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CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED  
JUNE 30, 2007 (UNAUDITED)

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

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

**FIRST MAJESTIC SILVER CORP.  
CONSOLIDATED BALANCE SHEETS  
AS AT JUNE 30, 2007 AND DECEMBER 31, 2006 (UNAUDITED)**

	<u>June 30, 2007</u>	<u>December 31, 2006</u>
	<u>\$</u>	<u>\$</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	17,452,035	17,870,712
Trade receivables	3,367,041	1,200,362
Other receivables (Note 4)	5,324,638	5,893,538
Inventory	1,914,453	1,688,451
Prepaid expenses	2,330,996	61,025
	<u>30,389,163</u>	<u>26,714,088</u>
<b>MINERAL PROPERTY INTERESTS</b> (Note 5)	145,451,809	138,870,884
<b>PROPERTY, PLANT AND EQUIPMENT</b> (Note 7)	21,196,033	19,776,682
<b>DEPOSITS ON LONG-TERM ASSETS</b>	1,598,739	-
	<u>198,635,744</u>	<u>185,361,654</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	7,107,005	8,557,624
Current portion of long-term vendor liability	13,341,380	13,341,380
Current portion of Arrangement liability	388,836	388,836
Liability for the acquisition of Desmin	-	1,165,300
Employee profit sharing payable (Note 14)	431,104	293,989
Income taxes payable	1,220,502	394,128
	<u>22,488,827</u>	<u>24,141,257</u>
<b>LONG TERM VENDOR LIABILITY</b>	-	13,341,380
<b>LONG TERM ARRANGEMENT LIABILITY</b>	388,836	388,836
<b>FUTURE INCOME TAXES</b>	34,256,532	36,784,192
<b>OTHER LONG TERM LIABILITIES</b>	1,254,927	1,518,304
<b>ASSET RETIREMENT OBLIGATION</b>	5,969,484	3,898,085
	<u>64,358,606</u>	<u>80,072,054</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>SHARE CAPITAL</b> (Note 8)	111,150,413	103,466,619
<b>SHARE CAPITAL TO BE ISSUED</b>	9,286,155	9,294,020
<b>SPECIAL WARRANTS</b> (Note 8(d))	32,104,084	-
<b>CONTRIBUTED SURPLUS</b> (Note 9)	12,893,156	11,720,436
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>	234,627	7,910,502
<b>DEFICIT</b>	(31,391,297)	(27,101,977)
	<u>134,277,138</u>	<u>105,289,600</u>
	<u>198,635,744</u>	<u>185,361,654</u>

CONTINUING OPERATIONS (Note 1)  
CONTINGENT LIABILITIES (Note 13)  
COMMITMENTS (Note 14)

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

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(signed) "Douglas Penrose" Director

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

**FIRST MAJESTIC SILVER CORP.**  
**CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)**

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	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Revenue (Note 10)	10,846,344	2,725,624	21,004,966	3,397,059
Cost of sales (excluding amortization and depreciation)	8,146,675	2,158,591	14,929,566	2,755,540
	<b>2,699,669</b>	<b>567,033</b>	<b>6,075,400</b>	<b>641,519</b>
General and administrative	2,612,225	2,477,273	5,408,434	3,365,082
Amortization and depreciation	472,317	169,611	928,260	219,340
Depletion	1,586,800	1,366,618	3,041,277	1,551,150
Accretion of reclamation obligation	50,017	20,458	132,104	42,715
Write off of mineral properties	-	384,930	-	384,930
Operating loss	(2,021,690)	(3,851,857)	(3,434,675)	(4,921,698)
Interest and financing expenses	(343,142)	(135,972)	(749,406)	(135,972)
Investment and other income	324,529	129,557	439,021	226,052
Foreign exchange gain (loss)	472,955	21,413	38,051	(1,240)
Dilution gain on shares issued by subsidiary	-	(89,283)	-	(89,283)
Loss before taxes and non-controlling interest	(1,567,348)	(3,926,142)	(3,707,009)	(4,922,141)
Income tax (recovery) expense	(339,926)	(204,901)	582,311	(204,901)
Non-controlling interest	-	569,382	-	569,382
<b>Net loss for the period</b>	<b>(1,227,422)</b>	<b>(3,151,859)</b>	<b>(4,289,320)</b>	<b>(4,147,858)</b>
<b>BASIC AND DILUTED LOSS PER COMMON SHARE</b>	<b>(0.02)</b>	<b>(0.09)</b>	<b>(0.08)</b>	<b>(0.13)</b>
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>	<b>53,646,178</b>	<b>34,103,415</b>	<b>53,001,930</b>	<b>32,671,951</b>

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

**FIRST MAJESTIC SILVER CORP.**  
**CONSOLIDATED INTERIM STATEMENTS OF SHAREHOLDER'S EQUITY AND COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)**

	Shares	Share capital Amount	Share capital To be issued	Special Warrants	Contributed Surplus	Accumulated other comprehensive Income	Deficit	Total
		\$	\$	\$	\$	\$	\$	\$
<b>Balance at December 31, 2005</b>	30,681,091	36,198,724	-	-	1,273,788	-	(15,365,927)	22,106,585
Net loss	-	-	-	-	-	-	(4,147,858)	(4,147,858)
Other comprehensive income								
Cumulative translation adjustment	-	-	-	-	-	(154,205)	-	(154,205)
Total comprehensive loss								(4,302,063)
Shares issued for								
Exercise of options	520,000	819,500	-	-	-	-	-	819,500
Exercise of warrants	3,637,066	7,524,995	-	-	-	-	-	7,524,995
Acquisition of mineral properties	200,000	450,000	-	-	-	-	-	450,000
Special warrants issued	-	-	-	26,074,894	-	-	-	26,074,894
Compensation options issued during during the period	-	-	-	(550,000)	550,000	-	-	-
Stock option expense during the period net of non-controlling interest portion of \$356,712	-	-	-	-	1,243,006	-	-	1,243,006
Warrants issued during the period	-	(1,470,000)	-	-	1,470,000	-	-	-
Share issuance costs during the period	-	(7,250)	-	-	-	-	-	(7,250)
Transfer of contributed surplus upon exercise of stock options	-	264,500	-	-	(264,500)	-	-	-
<b>Balance at June 30, 2006</b>	35,038,157	43,780,469	-	25,524,894	4,272,294	(154,205)	(19,513,785)	53,909,667
Balance at December 31, 2006	51,698,630	103,466,619	9,294,020	-	11,720,436	7,910,502	(27,101,977)	105,289,600
Net loss	-	-	-	-	-	-	(4,289,320)	(4,289,320)
Other comprehensive income								
Cumulative translation adjustment	-	-	-	-	-	(7,675,875)	-	(7,675,875)
Total comprehensive loss								(11,965,195)
Shares issued for								
Exercise of options	917,500	1,980,050	-	-	-	-	-	1,980,050
Exercise of warrants	1,092,500	2,839,375	-	-	-	-	-	2,839,375
For First Silver arrangement	1,625	7,865	(7,865)	-	-	-	-	-
For acquisition of La Encantada	382,582	2,000,904	-	-	-	-	-	2,000,904
Special warrants issued	-	-	-	32,104,084	-	-	-	32,104,084
Stock option expense during the period	-	-	-	-	1,694,876	-	-	1,694,876
Warrants issued during the period	-	-	-	-	333,444	-	-	333,444
Transfer of contributed surplus upon exercise of stock options	-	855,600	-	-	(855,600)	-	-	-
<b>Balance at June 30, 2007</b>	54,092,837	111,150,413	9,286,155	32,104,084	12,893,156	234,627	(31,391,297)	134,277,138

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

**FIRST MAJESTIC SILVER CORP.  
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS  
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)**

	Three Months Ended June 30,		Six Months Ended June 30	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	(1,227,422)	(3,151,859)	(4,289,320)	(4,147,858)
Adjustment for items not affecting cash				
Depletion	1,586,800	1,366,618	3,041,277	1,551,150
Amortization and depreciation	528,325	74,005	1,032,870	125,253
Stock-based compensation	775,532	1,292,007	1,694,876	1,599,719
Accretion of reclamation obligation	50,017	20,458	132,104	42,715
Future income taxes	(355,803)	(408,391)	(657,653)	(408,391)
Other	518,052	(119,771)	(366,506)	(123,259)
Write off of mineral property interests	-	384,930	-	384,930
Unrealized gain on futures contracts	-	(182,917)	-	(182,917)
Loss on dilution of investment in subsidiary	-	89,283	-	89,283
Non-controlling interest	-	(569,382)	-	(569,382)
	1,875,501	(1,205,019)	587,648	(1,638,757)
Net change in non-cash working capital items				
Increase in trade and other receivables	774,409	(94,988)	(1,448,241)	(715,030)
(Increase) decrease in inventory	379,346	159,912	(226,003)	161,537
(Increase) decrease in prepaid expenses	(2,233,688)	78,910	(2,269,970)	78,910
(Decrease) increase in accounts payable and accrued liabilities	(2,148,980)	270,058	(1,450,622)	491,762
Increase (decrease) in employee profit sharing payable	(182,371)	156,692	137,115	156,692
(Decrease) increase in taxes payable	(441,379)	168,164	676,837	168,164
	(1,977,162)	(466,271)	(3,993,236)	(1,296,722)
<b>INVESTING ACTIVITIES</b>				
Acquisition costs of Minera La Encantada less cash acquired (Note 6)	-	-	(3,798,896)	-
Additions to plant and equipment	(1,508,205)	(2,881,494)	(3,956,732)	(3,310,982)
Expenditures on mineral property interests	(5,521,236)	(2,058,001)	(8,513,202)	(3,254,618)
Advances on long-term assets	(1,598,739)	-	(1,598,739)	-
Acquisition of First Silver Reserve Inc. less cash acquired	-	(23,348,787)	-	(23,348,787)
Decrease in silver future contract deposits	-	449,876	-	449,876
	(8,628,180)	(27,838,406)	(17,867,569)	(29,464,511)
<b>FINANCING ACTIVITIES</b>				
Issuance of common shares and subscriptions, net of issue costs	1,748,850	7,115,090	4,819,425	8,633,888
Issuance of special warrants, net of issue costs	32,104,084	26,074,894	32,104,084	26,074,894
Payment of short-term vendor liability	(13,341,380)	-	(13,341,380)	-
Payment of liability for acquisition of Desmin	(576,450)	-	(1,165,300)	-
Shares issued by subsidiary to non-controlling interest	-	153,357	-	153,357
	19,935,104	33,343,341	22,416,829	34,862,139
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>9,329,762</b>	<b>5,038,664</b>	<b>556,024</b>	<b>4,100,906</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH HELD IN FOREIGN CURRENCY</b>	<b>(804,308)</b>	<b>-</b>	<b>(974,701)</b>	<b>-</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF THE PERIOD</b>	<b>8,926,581</b>	<b>11,533,124</b>	<b>17,870,712</b>	<b>12,470,882</b>
<b>CASH AND CASH EQUIVALENTS - END OF THE PERIOD</b>	<b>17,452,035</b>	<b>16,571,788</b>	<b>17,452,035</b>	<b>16,571,788</b>
<b>CASH AND CASH EQUIVALENTS IS COMPRISED OF:</b>				
Cash	3,161,801	5,606,367	3,161,801	5,606,367
Term deposits	14,290,234	10,965,421	14,290,234	10,965,421
	17,452,035	16,571,788	17,452,035	16,571,788
<b>NON CASH INVESTING AND FINANCING ACTIVITIES:</b>				
Issuance of vendor liability on the acquisition of First Silver Reserve Inc.	-	26,682,759	-	26,682,759
Fair value of warrants upon completion of private placements	-	1,470,000	-	1,470,000
Fair value of compensation options issued as part of special warrants	-	550,000	-	550,000
Reclass of plant and equipment to mineral property interests	5,881,047	-	5,881,047	-
Issuance of shares for mineral property interests	-	-	-	450,000
Shares issued for acquisition of La Encantada	-	-	2,000,904	-
Fair value of warrants issued for acquisition of La Encantada	-	-	333,443	-
Transfer of contributed surplus to common shares for options exercised	336,850	88,750	855,600	264,500

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

**FIRST MAJESTIC SILVER CORP.  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)**

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**1. DESCRIPTION OF BUSINESS AND CONTINUING OPERATIONS**

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

These consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and satisfaction of liabilities in the normal course of business.

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

**2. BASIS OF PRESENTATION**

These unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("GAAP") with respect to the preparation of interim financial information. Accordingly, they do not include all the information and disclosures required by Canadian GAAP in the preparation of annual financial statements. Certain information and footnote disclosure normally included in consolidated financial statements prepared in accordance with GAAP have been omitted. The accounting policies used in preparation of the accompanying unaudited interim consolidated financial statements are the same as those described in our most recent annual consolidated financial statements except as described in Note 3. In the opinion of management, all adjustments of a normal recurring nature necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of results for the entire year. These interim financial statements should be read in conjunction with the Company's latest audited consolidated financial statements for the transition year ended December 31, 2006.

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, First Majestic Plata S.A. de C.V. (formerly First Majestic Resources Mexico, S.A. de C.V.) ("First Majestic Plata"), First Silver Reserve Inc. ("First Silver"), Minera El Pilon S.A. de C.V., ("El Pilon"), Desmin S.A. de C.V. ("Desmin") and Minera La Encantada S.A. de C.V. ("La Encantada") (Note 6). Inter-company balances and transactions are eliminated on consolidation. Subsequent to the period end, the Company effected a change in its corporate structure (see Note 15(e)).

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

**FIRST MAJESTIC SILVER CORP.  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)**

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**3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES**

***Significant accounting changes***

On January 1, 2007, the Company adopted four new accounting standards that were issued by the Canadian Institute of Chartered Accountants (CICA): Section 1530, Comprehensive Income; Section 3855, Financial Instruments – Recognition and Measurement; Section 3865, Hedges; and Section 3251, Equity.

*(i) Comprehensive income*

Section 1530 introduces comprehensive income, which consists of net income and other comprehensive income (“OCI”). OCI represents changes in shareholders’ equity during a period arising from transactions other than changes related to transactions with owners. OCI includes unrealized gains and losses on financial assets classified as available-for-sale, changes in the fair value of the effective portion of derivative instruments included in cash flow hedges and currency translation adjustments on the Company’s net investment in self-sustaining foreign operations. The Company has included in its interim consolidated financial statements, a combined statement of shareholders’ equity and comprehensive loss for the changes in these items during the first six months of 2007. Cumulative changes in OCI are included in accumulated other comprehensive income (“AOCI”). Generally, gains and losses remain part of the balance of AOCI, until GAAP requires their recognition in net income. Prior financial statements retroactively reflect the classification of the currency translation adjustments on the Company’s net investment in self-sustaining operations as a component of other comprehensive loss.

*(ii) Financial Instruments – Recognition and Measurement and Hedges*

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

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

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

**FIRST MAJESTIC SILVER CORP.  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)**

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

*Impact on Adoption of Section 1530 and 3855*

The adoption of these four sections had no material impact on the results of operations and financial position of the Company other than the translation adjustment relating to the Company's net investment in self-sustaining subsidiaries is recorded as a component of comprehensive loss for the six months ended June 30, 2007 in the amount of \$7,675,875 (2006 - \$154,205) and the cumulative translation adjustment at December 31, 2006 in the amount of \$7,910,502 is recorded as accumulated other comprehensive income as at that date.

**4. OTHER RECEIVABLES**

Details of the components of other receivables are as follows:

	June 30, 2007
	\$
Value added tax and GST recoverable	4,550,337
Interest receivable	30,662
Advances to employees	75,559
Advances to suppliers	668,080
	<u>5,324,638</u>

**5. MINERAL PROPERTY INTERESTS**

Expenditures incurred on mineral property interests are as follows:

	June 30, 2007			December 31, 2006		
	Acquisition	Deferred	Total Costs	Acquisition	Deferred	Total Costs
	Costs	Exploration		Costs	Exploration	
	\$	\$	\$	\$	\$	\$
<b>MEXICO</b>						
<b>Producing properties</b>						
La Parrilla (a)	4,966,216	10,652,993	15,619,209	4,791,406	1,527,602	6,319,008
San Martin (b)	18,699,292	-	18,699,292	23,493,057	-	23,493,057
La Encantada (Note 6)	7,962,598	479,008	8,441,606	1,741,643	20,056	1,761,699
	<u>31,628,106</u>	<u>11,132,001</u>	<u>42,760,107</u>	<u>30,026,106</u>	<u>1,547,658</u>	<u>31,573,764</u>
<b>Exploration properties</b>						
San Martin (b) <sup>(1)</sup>	92,562,116	455,667	93,017,783	101,284,020	-	101,284,020
Chalchihuites (c)	4,993,475	1,840,834	6,834,309	2,730,020	1,068,199	3,798,219
Candamena (d) (Note 15(f))	1,812,867	562,427	2,375,294	1,695,509	297,956	1,993,465
Cuitaboca (e) <sup>(2)</sup>	251,638	212,678	464,316	118,713	102,703	221,416
	<u>99,620,096</u>	<u>3,071,606</u>	<u>102,691,702</u>	<u>105,828,262</u>	<u>1,468,858</u>	<u>107,297,120</u>
	<u>131,248,202</u>	<u>14,203,607</u>	<u>145,451,809</u>	<u>135,854,368</u>	<u>3,016,516</u>	<u>138,870,884</u>

(1) This includes properties acquired from First Silver in the San Martin de Bolaños region, as well as other properties in Jalisco State referred to as the Jalisco Group of Properties.

(2) The Cuitaboca property was acquired from First Silver, however all costs are subsequent to acquisition.

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



**FIRST MAJESTIC SILVER CORP.**  
**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)**

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

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

	Note 5(a) La Parrilla US\$	Note 5(c) Chalchihuites US\$	Notes 5(d) and 15(f) Candamena US\$	Note 5(e) Cuitaboca US\$	Totals US\$
<b>Paid as at June 30, 2007</b>	<b>1,472,040</b>	<b>4,730,000</b>	<b>1,025,000</b>	<b>400,000</b>	<b>7,627,040</b>
<b>Future Option Payments</b>					
May 21, 2007 (subsequently paid)	116,160	-	-	-	116,160
May 22, 2007 (subsequently paid)	123,520	-	-	-	123,520
May 29, 2007 (subsequently paid)	-	-	200,000	-	200,000
June 8, 2007	-	1,000,000	-	-	1,000,000
August 21, 2007	116,160	-	-	-	116,160
August 22, 2007	123,520	-	-	-	123,520
August 29, 2007	-	-	150,000	-	150,000
September 7, 2007	-	30,000	-	-	30,000
<b>Subtotal Q3 2007</b>	<b>479,360</b>	<b>1,030,000</b>	<b>350,000</b>	<b>-</b>	<b>1,859,360</b>
November 21, 2007	145,200	-	-	-	145,200
November 22, 2007	154,400	-	-	-	154,400
November 25, 2007	-	-	-	150,000	150,000
November 29, 2007	-	-	675,000	-	675,000
<b>Subtotal Q4 2007</b>	<b>299,600</b>	<b>-</b>	<b>675,000</b>	<b>150,000</b>	<b>1,124,600</b>
February 21, 2008	145,200	-	-	-	145,200
February 22, 2008	154,400	-	-	-	154,400
February 29, 2008	-	-	600,000	-	600,000
March 1, 2008	-	65,000	-	-	65,000
<b>Subtotal Q1 2008</b>	<b>299,600</b>	<b>65,000</b>	<b>600,000</b>	<b>-</b>	<b>964,600</b>
May 21, 2008	217,800	-	-	-	217,800
May 22, 2008	231,600	-	-	-	231,600
May 25, 2008	-	-	-	175,000	175,000
May 29, 2008	-	-	1,575,000	-	1,575,000
<b>Subtotal Q2 2008</b>	<b>449,400</b>	<b>-</b>	<b>1,575,000</b>	<b>175,000</b>	<b>2,199,400</b>
November 25, 2009	-	-	-	200,000	200,000
November 29, 2008	-	-	3,375,000	-	3,375,000
<b>Subtotal Q3 2008</b>	<b>-</b>	<b>-</b>	<b>3,375,000</b>	<b>200,000</b>	<b>3,575,000</b>
<b>Subtotal Q4 2008</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FY 2009 and beyond</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,575,000</b>	<b>1,575,000</b>
<b>Future Option Payments</b>	<b>1,527,960</b>	<b>1,095,000</b>	<b>6,575,000</b>	<b>2,100,000</b>	<b>11,297,960</b>
<b>Totals</b>	<b>3,000,000</b>	<b>5,825,000</b>	<b>7,600,000</b>	<b>2,500,000</b>	<b>18,925,000</b>

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

(a) La Parrilla Silver Mine, Durango

The La Parrilla Silver Mine is located approximately 65 kilometres southeast of the city of Durango, Mexico and includes mining equipment, a processing mill, and mining concessions covering an area of 53,000 hectares including the concessions acquired below and the staking of an additional claim block of 18,466 hectares in October 2006. The La Parrilla Mine began commercial silver production in October 2004.

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

In August 2006, the Company entered into three agreements to acquire the Quebradillas and Viboras Silver Mines and a contiguous land package of 3,126 hectares of mining concessions located in the La Parrilla Mining District in Durango State, Mexico. The Company has the option to purchase all the mining concessions, the mines, the data of past diamond drill programs and the assets located within the mine areas for a total purchase price of US\$3,000,000 payable over a period of two years (US\$1,472,040 paid as at June 30, 2007). Payments totalling US\$239,680 due May 21, 2007 and May 22, 2007 pursuant to the agreements were paid subsequent to June 30, 2007.

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

(b) San Martin Silver Mine, Jalisco State

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

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

(c) Chalchihuites Group Properties, Zacatecas

On June 8, 2004, the Company entered into an option agreement to acquire five mining concessions and one mining exploration concession covering with a total of 88.84 hectares located in Chalchihuites, Zacatecas, Mexico in consideration of cash payments in the aggregate amount of US\$4,000,000 payable over a three-year period to June 8, 2007 and incurring a total of US\$500,000 of expenditures on the property over the same three-year period. Of the final US\$2,000,000 payment due June 8, 2007 to complete the option, US\$1,000,000 was paid during the period and the remaining US\$1,000,000 is being held in trust pending registration of the concessions with the Mexican mining registry. In connection therewith, a finder's fee in the amount of \$176,934 (US\$165,870) was paid to a director of the Company.

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

(c) Chalchihuites Group Properties, Zacatecas (continued)

On July 7, 2004, the Company entered into an option agreement to acquire ten additional concessions comprising of 204 hectares adjoining the north-west boundary of the land package. The total consideration is US\$1,650,000 payable over a three-year period. The terms of this option agreement were satisfied in the period ended June 30, 2007. In connection therewith, a finder's fee in the amount of \$77,808 (US\$68,422) was paid to a director of the Company.

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

At June 30, 2007, US\$4,730,000 had been paid pursuant to these option agreements.

A finder's fee in the aggregate of US\$7,257 (2006 - US\$303,750) is payable to a director of the Company in the event that the remaining option agreement is exercised.

(d) Candameña Mining District Property, Chihuahua (Note 15(f))

In December 2004, the Company signed two option agreements for the purchase of the Candameña Mining District Property ("Candameña") located in the eastern Sierra Madre Mountain range about midway between Hermosillo and Chihuahua in east central Sonora Mexico. The purchase includes all properties, assets and equipment and all mining concessions consisting of 5,215 hectares. The payment schedule to one of the agreements was amended on May 24, 2005, November 30, 2006 and March 26, 2007 and a 1% NSR, payable up to a maximum of US\$4,000,000, was cancelled on November 30, 2006.

Future option payments amount to US\$7,600,000 at June 30, 2007 and are payable over a four-year period (US\$1,025,000 paid as at June 30, 2007) pursuant to the terms of the amended option agreements. Payments totalling US\$200,000 due May 29, 2007 pursuant to the agreements were paid subsequent to June 30, 2007.

(e) Cuitaboca Silver Project, Sinaloa, Mexico

On November 25, 2004, the Company entered into an option agreement with Consorcio Minero Latinamericano, S.A. de C.V. ("Consorcio"), a private Mexican company owned by a former director of First Silver, for the purchase of a 100% interest in seven mining claims (the "Cuitaboca Silver Project") covering 3,718 hectares located in the State of Sinaloa, Mexico. To purchase the claims, the Company must pay a total of US\$2,500,000 in staged cash payments through November 25, 2010 (US\$400,000 paid as at June 30, 2007). A 2.5% NSR on the claims may be purchased for an additional US\$500,000 at any time during the term of the agreement or for a period of 12 months thereafter.

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

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

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

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

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

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

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**7. PROPERTY, PLANT AND EQUIPMENT**

Details of property, plant and equipment are as follows:

	June 30, 2007			December 31, 2006		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	\$	\$	\$	\$	\$	\$
La Parrilla Silver Mine	12,016,943	625,325	11,391,618	13,835,500	416,209	13,419,291
San Martin Silver Mine	6,172,718	1,070,594	5,102,124	6,116,717	213,952	5,902,765
La Encantada Silver Mine	4,619,753	83,063	4,536,690	435,225	57,268	377,957
Other	238,637	73,036	165,601	104,303	27,634	76,669
	<u>23,048,051</u>	<u>1,852,018</u>	<u>21,196,033</u>	<u>20,491,745</u>	<u>715,063</u>	<u>19,776,682</u>

Details by specific assets are as follows:

	June 30, 2007			December 31, 2006		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	\$	\$	\$	\$	\$	\$
Land	990,766	-	990,766	66,049	-	66,049
Automobile	267,904	3,725	264,179	262,552	18,317	244,235
Buildings	3,291,344	102,597	3,188,747	1,005,504	71,551	933,953
Machinery and equipment	17,694,276	1,633,768	16,060,508	7,751,740	577,649	7,174,091
Computer equipment	292,320	66,396	225,924	48,646	12,686	35,960
Office equipment	173,663	45,531	128,132	184,759	34,605	150,154
Construction in progress	337,777	-	337,777	11,172,495	255	11,172,240
	<u>23,048,050</u>	<u>1,852,017</u>	<u>21,196,033</u>	<u>20,491,745</u>	<u>715,063</u>	<u>19,776,682</u>

**8. SHARE CAPITAL**

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

<b>Issued</b>	June 30, 2007		December 31, 2006	
	Shares	\$	Shares	\$
Balance - beginning of period	51,698,630	103,466,619	35,038,157	43,780,469
Issued during the period				
For cash:				
Exercise of options	917,500	1,980,050	255,000	579,750
Exercise of warrants	1,092,500	2,839,375	184,316	414,711
Private placements	-	-	4,429,250	12,419,500
For exercise of special warrants	-	-	7,000,000	22,885,359
For First Silver Arrangement	1,625	7,865	4,791,907	23,192,830
For acquisition of La Encantada (Note 5)	382,582	2,000,904	-	-
Transfer of contributed surplus for stock options exercised	-	855,600	-	194,000
Balance - end of the period	<u>54,092,837</u>	<u>111,150,413</u>	<u>51,698,630</u>	<u>103,466,619</u>

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**8. SHARE CAPITAL (CONTINUED)**

**(b) Stock Options**

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

The changes in stock options outstanding for the six months ended June 30, 2007, are as follows:

	Six Months Ended June 30, 2007			Year Ended December 31, 2006		
	Number of Shares	Weighted Average Exercise Price (\$)	Weighted Average Remaining Life	Number of Shares	Weighted Average Exercise Price (\$)	Weighted Average Remaining Life
Balance, beginning of the period	5,052,500	3.30	2.34 years	2,954,600	2.43	1.46 years
Granted	455,000	5.14	3.79 years	2,427,900	4.26	3.86 years
Exercised	(917,500)	2.16	0.30 years	(255,000)	2.27	0.31 years
Cancelled or expired	(212,500)	4.33	0.00 years	(75,000)	3.97	1.53 years
Balance, end of the period	4,377,500	3.68	2.44 years	5,052,500	3.30	2.34 years

The following table summarizes both the stock options outstanding and those that are exercisable at June 30, 2007:

Price \$	Options Outstanding	Options Exercisable	Expiry Dates
2.10	25,000	25,000	October 1, 2007
1.85	150,000	150,000	December 14, 2007
2.45	225,000	225,000	December 16, 2007
1.79	180,000	180,000	January 12, 2008
3.75	25,000	18,750	March 8, 2008
4.05	100,000	75,000	March 20, 2008
5.04	49,600	37,200	April 25, 2008
4.55	25,000	12,500	July 6, 2008
3.29	50,000	25,000	October 16, 2008
3.28	100,000	50,000	October 17, 2008
2.10	240,000	240,000	November 9, 2008
2.45	650,000	650,000	December 16, 2008
3.28	12,500	6,250	June 13, 2009
4.32	945,400	472,700	December 6, 2009
5.50	200,000	50,000	February 1, 2010
4.64	75,000	18,750	June 1, 2010
4.30	500,000	250,000	June 19, 2011
4.32	245,000	122,500	December 6, 2011
4.41	400,000	200,000	December 22, 2011
5.00	155,000	38,750	February 7, 2012
4.65	25,000	6,250	June 20, 2012
	<u>4,377,500</u>	<u>2,853,650</u>	

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**8. SHARE CAPITAL (CONTINUED)**

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

During the six months ended June 30, 2007, the Company granted stock options to directors, officers, employees and consultants to purchase 455,000 shares of the Company. Pursuant to the Company's policy of accounting for the fair value of stock-based compensation over the applicable vesting period, \$1,694,876 has been recorded as an expense in the period relating to stock options.

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

	<u>June 30, 2007</u>	<u>December 31, 2006</u>
Risk-free interest rate	4.3%	3.9%
Estimated volatility	69.6%	80.5%
Expected life	2.1 years	2.9 years
Expected dividend yield	0%	0%

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

**(c) Share Purchase Warrants**

The changes in share purchase warrants for the period ended June 30, 2007 are as follows:

	<u>Six Months Ended June 30, 2007</u>			<u>Year Ended December 31, 2006</u>		
	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price (\$)</u>	<u>Average Number of Periods to Expiry</u>	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price (\$)</u>	<u>Average Number of Periods to Expiry</u>
Balance, beginning of the period	8,766,271	4.02	1.12 years	2,693,139	2.44	1.38 years
Issued (i)	191,291	6.81	2.00 years	6,257,448	4.65	1.50 years
Exercised	(1,092,500)	2.60	0.74 years	(184,316)	2.25	1.02 years
Balance, end of the period	<u>7,865,062</u>	<u>4.29</u>	<u>0.68 years</u>	<u>8,766,271</u>	<u>4.02</u>	<u>1.12 years</u>

- (i) The Company issued 191,291 warrants exercisable at a price of \$6.81 per share for a two-year period as part of the acquisition of La Encantada (Note 6).

The following table summarizes the share purchase warrants outstanding at June 30, 2007:

<u>Exercise Price</u>	<u>Warrants</u>	<u>Expiry Dates</u>
<u>\$</u>	<u>Outstanding</u>	
2.25	176,323	October 20, 2007
4.00	420,000	October 20, 2007
5.00	3,464,999	October 20, 2007
2.60	1,400,000	December 14, 2007
4.25	2,212,449	November 27, 2008
6.81	191,291	March 20, 2009
	<u>7,865,062</u>	

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**8. SHARE CAPITAL (CONTINUED)**

**(d) Special Warrants**

On May 10, 2007, the Company completed a private placement of Special Warrants for gross proceeds of \$34,415,000 and net proceeds after expenses of the issue of \$32,104,084. A total of 6,883,000 Special Warrants were sold at a price of \$5.00 per Special Warrant through Cormark Securities Inc. (formerly Sprott Securities Inc.) and CIBC World Markets Inc. (as co-lead underwriters) and Blackmont Capital Inc. (the "Underwriters"). Each Special Warrant is exercisable for one Unit of the Company and will be automatically exercised for one Unit of the Company on the date the Company obtains a final receipt for a prospectus qualifying the underlying shares. In the event the Company has not obtained a final receipt prior to the date that is eleven weeks after the closing date (July 26, 2007), each Special Warrant will be automatically exercised for 1.08 Units. Each Unit will entitle the holder to acquire one common share and one-half of one share purchase warrant. Each whole share purchase warrant will be exercisable at a price of \$6.50 expiring on November 10, 2008. The Underwriters received a commission of 5.5% of the gross proceeds of the offering at closing. Subsequent to the period end, the Special Warrants were exercised resulting in the issue of one Unit for each Special Warrant outstanding. See Note 15(d).

**9. CONTRIBUTED SURPLUS**

The components of contributed surplus are as follows:

	<b>Six Months Ended June 30, 2007</b>	<b>Year Ended December 31, 2006</b>
	<b>\$</b>	<b>\$</b>
Balance, beginning of the period	11,720,436	4,272,294
Stock option expense during the period	1,694,876	1,558,892
Fair value of First Majestic options exchanged for First Silver options	-	173,250
Conversion of special warrants	-	2,607,000
Warrants issued during the period	333,444	3,046,000
Finder's warrants issued during the period	-	257,000
Transfer to share capital for options exercised during the period	(855,600)	(194,000)
	<u>12,893,156</u>	<u>11,720,436</u>

**10. REVENUE**

Details of the components of revenue are as follows:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenues, silver dore bars and concentrates	11,920,901	2,822,468	22,943,857	3,517,267
Refining, smelting and transportation charges	(1,074,557)	(96,844)	(1,938,891)	(120,208)
Net reportable revenues	<u>10,846,344</u>	<u>2,725,624</u>	<u>21,004,966</u>	<u>3,397,059</u>



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**11. RELATED PARTY TRANSACTIONS**

During the period ended June 30, 2007, the Company:

- (a) incurred \$95,482 (2006 - \$65,138) for management services provided by the President & CEO and/or a corporation controlled by the President & CEO of the Company pursuant to a consulting agreement.
- (b) incurred \$nil (2006 - \$29,000) for geological and technical services provided by directors and/or corporations controlled by the directors of the Company.
- (c) paid \$95,661 (2006 - \$116,360) to the Chief Operating Officer for management and other services related to the mining operations of the Company in Mexico pursuant to a consulting agreement.
- (d) paid \$254,742 (US\$234,292) (2006 - \$nil) to a director of the Company as finder's fees upon the completion of certain option agreements relating to the Chalchihuites Group Properties.

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

**12. SEGMENTED INFORMATION**

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

	Six months ended June 30, 2007				
	El Pilon Mexican operations	First Majestic Plata operations	Desmin and La Encantada Mexican operations	Corporate and other eliminations (1)	Totals
Silver sales	\$ 9,404,417	\$ 4,111,312	\$ 7,489,237	\$ -	\$ 21,004,966
Cost of sales	7,809,886	3,465,377	3,654,303	-	14,929,566
General and administrative expenses	970,697	784,569	1,001,218	2,651,949	5,408,433
Amortization and depreciation	512,110	165,832	250,318	-	928,260
Depletion	2,883,112	119,207	38,958	-	3,041,277
Earnings (loss) from operations	(2,822,257)	(450,606)	2,514,570	(2,651,950)	(3,410,243)
Net interest and other income	103,368	(439,152)	10,924	52,527	(272,333)
Income tax (recovery) expense	(219,755)	-	802,065	-	582,310
Net earnings (loss)	(2,499,135)	(889,758)	1,723,429	(2,599,424)	(4,264,888)
Total long lived assets	117,283,512	37,843,603	12,978,297	165,601	168,271,013

- (1) All corporate operations are in Canada.

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**12. SEGMENTED INFORMATION (continued)**

	Six months ended June 30, 2006				
	El Pilon Mexican operations	First Majestic Mexican operations	Desmin and La Encantada Mexican operations	Corporate and other eliminations (1)	Totals
Silver sales	\$ 2,083,243	\$ 1,313,816	\$ -	\$ -	\$ 3,397,059
Cost of sales	1,525,260	1,230,280	-	-	2,755,540
General and administrative expenses	345,915	232,267	-	2,786,900	3,365,082
Amortization and depreciation	373,127	(153,787)	-	-	219,340
Depletion	947,992	603,158	-	-	1,551,150
Earnings (loss) from operations	(1,151,766)	(983,032)	-	(2,786,900)	(4,921,698)
Net interest, income and other items	(457,120)	816,019	-	(359,342)	(443)
Income tax recovery	(204,901)	-	-	-	(204,901)
Non-controlling interest	569,382	-	-	-	569,382
Net earnings (loss)	(834,603)	(167,013)	-	(3,146,242)	(4,147,858)
Total long lived assets	74,316,438	16,985,450	-	52,765	91,354,653

(1) All corporate operations are in Canada.

**13. CONTINGENT LIABILITIES**

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

Under Mexican regulations, the Company may be obligated to remit taxes to the government on payments made for the acquisition of mineral claims in the event that the recipients of such payments fail to make the required tax remittances relating to those payments. The maximum potential remittance is approximately \$4.0 million however the Company believes it has substantial defences to any claims, however, the outcome of this litigation is not presently determinable.

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

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**14. COMMITMENTS**

Under Mexican regulations, employees (excluding directors and senior management) are eligible for a profit sharing bonus of 10% of annual profit (before taxes). The amount of the profit sharing bonus accrued as a component of cost of sales for the six months ended June 30, 2007 is \$351,929 (2006 - \$237,168) which will be paid to the employees of certain subsidiaries in May 2008.

In May 2007, the Company entered into an office premises lease for a period of four years and eight months commencing August 1, 2007. The premises lease commits the Company to a net annual rental expense of \$47,030 in 2007, \$112,872 in 2008 through 2011, and \$28,210 in 2012. Additional annual operating costs are estimated at \$106,056 per year (\$8,838 per month) over the term of the lease. The Company provided a deposit of two months of rent equaling \$42,879.

In June 2007, the Company entered into a lease commitment with a mining equipment supplier for the delivery of \$4,215,371 (US\$3,964,050) of equipment to be delivered over a period from July to November 2007. The Company has committed to pay 35% within 30 days of entering into the lease, 15% on arrival of the equipment, and the remaining 50% is to be paid in quarterly payments over a period of 24 months, financed at 9.5% interest over the term of the lease. None of this equipment was delivered prior to June 30, 2007, therefore no lease liability or leased assets have been recorded at June 30, 2007.

**15. SUBSEQUENT EVENTS**

Subsequent to June 30, 2007:

- (a) The Company issued 50,000 common shares for proceeds of \$122,500 pursuant to the exercise of stock options.
- (b) The Company cancelled 50,000 stock options exercisable at a price of \$4.30 per share originally expiring on June 19, 2011 and 100,000 stock options exercisable at a price of \$4.32 per share originally expiring on December 6, 2009.
- (c) The Company granted 100,000 stock options exercisable at a price of \$4.17 per share expiring on August 8, 2010.
- (d) The Company filed a short form prospectus dated July 25, 2007 qualifying the distribution of 6,883,000 common shares and 3,441,500 share purchase warrants issued upon the exercise of 6,883,000 Special Warrants.
- (e) On July 31, 2007, the Company incorporated a new wholly owned Mexican subsidiary, Corporacion First Majestic, S.A. de C.V., ("CFM") and effected a corporate restructuring of Desmin, La Encantada and First Majestic Plata, on August 14, 2007, such that the Company now holds the shares of FM Plata, Desmin and La Encantada, through CFM, which is a Mexican holding company for Mexican tax consolidation purposes. No gain or loss was recognized as a result of this restructuring.
- (f) The Company entered into an agreement with Prospector Consolidated Resources Inc. ("Prospector") whereby Prospector has the right to acquire a 100% interest in the Company's option to the Candameña Mining District Property by paying \$50,000 within five business days following the execution of the agreement (paid) and issuing 2,000,000 of its shares to the Company within five business days of regulatory approval or September 7, 2007, whichever is earlier. In the event that Prospector has not received regulatory approval by September 7, 2007, it must pay an additional US\$150,000 to the Company by October 19, 2007 to satisfy an option commitment to the underlying vendor.

**SCHEDULE "A"**  
**FIRST MAJESTIC SILVER CORP.**  
**CONSOLIDATED SCHEDULE OF MINERAL PROPERTY INTERESTS**  
**FOR THE PERIOD ENDED JUNE 30, 2007**

	<u>La Parrilla</u>	<u>San Martin</u>	<u>Chalchihuites</u>	<u>Candamena</u>	<u>Cuitaboca</u>	<u>La Encantada</u>	<u>Total</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>Balance - beginning of the period</b>	6,319,008	124,777,077	3,798,219	1,993,465	221,416	1,761,699	<b>138,870,884</b>
<b>Expenditures during the period</b>							
Consulting	2,442	-	600,398	96,502	-	-	<b>699,342</b>
Filing fees	12,522	-	3,388	7,487	-	-	<b>23,397</b>
Mine exploration costs	9,110,426	455,670	168,849	160,481	109,975	458,951	<b>10,464,352</b>
Reports and assays	-	-	-	-	-	-	-
	<u>9,125,390</u>	<u>455,670</u>	<u>772,635</u>	<u>264,470</u>	<u>109,975</u>	<u>458,951</u>	<b>11,187,091</b>
<b>Acquisition costs during the period (net)</b>	291,336	-	2,263,455	117,359	132,925	7,032,536	<b>9,837,611</b>
Less: depletion	(116,525)	(2,883,113)	-	-	-	(38,958)	<b>(3,038,596)</b>
Less: amortization of mining rights	-	-	-	-	-	(221,246)	<b>(221,246)</b>
Cumulative translation adjustment	-	(10,632,559)	-	-	-	(551,376)	<b>(11,183,935)</b>
<b>Balance, end of the period</b>	<u><b>15,619,209</b></u>	<u><b>111,717,075</b></u>	<u><b>6,834,309</b></u>	<u><b>2,375,294</b></u>	<u><b>464,316</b></u>	<u><b>8,441,606</b></u>	<u><b>145,451,809</b></u>

(See Note 5)



# **Management's Discussion and Analysis**

**For the six-months ended June 30, 2007**

**FIRST MAJESTIC SILVER CORP.  
MANAGEMENT'S DISCUSSION & ANALYSIS**

***Forward-Looking Statements***

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

**1.0 Preliminary Information**

The following Management's Discussion and Analysis ("MD&A") of First Majestic Silver Corp. ("First Majestic" or "the Company") should be read in conjunction with the accompanying interim consolidated financial statements for the six months ended June 30, 2007 and the audited consolidated financial statements for the six-month transition year ended December 31, 2006. Additional information on the Company, including the Company's Annual Information Form, is also available on SEDAR at [www.sedar.com](http://www.sedar.com).

Pursuant to a resolution passed by shareholders on September 7, 2006, the Company changed its name from "First Majestic Resource Corp." to "First Majestic Silver Corp." on November 22, 2006. Consistent with the revised naming convention, on August 9, 2007, the Company changed the name of First Majestic Resources Mexico S.A. de C.V. to First Majestic Plata S.A. de C.V. ("FM Plata").

As a result of a corporate restructuring completed subsequent to June 30, 2007, this MD&A of First Majestic relates to the consolidated operations of the Company and its two wholly owned direct subsidiaries: Corporacion First Majestic S.A. de C.V. ("CFM"), and First Silver Reserve Inc ("First Silver"), the indirect wholly owned subsidiaries of CFM: Minera La Encantada S.A. de C.V. ("La Encantada"), Desmin S.A. de C.V. ("Desmin"), First Majestic Plata, S.A. de C.V. ("FM Plata"); and First Silver's wholly owned subsidiary Minera El Pilon S.A. de C.V. ("El Pilon").

During the period ended December 31, 2006, the Company changed its fiscal year-end from June 30 to December 31 to be consistent with the fiscal year ends of its operating subsidiaries. To facilitate the change, the Company reported a one-time, six-month transition year covering the six month period ended December 31, 2006. Subsequent to the transition year, the first full financial year covers the calendar year period from January 1, 2007 to December 31, 2007.

All financial information in this MD&A is prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), and all dollar amounts are expressed in Canadian dollars unless otherwise indicated. Certain financial results in this MD&A regarding operations, cash costs and average realized revenues will have been reclassified to conform to peer company presentation standards, requiring historical comparatives to be adjusted. Where applicable, these amounts have been presented to show the prior presentation, the required adjustments, and the resulting current presentation to be consistent with other peer company presentations.

All information contained in this MD&A is as of August 28, 2007, unless otherwise stated.

## Qualified Persons

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

## 1.1 Background

### Nature of Business

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

Silver producing operations of the Company are carried out through three operating mines: the La Parrilla Silver Mine, the La Encantada Silver Mine, and the San Martin Silver Mine.

## 1.2 Overall Operating Performance and Highlights

- Sales revenue for the quarter ended June 30, 2007 increased to \$10,846,344, reflecting sales of 801,324 equivalent ounces of silver in the quarter, and representing a 7% increase from the prior quarter's revenues of \$10,158,621 and a 298% increase over revenues of \$2,725,624 for the same quarter in the prior calendar year ended June 30, 2006.
- Mine earnings (excluding amortization and depreciation) continued positively in the quarter. Mine earnings (excluding amortization and depreciation) were \$2,699,669, and \$6,075,400 for the six months ended June 30, 2007.
- Net loss for the quarter ended June 30, 2007 decreased to \$1,227,422 representing a 60% decrease from the prior quarter's net loss of \$3,061,899, and a decrease of 61% from the prior year's net loss of \$3,151,859 for the same quarter.
- Direct cash costs per ounce of silver (see Non-GAAP measures below) decreased to US\$6.59 per ounce for the quarter ended June 30, 2007, from US\$6.90 per ounce from the prior quarter. This cash costs disclosure reflects the Company's revised calculation of cash costs to align this measure with industry standards (see Non-GAAP Measure, below).
- Silver production in the second quarter ending June 30, 2007 has increased to 852,721 equivalent ounces of silver, an increase of 13% over the prior quarter production of 753,442 equivalent ounces of silver, which is also an increase of 298% over the same quarter ending June 2006.
- The Company completed three new NI 43-101 technical reports, one for each of its primary producing mines. As a result, at June 30, 2007, these reports indicated combined Proven and Probable Reserves of 17,012,762 ounces of silver equivalent; combined Measured and Indicated Resources of 41,751,766 ounces of silver equivalent, and combined Inferred Resources of 68,465,698 ounces of silver equivalent. The different categories of Reserves and Resources are non-inclusive of one another and thus are shown separately and not combined.
- During the period, the Company completed a private placement of special warrants for gross proceeds of \$34,415,000. A total of 6,883,000 special warrants were sold at a price of \$5.00 per special warrant through Cormark Securities Inc. (formerly Sprott Securities Inc.) and CIBC World Markets Inc. (as co-lead underwriters) and Blackmont Capital Inc. The Company filed a short form prospectus dated July 25, 2007

qualifying the distribution of 6,883,000 common shares and 3,441,500 share purchase warrants issued upon the exercise of 6,883,000 special warrants.

- On July 31, 2007, the Company incorporated a new wholly owned Mexican subsidiary, Corporacion First Majestic, S.A. de C.V., ("CFM") and effected a corporate restructuring of Desmin, La Encantada and FM Plata, on August 14, 2007, such that the Company now holds the shares of FM Plata, Desmin and La Encantada, through CFM, which is a Mexican holding company for Mexican tax consolidation purposes.

## **Increasing Production**

Year to date silver production at June 30, 2007 is 1,618,689 equivalent ounces of silver, compared to 273,651 equivalent ounces of silver for the two quarters ended June 30, 2006. The Company's increase in production is due to a 259% increase in production at the Company's flagship La Parrilla Silver Mine compared with the same period in 2006, or by 37% compared to the previous quarter. Production has also increased significantly due the acquisitions of the San Martin Silver Mine and the La Encantada Silver Mine, completed in the quarters ending September 2006 and December 2006, respectively.

The equivalent silver production for the quarter consisted of 782,674 ounces of silver an increase of 9% over the previous quarter, 604 ounces of gold and 534,324 pounds of lead, showing an increase respectively of 16% and 63% on the previous quarter. Significant underground development consisted of a combined total of 4,985 meters in the quarter for all three mines. In addition there have been significant improvements and upgrades carried out at each mill. This ongoing program of enhancements will continue for the balance of the year and is focused on increasing the Company's silver production in each of the following quarters.

## **La Parrilla Silver Mine**

Commissioning of the larger 800 tpd mill continued at the La Parrilla in the second quarter. Difficulties in the crushing area at the mill were resolved during the quarter with the installation of a new primary and secondary crushing system. At the end of April a permit for the construction of the new tailings pond was obtained and construction began in the second week of May. This new tailings facility is expected to be completed within six months. Finally, the thickener system for the tailings was redesigned and became fully operational in July. The mine is resolving its start-up issues at the increased capacity and thus production is rapidly increasing.

Production in the second quarter was 39,884 tonnes which represents an increase of 29% when compared with the first quarter, while total silver production in the quarter was 193,651 ounces of silver equivalent, representing a 37.5% increase over the previous quarter with 175,344 ounces of silver, 81 ounces of gold and 180,927 pounds of lead.

Resource and Reserve development at La Parrilla continue to be a priority, with the use of six rigs completing a total of 8,379 meters in 28 holes at the different areas at La Parrilla with the main focus of confirming Resources at the previous Grupo Mexico Quebradillas area, which is expected to be completed by the end of the third quarter. In addition to the ongoing diamond drill program, and with the objective of increasing the total proven Reserves and developing new production areas a total of 1,515 meters of development was completed in the second quarter at the La Rosa-Rosario, San Marcos, Quebradillas and San Juan mines. A total of 3,239 meters have been developed in the year to date at La Parrilla.

At the Chalchihuites area; the San Juan Silver Mine development continued to access and explore the lower part of the ore body. A ramp of 1500 meters is in the process of being developed and small production of about 50 tonnes per day continues to be produced from this mine. As well, the Perseverancia Silver Mine which is now 100% owned by the Company, is presently being upgraded and rehabilitated to start production on one of the high grade chimney areas. High grade ore production has commenced at this mine and is presently being stockpiled for processing.



### **San Martin Silver Mine**

Production at the San Martin mine was of 63,213 tonnes resulting in a total of 324,329 equivalent ounces of silver which is consistent with the previous quarter, and consisted of 296,947 ounces of silver, 523 ounces of gold and 15,845 pounds of lead.

At the San Martin Silver Mine, in the quarter 693 metres of diamond drilling was completed which included 12 holes of underground drilling. During the current quarter, surface drilling was delayed in order to complete a surface geology mapping with the objective of better defining the diamond drill targets in the North-South structural system where some intersections of high grade ore are indicating new areas of interest. Also, during this quarter a new exploration zone in the Rosario-Condessa system was defined (Cinco Senores area), where some old workings were re-habilitated and mapping was completed. Diamond drilling is expected to resume during the third quarter in these two zones.

Additionally, during the quarter 1,944 metres of underground development was completed. An important part of this development was done in order to access the upper levels of the mine where higher grade oxide ores appear to be present. This activity is ongoing and is for the purpose of grade control and development of additional resources, and exploration to define additional targets for future mine expansion.

### **La Encantada Silver Mine**

At the La Encantada Silver Mine, production in the quarter reached 52,664 tonnes with a total of 334,741 equivalent ounces of silver produced, which represents an increase from the previous quarter of 5%, representing a total of 310,384 ounces of silver and 337,552 pounds of lead. Utilization of the mill has increased by 30% relative to when operations were taken over in November 2006. Present mill rates are reaching 80% of capacity in the second quarter. This improvement in operations has resulted in an 86% increase in silver production compared to the quarter ended December 31, 2006. Further increases in mill output are anticipated to continue into the present quarter resulting in additional ounces of silver production from the La Encantada mine going forward.

In the short time since the operations of the La Encantada were taken over, several improvements have been implemented, including the installation of a new screening plant and an aggressive underground development campaign which included 1,527 metres of drifting to several targets located in the San Javier Breccia area. The purpose of this ongoing development is for mining activity, confirmation of resources, and exploration.

During this quarter a total of 744 metres of pressure drilling was completed at the tailing ponds in a grid of 50 meters by 50 meters with a total of 49 holes. The purpose of this work was to define additional resources, which were not included in the last NI 43-101 presented in July by PA&H. Initial metallurgical tests confirm the possibility of economically recovering the silver contained in the old tailings ponds, an economic valuation is being prepared to evaluate the feasibility of this project. Underground diamond drilling is expected to begin in the third quarter with the arrival of three drill rigs.

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

On January 20, 2004 the Company entered into a number of agreements to acquire a group of mining concessions with a total surface area of 517 hectares, located in Chalchihuites, Zacatecas, Mexico approximately 45 kilometres southeast of the La Parrilla Silver Mine. After a three-year exploration program consisting of geochemistry, geophysics and diamond drilling, the Company selected the San Juan Silver Mine and the Perseverancia Silver Mine as areas of primary interest. A decision was made to exercise the purchase options covering these two old high grade silver mines, resulting in the Company taking full 100% ownership of these mines and the 293 hectare land package. The Company also has the rights to another 29 hectares consisting of two mining claims, for a final total of 321.68 hectares of mining claims in the Chalchihuites area.

On January 7, 2007, the Company completed the acquisition of the San Juan Silver Mine by making the final payments of US\$500,000 and US\$150,000 that were due on January 7, 2007 and July 7, 2007, respectively. In connection therewith, a finder's fee in the amount of \$77,808 (US\$68,422) was paid to a director of the Company.

On June 8, 2007, the Company made a payment of US\$2,000,000 to complete the acquisition of the Perseverancia Silver Mine. In connection therewith, a finder's fee in the amount of \$176,934 (US\$165,870) was paid to a director of the Company. US\$1,000,000 of the payment remains in a joint account with the property owner pending final transfer of property titles to the Company, and has been recorded as a deposit on long-term assets.

Exploration and development at the San Juan mine was accelerated during the last few months with the objective of developing the mine for future exploitation. A total of 1,106 meters of development has been completed and a total of 6 diamond drill holes totalling 1,919 meters was completed. An underground diamond drill is now operating on a permanent basis and a development contractor with a crew of 35 people are working on the development of the mine. A NI 43-101 report for this mine is expected to be completed by the end of the year.

At the Perseverancia mine, a diamond drill program consisting of 13 holes was completed totalling 2,858 meters. This drill program confirmed the continuity of the Perseverancia chimneys at depth, and thus, as indicated, the Company exercised the purchase option. During the last two months, extraction of low volumes of high grade ore from old areas of the mine began. In July a total of 40 tonnes grading approximately 1.5 kilos of silver per tonne and 30% lead were extracted from the mine. This production is expected to ramp up in the following months.

#### **Candameña Mining District Property, Mexico**

The Company has two option agreements for the purchase of the Candameña Mining District Property located in the eastern Sierra Madre Mountain range about midway between Hermosillo and Chihuahua in east central Chihuahua, Mexico. The option agreements include all properties, assets, equipment and all mining concessions consisting of 5,215 hectares. The payment schedules to these agreements were amended on May 24, 2005, November 30, 2006 and March 26, 2007 and a 1% NSR, payable up to a maximum of US\$4,000,000, was cancelled on November 30, 2006.

During the quarter, a diamond drill program consisting of seven holes totalling 1,550 meters was completed in order to test the La Verde and La Prieta vein system. Results were not conclusive and did not confirm the continuity of the silver mineralization historically mined.

To complete the purchase, the Company must pay all option payments for a total of US\$7,600,000 in staged cash payments by November 29, 2008 (US\$1,025,000 had been paid as at June 30, 2007). Option payments totalling US\$200,000 which were due on or before May 29, 2007 were paid by the Company in the subsequent period.

The Company has been assessing its alternatives for the Candameña properties in light of remaining option payments and the gold and silver results coming from its drilling program. It appears the property is more perspective as a gold project than a silver project. Based on this assumption, on August 14, 2007, the Company entered into an agreement with Prospector Consolidated Resources Inc. ("Prospector") to sell to Prospector the option rights for the Candameña Mining District for consideration consisting of a \$50,000 non-fundable cash payment which was received on August 16, 2007, and subject to final due diligence anticipated to be completed by September 7, 2007 a further payment of 2,000,000 common shares of Prospector. If Prospector has not by September 7, 2007 completed its due diligence and received regulatory approval, Prospector may extend its exercise period from September 7, 2007 to October 19, 2007, in which event the option will thereafter be exercisable no later than October 19, 2007, providing that Prospector must pay US\$150,000 including VAT, to reimburse the Company for required payments to be made to the underlying property owners of Candameña.

## **Cuitaboca Silver Project, Sinaloa, Mexico**

Through the acquisition of First Silver, the Company took ownership of an option to acquire a 100% interest in the Cuitaboca Silver Project consisting of 5,104 hectares located in the State of Sinaloa, Mexico. To complete the option, the Company must pay a total of US\$2,500,000 in staged cash payments by November 25, 2010. The Company can purchase a 2.5% NSR on the claims for US\$500,000 during the term of the agreement, or for a period of 12 months thereafter. An option payment of US\$125,000 due May 25, 2007 on the Cuitaboca property was met by the Company in the period ended June 30, 2007.

During the three months ended June 30, 2007, the Company completed construction of a road and camp site. An underground drift of 100 meters was completed with the objective of intersecting the Colateral 1 vein.

The vein was intersected subsequent to the quarter end and is currently being explored and tested with direct drifting on the vein. A total of 120 meters has been developed on the Colateral vein. Sampling and assaying are in process and results are expected during the second quarter. Also, access to the Mojardina and Eduviges veins is being developed by a new road. A total of 1.5 kms of road were completed during the period leaving another 500 meters to be completed. Once access to the veins is completed, the Company is planning a development and diamond drill program for this project.

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

In addition to the San Martin area, and the Cuitaboca Project, acquired through the acquisition of First Silver, the Company also acquired 5,131 hectares of mineral rights within 12 mining concessions located in other areas outside the San Martín district, but still in the State of Jalisco, that is referred to as the "Jalisco Group of Properties".

The Company plans to send a team of geologists to these properties in the second half of the 2007 to determine the best course of action for these assets.

### **1.3 Results of Operations**

#### **Three and six months ended June 30, 2007 compared to three and six months ended June 30, 2006.**

Revenues increased to \$10,846,344 for the three months ended June 30, 2007 compared to the \$2,725,624 for the three months ended June 30, 2006. The increase in revenue is due to the acquisitions of the San Martin mine on May 31, 2006, and the production of the La Encantada mine which was acquired in the acquisition of Desmin on November 1, 2006. The revenues for the three months ended June 30, 2007 reflect production for all three mines for the full three month period, whereas, the revenues in the three months ended June 30, 2006, only reflect production of La Parrilla for three months, San Martin for one month, and no results for La Encantada.

For the six months ended June 30, 2007, revenues increased to \$21,004,966, compared to the \$3,397,059 for the six months ended June 30, 2006. The increase in revenue is due to the acquisitions of the San Martin mine on May 31, 2006, and the production of the La Encantada mine which was acquired through the acquisition of Desmin on November 1, 2006.

Mine earnings (excluding amortization and depreciation) for the three months ended June 30, 2007 were \$2,699,669, compared to \$567,033 for the three months ended June 30, 2006. Mine earnings (excluding amortization and depreciation) for the six months ended June 30, 2007 were \$6,075,400, compared to \$641,519 for the six months ended June 30, 2006. The improvements in mine operating earnings are due to the acquisitions of the San Martin mine on May 31, 2006, and the production from the La Encantada mine which was acquired through the acquisition of Desmin on November 1, 2006.

General and administrative costs increased for the three months ended June 30, 2007 to \$2,612,225 from \$2,477,273 for the three months ended June 30, 2006, reflecting increases in office related costs and salaries and benefits. Legal and professional fees also increased when a unit offering was cancelled in April 2007 and

the associated costs were expensed. Offsetting these increases were decreases in stock based compensation which is included as a component of general and administrative expenses (\$775,532 for the three months ended June 30, 2007 compared to \$1,292,007 for the three months ended June 30, 2006).

General and administrative costs increased for the six months ended June 30, 2007 to \$5,408,434 from \$3,365,082 for the six months ended June 30, 2006. Increases were experienced in most areas, particularly mine administration costs (as we had not acquired La Encantada in the six months ended June 30, 2006 and only one month of mine administration costs was consolidated for San Martin in the same period), office related costs and salaries and benefits due to the growth in size of the Company.

The net loss after taxes for the three months ended June 30, 2007 decreased to \$1,227,422 (\$0.02 per share) from \$3,151,859 (\$0.09 per share) for the three months ended June 30, 2006, due primarily to improved mine earnings, higher interest income associated with higher cash balances, and a foreign exchange gain. The net loss after taxes for the six months ended June 30, 2007 decreased to \$4,289,320 (\$0.08 per share) from \$4,147,858 (\$0.13 per share) for the six months ended June 30, 2006, due primarily to improved mine earnings and interest income of \$522,904 in the period.

### First Majestic Silver Non-GAAP Measure, Cash Cost of Production (expressed in US\$)

#### Non GAAP Measures

##### Cash Cost per ounce of Silver Produced (1)

		Three Months Ended		Six Months Ended
		March 31, 2007	June 30, 2007	30-Jun-07
Direct Mining Expenses	US\$	5,444,630	6,236,124	11,680,754
Third party smelting, refining and transport	US\$	647,321	945,516	1,592,836
By-product credits	US\$	(477,947)	(1,077,305)	(1,555,252)
Cash Costs	US\$	5,614,004	6,104,335	11,718,339
Less: Smelting, refining and transport	US\$	(647,321)	(945,516)	(1,592,836)
Direct Cash Costs	US\$	4,966,684	5,158,819	10,125,503
Ounces of Silver Produced (Pure Silver)	Oz.	719,993	782,674	1,502,668
Cash Cost Per Ounce of Silver Produced	US\$/Oz.	7.80	7.80	7.80
Smelting Cost Per Ounce of Silver Produced	US\$/Oz.	(0.90)	(1.21)	(1.06)
Direct Cash Costs Per Ounce of Silver	US\$/Oz.	6.90	6.59	6.74

(1) Based on the Mexican posted foreign exchange rate of 10.943 for US\$ to Mexican pesos.

First Majestic has adopted methods established by The Gold Institute (Production Cost Standards, Nov. 1999) to calculate costs per ounce of silver. All of First Majestic's operations are "primary" silver mines – meaning the majority of their value (revenue) comes from silver. The "cash cost per ounce" of silver for each mine is based on the ounces of silver for which we are paid, excluding the ounces lost in smelting and refining. In the current quarter, the Company began deducting from total operating costs, the amount we receive from selling the mines' by-products (gold and lead) to arrive at the "cash cost per ounce" of silver. The change in the method of calculating cash costs resulted in the cash costs per ounce for the first quarter ended March 31, 2007, decreasing from US\$8.55 (presented on a sold basis) to US\$7.80 (presented on a produced basis), and to US\$6.90 after deducting smelting charges. This measure was adopted to allow comparison of operational efficiency at our mines relative to previous periods and to allow comparison with other peer company operations. Cash cost per ounce does not have a standardized meaning under GAAP, and accordingly, it is intended only to provide additional information, and should not be considered in isolation or as a substitute for other measures of performance prepared in accordance with GAAP.

## Revenues Per Canadian GAAP (expressed in CDN\$)

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

Revenue Analysis	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Revenues, silver dore bars and concentrates	11,920,901	2,822,468	22,943,857	3,517,267
Refining, smelting and transportation charges	(1,074,557)	(96,844)	(1,938,891)	(120,208)
Net reportable revenues, per GAAP	10,846,344	2,725,624	21,004,966	3,397,059
Equivalent Ounces of silver sold	801,324	215,949	1,589,934	275,278
Average revenue per ounce sold	14.88	12.62	14.43	12.34

## 1.4 Summary of Quarterly Results

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

	Year ended December 31, 2007		Transition year ended December 31, 2006		Year ended June 30, 2006			
	Q2	Q1	Q2	Q1	Q4	Q3	Q2	Q1
	\$	\$	\$	\$	\$	\$	\$	\$
Net sales revenues	10,846,344	10,158,621	8,138,284	4,616,681	2,725,624	671,435	484,647	277,586
Net loss after taxes	(1,227,422)	(3,061,899)	(3,893,758)	(3,694,434)	(3,151,860)	(995,998)	(829,114)	(688,914)
Basic and diluted net loss per common share	(0.02)	(0.06)	(0.09)	(0.09)	(0.07)	(0.03)	(0.03)	(0.03)

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

Net loss after taxes has been positively affected in the quarter ended June 30, 2007, by a future income tax recovery of \$355,803, as well as a foreign exchange gain of \$472,955, compared to a foreign exchange loss of (\$434,904) in the quarter ended March 31, 2007.

Other significant impacts on net losses per period are as follows:

	Year ended December 31, 2007		Transition year ended December 31, 2006		Year ended June 30, 2006			
	Q2	Q1	Q2	Q1	Q4	Q3	Q2	Q1
	\$	\$	\$	\$	\$	\$	\$	\$
Stock based compensation (1)	775,532	919,344	1,400,603	158,289	1,292,007	307,712	5,250	-
Write downs of mineral properties	-	-	(774,254)	(2,086,258)	(384,930)	-	-	-
			(2)	(3)	(4)			

Notes:

- (1) Stock Based Compensation - the net losses are affected by varying stock based compensation amounts in each quarter. Stock based compensation results from the issuance of stock options in any given period, as well as factors such as vesting and the volatility of the Company's stock, and is a

calculated amount based on the *Black-Scholes Option Pricing Model* of estimating the fair value of stock option issuances.

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

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

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

## 1.5 Liquidity

At June 30, 2007, the Company had working capital of \$7,900,336 and cash and cash equivalents of \$17,452,035 compared to working capital of \$2,572,831 and cash and cash equivalents of \$17,870,712 at December 31, 2006. Current liabilities at June 30, 2007 includes the current portion of a long-term vendor liability relating to the Acquisition of First Silver in the amount of \$13,341,380 and the current portion of a liability relating to the First Silver Arrangement in the amount of \$388,836.

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

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

During the six months ended June 30, 2007, the Company received \$1,980,050 pursuant to the exercise of 917,500 stock options and \$2,839,375 pursuant to the exercise of 1,092,500 share purchase warrants. Subsequent to the period end, the Company received an additional \$122,500 pursuant to the exercise of 50,000 stock options.

During the six months ended June 30, 2007, the Company incurred net costs of \$8,513,202 (June 30, 2006 - \$3,254,618) in respect of expenditures on mineral property interests and \$3,956,732 (June 30, 2006 - \$3,310,982) in respect of plant and equipment.

## 1.6 Capital Resources

The Company is continuing to focus on reducing its operating costs at each of its three primary producing mines. These improvements in operations are partially a result of the continuous program of replacing old equipment in the mines and mills with new or rebuilt equipment. This ongoing program has begun to show results as can be seen in the financial results ending June 30, 2007. Other important areas of focus have been and continue to be, grade control and mine dilution. These areas generally take the longest to achieve and need to be accomplished in line with equipment upgrades and improvements in mining techniques and standards. As a result of these efforts, the La Parrilla and La Encantada financial results are beginning to show significant signs of improvement. The San Martin is anticipated to begin to show similar improvements by year end.

In addition to improvements in operations anticipated as the three mines mature over the coming quarters, increases in silver production is also expected to continue as Reserves and Resources increase at each mine and further expansions of the mills are achieved.

The Company anticipates that silver, gold, and lead prices will continue to be volatile in the short term but will continue their upward trends. We expect all three producing mines to produce positive cash flows from production, as well as positive mine operating earnings after deducting mine depletion, amortization and depreciation during 2007.

The Company's continued development is dependent on applying the capital raised to continue to expand operations, to generate a break even level of net income, and thereby in the near term to lessen its dependency on future financings.

The Company's primary capital assets consist of three silver producing mineral property interests in Mexico. The La Parrilla Silver Mine, the San Martin Silver Mine and the La Encantada Silver Mine are owned 100% by the Company.

The Company is required to make certain property payments and to incur various amounts in development and exploration costs by certain dates to maintain its interest in certain exploration properties. These dates are outlined in the notes to the interim consolidated financial statements. The Company concluded that the results from a recently completed drilling and exploration program at the Candameña property were not sufficient to continue its investment in this project. Even though the property appears to have merit, due to the Company's production focus, it was determined selling the project made the most sense. The Company located an opportunity to potentially realize on its past investment and to transfer its future property commitments by selling its option to Prospector Consolidated Resources Inc. The agreement with Prospector is dependent on a due diligence period that could continue into October 2007, and until the transfer of the options and the commitments are completed, the property payments are listed in the Company's property commitment schedule.

The Company is required to make certain interest and cash payments to the former shareholders of First Silver, pursuant to the majority acquisition on May 31, 2006, and the subsequent arrangement to acquire the minority interest.

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

## 1.7 Off-Balance Sheet Arrangements

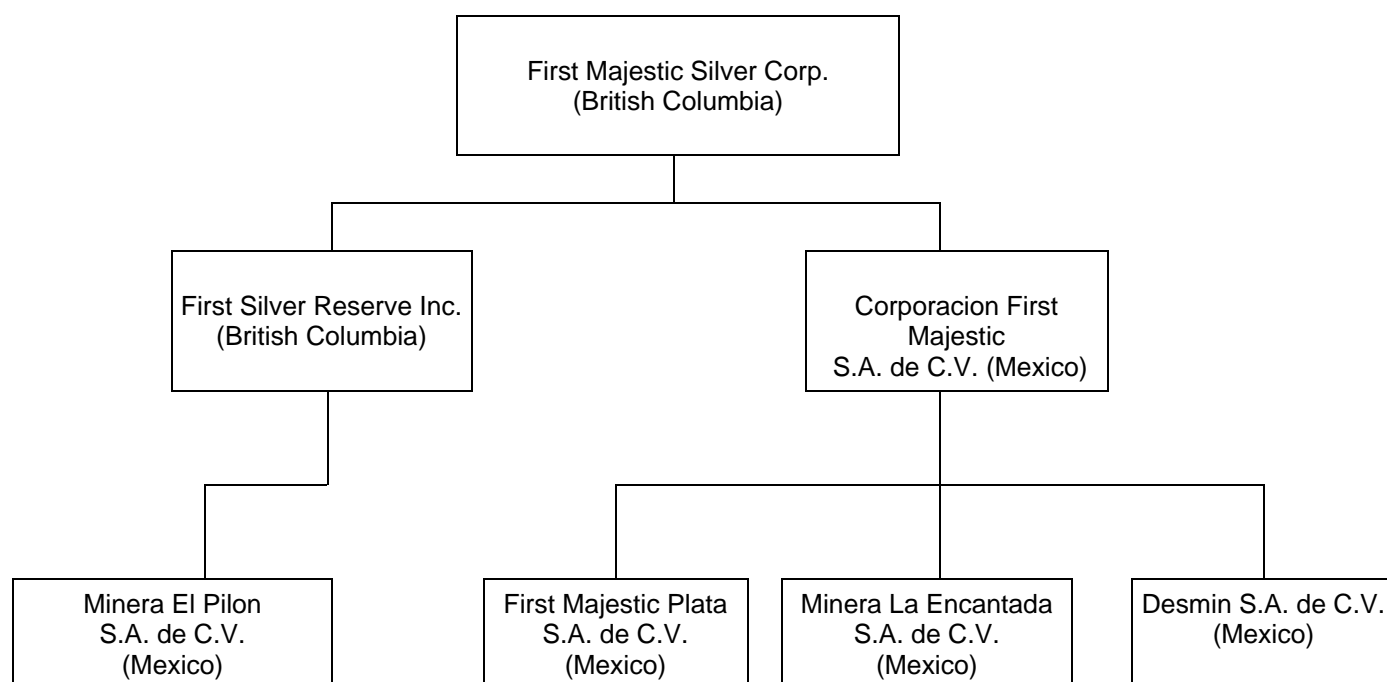
At June 30, 2007, the Company had no material off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that generate financing, liquidity, market or credit risk to the Company.

## 1.8 Transactions with Related Parties

On July 31, 2007, the Company incorporated a new wholly owned Mexican subsidiary, Corporacion First Majestic, S.A. de C.V., ("CFM") and effected a corporate restructuring of Desmin, La Encantada and FM Plata, on August 14, 2007, such that the Company now holds the shares of FM Plata, Desmin and La Encantada, through CFM, which is a Mexican holding company for Mexican tax consolidation purposes.

The following diagram of the corporate structure of the Company is offered for further clarity:

**FIRST MAJESTIC SILVER CORP.  
ORGANIZATIONAL STRUCTURE ON COMPLETION  
OF REORGANIZATION**



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

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

<b>Subsidiaries:</b>	<b>Mine and Mill</b>	<b>Exploration Properties</b>
First Silver and El Pilon	San Martin Silver Mine	San Martin Property Cuitaboca Silver Project
FM Plata	La Parrilla Silver Mine	La Parrilla Property Chalchihuites Properties Candameña Mining District <sup>(1)</sup>



La Encantada and Desmin	La Encantada Silver Mine	La Encantada Property
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(1) On August 14, 2007, the Company entered into an agreement with Prospector Consolidated Resources Inc. ("Prospector") to sell to Prospector the option rights for the Candameña Mining District for consideration consisting of \$50,000 cash immediately, and subject to a due diligence period (by September 7, 2007) two million common shares of Prospector. If Prospector has not by September 7, 2007, completed its due diligence, and received regulatory approval, Prospector may extend its exercise period from September 7, 2007 to October 19, 2007, in which event the option will thereafter be exercisable not later than October 19, 2007, providing that Prospector must pay US\$150,000 including VAT, to reimburse the Company for required payments to be made to the underlying property owners of Candameña.

During the period ended June 30, 2007, the Company:

- (a) incurred \$95,482 (2006 - \$65,138) for management services provided by the President & CEO and/or a corporation controlled by the President & CEO of the Company pursuant to a consulting agreement.
- (b) incurred \$nil (2006 - \$29,000) for geological and technical services provided by directors and/or corporations controlled by the directors of the Company.
- (c) paid \$95,661 (2006 - \$116,360) to the Chief Operating Officer for management and other services related to the mining operations of the Company in Mexico pursuant to a consulting agreement.
- (d) paid \$254,742 (US\$234,292) (2006 - \$nil) to a director of the Company as finder's fees upon the completion of certain option agreements relating to the Chalchihuites Group Properties.

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

## 1.9 Proposed Transactions

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

## 1.10 Critical Accounting Estimates

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

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

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

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

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

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

### Depletion and Depreciation of Property, Plant and Equipment

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

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

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

### Reclamation and Remediation Obligations

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

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

carrying amount of the liability is increased for the passage of time and adjusted for changes to the amount or timing of the underlying cash flows needed to settle the obligation.

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

### Income Taxes

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

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

### Stock-Based Compensation

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

## **1.11 Changes in Accounting Policies including Initial Adoption**

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

#### *(i) Comprehensive income*

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

#### *(ii) Financial Instruments – Recognition and Measurement and Hedges*

Section 3855 establishes standards for recognizing and measuring financial assets, liabilities, and non-financial derivatives. Financial assets and liabilities, including derivatives, are recognized on the consolidated balance sheet when the Company becomes a party to the contractual provisions of the financial instrument. Under this standard, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the

financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Transaction costs are expensed as incurred for financial instruments classified as held-for-trading. For financial instruments classified as other than held-for-trading, transaction costs are added to the carrying amount of the financial asset or liability on initial recognition and amortized using the effective interest method.

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

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

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

The adoption of these four sections had no material impact on the results of operations and financial position of the Company other than the translation adjustment relating to the Company's net investment in self-sustaining subsidiaries is recorded as a component of comprehensive loss for the six months ended June 30, 2007 in the amount of \$7,675,875 (2006 - \$154,205) and the cumulative translation adjustment at December 31, 2006 in the amount of \$7,910,502 is recorded as accumulated other comprehensive income as at that date.

## **1.12 Financial Risks and Other Risks**

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

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

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

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

### 1.13 Other MD&A Requirements

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

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

As of the Report Date, August 28, 2007, the Company has the following securities outstanding:

Issued common shares: 61,025,837 common shares

Stock options:

Price \$	Options Outstanding	Options Exercisable	Expiry Dates
2.10	25,000	25,000	October 1, 2007
1.85	150,000	150,000	December 14, 2007
2.45	175,000	175,000	December 16, 2007
1.79	180,000	180,000	January 12, 2008
3.75	25,000	18,750	March 8, 2008
4.05	100,000	75,000	March 20, 2008
5.04	49,600	37,200	April 25, 2008
4.55	25,000	12,500	July 6, 2008
3.29	50,000	25,000	October 16, 2008
3.28	100,000	50,000	October 17, 2008
2.10	240,000	240,000	November 9, 2008
2.45	650,000	650,000	December 16, 2008
3.28	12,500	6,250	June 13, 2009
4.32	845,400	422,700	December 6, 2009
5.50	200,000	100,000	February 1, 2010
4.64	75,000	18,750	June 1, 2010
4.30	100,000	25,000	August 8, 2010
4.30	450,000	225,000	June 19, 2011
4.32	245,000	122,500	December 6, 2011
4.41	400,000	200,000	December 22, 2011
5.00	155,000	77,500	February 7, 2012
4.65	25,000	6,250	June 20, 2012
	<u>4,277,500</u>	<u>2,842,400</u>	

Share purchase warrants:

Exercise Price \$	Warrants Outstanding	Expiry Dates
2.25	176,323	October 20, 2007
4.00	420,000	October 20, 2007
5.00	3,464,999	October 20, 2007
2.60	1,400,000	December 14, 2007
6.50	3,441,500	November 10, 2008
4.25	2,212,449	November 27, 2008
6.81	191,291	March 20, 2009
	<u>11,306,562</u>	

## **1.14 Disclosure Controls and Procedures**

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

Based upon the recent evaluation of the effectiveness of the disclosure controls and procedures regarding the Company's consolidated financial statements for the period ended June 30, 2007, and this MD&A, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the design and implementation of disclosure controls and procedures were effective as at and for the period ended June 30, 2007.