third quarter of 2011. The average head grade increased 1% to 171 g/t compared to 169 g/t in the second quarter of 2012 and decreased 12% compared to 195 g/t in the third quarter of 2011, summarized as follows:

	Q3 2012	Q2 2012	Change	Q3 2011	Change
<b>Tonnes Milled</b>					
Fresh ore	138,261	135,593	2.0%	102,735	35%
Tailings	250,201	246,579	1.5%	263,573	-5%
<b>Total</b>	<b>388,462</b>	<b>382,172</b>	<b>2%</b>	<b>366,308</b>	<b>6%</b>
<b>% Tonnes Milled</b>					
Fresh ore	36%	35%	0.3%	28%	27%
Tailings	64%	65%	-0.2%	72%	-10%
<b>Grades</b>					
Fresh ore	263	259	1.5%	249	6%
Tailings	121	120	0.8%	174	-30%
<b>Average</b>	<b>172</b>	<b>169</b>	<b>1.3%</b>	<b>195</b>	<b>-12%</b>

Efforts are continuing to optimize the recoveries at La Encantada, which increased from 43% in the first quarter of 2012 to 49% in the second quarter and 50% in the third quarter. The Company is processing ore with lower grade and lower manganese content from the #1 tailings dam because the silver is proving easier to separate from the manganese. The increase in the ratio of ore processed from the mine relative to ore from the old tailings assisted in improving overall grades and recoveries at the processing plant. Silver recoveries are expected to improve for the remainder of the year, due to the increased ratio of fresh ore versus the old tailings. Management is also continuing with a number of metallurgical studies and pilot tests, which are expected to further improve recoveries.

Continuing with the underground mine development program from 2011 to increase the production of fresh ore, a total of 3,328 metres were developed in the third quarter of 2012 compared to 3,535 metres in the second quarter of 2012 and 2,808 metres of development completed in the third quarter of 2011. During the first nine months of 2012, a total of 10,784 metres were developed, an increase of 29% compared to 8,366 metres developed in the first nine months of 2011. Underground development is currently focused on areas within the mine which contain lower levels of manganese to assist in higher recovery rates. The primary areas of focus have been the San Francisco vein and the Milagros Breccia pipe and the new 990 chimney.

Due to the extensive underground exploration program underway, a new breccia pipe adjacent to the chimney at level 990 was discovered showing grades in the range of 400 g/t to 500 g/t. This new discovery is currently being developed and will be in production late in the fourth quarter. One diamond drill rig is active underground at La Encantada, with the objective of defining additional Reserves and Resources. A new NI 43-101 Technical Report is expected to be released before the end of the second quarter of 2013.

A total of 4,715 metres of diamond drilling were completed in the third quarter of 2012 compared to 5,451 metres in the second quarter of 2012. During the first nine months of 2012, a total of 16,204 metres of diamond drilling and a total 8,915 metres of underground development have been completed.

## La Parrilla Silver Mine, Durango, Mexico

### Production Results for the Quarter Ended September 30, 2012 and 2011

Quarter Ended September 30,		LA PARRILLA RESULTS	Year to Date Ended September 30,	
2012	2011		2012	2011
175,630	89,972	Ore processed/tonnes milled <sup>(3)(4)</sup>	493,354	241,838
163	201	Average silver grade (g/t)	171	198
77%	77%	Recovery (%)	78%	76%
708,021	449,771	Total silver ounces produced	2,118,118	1,164,892
-	34,316	Pre-commercial silver ounces produced <sup>(3)(4)</sup>	28,639	34,316
708,021	415,455	Commercial silver ounces produced	2,089,479	1,130,576
684,919	402,499	Payable silver ounces produced <sup>(1)</sup>	2,016,200	1,095,212
245	103	Gold ounces produced	605	265
3,307,944	1,891,991	Pounds of lead produced	9,489,815	4,472,035
844,953	-	Pounds of zinc produced	3,589,569	26,103
851,628	511,301	Total production - ounces silver equivalent	2,555,674	1,318,253
\$8.58	\$7.90	Total cash cost per ounce <sup>(1)(3)(4)</sup>	\$8.35	\$9.01
\$9.31	\$8.62	Total production cost per ounce <sup>(1)(2)(3)(4)</sup>	\$8.66	\$9.31
\$36.32	\$41.32	Total production cost per tonne <sup>(1)(2)(3)(4)</sup>	\$36.04	\$43.22
5,122	4,015	Underground development (m)	15,408	9,449
9,201	4,642	Diamond drilling (m)	21,586	9,799

- (1) The Company reports non-GAAP measures which include production costs per tonne, production costs per ounce and total cash cost (including smelting and refining charges) per ounce of payable silver, in order to manage and evaluate operating performance at each of the Company's mines. These measures, established by the Silver Institute (Production Cost Standards, June 2011), are widely used in the silver mining industry as a benchmark for performance, but do not have a standardized meaning. See Reconciliation to IFRS on page 16.
- (2) Total production cost per ounce and total production cost per tonne includes mining, processing and direct overhead at the mill site and does not include smelting and refining, transportation and other selling costs.
- (3) At September 30, 2011, the La Parrilla mill expansion project had not been commissioned, therefore the net margin of \$1.1 million (Net Revenue of \$1.4 million less Cost of Sales of \$0.3 million) in connection with the sale of concentrates containing 34,316 silver ounces during the pre-operating period was recorded as a reduction of construction in progress during the quarter ended September 30, 2011. The table above includes the production from the mill expansion, however, average silver grade, recovery, total cash costs per ounce, total production cost per ounce and total production cost per tonne are based on production excluding pre-commercial stage production of 5,952 tonnes of ore processed and 34,316 silver ounces during the quarter ended September 30, 2011.
- (4) The cyanidation circuit for the La Parrilla mill expansion project was commissioned effective March 1, 2012. During the quarter ended March 31, 2012, the net margin of \$0.6 million (Net Revenue of \$1.0 million less Costs of Sales of \$0.4 million) in connection with the sale of 30,456 ounces of silver equivalent during the pre-operating period was recorded as a reduction of construction in progress. The tables above include the production from the cyanidation circuit expansion, however, average silver grade, recovery, total cash costs per ounce, production cost per ounce and total production cost per tonne are based on production excluding pre-commercial stage production of 9,118 tonnes of ore processed and 30,456 ounces of silver equivalent during the quarter ended March 31, 2012.

The La Parrilla Silver Mine, located approximately 65 kilometres southeast of the city of Durango, Mexico, is a complex of producing underground operations consisting of the Rosarios / La Rosa and La Blanca mines which are inter-connected through underground workings, and the San Marcos, Vacas and Quebradillas mines which are connected via above-ground gravel road ways. The total mining concessions consist of 69,460 hectares and the Company owns 45 hectares and leases an additional 69 hectares of surface rights, for a total of 114 hectares of surface rights. The Company owns 100% of the La Parrilla Silver Mine.

La Parrilla includes a 2,000 tpd dual processing plant consisting of new 1,000 tpd cyanidation and 1,000 tpd flotation circuits, buildings, offices and associated infrastructure. The cyanidation circuit was commissioned effective March 1, 2012, and the plant, including flotation and cyanidation circuits, was operating at a combined average throughput of 2,116 tpd in the third quarter, an increase of 4% from the second quarter of 2012. At the newly designed run rate of 2,000 tpd, it is anticipated that La Parrilla will produce in the range of 3.0 to 3.2 million ounces of silver equivalent annually.

The new tailings filters were fully operational in the third quarter allowing the mill to operate on approximately 80% of recycled water. Recycling mill waste water is not only cost efficient and environmentally friendly, it also reduces the operational risk in case local water supplies are threatened by natural disruptions such as severe droughts. La Parrilla is now the second operation under control of First Majestic that utilizes this new environmentally friendly technology.

During a ceremony held on July 28, 2012, the Governor of the State of Durango, Jorge Herrera Caldera, inaugurated the new Central Laboratory at La Parrilla. This laboratory is in the ISO certification process and will provide centralized services, including certified assays and metallurgical studies, to all the mines and projects of the consolidated First Majestic group of companies. At the same time, the Governor acted as witness in a public ceremony culminating with the Company signing an agreement with the La Parrilla community as part of our sustainable development program in which First Majestic has contributed with the paving of streets, supply of potable water, garbage collection and some other public works.

Total production at the La Parrilla Silver Mine was 851,628 equivalent ounces of silver in the third quarter of 2012, which was an increase of 1% compared to the second quarter of 2012, and an increase of 67% compared to the third quarter of 2011. The composition of the silver equivalent production in the third quarter of 2012 consisted of 708,021 ounces of silver, 245 ounces of gold, 3,307,944 pounds of lead and 844,953 pounds of zinc. This compares with a composition of 690,954 ounces of silver, 226 ounces of gold, 3,005,209 pounds of lead and 1,423,890 pounds of zinc produced in the second quarter of 2012, and 449,771 ounces of silver, 103 ounces of gold and 1,891,991 pounds of lead in the third quarter of 2011.

In the third quarter of 2012, a total of 175,630 tonnes of ore were processed at La Parrilla, representing an increase of 3% when compared with the 169,786 tonnes processed in the second quarter of 2012, and an increase of 95% when compared with the 89,972 tonnes processed in the third quarter of 2011. During the quarter, 66,344 tonnes of oxide ore with an average grade of 146 g/t were extracted from the open pit area at the Quebradillas mine compared to 77,509 tonnes of oxide ore with an average grade of 147 g/t in the second quarter of 2012. Recovery levels of silver in the third quarter were 77% compared to 76% in the second quarter of 2012 and consistent with the 77% in the third quarter of 2011. Lead and zinc concentrates are grading at approximately 1.9% for lead and 1.9% for zinc. Silver recoveries for flotation were 83% compared to 85% in the previous quarter, the decline was due to an adjustment done in the flotation area to improve the quality of the lead concentrates. Silver recoveries for cyanidation improved to 69% compared to 65% in the previous quarter. Recoveries in the previous quarter was negatively affected by ore extracted from an area of the open pit which had a high content of silica.

A total of 5,122 metres of underground development were completed in the third quarter of 2012, compared to 5,247 metres in the second quarter of 2012. In the first nine months of 2012, a total of 15,408 metres were developed, an increase of 63% compared to 9,449 metres in the first nine months of 2011. As part of the current expansion program, an extensive underground development program and a new ramp system is under construction including a new production shaft of which a raise boring machine has now completed 480 metres of the pilot shaft. In addition, 350 metres of development at Level 11 which will become the new underground rail system connecting the different underground areas to the shaft was completed during the third quarter. This investment is expected to improve logistics and transportation of ore to the mill, ultimately reducing overall costs.

A total of 9,201 metres of diamond drilling were completed in the third quarter of 2012 compared to 6,816 metres of diamond drilling in the second quarter and 4,642 metres in the third quarter of 2011. A total of 21,586 metres of diamond drilling were completed year to date, an increase of 120% compared to 9,799 metres completed in the first nine months of 2011. Currently, there are three diamond drill rigs operating at La Parrilla, two are on surface and one is underground. More than 25,000 metres of drilling are planned for 2012, representing the continuation of an aggressive investment in exploration at La Parrilla, both at La Parrilla's underground mines and in the La Parrilla regional area. The focus during this expanded exploration program will be the Rosarios, Quebradillas, Vacas, San Marcos, and La Blanca mines and the Cerro Santiago, Viboras, San Nicolas, Sacramento areas plus the first ever regional exploration program undertaken on this very large 69,460 hectare property. The aggressive regional mapping program started in 2011 and was concluded in late March and defined a broad regional exploration program covering the entire property with favourable results on a number of anomalies. The exploration program has also indicated the continuation of the Rosario vein system both at depth and along strike which is connecting the San Marcos vein with the Rosario vein system. This area is currently being developed at

Level 9 to connect the San Marcos mine and the Rosarios mine. This connection is expected to be completed during the fourth quarter. Following the conclusion of a regional geophysics program in the second quarter, a regional exploration drill program is being designed to target geological anomalies in far reaching areas within La Parrilla's large 69,460 hectare land package. This program is expected to commence during the second quarter of 2013. These regional anomalies, never explored by modern techniques, are expected to be included in a newly updated NI 43-101 Technical Report expected to be released in early 2013.

## San Martin Silver Mine, Jalisco, Mexico

### Production Results for the Quarter Ended September 30, 2012 and 2011

<u>Quarter Ended September 30,</u>		<b>SAN MARTIN RESULTS</b>	<u>Year to Date Ended September 30,</u>	
<b>2012</b>	<b>2011</b>		<b>2012</b>	<b>2011</b>
72,257	73,879	Ore processed/tonnes milled	208,403	212,174
134	136	Average silver grade (g/t)	136	151
77%	74%	Recovery (%)	77%	78%
238,514	238,627	Total silver ounces produced	703,983	803,020
237,321	237,434	Payable silver ounces produced <sup>(1)</sup>	701,323	799,006
347	285	Gold ounces produced	1,049	761
257,688	251,133	Total production - ounces silver equivalent	760,285	835,417
\$12.96	\$10.74	Total cash cost per ounce <sup>(1)</sup>	\$11.32	\$10.39
\$13.99	\$11.57	Total production cost per ounce <sup>(1)(2)</sup>	\$12.70	\$10.87
\$45.94	\$37.20	Total production cost per tonne <sup>(1)(2)</sup>	\$42.71	\$40.94
1,809	1,964	Underground development (m)	6,507	5,405
9,405	6,542	Diamond drilling (m)	30,676	12,684

(1) The Company reports non-GAAP measures which include production costs per tonne, production cost per ounce and total cash cost (including smelting and refining charges) per ounce of payable silver, in order to manage and evaluate operating performance at each of the Company's mines. These measures, established by the Silver Institute (Production Cost Standards, June 2011), are widely used in the silver mining industry as a benchmark for performance, but do not have a standardized meaning. See Reconciliation to IFRS on page 16.

(2) Total production cost per tonne includes mining, processing and direct overhead at the mill site and does not include smelting and refining, transportation and other selling costs.

The San Martin Silver Mine is a producing underground mine located adjacent to the town of San Martin de Bolaños, in northern Jalisco State, Mexico, 290 kilometres north east of Guadalajara, Mexico, and is owned 100% by the Company. The mine comprises approximately 7,841 hectares of mineral rights, 1,300 hectares of surface rights surrounding the mine, and another 104 hectares of surface rights where the 950 tpd cyanidation plant and 500 tpd flotation plant (currently in care and maintenance), mine buildings, offices and related infrastructure are located.

In the third quarter of 2012, a total of 72,257 tonnes were processed at the San Martin mine, representing an increase of 13% when compared to the 63,841 tonnes milled in the second quarter of 2012 and a decrease of 2% compared to the 73,879 tonnes milled in the third quarter of 2011. The average head grade was 134 g/t in the third quarter of 2012, compared to the 133 g/t in the second quarter of 2012 and 136 g/t in the third quarter of 2011.

Total production of 257,688 ounces of silver equivalent in the third quarter of 2012 was 18% higher than the 217,623 ounces of silver equivalent produced in the second quarter of 2012 and 3% higher than the 251,133 equivalent ounces of silver produced in the third quarter of 2011. These conditions have now returned to normal due to the recent seasonal rains that have come to the area.

The ounces of silver equivalent produced in the third quarter of 2012 consisted of 238,514 ounces of silver and 347 ounces of gold. This compares with 204,200 ounces of silver and 244 ounces of gold produced in the second quarter of 2012 and 238,627 ounces of silver and 285 ounces of gold in the third quarter of 2011. Silver recovery levels in the third quarter of 2012 was 77%, compared to 75% in the second quarter of 2012 and 74% in the third quarter of 2011.

The construction of two new large leaching tanks designed to replace some older and smaller leach tanks remains on time and on budget. This program is part of First Majestic's regular campaign of improving operations by replacing older equipment with newer, cleaner and more efficient systems. Further improvements are scheduled for 2013 and will include new clarification filters, new tailings filters to recirculate water and to improve environmental conditions.

During the quarter, a total of 9,405 metres of diamond drilling were completed compared with 12,066 metres of drilling in the previous quarter. During the first nine months of 2012, a total of 30,676 metres of diamond drilling were completed, an increase of 142% compared with 12,684 metres in the first nine months of 2011. In addition, 1,809 metres of development were completed in the third quarter of 2012 compared to 2,172 metres of development in the second quarter of 2012. Three drill rigs are currently active within the San Martin property, two underground and one on surface, focusing on the La Esperanza, Los Blancos, Pinalillo, La Huichola, Rosarios and Condesa veins. The early results of the exploration drilling program at the Rosarios/Huichola veins continue to return positive results showing further definition of the North/South system of veins that were previously known.

For 2012, the focus has been to develop additional ounces within the Zuloaga, La Esperanza and Rosarios/Huichola vein systems. The early results of the exploration drilling program at the Rosarios/Huichola veins have returned very positive results; showing the definition of a new North/South system of veins that were previously unknown. The Company is planning to release a new NI 43-101 Technical Report prior to the end of 2012.

## La Guitarra Silver Mine, Mexico State, Mexico

### Production Results for the Quarter Ended September 30, 2012 and 2011

Quarter Ended September 30,		LA GUITARRA RESULTS	Year to Date Ended September 30,	
2012	2011 <sup>(3)</sup>		2012	2011 <sup>(3)</sup>
30,339	n/a	Ore processed/tonnes milled	30,339	n/a
225	n/a	Average silver grade (g/t)	225	n/a
87%	n/a	Recovery (%)	87%	n/a
189,839	n/a	Total silver ounces produced	189,839	n/a
141,164	n/a	Payable silver ounces produced <sup>(1)</sup>	141,164	n/a
859	n/a	Gold ounces produced	859	n/a
237,803	n/a	Total production - ounces silver equivalent	237,803	n/a
\$13.62	n/a	Total cash cost per ounce <sup>(1)</sup>	\$13.62	n/a
\$13.99	n/a	Total production cost per ounce <sup>(1)(2)</sup>	\$13.99	n/a
\$65.09	n/a	Total production cost per tonne <sup>(1)(2)</sup>	\$65.09	n/a
1,186	n/a	Underground development (m)	1,186	n/a
9,984	n/a	Diamond drilling (m)	9,984	n/a

(1) The Company reports non-GAAP measures which include production costs per tonne, production cost per ounce and total cash cost (including smelting and refining charges) per ounce of payable silver, in order to manage and evaluate operating performance at each of the Company's mines. These measures, established by the Silver Institute (Production Cost Standards, June 2011), are widely used in the silver mining industry as a benchmark for performance, but do not have a standardized meaning. See Reconciliation to IFRS on page 16.

(2) Total production cost per tonne includes mining, processing and direct overhead at the mill site and does not include smelting and refining, transportation and other selling costs.

(3) The above table only includes La Guitarra's operating results since the mine was acquired by the Company on July 3, 2012.

On July 3, 2012, the Company successfully completed the acquisition of Silvermex Resources Inc. (see "Acquisition of Silvermex Resources Inc.") which resulted in the 100% owned La Guitarra Silver Mine becoming the Company's fourth producing silver mine. The La Guitarra Silver Mine is located in the Temascaltepec Mining District in the State of Mexico, near Toluca, Mexico and approximately 130 kilometres south west from Mexico City.

First Majestic management has been following developments at the La Guitarra mine for over five years. Following the acquisition, an aggressive exploration program was developed across multiple areas of interest covered by the 39,714 hectares of mining claims within the Temascaltepec Mining District. The results of this exploration program are expected to be included in an updated NI 43-101 Technical Report scheduled for release by the end of 2013.

The La Guitarra mine consists of two underground operation centres and a flotation mill with a capacity of 350 tpd, producing approximately 800,000 ounces of silver equivalent per year. The Company plans to maintain production levels at current levels of 350 tpd for the remainder of 2012 and expand to 500 tpd at the beginning of 2013. An underground development program is being implemented in order to meet the plan for a ramp up to 500 tpd through the flotation circuit. It is expected that throughput during 2013 will be maintained at 500 tpd which will result in silver production at La Guitarra reaching in the range of 1 million equivalent silver ounces.

Since taking over operations of the mine on July 3, 2012, management has been focusing on improving the operational efficiency and cost savings at the mine. During the third quarter of 2012, total production at the La Guitarra Silver Mine was 237,803 equivalent ounces of silver, an increase of 10% compared to the second quarter of 2012 and an increase of 40% compared to the third quarter of 2011. In addition, average production cost per tonne for the third quarter was \$65.09 per tonne, a significant improvement from \$128.00 per tonne in the second quarter of 2012 and \$115.69 per tonne in the third quarter of 2011. Production from La Guitarra accounted for approximately 10% of First Majestic's total production during the third quarter of 2012.

During the third quarter, silver concentrates being produced at La Guitarra were shipped to La Parrilla for further leaching in the cyanidation process, converting the concentrates into doré bars to reduce smelting and refining costs and to improve La Guitarra's economics. The composition of the silver equivalent production consisted of 189,839 ounces of silver and 859 ounces of gold. A total of 30,339 tonnes of ore were processed during the quarter consisting of an average head grade of 225 g/t with recoveries of 87%.

Permitting for a 1,000 tpd cyanidation processing facility will commence in the next few months with an anticipated commencement of construction in the third quarter of 2013. At 1,000 tpd throughput from cyanidation, production is anticipated to reach over 2 million ounces of silver doré production per year in 2014.

A total of 1,186 metres of underground development were completed during the third quarter. A total of 9,984 metres of diamond drilling were completed during the quarter. Four drill rigs are currently active at the La Guitarra mine, two on surface and two underground.

Silvermex Resources Inc. and its predecessors published NI 43-101 Technical Reports relating to the La Guitarra mine on September 22, 2006, May 15, 2007, June 25, 2008 and most recently on January 29, 2010. These Technical Reports have not been approved by the Company and the Company did not rely on these reports in making its decision to acquire Silvermex and (indirectly) the La Guitarra Silver Mine. The reports are currently under review by management of the Company and its Qualified Persons, particularly with respect to the assumptions and the risks regarding those assumptions used in the previous mining studies. Specifically, management is of the opinion that there are risks when relying on the ability to permit the La Guitarra mine as an open pit mine in light of its proximity to a popular recreation area in Mexico. Management is having its own Qualified Persons review the preferred mining options and the opportunities for mitigating risks to developing a successful mining operation. The results of this review may result in a revised mine plan which may necessitate the filing of a new Technical Report. Until then, management recommends caution when relying on the previously filed technical reports relating to the La Guitarra Silver Mine.

## **DEVELOPMENT AND EXPLORATION PROJECTS**

### **Del Toro Silver Mine, Zacatecas, Mexico**

The Del Toro Silver Mine is located 60 kilometres to the southeast of the Company's La Parrilla Silver Mine and consists of 405 contiguous hectares of mining claims plus an additional 129 hectares of surface rights covering the area surrounding the San Juan mine where construction of a 4,000 tpd flotation / cyanidation plant is currently underway. The Del Toro operation represents the consolidation of three historical silver mines, the Perseverancia, San Juan and Dolores mines, which are approximately one and three kilometres apart, respectively.

During the second quarter in 2012, the Del Toro Silver Mine, which was a division of the Company's First Majestic Plata, S.A. de C.V. subsidiary, was transferred into a newly formed subsidiary of the Company, First Majestic Del Toro, S.A. de C.V., to better isolate its operating results from the La Parrilla mine as the plant begins production in late 2012. First Majestic owns 100% of the Del Toro Silver Mine.

The Company was previously granted a permit for a 1,000 tpd flotation mill and during the third quarter, the Company received the final Environmental Impact Statement permit from the Mexican government (SEMARNAT) approving the cyanidation circuit and the enlarged processing facilities at the Del Toro Silver Mine. This was the final permit needed to achieve the targeted mill capacity of 4,000 tpd by mid-2014. The current plans involve scaling up the plant capacity over a three year period commencing at 1,000 tpd by year end of 2012, expanding to 2,000 tpd by the third quarter of 2013 and reaching 4,000 tpd by the mid-2014. During the second quarter of 2012, the Company issued a Preliminary Economic Assessment and an updated NI 43-101.

Construction and development at the Del Toro Silver Mine is well underway and currently on schedule. Following the successful platform construction and foundation pouring in the first half of the year, mechanical installations continued in the quarter at the crushing, flotation and thickeners areas. The construction of the 1,000 tpd flotation plant is 75% completed. Final testing of the sewage water treatment plant was completed during the third quarter. Once the mill construction is completed, the Company is looking forward to being able to recirculate the waste water from the town of Chalchihuites back into a collection facility for treatment and reuse, not only saving the environment, but also conserving water in the region. Also, 96% of the required equipment for the flotation circuit and 65% of the equipment for the cyanidation circuit has been ordered and is in the process of being delivered. The new 115,000 kilowatt power line from the town of Vicente Guerrero to Chalchihuites is in the permitting process with SEMARNAT, the Mexican Federal Environmental authorities. Management is preparing an Environmental Impact Statement and anticipates having the power line installed and operational by April 1, 2013. In the interim, portable power generators have been leased to enable initial start-up of operations.

In order to prepare Del Toro for production, an extensive development program was launched in late 2010 consisting of constructing three access ramps into ore bodies 1, 2 and 3 at San Juan, an access ramp into the Perseverancia chimney and an access ramp in Dolores. These access ramps have also allowed for the construction of crosscuts for drilling to further define additional Reserves and Resources.

To date, the main ramp into the San Juan mine is now below level 10, which will be the first production level of this mine. This ramp is now 2,400 metres in length and close to 280 metres in vertical distance from surface. This main ramp will be used for ore haulage during the first production stage, prior to the shaft being completed in 2013, and will act as an access to the three main ore bodies which will be developed during 2012. To date, access has been completed to ore body 1, ore body 2 and ore body 3 at San Juan with 186 metres developed during the third quarter. Development at the San Juan mine for preparation for the upcoming production stage also continued during the quarter. In addition, the new pump station, new powder magazines and the initial work of a new underground shop are underway.

Underground development is continuing into the very prospective Perseverancia mine and the recently discovered San Nicolas chimney. The Company released an updated NI 43-101 Technical Report on August 21, 2012, which included some of the new resources discovered in this area. The results revealed an increase in silver grade of the overall Measured and Indicated Resources by 20% to 175 g/t. At the Perseverancia mine, development of the access ramp was re-initiated in 2011 and to date has reached 1,120 metres in length, to gain access to the chimneys. While developing this ramp, a new vein was discovered which was named the "San Nicolas vein". This vein has been correlated to old mine workings 1,000 metres to the north-east from the Perseverancia mine. The discovery of the San Nicolas vein has opened a new development area and to date 1,750 metres of development has been completed in an access ramp on two different levels, 50 metres apart. Three drill rigs were assigned to this area for the Del Toro project and are currently drilling with the intent of defining the possible connection of the San Juan and Perseverancia ore bodies as well as to check some of the geophysical anomalies.

At the Dolores mine, over 2,180 metres have been developed to date in different workings, including a ramp that is providing access to the main Dolores and Chalchihuites veins on two levels.

Development at the San Juan mine for preparation for the upcoming production stage continued during the third quarter. Ore continues to be extracted to surface from the San Juan mine. During the third quarter, a total of



22,365 tonnes have been mined at Level 9 adding to the mined ore from the second quarter bringing the total stockpile of ore on surface to 56,562 tonnes at the end of the third quarter. Total underground development at Del Toro in the third quarter amounted to 3,150 metres compared to 2,673 metres in the previous quarter. In the first nine months of 2012, a total of 8,580 metres were developed compared to 1,926 metres in the first nine months of 2011.

During the quarter, 36 holes were completed for a total of 11,365 metres. In the first nine months of 2012, a total of 31,379 metres of diamond drilling were completed compared to 4,693 metres in the first nine months of 2011. Six drill rigs are currently active at site, with three on surface and three underground. Drilling continues in order to infill previous holes, and test for additional resources and to upgrade previously defined Measured and Indicated resources.

The Company has plans to invest an estimated \$58.5 million in construction of the phase one flotation circuit, equipment and underground development of which \$45.9 million has been spent during the first nine months of 2012. In addition, the Company anticipates it may be required to make some prepayment deposits for long lead time equipment related to the phase two cyanidation projects in 2013, however, the amount of the deposits is not determinable at this time.

### **La Luz Silver Project, San Luis Potosi, Mexico**

The La Luz Silver Project, is located 25 kilometres west of the town of Matehuala in San Luis Potosi State, Mexico, near the village of Real de Catorce and was acquired in November 2009, through the acquisition of Normabec Mining Resources Ltd. ("Normabec"). As a result of the acquisition of Normabec, and its wholly owned subsidiary Minera Real Bonanza, S.A. de C.V., the Company owns 100% of the La Luz Silver Project and all of the associated mining claims of what was historically known as the Santa Ana mine and consists of 36 mining concessions covering 4,977 hectares, with estimated historical production of 230 million ounces between 1773 and 1990. After the acquisition of Normabec, the Company transferred Minera Real Bonanza into the consolidated group in Mexico under the Company's wholly owned subsidiary, Corporación First Majestic, SA de CV, and proceeded to wind up Normabec in December 2011.

In November 2010, the Company agreed to acquire the 3% net smelter royalty ("NSR"), the surface rights of the property, the buildings located thereon covering the location of the previous mining operations, and all technical and geological information collected pertaining to the area, for consideration of \$3.0 million. Consideration for the purchase consisted of a cash payment of \$1.1 million and \$1.5 million in shares of the Company (152,798 shares) in November 2010, and \$0.4 million which was paid in January 2011. All payments in cash and shares have been completed fulfilling the Company's objectives in acquiring all the necessary land and buildings for the La Luz Silver Project. The Company continued with the process of obtaining final approval for the purchase of 100 hectares of surface rights which were purchased during the fourth quarter of 2011 in order to secure an area where the plant and mine access are planned to be located.

To date, the Baseline Study and the Geo-hydrologic Study have been completed. The Environmental Impact Statement, the Risk Study and the Change of Use of Land Studies are expected to be presented to government authorities in the fourth quarter of 2012. A metallurgical test is underway to define the final flow sheet diagram for a flotation plant which is required for final permitting. There has been opposition from certain groups of indigenous people and non-government organizations, which are being addressed by the Company. Contrary to independent reports regarding the La Luz project, the Company has no plans to do any mining above ground, no plans for open pit mining, and has no plans for the use of cyanide in any of its processing activities on or around the La Luz project.

The permit for the restoration of the old historic buildings at the Santa Ana Hacienda has been received and the construction of the previously announced Thematic and Cultural Park which will include a mining museum has begun. To date, \$0.9 million has been invested and is expect to be completed in 2014. In addition, cleaning of the impressive underground workings is underway to rehabilitate this historic mine for public access. This new cultural facility and mining museum will form a "Sustainable Development Project" which will provide permanent long term jobs to the local communities.

### **Jalisco Group of Properties, Jalisco, Mexico**

The Company acquired a group of mining claims totalling 5,240 hectares located in various mining districts located in Jalisco State, Mexico. During 2008, surface geology and mapping began with the purpose of defining future drill targets; however, exploration has since been discontinued as the Company focuses its capital investment on other higher priority projects, including the Del Toro Silver Mine and La Luz Silver Project.

In January 2011, the Company granted an option to acquire up to 90% in the Jalisco Group of Properties (the "Properties") to Sonora Resources Corp. (the "Optionee") whereby the Optionee issued 10 million shares of common stock with a fair value of \$3.4 million. The Optionee has committed to spend \$3 million over the first three years to earn a 50% interest and \$5 million over five years to earn a 70% interest. In order to obtain a 90% interest, the Optionee is required to complete a bankable feasibility study within seven years. First Majestic will retain a 10% free carried interest and a 2.375% NSR. The fair value of common shares received from the Optionee was recorded in other financial assets with a corresponding reduction in the carrying value of the San Martin mining interests in the second quarter of 2011.

In May 2012, the Company received an additional two million common shares of the Optionee, valued at \$440,000 as a result of their failure to file a registration statement qualifying the original 10 million shares of common stock issued for free trading. The fair value of the common shares received from the Optionee was recorded as a reduction in the carrying value of mining interest in the second quarter of 2012.

### **Plomosas Silver Project and other Silvermex Exploration Properties**

The Company acquired numerous exploration stage properties from the Silvermex acquisition and management is reviewing the exploration program for the Rosario and San Juan adjacent properties in the Sinaloa, Mexico area. The Company is also assessing its portfolio of other exploration properties to determine if these additional properties fit within the Company's production portfolio.

## NON-GAAP MEASURES

### TOTAL CASH COST PER OUNCE

“Total cash cost per ounce” is a measure developed by precious metals companies in an effort to provide a comparable standard; however, there can be no assurance that our reporting of this non-GAAP measure is similar to that reported by other mining companies. Total cash costs per ounce is a measure used by the Company to manage and evaluate operating performance at each of the Company’s operating mining units, and is widely reported in the silver mining industry as a benchmark for performance, but does not have a standardized meaning and is disclosed in addition to IFRS measures. The following tables provide a detailed reconciliation of these measures to our cost of sales, as reported in our condensed interim consolidated financial statements.

(expressed in thousands of U.S. dollars, except ounce and per ounce amounts)	Three Months Ended September 30, 2012					Three Months Ended September 30, 2011				
	San Martin	La Parrilla	La Encantada	La Guitarra	Total	San Martin	La Parrilla	La Encantada	Total	
<b>Cost of sales (as reported)</b>	\$ 20,912					\$ 15,473				
Add (Deduct): Cost of sales for Vancouver, Europe and intercompany elimination	(442)					229				
<b>Cost of sales (mine)</b>	\$ 3,426	\$ 5,491	\$ 8,880	\$ 2,673	\$ 20,470	\$ 3,094	\$ 3,425	\$ 9,183	\$ 15,702	
Add: Third party smelting and refining	78	2,540	543	1,157	4,318	118	1,418	310	1,846	
Deduct: By-product credits	(474)	(3,544)	(574)	(1,398)	(5,990)	(407)	(1,854)	(333)	(2,594)	
Deduct: Employee benefits	-	-	(658)	-	(658)	(276)	149	(1,717)	(1,844)	
Inventory changes	61	1,486	642	(653)	1,536	97	175	894	1,166	
Other non-cash costs	(12)	(102)	(118)	142	(90)	(74)	(134)	(172)	(231)	
<b>Total cash cost (A)</b>	\$ 3,079	\$ 5,871	\$ 8,715	\$ 1,921	\$ 19,586	\$ 2,552	\$ 3,179	\$ 8,165	\$ 13,896	
<b>Tonnes processed</b>	72,257	175,630	388,462	30,339	666,688	73,879	84,020	366,308	524,207	
Total ounces of silver produced	238,514	708,021	1,068,863	189,839	2,205,237	238,627	415,455	1,020,467	1,674,549	
Deduct: Metal deduction ounces	1,193	23,102	5,211	48,675	78,181	1,193	12,956	5,103	19,252	
<b>Payable ounces of silver produced (B)</b>	237,321	684,919	1,063,652	141,164	2,127,056	237,434	402,499	1,015,364	1,655,297	
Mining cost per ounce	\$ 4.15	\$ 3.27	\$ 2.09	\$ 5.33	\$ 2.91	\$ 4.24	\$ 3.23	\$ 1.45	\$ 2.28	
Milling cost per ounce	7.27	4.86	4.84	3.51	5.03	5.20	3.77	5.48	5.03	
Indirect cost per ounce	2.57	1.18	0.93	5.15	1.47	2.13	1.62	0.81	1.19	
<b>Total production cost per ounce</b>	\$ 13.99	\$ 9.31	\$ 7.86	\$ 13.99	\$ 9.41	\$ 11.57	\$ 8.62	\$ 7.74	\$ 8.50	
Transport and other selling costs per ounce	0.65	0.50	0.36	1.33	0.50	0.39	0.36	0.32	0.34	
Smelting and refining costs cost per ounce	0.33	3.71	0.51	8.20	2.03	0.49	3.52	0.31	1.12	
Royalties per ounce	-	0.22	-	-	0.07	-	-	-	-	
By-product credits cost per ounce	(2.01)	(5.16)	(0.54)	(9.90)	(2.82)	(1.71)	(4.60)	(0.33)	(1.57)	
<b>Total cash cost per ounce (A/B)</b>	\$ 12.96	\$ 8.58	\$ 8.19	\$ 13.62	\$ 9.19	\$ 10.74	\$ 7.90	\$ 8.04	\$ 8.39	
Mining cost per tonne	\$ 13.62	\$ 12.77	\$ 5.71	\$ 24.80	\$ 9.30	\$ 13.63	\$ 15.50	\$ 4.02	\$ 7.21	
Milling cost per tonne	23.87	18.97	13.26	16.35	16.05	16.72	18.08	15.20	15.87	
Indirect cost per tonne	8.45	4.58	2.55	23.94	4.70	6.85	7.74	2.24	3.77	
<b>Total production cost per tonne</b>	\$ 45.94	\$ 36.32	\$ 21.52	\$ 65.09	\$ 30.05	\$ 37.20	\$ 41.32	\$ 21.46	\$ 26.86	

(expressed in thousands of U.S. dollars, except ounce and per ounce amounts)	Nine Months Ended September 30, 2012					Nine Months Ended September 30, 2011				
	San Martin	La Parrilla	La Encantada	La Guitarra	Total	San Martin	La Parrilla	La Encantada	Total	
<b>Cost of sales (as reported)</b>	\$ 56,061					\$ 50,404				
Add (Deduct): Cost of sales for Vancouver, Europe and intercompany elimination	(741)					172				
<b>Cost of sales (mine)</b>	\$ 9,088	\$ 18,108	\$ 25,451	\$ 2,673	\$ 55,320	\$ 9,875	\$ 10,915	\$ 29,786	\$ 50,576	
Add: Third party smelting and refining	223	8,908	1,358	1,157	11,646	285	4,208	1,249	5,742	
Deduct: By-product credits	(1,569)	(11,223)	(1,445)	(1,398)	(15,635)	(998)	(5,007)	(632)	(6,637)	
Deduct: Employee benefits	-	-	(1,586)	-	(1,586)	(986)	(13)	(6,287)	(7,286)	
Inventory changes	260	1,259	1,921	(653)	2,787	219	104	915	1,238	
Other non-cash costs	(70)	(208)	(333)	142	(469)	(96)	(341)	(179)	(616)	
<b>Total cash cost (A)</b>	\$ 7,932	\$ 16,844	\$ 25,366	\$ 1,921	\$ 52,063	\$ 8,299	\$ 9,866	\$ 24,852	\$ 43,017	
<b>Tonnes produced</b>	208,403	484,236	1,108,574	30,339	1,831,552	212,174	235,886	1,014,730	1,462,790	
Total ounces of silver produced	703,983	2,089,479	2,937,348	189,839	5,920,649	803,020	1,130,576	3,290,540	5,224,136	
Deduct: Metal deduction ounces	2,660	73,279	14,687	48,675	139,301	4,014	35,364	16,454	55,832	
<b>Payable ounces of silver produced (B)</b>	701,323	2,016,200	2,922,661	141,164	5,781,348	799,006	1,095,212	3,274,086	5,168,304	
<b>Total cash cost per ounce (A/B)</b>	\$ 11.32	\$ 8.35	\$ 8.68	\$ 13.62	\$ 9.02	\$ 10.39	\$ 9.01	\$ 7.59	\$ 8.32	
Mining cost per ounce	\$ 3.87	\$ 2.98	\$ 1.88	\$ 5.33	\$ 2.59	\$ 4.07	\$ 3.35	\$ 1.22	\$ 2.11	
Milling cost per ounce	6.63	4.50	5.55	3.51	5.27	4.61	4.16	5.06	4.80	
Indirect cost per ounce	2.20	1.18	0.91	5.15	1.26	2.19	1.80	0.86	1.26	
<b>Total production cost per ounce</b>	\$ 12.70	\$ 8.66	\$ 8.34	\$ 13.99	\$ 9.12	\$ 10.87	\$ 9.31	\$ 7.14	\$ 8.17	
Transport and other selling costs per ounce	0.54	0.58	0.37	1.33	0.49	0.41	0.43	0.26	0.32	
Smelting and refining costs cost per ounce	0.32	4.42	0.46	8.20	2.01	0.36	3.84	0.38	1.11	
Royalties per ounce	-	0.26	-	-	0.09	-	-	-	-	
By-product credits cost per ounce	(2.24)	(5.57)	(0.49)	(9.90)	(2.69)	(1.25)	(4.57)	(0.19)	(1.28)	
<b>Total cash cost per ounce (A/B)</b>	\$ 11.32	\$ 8.35	\$ 8.68	\$ 13.62	\$ 9.02	\$ 10.39	\$ 9.01	\$ 7.59	\$ 8.32	
Mining cost per tonne	\$ 13.01	\$ 12.39	\$ 4.96	\$ 24.80	\$ 8.17	\$ 15.31	\$ 15.57	\$ 3.92	\$ 7.45	
Milling cost per tonne	22.30	18.72	14.64	16.35	16.62	17.37	19.31	16.32	16.95	
Indirect cost per tonne	7.40	4.93	2.37	23.94	3.98	8.26	8.34	2.81	4.49	
<b>Total production cost per tonne</b>	\$ 42.71	\$ 36.04	\$ 21.97	\$ 65.09	\$ 28.77	\$ 40.94	\$ 43.22	\$ 23.05	\$ 28.89	

Note - The tables above do not include 28,639 silver ounces of pre-commercial production from the La Parrilla cyanidation circuit expansion project during the nine months ended September 30, 2012, which were produced at a cost of \$442,000 and 34,316 silver ounces of pre-commercial production from the La Parrilla flotation circuit expansion during the three and nine months ended September 30, 2011, which were produced at a cost of \$263,000.

### **AVERAGE REALIZED PRICE PER OUNCE OF SILVER SOLD**

Revenues are presented as the net sum of invoiced revenues related to delivered shipments of silver doré bars, and concentrates, including associated metal by-products of gold, lead, zinc and iron ore after having deducted refining and smelting charges, and after elimination of intercompany shipments of silver, silver being minted into coins, ingots and bullion products.

The following is an analysis of the gross revenues prior to refining and smelting charges, and shows deducted smelting and refining charges to arrive at the net reportable revenue for the period per IFRS. Gross revenues are divided into shipped payable ounces of silver to calculate the average realized price per ounce of silver sold.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
<b>Net Revenues as reported</b>	\$ 63,581	\$ 61,407	\$ 176,170	\$ 184,713
Add back: Smelting and Refining Charges	4,112	1,569	11,442	4,931
<b>Gross Revenues</b>	<b>67,693</b>	<b>62,976</b>	<b>187,612</b>	<b>189,644</b>
Payable equivalent silver ounces sold	2,221,039	1,655,297	6,132,588	5,152,178
<b>Average realized price per ounce of silver sold</b>	<b>\$ 30.48</b>	<b>\$ 38.83</b>	<b>\$ 30.59</b>	<b>\$ 36.81</b>
Average market price per ounce of silver per COMEX	\$ 30.05	\$ 38.78	\$ 30.70	\$ 35.61

### **ADJUSTED EARNINGS PER SHARE ("Adjusted EPS")**

The Company uses the financial measure "Adjusted EPS" to supplement information in its consolidated financial statements. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, the Company and certain investors and analysts use this information to evaluate the Company's performance. The presentation of Adjusted EPS is not meant to be a substitute for Earnings Per Share presented in accordance with IFRS, but rather should be evaluated in conjunction with such IFRS measure.

The following tables provide a detailed reconciliation of Adjusted EPS to net earnings as reported in the Company's condensed interim consolidated financial statements.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
<b>Net earnings as reported</b>	\$ 24,869	\$ 27,772	\$ 66,548	\$ 82,235
Adjustments for non-cash or non-recurring items:				
Share-based payments	2,546	937	7,776	4,598
Deferred income tax expense	4,789	5,237	13,640	11,154
(Gain) loss from investment in derivatives and FVTPL marketable securities	(4,976)	1,504	(6,769)	(2,041)
Acquisition costs for Silvermex Resources Inc.	1,830	-	2,611	-
Legal fees for the First Silver trial	307	110	1,487	420
Gross margin on La Parrilla pre-commercial shipments	-	263	522	263
Restructuring charge for San Martin collective bargaining agreement	-	795	-	795
<b>Adjusted net earnings</b>	<b>\$ 29,365</b>	<b>\$ 36,618</b>	<b>\$ 85,815</b>	<b>\$ 97,424</b>
Weighted average number of shares on issue - basic	115,307,418	104,583,335	108,872,377	102,627,618
<b>Adjusted EPS</b>	<b>\$ 0.25</b>	<b>\$ 0.35</b>	<b>\$ 0.79</b>	<b>\$ 0.95</b>

### **CASH FLOW PER SHARE**

Cash Flow per Share is determined based on operating cash flows before movements in working capital and income taxes, as illustrated in the Condensed Interim Consolidated Statements of Cash Flow, divided by the weighted average shares outstanding during the period.

## ADDITIONAL GAAP MEASURES

The Company uses additional financial measures which should be evaluated in conjunction with IFRS. It is intended to provide additional information and should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS. The following additional GAAP measures are used:

- *Gross margin* represents the difference between revenues and cost of sales, excluding depletion, depreciation and amortization. Management believes that this presentation provides useful information to investors to evaluate the Company's operating performance on a cash basis in order to assess the Company's ability to generate operating cash flow.
- *Mine operating earnings* represents the difference between gross margin and depletion, depreciation and amortization. Management believes that mine operating earnings provides useful information to investors because mine operating earnings excludes expenses not directly associated with commercial production.
- *Operating cash flows before movements in working capital and income taxes* represents cash flows generated from operations before changes in non-cash working capital and income taxes paid. Management believes that this measure allows investors to evaluate the Company's pre-tax cash flows generated from operations adjusted for fluctuations in non-cash working capital items due to timing issues and the Company's ability to service its debt, if any.

The terms described above do not have a standardized meaning prescribed by IFRS, and therefore the Company's definitions are unlikely to be comparable to similar measures presented by other companies.

## REVIEW OF FINANCIAL RESULTS

For the three months ended September 30, 2012 compared to the three months ended September 30, 2011 (in \$000's, except for share amounts):

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	
<b>Revenues</b>	<b>\$ 63,581</b>	<b>\$ 61,407</b>	(1)
Cost of sales	20,912	15,473	(2)
<b>Gross margin</b>	<b>42,669</b>	<b>45,934</b>	
Depletion, depreciation and amortization	6,832	3,467	(3)
<b>Mine operating earnings</b>	<b>35,837</b>	<b>42,467</b>	(4)
General and administrative	5,044	3,710	(5)
Share-based payments	2,546	937	(6)
Acquisition costs	1,830	-	(7)
Accretion of decommissioning liabilities	133	107	
Foreign exchange loss	483	799	(8)
<b>Operating earnings</b>	<b>25,801</b>	<b>36,914</b>	(9)
Investment and other income (loss)	5,389	(1,395)	(10)
Finance costs	(501)	(390)	
<b>Earnings before income taxes</b>	<b>30,689</b>	<b>35,129</b>	
Current income tax expense	1,031	2,120	
Deferred income tax expense	4,789	5,237	
Income tax expense	5,820	7,357	(11)
<b>Net earnings for the period</b>	<b>\$ 24,869</b>	<b>\$ 27,772</b>	(12)
<b>Earnings per share (basic)</b>	<b>\$ 0.22</b>	<b>\$ 0.27</b>	(12)
<b>Earnings per share (diluted)</b>	<b>\$ 0.21</b>	<b>\$ 0.26</b>	

1. Revenues for the quarter ended September 30, 2012 increased by \$2,174,000 or 4% to \$63,581,000 from \$61,407,000 in the third quarter of 2011. Revenues increased despite a 22% decrease in average revenue per payable equivalent ounces sold, as the Company's silver equivalent production increased 36% compared to the third quarter of 2011. In addition, higher smelting and refining costs related to increased concentrate output from the addition of the La Guitarra mine and the expanded La Parrilla flotation circuit also reduced net revenues.

2. Cost of sales in the third quarter of 2012 was \$20,912,000, an increase of 35% compared to \$15,473,000 in the third quarter of 2011. The increase in cost of sales was primarily attributed to 34% increase in payable equivalent silver ounces sold and the addition of La Guitarra as the Company's fourth operating mine.
3. Depletion, depreciation and amortization increased from \$3,467,000 in the third quarter of 2011 to \$6,832,000 in the third quarter of 2012, an increase of \$3,365,000 or 97%. The increase was due to incremental depreciation expense from the addition of the La Guitarra mine, the new La Parrilla cyanidation and flotation circuits, as well as higher depletion expense from a 26% increase in tonnage of ore milled.
4. Mine operating earnings in the third quarter of 2012 were \$35,837,000, a decrease of \$6,630,000 when compared to \$42,467,000 for the same quarter in the prior year. Despite a 36% production growth, mine operating earnings decreased due to lower silver and metal by-product prices and increase in depletion, depreciation and amortization expenses compared to the third quarter of 2011.
5. General and administrative expenses for the quarter increased by \$1,334,000 or 36% compared to the same quarter in the prior year due to four additional senior management recruited in Mexico in preparation for expanded operations, as well as higher legal litigation fees in Canada related to the ongoing First Silver litigation.
6. Share-based payments expense for the quarter increased by \$1,609,000 or 172% compared to the same quarter in the prior year. The increase was primarily due to stock options granted in the first nine months of 2012 for the additional senior management recently recruited in Mexico in preparation for expanded operations. The Company's higher share price at time of the grant compared to the prior year also contributed to the increase in the Company's share-based payments expense.
7. During the quarter ended September 30, 2012, the Company incurred acquisition costs of \$1,830,000 related to the acquisition of Silvermex.
8. Foreign exchange loss for the quarter was \$483,000 compared to a loss of \$799,000 in the third quarter of 2011. The foreign exchange loss for the quarter primarily reflects the effect of the strengthening of the Mexican pesos during the three months ended September 30, 2012 on the Company's monetary liabilities that are denominated in Mexican pesos.
9. Operating earnings decreased by \$11,113,000 or 30% to \$25,801,000 for the quarter ended September 30, 2012, compared to operating earnings of \$36,914,000 for the quarter ended September 30, 2011, due to lower silver prices, resulting in decrease in mine operating earnings, and higher share-based payments, general and administrative expenses and acquisition costs.
10. During the quarter ended September 30, 2012, the Company recognized investment and other income of \$5,389,000 compared to an investment loss of \$1,395,000 in the same quarter in the prior year. The investment gain in the third quarter of 2012 was primarily attributed to a \$3,552,000 investment gain in silver futures and \$1,424,000 investment gain in marketable securities, compared to an investment loss of \$1,504,000 in silver futures during the quarter ended September 30, 2011.
11. During the quarter ended September 30, 2012, the Company recorded an income tax expense of \$5,820,000 compared to an income tax expense of \$7,357,000 in the quarter ended September 30, 2011. The 21% decrease in income tax expense was attributed 13% decrease in earnings before tax and a decrease in the effective tax rate from 21% in the third quarter of 2011 to 19% in the current quarter.
12. As a result of the foregoing, net earnings for the period for the quarter ended September 30, 2012 decreased 10% to \$24,869,000 (EPS of \$0.22) compared to net earnings of \$27,772,000 (EPS of \$0.27) in the quarter ended September 30, 2011.

For the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011 (in \$000's, except for share amounts):

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011	
<b>Revenues</b>	<b>\$ 176,170</b>	<b>\$ 184,713</b>	(1)
Cost of sales	56,061	50,404	(2)
<b>Gross margin</b>	<b>120,109</b>	<b>134,309</b>	
Depletion, depreciation and amortization	17,544	9,405	(3)
<b>Mine operating earnings</b>	<b>102,565</b>	<b>124,904</b>	(4)
General and administrative	14,556	11,248	(5)
Share-based payments	7,776	4,598	(6)
Acquisition costs	2,611	-	(7)
Accretion of decommissioning liabilities	335	338	
Foreign exchange loss	266	1,108	(8)
<b>Operating earnings</b>	<b>77,021</b>	<b>107,612</b>	(9)
Investment and other income	7,343	2,461	(10)
Finance costs	(1,368)	(896)	
<b>Earnings before income taxes</b>	<b>82,996</b>	<b>109,177</b>	
Current income tax expense	2,808	15,788	
Deferred income tax expense	13,640	11,154	
Income tax expense	16,448	26,942	(11)
<b>Net earnings for the period</b>	<b>\$ 66,548</b>	<b>\$ 82,235</b>	(12)
<b>Earnings per share (basic)</b>	<b>\$ 0.61</b>	<b>\$ 0.80</b>	(12)
<b>Earnings per share (diluted)</b>	<b>\$ 0.60</b>	<b>\$ 0.77</b>	

1. Revenues for the year to date ended September 30, 2012 decreased by \$8,543,000 or 5% to \$176,170,000 from \$184,713,000 in the same period of the prior year. Despite an increase of 20% in total commercial production, revenues decreased due to a 17% decrease in average realized silver price in the year to date ended September 30, 2012. In addition, higher smelting and refining costs, which increased by \$6,511,000, related to increased concentrate output from the new La Guitarra Silver Mine and expanded La Parrilla flotation circuit also reduced net revenues.
2. Cost of sales for the year to date ended September 30, 2012 was \$56,061,000, an increase of 11% compared to \$50,404,000 in the same period of 2011. Additional cost of sales was primarily associated with a 19% increase in payable equivalent silver ounces sold, but was partially offset by favourable 10% depreciation of the Mexican peso against the U.S. dollar, resulting in lower cost of sales.
3. Depletion, depreciation and amortization increased by \$8,139,000 or 87% to \$17,544,000 for the year to date ended September 30, 2012, primarily due to higher depreciation expense upon commissioning of the La Parrilla flotation circuit in the fourth quarter of 2011 and cyanidation circuit in first quarter of 2012 as well as additional depreciation and depletion of the new La Guitarra Silver Mine that was acquired during the current quarter. Furthermore, depletion expense also increased as a result of 25% increase in tonnage of ore milled.
4. Mine operating earnings decreased by \$22,339,000 or 18% to \$102,565,000 for the year to date ended September 30, 2012, compared to \$124,904,000 for the same period in the prior year. This is primarily due to the \$8,543,000 decrease in revenues and higher depletion, depreciation and amortization expenses.
5. General and administrative expenses for the year to date ended September 30, 2012 increased by \$3,308,000 or 29% compared to the same period of the prior year. The increase was due to four additional senior management recently recruited in Mexico in preparation for expanded operations and \$1,487,000 in additional legal fees in Canada related to the ongoing First Silver litigation.
6. Share-based payments expense for the year to date ended September 30, 2012 increased by \$3,178,000 or 69% compared to the same period of the prior year. The increase was primarily due to more stock options granted in the first nine months of 2012 compared to the same period of the prior year, primarily related to additional senior management recently recruited in Mexico in preparation for expanded operations. The

Company's higher share price at time of grant compared to the prior years also contributed to the increase in the Company's share-based payments expense.

7. During the nine months ended September 30, 2012, the Company incurred acquisition costs of \$2,611,000 related to the acquisition of Silvermex.
8. Foreign exchange loss for the year to date ended September 30, 2012 was \$266,000 compared to a loss of \$1,108,000 in the same period of 2011. The foreign exchange loss for the quarter primarily reflects the effect of the strengthening of the Mexican pesos during the nine months ended September 30, 2012 on the Company's monetary liabilities that are denominated in Mexican pesos.
9. Operating earnings decreased by \$30,591,000 or 28% to \$77,021,000 for the year to date ended September 30, 2012, compared to operating earnings of \$107,612,000 for the year to date ended September 30, 2011, due to decrease in mine operating earnings associated with lower silver prices and higher depletion, depreciation and amortization expense.
10. During the year to date ended September 30, 2012, investment and other income was \$7,343,000 compared to \$2,461,000 in the same period of the prior year. Investment and other income for the nine months ended September 30, 2012 was primarily attributed to a \$5,894,000 investment gain in silver futures and \$875,000 investment gain in investment in marketable securities, compared to a gain of \$2,041,000 in silver futures in the same period of the prior year.
11. During the year to date ended September 30, 2012, the Company recorded an income tax expense of \$16,448,000 compared to \$26,942,000 in the same period of 2011. The 39% decrease in income tax expense was attributed to 24% decrease in earnings before tax and a decrease in the effective tax rate to 20% for the nine months ended September 30, 2012, compared to 25% for the same period of 2011.
12. As a result of the foregoing, net earnings for the period for the year to date ended September 30, 2012 was \$66,548,000, or basic earnings per share of \$0.61 compared to net earnings of \$82,235,000 or \$0.80 per common share for the same period of 2011.

## SUMMARY OF QUARTERLY RESULTS

The following table presents selected financial information for each of the most recent eight quarters:

Financial Highlights	2012				2011			2010
	Q3 <sup>(1)</sup>	Q2 <sup>(2)</sup>	Q1 <sup>(3)</sup>	Q4 <sup>(4)</sup>	Q3 <sup>(5)</sup>	Q2 <sup>(6)</sup>	Q1 <sup>(7)</sup>	Q4 <sup>(8)</sup>
Revenue	\$ 63,581	\$ 54,774	\$ 57,815	\$ 60,801	\$ 61,407	\$ 68,040	\$ 55,266	\$ 40,092
Cost of sales	\$ 20,912	\$ 18,456	\$ 16,693	\$ 16,383	\$ 15,473	\$ 18,112	\$ 16,819	\$ 12,977
Depletion, depreciation and amortization	\$ 6,832	\$ 5,259	\$ 5,453	\$ 6,035	\$ 3,467	\$ 3,134	\$ 2,804	\$ 3,131
Mine operating earnings	\$ 35,837	\$ 31,059	\$ 35,669	\$ 38,383	\$ 42,467	\$ 46,794	\$ 35,643	\$ 23,984
Net earnings after tax	\$ 24,869	\$ 15,321	\$ 26,358	\$ 21,339	\$ 27,772	\$ 30,593	\$ 23,870	\$ 13,654
Basic earnings per share	\$ 0.22	\$ 0.14	\$ 0.25	\$ 0.20	\$ 0.27	\$ 0.30	\$ 0.24	\$ 0.14
Diluted earnings per share	\$ 0.21	\$ 0.14	\$ 0.24	\$ 0.20	\$ 0.26	\$ 0.29	\$ 0.23	\$ 0.13

Notes:

1. In the quarter ended September 30, 2012, mine operating earnings increased \$4,778,000 or 15% compared to the quarter ended June 30, 2012 primarily attributed to 16% increase in production, partially offset by higher depletion, depreciation and amortization expense. Net earnings after tax increased by \$9,548,000 or 62% compared to the second quarter of 2012. The increase was due to increase in mine operating earnings and \$9,016,000 increase in investment income compared to the second quarter of 2012.
2. In the quarter ended June 30, 2012, mine operating earnings decreased \$4,610,000 or 13% compared to the quarter ended March 31, 2012. The decrease was primarily attributed to \$3,041,000 or 5% decrease in revenue due to a 13% decrease in average revenue per ounce of silver sold, partially offset by 5% increase in production. Net earnings after tax decreased \$11,037,000 compared to the prior quarter, primarily due to an investment loss of \$3,627,000 during the quarter compared to an investment gain of \$5,581,000 in the previous quarter. The investment loss was related to loss on silver futures and marketable securities during the current quarter.



3. In the quarter ended March 31, 2012, mine operating earnings decreased \$2,714,000 or 7% compared to the quarter ended December 31, 2011. The decrease was primarily attributed to \$2,986,000 or 5% decrease in revenue due to 2% less ounces of silver equivalents sold compared to the previous quarter. Net earnings after tax increased \$5,019,000 compared to the prior quarter, primarily due to an investment income of \$5,581,000 from a gain on silver futures and marketable securities during the current quarter and a lower effective tax rate due to the new global tax structure that the Company established in late 2011.
4. In the quarter ended December 31, 2011, mine operating earnings decreased by \$4,084,000 or 10% compared to the quarter ended September 30, 2011. The decrease was primarily attributed to 18% decrease in average realized silver price and increase in depletion, depreciation and amortization expense related to higher mill throughput and commencement of depreciation for La Parrilla's flotation circuit after it was successfully commissioned on October 1, 2011. Net earnings after tax decreased from the prior quarter by \$6,433,000 or 23% compared to the prior quarter, primarily due to an unrealized loss of \$4,083,000 on silver futures.
5. In the quarter ended September 30, 2011, sales revenues decreased by \$6,633,000 compared to the quarter ended June 30, 2011. The decrease was primarily attributed to 1% decrease in average realized silver price and 9% decrease in ounces of silver equivalents sold. Net earnings after taxes decreased by \$2,821,000 or 9% in the quarter ended September 30, 2011 compared to the quarter ended June 30, 2011, primarily due to a loss of \$1,504,000 on derivative instrument and a one-time cost of \$0.7 million related to restructuring of the union labour agreement at the San Martin Silver Mine.
6. In the quarter ended June 30, 2011, sales revenues increased by \$12,774,000 compared to the quarter ended March 31, 2011. The increase was primarily attributed to a 20% increase in average realized silver price. Net earnings after taxes increased by \$6,723,000 or 28% in the quarter ended June 30, 2011 compared to the quarter ended March 31, 2011, primarily due to \$11,151,000 increase in mine operating earnings, offset by a \$1,775,000 increase in income taxes and lower investment income.
7. In the quarter ended March 31, 2011, sales revenues increased by \$15,174,000 compared to the quarter ended December 31, 2010. The increase was primarily due to the 30% increase in silver price. Net earnings after taxes increased \$10,216,000 or 75% in the quarter ended March 31, 2011, compared to the quarter ended December 31, 2010, primarily due to \$11,659,000 increase in mine operating earnings.
8. In the quarter ended December 31, 2010, sales revenues increased by \$7,478,000 compared to the quarter ended September 30, 2010. The increase was primarily due to the increase in silver price, partially offset by a 9.6% decrease in silver equivalent ounces sold related to a slowdown in the holiday season. Net earnings after taxes increased \$3,599,000 or 36% in the quarter ended December 31, 2010, compared to the quarter ended September 30, 2010, due to an \$8,110,000 increase in mine operating earnings, which was partially offset by increases in non-cash share-based payments and deferred income tax expenses.

## LIQUIDITY

At September 30, 2012, the Company had cash and cash equivalents of \$72.8 million and working capital of \$84.0 million, compared to cash and cash equivalents of \$91.2 million and working capital \$109.7 million at December 31, 2011. Cash and cash equivalents decreased by \$18.4 million during the year as a result of \$105.6 million invested in property, plant and equipment, and mineral property interests, \$13.6 million in deposit on long-term assets, offset by \$88.0 million generated from operating activities, \$11.4 million acquired as part of the acquisition of Silvermex, proceeds of \$7.1 million from exercise of stock options and \$5.9 million realized gain on derivative financial instruments.

During the third quarter, the Company expended \$17.0 million on mineral properties and \$22.3 million on property, plant and equipment on a cash basis compared to \$18.6 million expended on mineral properties and \$13.8 million expended on property, plant and equipment in the third quarter of 2011. The significant increase in capital expenditures is primarily related to the additional investments in the mill expansion at La Parrilla and the development of Del Toro, all financed by additional operational cash flows.

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

With \$72.8 million in cash and cash equivalents at September 30, 2012, the Company believes it has sufficient funds to meet current operating and capital requirements. The Company has plans to invest an estimated \$58.5 million in construction of Del Toro's phase one flotation circuit during 2012, of which \$45.9 million has been spent during the first nine months of 2012. Capital requirements for the remaining quarter of 2012 include \$12.6 million earmarked for the Del Toro capital project, inclusive of exploration and development costs. Should the Company adopt additional expansion plans or if the price of silver was to drop significantly, the Company would need to consider its funding requirements relative to the funds available in treasury at such time, including expected cash flows from operations, to determine whether additional sources would be required. As at the date of this MD&A, the Company has approximately \$54.9 million in cash and cash equivalents in treasury.

## MANAGEMENT OF RISKS AND UNCERTAINTIES

The Company thoroughly examines the various financial instruments and risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, currency risk, commodity price risk, and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors.

### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they arise. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and to support its expansion plans. As at September 30, 2012, the Company has outstanding trade payables of \$16.9 million (December 31, 2011 - \$6.5 million) which are generally payable in 90 days or less and accrued liabilities of \$21.3 million (December 31, 2011 - \$15.9 million) which are generally payable within 12 months. The Company believes it has sufficient cash on hand to meet operating requirements as they arise for at least the next 12 months. The Company's liabilities and commitments have maturities which are summarized below:

	Payments Due By Period				
	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Trade and other payables	\$ 38,610	\$ 38,610	\$ -	\$ -	\$ -
Debt facilities	512	512	-	-	-
Finance lease obligations	21,392	8,899	12,493	-	-
Decommissioning liabilities	11,466	-	-	-	11,466
Purchase obligations and commitments <sup>(1)</sup>	21,426	21,426	-	-	-
<b>Total Obligations</b>	<b>\$ 94,057</b>	<b>\$ 69,447</b>	<b>\$ 12,493</b>	<b>\$ -</b>	<b>\$ 11,466</b>

(1) Purchase obligations and commitments primarily consist of committed purchase orders and contracts related to construction of the Del Toro Silver Mine.

### Currency Risk

Financial instruments that impact the Company's net earnings or other comprehensive income due to currency fluctuations include Canadian dollar and Mexican peso denominated assets and liabilities. The sensitivity of the Company's net earnings and other comprehensive income due to changes in the exchange rate between the Canadian dollar and the Mexican peso against the U.S. dollar is included in the table below:

	September 30, 2012				December 31, 2011			
	Cash and cash equivalents	Trade and other receivables	Trade and other payables	Net assets (liabilities) exposure	Effect of +/- 10% change in currency	Net assets (liabilities) exposure	Effect of +/- 10% change in currency	
Canadian dollar	\$ 15,361	\$ 614	\$ (1,898)	\$ 14,077	\$ 1,408	\$ 40,787	\$ 4,079	
Mexican peso	4,588	10,140	(27,842)	(13,114)	(1,311)	(7,433)	(549)	
	<b>\$ 19,949</b>	<b>\$ 10,754</b>	<b>\$ (29,740)</b>	<b>\$ 963</b>	<b>\$ 97</b>	<b>\$ 33,354</b>	<b>\$ 3,530</b>	

## ACQUISITION OF SILVERMEX RESOURCES INC.

On July 3, 2012, the Company completed the plan of arrangement (the "Arrangement") previously announced on April 3, 2012 to acquire all of the issued and outstanding common shares of Silvermex Resources Inc. ("Silvermex"). Shareholders of Silvermex received 0.0355 First Majestic shares and CAD\$0.0001 for each share of Silvermex. Pursuant to closing of the transaction, First Majestic issued 9,451,654 common shares, 338,295 replacement warrants and \$26,000 in cash for the acquisition. The total consideration was valued at \$137.0 million (CAD\$138.7 million) at the acquisition date. Total transaction costs for the acquisition was \$2.6 million which were expensed in the current year.

The acquisition strengthens First Majestic's position as one of the world's leading silver producers and adds the La Guitarra Silver Mine as the Company's fourth producing asset with additional growth potential. La Guitarra will further diversify production and cash flow across the Company's robust portfolio of producing mines and development projects in Mexico.

Total consideration for the acquisition and the preliminary purchase price allocation, in accordance with IFRS 3, *Business Combinations*, are estimated as follows:

<b>Consideration:</b>		
9,451,654 First Majestic common shares	\$	136,317
338,295 First Majestic replacement warrants (Note 19(c))		646
Cash paid (266.2 million Silvermex shares x CAD\$0.0001 per share)		26
<b>Total consideration</b>	<b>\$</b>	<b>136,989</b>
<b>Allocation of purchase price</b>		
Cash and cash equivalents	\$	11,380
Inventories		3,145
Mining interests		118,287
Property, plant and equipment		10,827
Goodwill		24,591
Deposit on long-term assets		482
Other net working capital		(7,665)
Decommissioning liabilities		(1,954)
Deferred tax liabilities, net		(22,104)
	<b>\$</b>	<b>136,989</b>

Goodwill of \$24.6 million was recognized as a result of the requirement under IFRS to record deferred tax liability on the excess of the fair value of the acquired assets over their corresponding tax bases, with the corresponding offset recorded as goodwill.

Financial and operating results of Silvermex are included in the Company's condensed interim consolidated financial statements effective July 3, 2012, the date of acquisition. During the three and nine months ended September 30, 2012, the acquisition of Silvermex contributed revenues of \$2,993,000 and loss of \$553,000 to the Company's net earnings.

Had the business combination been affected at January 1, 2012, revenues of the Company would have been \$181,027,000 and earnings would have been \$60,334,000 for the nine months ended September 30, 2012. Management considers these "pro forma" numbers to represent an approximate measure of the performance of the consolidated entity during the period.

In determining the "pro forma" revenue and net earnings had Silvermex been acquired at the beginning of the current year, management has:

- Calculated depletion of mining interests acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amount recognized in the pre-acquisition financial statements

- Capitalized certain development and exploration drilling costs in conformity with First Majestic's accounting policies
- Recognized the deferred income tax expense effect related to the above adjustments
- Excluded acquisition costs of the acquiree as a one-off transaction

As at the date these condensed interim consolidated financial statements were issued, the allocation of the purchase price is based on preliminary estimates and has not been finalized. The Company is currently in the process of determining the fair values of identifiable assets acquired and liabilities assumed, measuring the associated deferred income tax assets and liabilities and potential goodwill. The actual fair values of the assets and liabilities may differ materially from the amounts disclosed in the preliminary purchase price allocation and are subject to change.

## **OFF-BALANCE SHEET ARRANGEMENTS**

At September 30, 2012, the Company had no material off-balance sheet arrangements such as contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that generate financing, liquidity, market or credit risk to the Company, other than contingent liabilities and vendor liability and interest, as disclosed in this MD&A and the condensed interim consolidated financial statements and the related notes.

During 2011, the Company pledged certain properties of the San Martin Silver Mine as guarantees as part of the requirement for its tax appeal process with the Mexican tax authority (see note 24 of the condensed interim consolidated financial statements).

## **RELATED PARTY TRANSACTIONS**

Amounts paid to related parties were incurred in the normal course of business and measured at the exchange amount, which is the amount agreed upon by the transacting parties and on terms and conditions similar to non-related parties. During the quarter ended September 30, 2012, there were no significant transactions with related parties outside of the ordinary course of business.

## **SUBSEQUENT EVENTS**

Subsequent to September 30, 2012:

- a) A total of 279,000 options were exercised for gross proceeds of CAD\$1,490,000; and
- b) A total of 50,000 options were cancelled.

## **CRITICAL JUDGEMENTS AND ESTIMATES**

The preparation of condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions about future events that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results may differ from these estimates.

Critical judgments exercised in applying accounting policies and assumptions and estimation uncertainties that have the most significant effect on the amounts recognized in the condensed interim consolidated financial statements are outlined as follows. Detail explanation of these critical judgments and estimates were included in note 3 of the Company's audited consolidated financial statements as at December 31, 2011.

- Economic recoverability and probability of future economic benefits of exploration, evaluation and development costs
- Commencement of commercial production and production levels intended by management
- Functional currency

- Impairment of property, plant and equipment assets and mining interests
- Depreciation and amortization rate for property, plant and equipment and depletion rate for mineral interests
- Estimated reclamation and closure costs
- Mineral reserve estimates
- Inventory valuation
- Valuation of share-based payments
- Income taxes

## **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

### **Disclosure Controls and Procedures**

The Company's management, with the participation of its President and Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures. Based upon the results of that evaluation, the Company's President and Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in reports it files is recorded, processed, summarized and reported, within the appropriate time periods and is accumulated and communicated to management, including the President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

### **Internal Control Over Financial Reporting**

The Company's management, with the participation of its President and Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in the rules of the United States Securities and Exchange Commission and the Canadian Securities Administrators. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS as issued by the IASB. The Company's internal control over financial reporting includes policies and procedures that:

- maintaining records that accurately and fairly reflect, in reasonable detail, the transactions and dispositions of assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary for preparation of financial statements in accordance with IFRS;
- provide reasonable assurance that the Company's receipts and expenditures are made only in accordance with authorizations of management and the Company's Directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's consolidated financial statements.

The Company's internal control over financial reporting may not prevent or detect all misstatements because of inherent limitations. Additionally, projections of any evaluation of effectiveness for future periods are subject to the risk that controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with the Company's policies and procedures.

There has been no change in the Company's internal control over financial reporting during the three months ended September 30, 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Limitations of Controls and Procedures**

The Company's management, including the President and Chief Executive Officer and Chief Financial Officer, believes that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, may not prevent or detect all misstatements because of inherent limitations.

Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any control system also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

## **OTHER MD&A REQUIREMENTS**

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

- SEDAR at [www.sedar.com](http://www.sedar.com),
- the Company's Annual Information Form,
- the Company's audited consolidated financial statements for the year ended December 31, 2011 and the unaudited condensed interim consolidated financial statements for the quarter ended September 30, 2012.