

CELEBRATING 10 YEARS OF EXCEPTIONAL GROWTH

—
2013
ANNUAL
REPORT



THE NEWEST Senior Silver Producer

First Majestic Silver Corp. is one of the world's fastest-growing silver mining companies. Since our inception in 2003, we have put five mines into operation, reached annual silver production exceeding 10 million ounces of pure silver and achieved senior producer status.

This unparalleled performance has established a solid foundation for the company's next decade of growth. We have also strengthened communities in Mexico and helped thousands of people build better lives through local education, health and employment. The key to our success is our First Majestic Family. In our ten years of operation, we have assembled a roster of exceptional and innovative talent and earned a reputation for team-based empowerment and employee satisfaction.

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Operating	ALL DOLLAR AMOUNTS IN THIS REPORT ARE US\$ UNLESS OTHERWISE INDICATED	2013	2012	2011	2010	2009 ⁽³⁾	2008 ⁽³⁾
		Silver equivalent ounces produced	12,791,527	9,110,452	7,562,494	7,024,056	4,337,103
Silver ounces produced	10,641,465	8,260,434	7,216,109	6,529,325	3,797,520	3,654,698	
Cash costs per ounce ⁽¹⁾	\$ 9.35	\$ 9.08	\$ 8.24	\$ 7.53	\$ 8.49	\$ 8.94	
Total production costs per tonne ⁽¹⁾⁽²⁾	\$ 39.29	\$ 28.62	\$ 28.50	\$ 30.35	\$ 31.97	\$ 38.20	

Financials	MILLIONS EXCEPT PER SHARE AMOUNTS	2013	2012	2011	2010	2009 ⁽³⁾	2008 ⁽³⁾
		Revenues	\$ 251.3	\$ 247.2	\$ 245.5	\$ 117.9	\$ 59.5
Mine Operating Earnings	\$ 92.3	\$ 142.0	\$ 163.3	\$ 59.7	\$ 18.5	\$ 7.5	
Net (Loss) Earnings	\$ (38.2)	\$ 88.9	\$ 103.6	\$ 35.1	\$ 6.3	\$ (5.1)	
(Loss) Earnings Per Share	\$ (0.33)	\$ 0.80	\$ 1.00	\$ 0.38	\$ 0.08	\$ (0.07)	
Cash Flow Per Share	\$ 1.17	\$ 1.32	\$ 1.56	\$ 0.63	\$ 0.19	\$ 0.06	

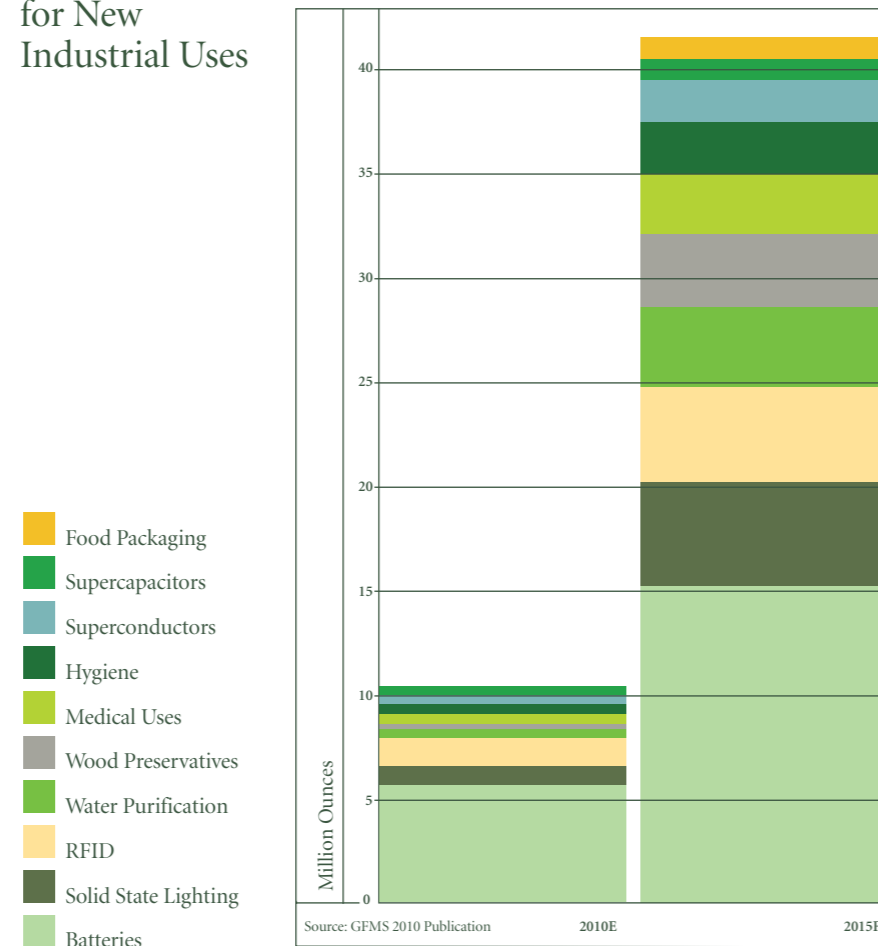
(1) The Company reports non-GAAP measures which include costs per ounce, total production costs per tonne, and cash flow per share. These measures are widely used in the mining industry as a benchmark for performance, but do not have a standardized meaning and may differ from methods used by other companies with similar description.

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

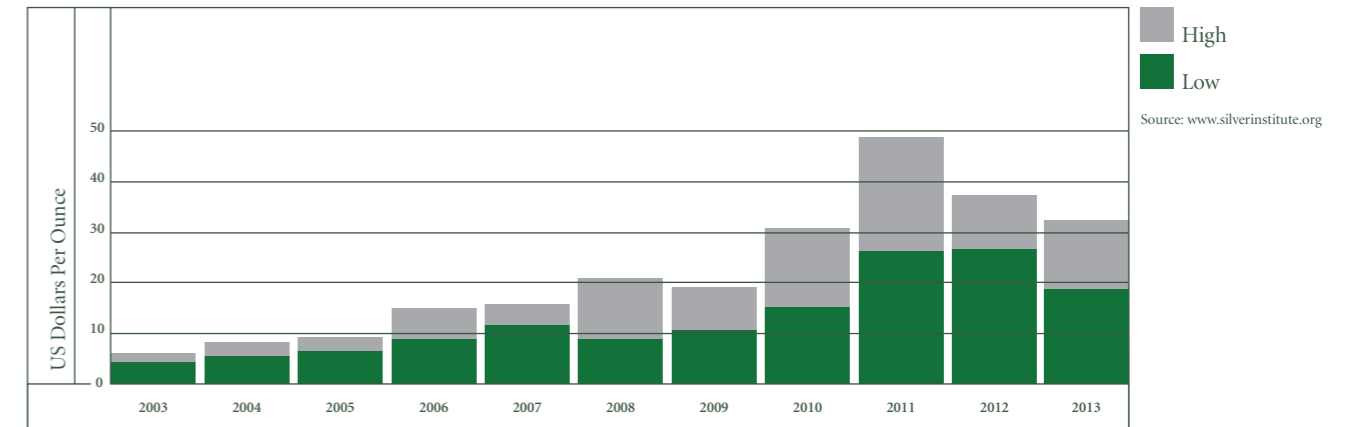
(3) 2009 and 2008 amounts are in Canadian Dollars.

“**FIRST MAJESTIC CONTINUES TO FOCUS ON OPERATIONAL EFFICIENCY TO ENSURE PROFITABILITY IN A LOW-PRICE ENVIRONMENT.**”

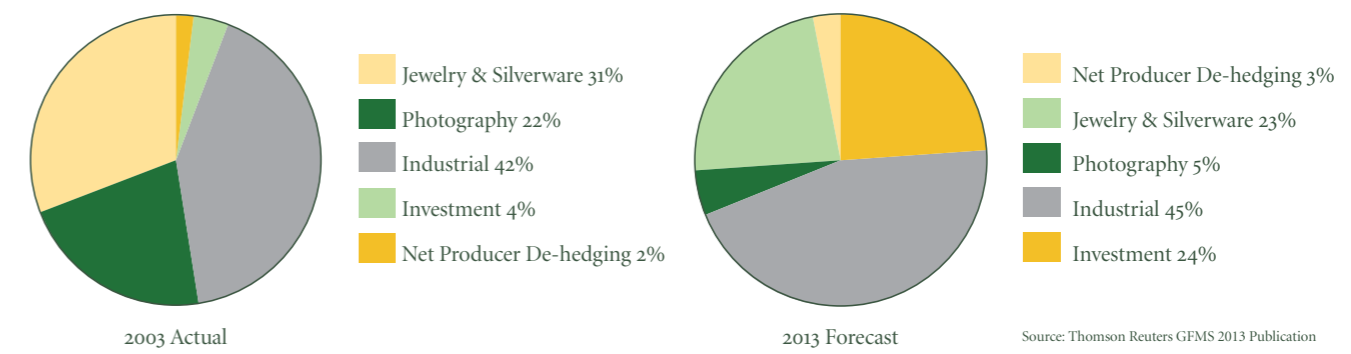
Silver Demand for New Industrial Uses



Historical Silver Prices



World Silver Demand





2013 Highlights

TEN YEARS A Dream Realized

Ten years ago, First Majestic Silver began with a small office in Vancouver, a tiny staff and an ambitious dream to build one of the world's leading silver producers.

During those early years, we forged the principles that would help us grow rapidly but intelligently. Our growth strategy has always been basic and simple:

- 1) Acquire and develop advanced-staged silver projects in Mexico;
- 2) Hire the industry's best and brightest people;
- 3) Empower those people, give them room to innovate and foster an environment of community and collaboration.

Looking at First Majestic today, the results of our strategy speak for themselves: five mines, over 4,100 employees and ten consecutive years of record silver production.

Truly, the key to all our achievements has been our First Majestic Family. While we will surely fine tune our growth strategy as the challenges evolve over the coming ten years, our people-based approach will remain steadfast.

Keith Neumeyer,
President and Chief Executive Officer



2004

First Majestic Acquires La Parrilla Mine

First Majestic raises C\$11.6M in a private placement financing and acquires the La Parrilla mine, dormant since 1999.

Following upgrades and refurbishment, the plant operates initially at 180 tpd with an average grade of 241 g/t silver.

The first silver precipitates are shipped to the Peñoles smelter in August, only seven months after acquisition.



2005

La Parrilla Undergoes First Expansion & Del Toro is Acquired

Two private placement financings raise C\$12.3M, while initial revenues from La Parrilla totaling \$914,000. Exploration drilling at La Parrilla encounters Ore Shoot #3, where grades average 350 g/t silver and the zone remains open at depth. The mine undergoes significant upgrades to improve recoveries and throughput.

The company also acquires the initial properties of two former mines that will later constitute the key ground of the Del Toro Silver Mine.

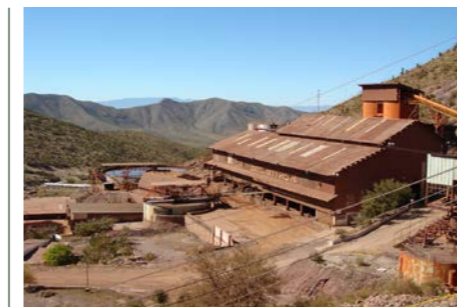


2010

Revenues, Net Income Up Dramatically; Shares Begin Trading on NYSE

Revenue climbs 98% to \$118M, resulting in net income of \$35M. On December 15th, First Majestic's shares begin trading on the NYSE under the symbol AG. Production soars 62% to over 7M ounces of silver equivalent.

The newly-constructed 3,750 tpd plant at La Encantada reaches commercial production, and the company breaks ground on another expansion program at La Parrilla. For the third straight year, First Majestic receives the Socially Responsible Business Distinction Award.



2006

San Martin, La Encantada Acquisitions

The takeover of Toronto-listed First Silver Reserve gives First Majestic the San Martin Silver Mine, paving the way for First Majestic's TSX listing (in 2008).

Later in the year, First Majestic acquires a private Mexican mining company which holds an option to acquire the La Encantada Silver Mine. The First Majestic Family grows to over 850 employees.

First Majestic pours its first silver doré bars at La Parrilla and, combined with output from San Martin, silver production totals 1.3M ounces. Two private placement financings raise C\$43.9M.



2011

Revenues Reach \$246M as Del Toro Construction Begins

Revenue increases 108% to \$246M, net income totals \$104M while silver equivalent production increases 8% to 7.56M ounces. Pure silver production increases 11% to 7.2M ounces.

Silver touches \$50 per ounce and plunges back to \$27. First Majestic's stock hits an all-time intra-day high of CAD\$26.88, on April 6th.

Groundbreaking begins for the Del Toro Silver Mine construction. First Majestic launches its most aggressive exploration effort ever; over 100,000 metres of drilling.



2007

Production and Resources Double

With three mines in operation, silver production more than doubles to 3.6M ounces as First Majestic's employees expand to over 1,300. The company raises C\$34.4M through a private placement offering.

Exploration doubles the NI 43-101 resource base to 163M ounces of silver equivalent. Extensive rehabilitation continues at San Martin. Both the La Encantada and San Martin mills are expanded as a result.



2012

La Guitarra Silver Mine Acquired, Construction Continues at Del Toro

First Majestic celebrates a milestone year with 8.3M ounces of silver and 9.1M silver equivalent ounces produced. Net income totals \$88.9M as the First Majestic Family grows to over 3,500.

First Majestic acquires Silvermex Resources which owned the La Guitarra Silver Mine and the Plomosas Silver Project. Construction at Del Toro, slated to become First Majestic's biggest mine, moves ahead rapidly. The mine begins phase one production in January 2013.



2008

Economy Crashes; TSX Listing and Record Production

First Majestic begins trading on the Toronto Stock Exchange. While the global economic collapse hammers company's share prices, First Majestic raises C\$45M and sets more production records: 3.65M ounces of silver and 4.23M ounces of silver equivalent. Total Proven and Probable Reserves increase by 102%. Global resources (all categories) increase to over 300M ounces.

Mexican authorities award First Majestic the 2008 Socially Responsible Business Distinction Award and the PROFEPA Clean Industry Certificate for the La Parrilla Silver Mine.



2009

First Profitable Year and La Luz Acquisition

First Majestic reports its first profitable year with net income of C\$6.3M. Production figures again reach record levels: 3.8M ounces of pure silver and 4.33M ounces of silver equivalent.

The Company completes a C\$33M expansion of La Encantada, including a new 3,750 tpd cyanidation plant that will bring the mine's annual production to over 4M ounces of silver in the form of doré bars.

By acquiring Normabec Mining Resources, First Majestic obtains the historic Real de Catorce (La Luz) Silver Project.



Looking Ahead

New Mines, 20M Ounces Annual Production

With five mines in operation, annual production approaching 13M ounces of silver and the company solidly profitable, First Majestic looks ahead to its next major milestones: two new mines in production and 20M ounces annual silver output.

To accomplish these ambitious goals, the company has launched a major, company-wide effort to automate and streamline operations through leading-edge technology and skills development. Automation, technology and unprecedented efficiency will define the company's growth through the next decade.

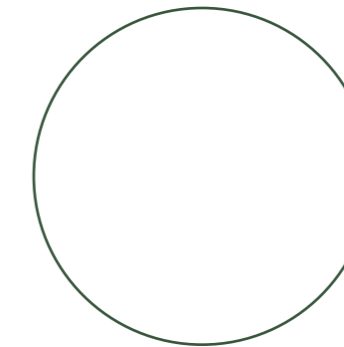
Objectives & Achievements

“
LOOKING AT FIRST MAJESTIC SILVER TODAY, THE RESULTS OF OUR STRATEGY SPEAK FOR THEMSELVES.
 ”

2013 Objective	What we Achieved	For 2014
Reach senior silver producer status	ACHIEVED DEL TORO BROUGHT TOTAL ANNUAL PRODUCTION TO 10.6M OUNCES OF SILVER AND SENIOR PRODUCER STATUS	Reinforce senior status: higher production; Produce 12.7M –13.3M ounces of silver
Complete Del Toro Expansion to 4,000 tpd capacity	DELAYED DUE TO MARKET CONDITIONS. BOTH THE CYANIDATION & FLOTATION CIRCUITS BUILT TO 4,000 tpd	Cyanidation circuit to run at 2,000 tpd plus 500 tpd through flotation
Complete 115kw power line for Del Toro	DELAYED DUE TO COMPLEXITIES	Completion in Q2 2014
Complete San Martin plant capacity to 1300 tpd	ACHIEVED	Produce 1.7 –1.8M ounces of silver
Upgrade La Guitarra mine to 550 tpd operation	ACHIEVED	Submit permits by year-end for further expansion



Message from the President and Chief Executive Officer



Our 2013 Annual Report celebrates First Majestic's tenth year in operation.

While that's not a long tenure in this industry, the progress we've made in that time is unprecedented: five mines in operation, ten straight years of record silver production, 4,100 employees and numerous awards for corporate citizenship and social responsibility. Our overriding goal has been to grow this company into a senior silver producer while helping our host communities prosper and build better lives. I'm very pleased to report that we have met both goals, passing the generally-recognized benchmark of ten million ounces of annual silver production.

The catalyst for this extraordinary growth has been a team of mining talent that I believe ranks number one in the industry. We continue to attract the best and brightest, and this asset will bring us continued growth and success in the years to come.

Not all the news is positive. We are deep into a cyclical bear cycle within a larger bull market for silver and metals in general. Although revenues reached a record \$251 million, lower silver prices, combined with non-cash impairment charges and a non-cash accounting adjustment (related to recently-enacted Mexican tax reforms), generated a net loss of \$38 million in 2013. As a result, we were forced to reduce our expansion rate, capital improvements and exploration. We see little reason that makes this picture any brighter in 2014.

Despite these challenges, I am pleased to report that we met important milestones in 2013. Production of both silver and silver equivalent ounces reached record levels for the tenth straight year. The Del Toro mine marked its first year of silver production, and we made a number of cost-cutting improvements that will serve us well for years to come.

Cost-cutting and efficiencies will again set the tone for 2014. Shareholders should expect a conservative approach from management, meaning both exploration and expansion programs will be scaled back. Thanks to aggressive exploration in past years, we have ample reserves and resources to supply our mills for years to come.

While these are difficult times, it is important to keep circumstances in perspective. We opened our first mine, La Parrilla, when silver traded at \$6.00 per ounce. Silver did not break \$10.00 per ounce until 2006, and it took another four years to reach \$20.00—essentially where silver trades today.

We can grow and remain profitable in today's silver environment, especially if prices remain relatively stable and provide us the time to continue our efficiency programs. Volatility is the greater challenge. Dramatic swings in price make planning very difficult, and nothing increases costs more than a period of high metal prices.

There is, however, little that's rational about today's silver market. It is not dictated by supply and demand. Since the 1980s, we have operated in a sort of "binary" market. On one side we have the conventional catalysts of supply and demand. On the other, we have a paper market influenced by large, trading-based buyers and sellers who rarely take delivery of physical metal. I believe that a true supply-demand market would be much more stable. Unfortunately, we are now dominated by the more volatile and irrational paper market. This situation most likely will not change anytime soon, so we are forced to work in such a pricing environment.

We are using this relative "lull" in the market to implement a number of cost-cutting and efficiency measures. Most significant is what I call our Technology and Innovation Initiative. Under the direction of Martin Palacios, First Majestic's Chief Information Officer, we are installing state-of-the-art technology to dramatically improve and automate our information systems.

One critical factor we must consider is the new mining levy in Mexico. The new tax laws include an additional 7.5% tax on EBITDA plus an additional 0.5% royalty on precious metals revenue. In the past, we have invested more than \$12.4 million back into the communities in which we operate. This money has built schools, water treatment plants, roads, sports fields and much, much more. This new tax law will require us to lower our community and social investments, letting the federal government invest its new royalty windfall as it sees fit.

I wish to thank everyone in our First Majestic Family for helping us persevere, grow and reach our objectives. I sincerely believe we are only at the beginning of what will be a very long and prosperous future for this company. I look forward to reaching new milestones in 2014 and beyond.

Keith Neumeyer,
 President and Chief Executive Officer

“
DESPITE A VERY DIFFICULT MARKET, WE CONTINUED TO GROW, DELIVERED ONE OF OUR BEST OVERALL PERFORMANCES AND MET IMPORTANT MILESTONES IN 2013.
 ”

Keith Neumeyer, President and CEO

Message from the Chief Operating Officer



In 2013, First Majestic completed its tenth year of successfully growing our operations in Mexico. Many great and challenging things have happened during this time, resulting in five operating silver mines and culminating in the achievement of one of our major milestones set back in 2003—to reach annual silver production of more than 10 million ounces of silver.

Our achievements have been the result of a clear and persistent vision: grow production and profitability, continuously re-invest capital to acquire good assets and construct and expand operations as new mineral resources are identified. This strategy has worked well, and we have reached our milestones while continuing to focus on sustainable development in the communities where we operate.

We are convinced that the presence of First Majestic in Mexico has provided benefits to all our stakeholders, and it will continue to do so for years into the future. Unfortunately, due to the current environment in Mexico with higher taxes and lower metal prices, we have had to reduce our workforce from 4,700 to 4,100. More cuts may be required. While we are reluctantly forced to make these cuts, we recognize that the jobs are desperately needed—especially because we operate in areas of Mexico where no other opportunities for jobs exist.

The Mexican Tax Reforms and changes to the Mining Law in Mexico have come at a very bad time for the mining sector. In addition to new laws, inflation factors still exist, primarily in the area of energy costs, one of our largest inputs. We are examining ways to mitigate these costs over the coming years, including solar panels, liquefied natural gas and bio-generation of energy.

Our growth in the future must be evaluated at each step. A conservative approach may be required to reach our next milestones. I believe we have the team and the assets to accomplish our short and long-term objectives. However, 2014 will be a year where we take a “wait and see” approach.

Even with the recent challenges, we remain committed to supporting the communities where we operate. During the past ten years, we have helped build and improve roads, schools, buses, garbage collection, electric and water infrastructure, community social programs, medical services and multiple small investments to assist local businesses in providing services for the development of our communities.

Due to the adoption of technology over the past two years, we have more information—and more timely and even real-time information—about the business than ever before. This process is just beginning and will result in further



“WE HAVE LEARNED TO ADAPT QUICKLY AND MITIGATE ADVERSE FACTORS, ALL WHILE CONTINUING TO IMPROVE PRODUCTIVITY AND EFFICIENCY.”

Ramon Davila, COO

automation and innovation over the coming years. We do recognize that we have many things to improve in order to achieve the excellence that we are striving to reach.

I want to thank everyone who has participated in, and contributed to, this amazing, ten-year adventure called First Majestic Silver Corp. I am most grateful for the support of our Board of Directors, our management team and all of our employees. All have given so much to this company, day in and day out, which has shown in results that are nothing shy of incredible.

Ramon Davila, Ing.
Chief Operating Officer

Message from the Chief Financial Officer

Since joining First Majestic in 2007, I have watched this company grow and change exponentially. In that time, we have developed an enriched set of financial and operational systems and reporting capabilities that rivals many firms in the industry. Our goal has been, and continues to be, to provide investors with accurate, transparent, comprehensive and timely information.

In support of that mandate, we are introducing two important new financial metrics in 2014: *All-in Costs* and *All-in Sustaining Costs*. The industry is just beginning to understand and implement these measures, and we are early adopters—especially for the silver sector. In fact there is not yet a standard definition of a “sustaining cost,” which is why we hired outside consultants to analyze how other mining companies are defining and reporting these measures.

Besides better transparency, the measures will better enable us to make comparisons amongst our peer companies. The industry standard “cash costs” or “mining production costs” have always been loosely defined and applied—and at times abused. Analysts have for years bemoaned the difficulty of determining a mining company’s real costs and how they compare with peer companies. Even though still evolving, the new reporting measures should resolve some of these issues.

All-in Costs will also show governments and interested parties the true burden of running a growing mining enterprise. These costs are enormous, and more accurate reporting will help those outside the industry understand that simply starting up a mine does not automatically equate to high profits and balance sheets flush with cash. Skilled management with a constant eye on costs is critical.

We also believe that, once these measures are implemented across the industry, First Majestic will compare very favorably with its peer companies and highlight the company’s management of its costs and the successes of our efficiency measures. These new reporting measures will appear for the first time in our Q1 2014 interim financial reports.

Raymond L. Polman, B.Sc., CA
Chief Financial Officer

Message from the Chief Information Officer

With five mines in operation and multiple projects, First Majestic must ensure that its systems and controls evolve to that of a senior mining company. In other words, we must transition to higher levels of an “operational maturity model.” It is my mandate to accomplish this goal as quickly as possible.

Throughout 2013 and into this year, we have deployed leading-edge systems and technologies that will revolutionize our decision-making capabilities and ability to monitor the business more closely.

Our vision, however, goes far beyond this world class reporting. We want to achieve something realized by only a few mining companies—the ability to make weekly financial closings. A key factor is putting systems in place that report operational and financial positions on a daily basis. When completed, we will be able to make decisions based on leading rather than lagging indicators.

These systems will give us an executive dashboard from which we can monitor in real time, the “Data Supply Chain” across the key processes that find, extract, process and sell metal. With such rich information, accessible anywhere in the world and on any device, we can make better decisions that will greatly increase efficiency and cut costs.

Our long-term vision is to refine the technology and install it seamlessly into new mines as we grow. The intended result will be much faster integrations of new acquisitions and / or start-ups, higher productivity of existing operations and lower costs.

Martin Palacios, MBA, CMC
Chief Information Officer



Raymond L. Polman, B.Sc., CA
Chief Financial Officer

“WE PRIDE OURSELVES ON PROVIDING SOLID, DETAILED FINANCIAL INFORMATION THAT’S EASY TO UNDERSTAND.”

Raymond L. Polman, CFO



Martin Palacios, MBA, CMC
Chief Information Officer

“WE HAVE DEPLOYED LEADING-EDGE SYSTEMS AND TECHNOLOGIES THAT WILL REVOLUTIONIZE OUR DECISION-MAKING CAPABILITIES.”

Martin Palacios, CIO

THE SENIOR Management Team

First Majestic has built an industry-leading, senior-level management team that has been the catalyst of our exceptional growth.

Over the past few years, we have established a number of programs to promote seamless integration, communication and cooperation with our management personnel in Canada.

The result has been agile decision-making, growing efficiency and a culture of creativity.



Connie Lillico
Corporate Secretary



Salvador Garcia
VP of Operations and Projects



Arturo Diaz
VP of Administration



Francisco Garza
VP of Finance



Ramon Mendoza
VP of Technical Services



Jill Arias
VP of Marketing



Todd Anthony
VP of Investor Relations



Rodrigo Cordoba
Director of Risk Management



Sergio Moreno
Regional Manager of Safety, Environmental & Training



Mario Valdez
Regional Manager of Operations



Carlos Castro
Divisional Manager of Operations



Mario Acosta
Construction Manager of New Projects



Jesus Velador
Regional Manager of Exploration



Mario Maldonado
Human Resources Manager



Oscar Melgar
Manager of Purchasing



Maria Vasquez
Geological Data Base Manager



Andrew Poon
Director of Finance



Eric Sye
Controller



Amar Parmar
Director of International Taxation



Karen Liu
Corporate Controller



Juan Bachet
Internal Audit Manager



Oscar Legaspi
Finance Manager



Alejandro Sandoval
General Manager of Processing Plants



Carlos Wong
Manager of Planning and Innovation



Teresita Rivas
Systems Development Manager & SAP Support

CARING FOR Communities

A Decade of Service and Investment.

Ten years ago, First Majestic established a firm mandate to give back to our host country.

In the years since, we have invested more than \$12.4 million to help build sustainable, economically vibrant and healthy communities in addition to over \$23 million on water conservation systems.

Our sustainability programs cover a wide range of social and environmental programs.

We have invested in and managed: education, vocational training, infrastructure improvements, health assistance, cultural celebrations, sports programs, economic opportunities, environmental protection and more. We are extremely proud of the communities we have helped and the lives we have improved.

Following is a summary of our sustainability highlights for 2013.

A Community of La Parrilla, La Parrilla Silver Mine

Invested Mx\$10 million to help reconstruct primary roads, sports facilities, parks and a water dam that solved water supply problems for farming and livestock.

Helped local entrepreneurs set up businesses that contract with First Majestic to supply essential services to the mine.

Invested Mx\$1.1 million in local environmental programs, including water supply repairs, soil conservation and flood protection.

Continued scholarship program and infrastructure improvements for local schools.

Supplied 90,000 litres of potable water per week to residential areas of La Parrilla. Water is also continually purified for drinking at local schools.

B Community of San Francisco de Ibarrada, La Guitarra Silver Mine

Continued to help to maintain ecosystem balance through soil protection, water conservation and reforestation.

Using treated water from the La Guitarra processing plant, a nursery was established at the mine that raises trees grown from seeds indigenous to the area.

Continued reforestation programs and educational campaigns to promote forest fire prevention.

Sponsored an earthquake preparedness and fire prevention education program at the middle school.

Hosted Mother's Day and Children's Day celebrations in a number of surrounding communities.

“ WE HAVE BEEN RECOGNIZED AND AWARDED FOR SIX CONSECUTIVE YEARS WITH THE EMPRESA SOCIALMENTE RESPONSIBLE AWARD AND WE TAKE PRIDE IN THE COMMUNITIES WE HAVE BEEN MINING IN OVER THE PAST DECADE. ”

Arturo Diaz, VP of Administration

C Community of Chalchihuites, Del Toro Silver Mine

Signed a long-term agreement with the town of Chalchihuites to promote local employment and service providers.

Began working with local consulting firms to develop a long-term, Sustainable Development Plan for the region.

Completed a new Mx\$10 million sewage and water treatment facility which not only supplies water to the new mill but helps resolve the town's major raw sewage problem.

Donated a specialized trash collection truck to the town.

Rebuilt an historical building to create a community house that now provides free medical services to low income residents, along with training for small business creation.

Helped the community house set up schools for music, dance and jewelry.

Built parks and sports facilities in the area.

Improved roads to help promote tourism in the area.

D Community of La Encantada, La Encantada Silver Mine

Continued offering employees and community members free medical services including physical and dental health assistance, vaccinations and dietary consultation.

Promoted sports and physical activity, including the Spring Day Race. Winners were awarded prizes such as video players, cameras, tablets and bicycles.

Funding for elementary and secondary schools helped hire certified teachers and build sports programs for soccer, basketball, squash, softball and baseball.

Hosted a Mother's Day celebration where the guests of honor were serenaded by mariachi and presented with gifts.

Continued providing individual houses for employee families and multi-residential complexes for single workers.

Following a damaging storm, we donated materials for housing reconstruction. Pilar Gomez, Mayor of Coahuilo, Ocampo, thanked the company for the donation saying the actions reaffirm First Majestic's commitment to the community.



E Community of San Martin de Bolaños, San Martin Silver Mine

In commemoration of World Environment Day, mine employees, representatives from City Hall, students and community members held a community cleanup day.

Organized other regular community cleanup programs with support of local authorities and participants.

Continued to provide scholarships for degrees in earth science to university-age children of San Martin mine workers.

F Community of Real de Catorce, La Luz Silver Project

Continued rehabilitation of the historic Santa Ana Hacienda.

Construction of the mining museum and large cultural facility progressed further.

Jewelry, art and music schools expanded.

Children enrolled in the painting school held their first art exhibit at the cultural centre. The exhibition was attended by the Mayor of Catorce, C. Hector Moreno Arriaga and Project Manager Mr. Ricardo Fuentes.

Built soccer and baseball fields.

Partnered with municipal authorities to donate baseball uniforms to 19 teams that consisted of 430 players.

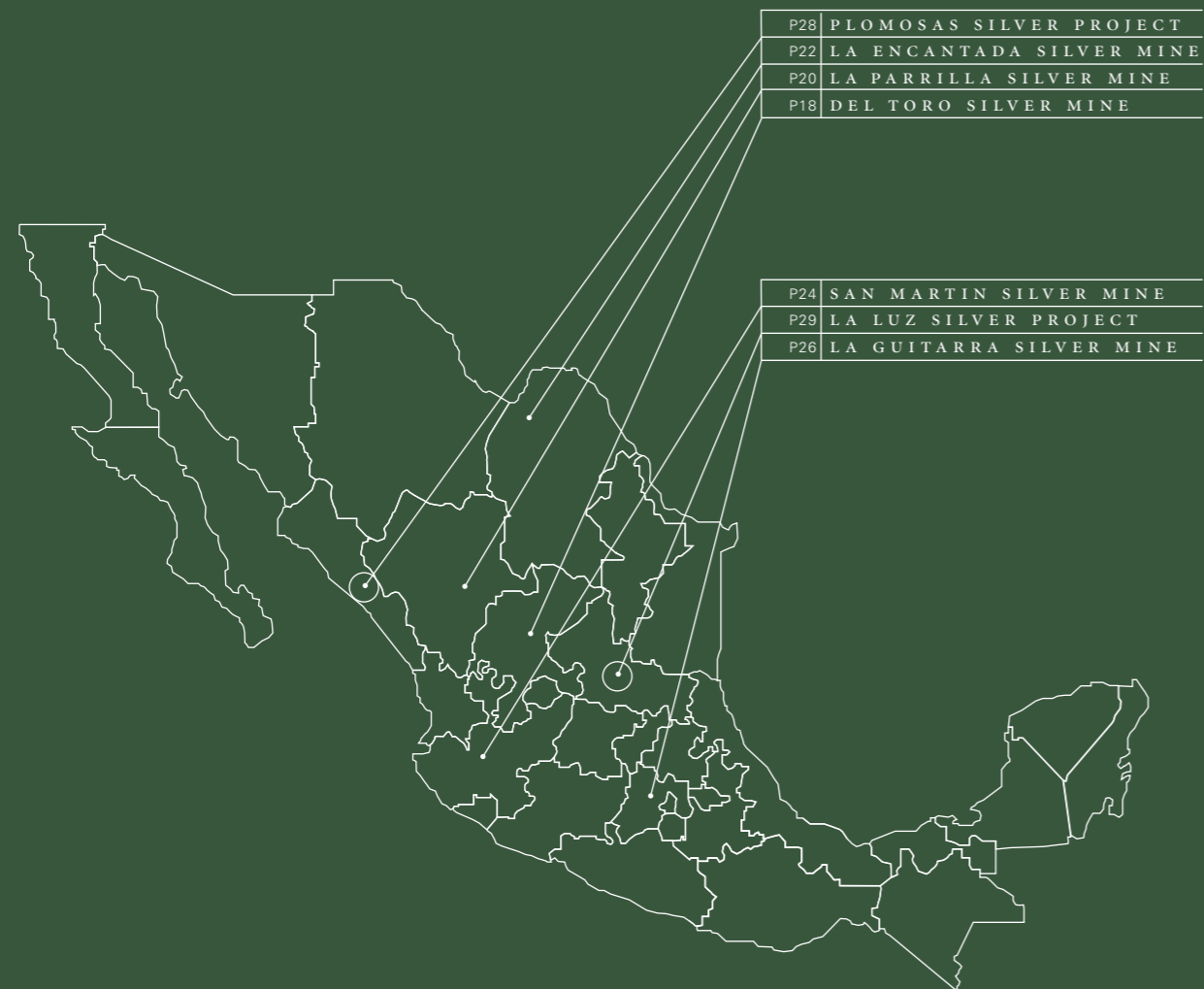
Donated Mx\$2.1 million to the municipality of Real de Catorce to help with the purchase of land for the construction of a school complex.

Celebrated Mother's Day with neighboring communities by hosting parties where the guests of honor were presented with a special meal and gifts.

Launched a sustainable agricultural program to address recent droughts in the area. Included cultivation of various types of cactus to improve the region's ecology.



Our Mines and Projects



ONE
COUNTRY

MEXICO



Our mineral assets range from modern and rapidly-growing mines to early-stage development projects. Our development strategy is to identify high-quality, undervalued mineral properties explored by old techniques, then apply modern exploration methods to locate new resources that can lead to a production decision or expansion.

First Majestic's mine and property portfolio is located entirely in Mexico, one of the best places in the world for mining and exploration. In Mexico we benefit from political and financial stability, a modern and growing infrastructure, an educated and skilled labor force and communities eager to prosper and build better lives.

Del Toro 2013 Highlights

Ownership	100%	Employees	974
2013 Silver Production (ounces)	1,484,598	2014 Projected Silver Production (ounces)	2,754,000 – 2,895,000
2013 Silver Equivalent Production (ounces)	1,937,136	2014 Projected Silver Equivalent Production (ounces)	3,276,000 – 3,444,000
2013 Cash Costs Per Ounce	\$9.99	2014 Projected Cash Costs Per Ounce	\$9.18 – \$9.66
2013 Production Costs Per Tonne	\$51.54	2014 Projected All-in Sustaining Cost Per Ounce*	\$14.02 – \$14.75

*Does not include allocation of corporate G&A and share-based payment expenses, which are included in consolidated All-In Sustaining Costs

Del Toro Silver Mine

ZACATECAS STATE, MEXICO

First Majestic's Newest Mine

First Majestic has invested more than \$150 million at the Del Toro mine, representing the company's largest investment in a single project to date. The mine is ultimately expected to become the company's biggest silver producer.

The majority of the mine's production in 2014 will be in the form of silver doré bars. In the fourth quarter 2013, Del Toro produced 550,026 ounces of silver and operated with an average grade of 209 g/t silver.



Located Near the La Parrilla Silver Mine

Located in the municipality of Chalchihuites in the state of Zacatecas, Mexico, Del Toro lies approximately 50 kilometres southeast of First Majestic's La Parrilla Silver Mine. The 986 hectare land package is a consolidation of three historical mines: Perseverancia, San Juan and Dolores.

Phase 2 Construction Completed in the Fourth Quarter

Following an inaugural ceremony in January, 2013, the 1,000 tpd flotation circuit at Del Toro reached Phase 1 commercial production on April 1st. Phase 2 of construction, including leaching tanks, thickeners, Merrill-Crowe area, clarification circuit, installation of two precipitate filter presses, two induction furnaces and two tailings filters, was completed in the third quarter of 2013. The 1,000 tpd cyanidation circuit commenced commissioning in October 2013 which allowed for throughput levels to achieve production capacity of 2,000 tpd.



Cyanidation Circuit Producing Doré Bars

Del Toro reached its most significant milestone to date, in November 2013, with the initial production of silver doré bars from the new cyanidation circuit. Throughput, grades and recoveries achieved commercial levels at the end of 2013, beginning to approach the rates indicated in the August 2012 Pre-Feasibility Study.

Phase 3: Expanding to 2,500 tpd

Phase 3 expansion is currently underway with the goal of ramping production to 2,500 tpd by the middle of 2014. Due to market conditions and uncertainties about silver prices, management decided to scale back investment in the flotation circuit and shaft and delay the original plan to reach 4,000 tpd by late 2014. Completion of the 45 kilometre, 115kW power line from the State of Durango is anticipated to be completed in the middle of 2014.

Improvements Continue into 2014

During the third quarter of 2013, the crushing circuit was expanded to allow for increasing capacity. The cyanidation circuit is expected to reach a capacity of 2,000 tpd by mid-year. However, to conserve capital in the current market, throughput to the flotation circuit will be reduced from 1,000 tpd to approximately 500 tpd during 2014. Further improvements are underway with a focus on daily tonnage, recoveries, quality of doré bars and concentrate and other plant optimizations.

Conserving Water, Reducing Costs

Installation of the planned four tailings filters was completed in 2013. The filters can handle up to 4,000 tpd while recycling approximately 80% of the water used throughout the milling process. Del Toro is the third of First Majestic's operations to use this new environmentally friendly technology. In addition to reducing costs and the environmental impact, the process also decreases operational risk in the event of natural disruptions to the local water supply.

Underground Development Continues

Underground development in 2013 was 11,595 metres in comparison to 11,450 metres in 2012. This work focused on the San Juan, Perseverancia/San Nicolas and Dolores mines for the upcoming increase in production expected in 2014.

“
PHASE 3 EXPANSION AT DEL TORO IS UNDERWAY, WITH THE GOAL OF RAMPING PRODUCTION TO 2,500 TPD BY MID-2014.
 ”



Miguel Rios, Ing.
 Manager of Del Toro Silver Mine

La Parrilla 2013 Highlights



Ownership	100%	Employees	908
2013 Silver Production (ounces)	3,115,997	2014 Projected Silver Production (ounces)	3,079,000 – 3,232,000
2013 Silver Equivalent Production (ounces)	4,219,374	2014 Projected Silver Equivalent Production (ounces)	4,270,000 – 4,484,000
2013 Cash Costs Per Ounce	\$7.31	2014 Projected Cash Costs Per Ounce	\$7.00 – \$7.36
2013 Production Costs Per Tonne	\$36.45	2014 Projected All-in Sustaining Cost Per Ounce*	\$11.67 – \$12.27

*Does not include allocation of corporate G&A and share-based payment expenses, which are included in consolidated All-In Sustaining Costs

La Parrilla Silver Mine

DURANGO STATE, MEXICO

Production Increases at the Company's First Operating Mine

La Parrilla, First Majestic's first operating mine, opened in 2004. Silver production has increased every year since, including an 8% increase in 2013.

Located just 65 kilometres southeast of the city of Durango, the mine benefits from excellent infrastructure and access. The La Parrilla operation is the company's most advanced and automated facility and is the training centre for personnel and the testing centre for new processes and technologies.



“
SILVER PRODUCTION AT LA PARRILLA HAS INCREASED EVERY YEAR SINCE THE MINE OPENED, INCLUDING AN 8% INCREASE IN 2013.
 ”

A Network of Five Underground Operations

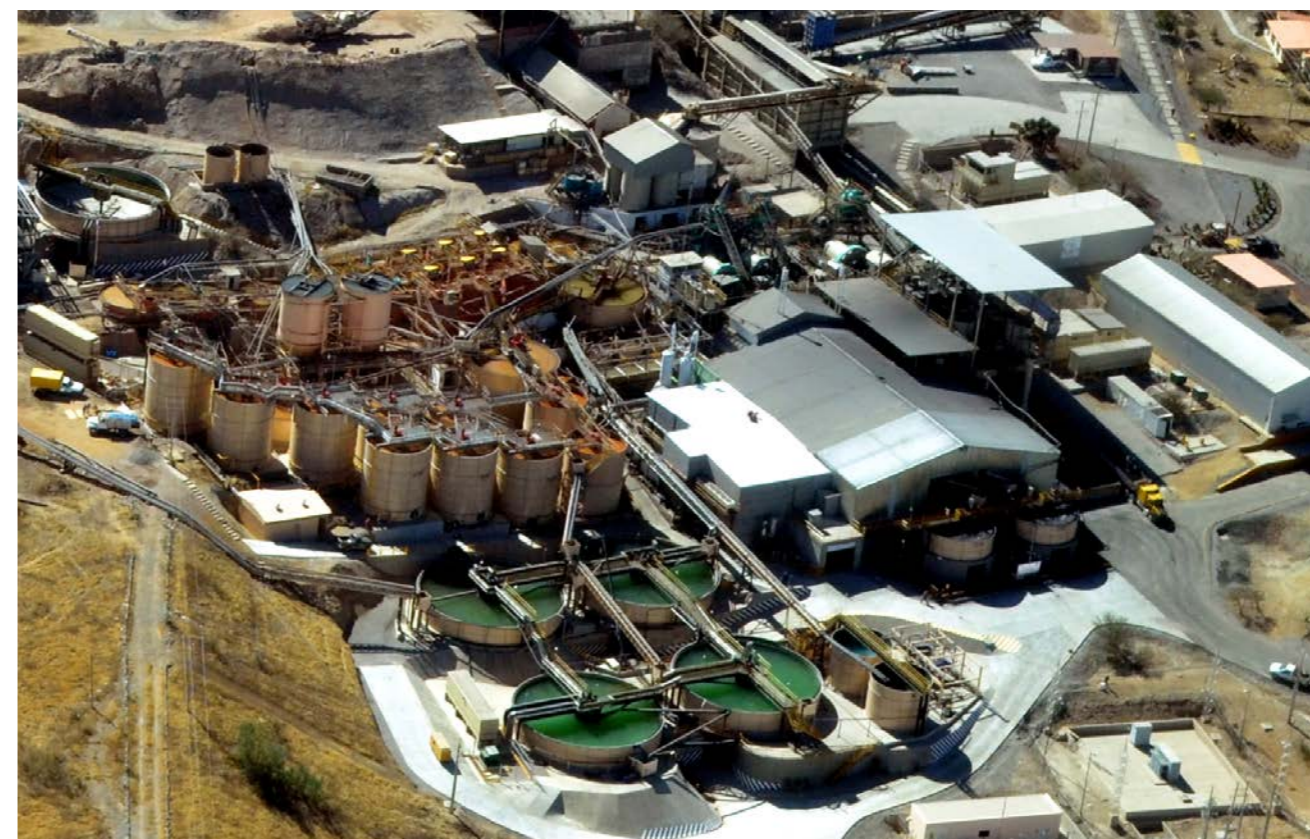
La Parrilla encompasses 69,460 hectares consisting of a network of underground operations including Rosarios/La Rosa, La Blanca, San Marcos, Vacas and Quebradillas mines. The new Vacas mine began production in the second half of 2013 at a rate of 300 tpd. The mine produces sulphide ore with silver grades ranging from 200 to 240 g/t.

Better Recoveries with New Leaching Tanks

The La Parrilla operation includes a 2,000 tpd dual-circuit processing plant consisting of a 1,000 tpd cyanidation circuit and a 1,000 tpd flotation circuit. In the cyanidation circuit, the construction of three new leaching tanks was completed in the third quarter. The new tanks are expected to provide a longer leaching time which is expected to further increase recoveries in cyanidation.

Exploration Continues Despite Cutbacks

Exploration work at La Parrilla in 2013 focused on the Rosarios, Quebradillas, Vacas, San Marcos, La Intermedia and La Blanca mines, as well as the Viboras, San Nicolas and the newly discovered La Estrella vein areas. The results of this exploration program will be included in an updated NI 43-101 Technical Report on the property.



Underground Ore Haulage System Progressing

By the close of 2013, First Majestic had completed approximately 1.1 kilometres of a planned 5 kilometre underground ore haulage and electric rail system at La Parrilla. The project plan includes a 2,000 tpd hoisting shaft at La Rosarios, the mine nearest the mill, and an underground rail system connecting all five mines to the shaft. The shaft and tunnel system is expected to dramatically improve ore transportation to the mill, thereby reducing overall operation costs and allowing for further expansion. Construction is ongoing, and completion is now anticipated at the end of 2016.



Oscar Lopez, Ing.
 Manager of La Parrilla Silver Mine

La Encantada 2013 Highlights

Ownership	100%	Employees	885
2013 Silver Production (ounces)	4,081,094	2014 Projected Silver Production (ounces)	4,150,000 – 4,368,000
2013 Production Costs Per Tonne	\$33.01	2014 Projected All-in Sustaining Cost Per Ounce*	\$12.32 – \$12.95
2013 Cash Costs Per Ounce	\$9.66	2014 Projected Cash Costs Per Ounce	\$8.78 – \$9.23
2013 Silver Equivalent Production (ounces)	4,162,534		

*Does not include allocation of corporate G&A and share-based payment expenses, which are included in consolidated All-In Sustaining Costs

La Encantada Silver Mine

COAHUILA STATE, MEXICO

Still the Company's Largest Silver Producer

La Encantada is currently First Majestic's largest silver mine, producing over 4 million ounces of silver annually in the form of doré bars with an average head grade exceeding 220g/t silver.

Operations include a 4,000 tpd cyanidation plant that processed 1,139,241 tonnes of ore in 2013. The site encompasses 4,076 hectares of mining rights and 1,343 hectares of surface rights, located 708 kilometres northeast of the city of Torreón.

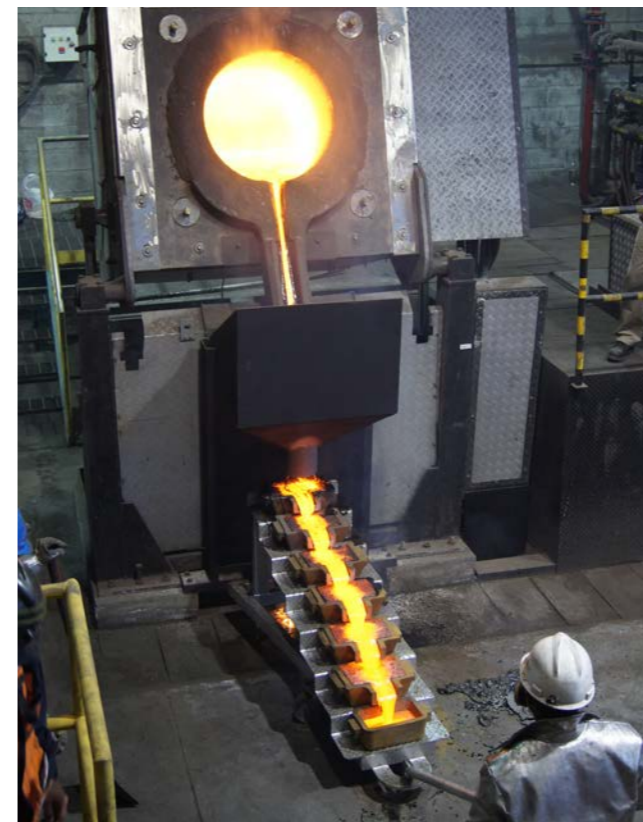


New Crushing Circuit to Increase Fresh Ore Feed

In the second quarter, a new portable crushing unit was installed to increase the throughput of fresh ore. Crusher circuit improvements are also underway with a goal of increasing the throughput of fresh ore to a rate of 3,000 tpd by year end. The newly discovered Regalo vein is being prepared for long-hole drilling aimed at supplying higher volumes of fresh ore for the expanded crushing circuit.

Ball Mill Overhaul in 2013

During the third quarter 2013, ball mill #1 underwent a complete overhaul to repair a breakdown and to improve operations. With the ball mill fully operational, fresh ore tonnage, silver grades and recoveries have returned to normal. A fourth ball mill is planned for installation in 2014.



Exploration and Development Continues to Upgrade Geological Data

Exploration and development in 2013 included 14,132 metres of underground development and 15,835 metres of drilling. In preparation for an updated NI 43-101 Technical Report, the company began increasing the rate of drilling in the third and fourth quarters of 2013 to further define reserves and resources.

Recoveries Offer a Challenge and an Opportunity

Development continues to focus on areas within the mine containing lower levels of manganese, as this type of ore provides higher recovery rates. Currently, First Majestic is targeting ore bodies surrounding the Milagros and San Javier breccia pipes. Mine development and production is also ongoing from the San Francisco vein and the 990 and 990-2 chimneys. Metallurgical studies continue.

“
CRUSHER CIRCUIT IMPROVEMENTS AT LA ENCANTADA ARE EXPECTED TO INCREASE MINE ORE THROUGHPUT TO A RATE OF 3,000 tpd BY YEAR END.
 ”



Javier Villa, Ing.
 Manager of
 La Encantada
 Silver Mine

San Martin 2013 Highlights



JALISCO STATE, MEXICO

Ownership	100%	Employees	652
2013 Silver Production (ounces)	1,250,774	2014 Projected Silver Production (ounces)	1,725,000 – 1,813,000
2013 Silver Equivalent Production (ounces)	1,370,890	2014 Projected Silver Equivalent Production (ounces)	1,873,000 – 1,969,000
2013 Cash Costs Per Ounce	\$12.05	2014 Projected Cash Costs Per Ounce	\$8.69 – \$9.13
2013 Production Costs Per Tonne	\$52.00	2014 Projected All-in Sustaining Cost Per Ounce*	\$13.93 – \$14.63

*Does not include allocation of corporate G&A and share-based payment expenses, which are included in consolidated All-In Sustaining Costs

San Martin Silver Mine

JALISCO STATE, MEXICO

Silver Production Increases 31%

Silver production at San Martin in 2013 increased 31% over 2012, due primarily to the installation of newer and more efficient systems that improved mill output and doré quality while lowering cash costs.

New equipment included two induction furnaces, two large leaching tanks and a third ball mill. These improvements will push mill capacity to 1,300 tpd in early 2014. At full capacity, average annual silver production is expected to grow by approximately 50% compared to 2013 levels. San Martin produces 100% silver doré bars.



Large Land Package Northeast of Guadalajara

San Martin is located 250 kilometres northeast of Guadalajara in the State of Jalisco. The mine is a major contributor to the economy of the nearby town of San Martin de Bolaños. The large land package comprises 33 contiguous mining concessions in the San Martin de Bolaños mining district that cover 37,518 hectares of mineral rights, including the application to acquire two new mining concessions covering 29,676 hectares which are currently in the process of registration. San Martin holds an additional 1,296 hectares of surface land rights surrounding the mine and 160 hectares of surface land rights around the mill and other facilities.



“
SAN MARTIN UNDERWENT A MAJOR EXPANSION IN 2013 WHICH WILL RESULT IN A 50% INCREASE IN PRODUCTION.
 ”

Updated Technical Report Expands LOM to 9.5 Years

In May 2013, First Majestic completed an updated NI 43-101 Technical Report for San Martin showing an increase in Life of Mine (LOM) to 9.5 years with Proven and Probable Reserves increasing 224% to 22.0 million ounces of silver. Measured and Indicated Resources increased 48% to 4.0 million silver ounces while Inferred Resources increased 36% to 58.6 million silver ounces. The substantial increase in Reserves after 30 years of continuous mining and production demonstrates the untapped exploration potential of this prolific mining district.

Underground development in 2013 totalled 10,118 metres, focusing on the new Rosarios area where seven areas are now in production. Exploration centered on the La Huichola, Rosarios and Condesa veins with 8,667 metres of drilling completed.



Cesar Maldonado, Ing.
 Manager of San Martin Silver Mine

La Guitarra 2013 Highlights



Ownership	100%	Employees	369
2013 Silver Production (ounces)	709,002	2014 Projected Silver Production (ounces)	946,000 – 995,000
2013 Silver Equivalent Production (ounces)	1,101,593	2014 Projected Silver Equivalent Production (ounces)	1,201,000 – 1,263,000
2013 Cash Costs Per Ounce	\$10.60	2014 Projected Cash Costs Per Ounce	\$9.21 - \$9.68
2013 Production Costs Per Tonne	\$53.04	2014 Projected All-in Sustaining Cost Per Ounce*	\$18.43 - \$19.37

*Does not include allocation of corporate G&A and share-based payment expenses, which are included in consolidated All-In Sustaining Costs

La Guitarra Silver Mine

MEXICO STATE, MEXICO

Production Increases Substantially in 2013

In its first full year of production under First Majestic's ownership, La Guitarra produced 709,002 ounces of silver.

Since acquiring the mine in July 2012, First Majestic has completed an expansion of the milling and flotation areas from 350 tpd to 500 tpd without disrupting operations.



Part of the Silvermex Acquisition

First Majestic acquired La Guitarra as part of the Silvermex Resources acquisition. The project's 39,714 hectare land package, located 130 kilometres southwest of Mexico City, became First Majestic's fourth producing mine in July of 2012.

Plant Expansion Will Generate Higher Production

Since taking over the project, management's primary goals for La Guitarra have included improving operational efficiencies and reducing costs. In the spring of 2013, First Majestic reached a significant milestone with a 40% expansion of the plant's capacity. The upgrades to the facility included construction of a new circuit with a new ball mill and new flotation cells, anticipated to increase annual production from 0.8 million to 1.2 million ounces of silver equivalent. Production costs, at \$53.04 per tonne in 2013, were lowered by more than 20% from 2012. At the time of acquisition, costs were \$128 per tonne.



“
SINCE ACQUIRING
LA GUITARRA,
PRODUCTION HAS
INCREASED
ALMOST 50%
WITHOUT
DISRUPTING
OPERATIONS.
”

New Plant to Produce Doré Bars On Site

In an effort to further improve operations and economics, a new onsite leaching circuit is in the planning stages. Upgrading the existing mill to a 1,000 tpd cyanidation facility will allow production of silver doré bars on site, significantly reducing smelting and refining charges as well as transportation costs. First Majestic anticipates submitting permit applications to government authorities in late 2014.

Higher Grade Target Under Development

Underground development at the El Coloso area, specifically the Joya Larga structure, began in the first quarter of this year. The area is known to contain higher grades of silver with indicated grades ranging between 200 g/t to 350 g/t silver. Mine development work continues to advance toward this production area. Initial production from this new zone is expected to begin in early 2014.



Gerardo Rovelo, Ing.
Manager of La Guitarra Silver Mine



Plomosas Silver Project

SINALOA STATE, MEXICO

A Rich History of Silver and Gold

The Plomosas Silver Project is located 94 kilometres southeast of Mazatlán in Sinaloa, Mexico.

Acquired as part of the Silvermex Resources acquisition, the project concessions total 16,279 hectares. The region is famous for its mining industry and is best known for its abundant silver and gold deposits. In particular, the Plomosas mining district is known historically as a rich area for silver and gold, mainly from what was known as the Rosario and San Juan mines. These historic mines are now part of First Majestic's Plomosas land package which was acquired through the purchase of Silvermex Resources in 2012.

Historic Reserves & Resources at Rosario

A 2001 report by Grupo Mexico states that the Rosario Mine contains estimated historic Proven and Probable Reserves and Inferred Resources of 609,891 tonnes grading 134 g/t Ag, 3.24 % Zn, 2.21 % Pb, and 1.05 g/t Au. The reported Reserves and Resources were calculated by the time they were closing operations at Rosario in 2000. This report contains longitudinal sections with grades and tonnages but it does not have details about the method or assumptions used for the estimates.

The mine has extensive development and has been partially refurbished by the previous operator in preparation for an 800 tpd operation. Mine workings have also been dewatered and have undergone partial rehabilitation.

Development on Hold Until Markets Improve

The Plomosas land package encompasses extensive facilities and infrastructure including a fully functional mining camp, tailings dam, assay lab, a 33 KV power line, a 30 year water use permit and a 20 year surface rights agreement. Although budget cuts halted an exploration and drilling program scheduled for 2013, the property is anticipated to become a focus of exploration and growth for First Majestic in the coming years. Future plans include preparation of an NI 43-101 resource estimate and continued exploration at depth and along strike of the existing known structures. The company will also collect material for advanced metallurgical testing and, if justified, develop a comprehensive mine plan in advance of permitting.



SINALOA STATE, MEXICO

“ WITH ITS HISTORICAL PRODUCTION AND POTENTIAL, PLOMOSAS IS ANTICIPATED TO BECOME A MAJOR FOCUS IN THE COMING YEARS. ”



La Luz Silver Project

SAN LUIS POTOSÍ STATE, MEXICO

A Long History of High Grade Silver

The La Luz Silver Project is located 25 kilometres west of the town of Matehuala in the state of San Luis Potosi.

The land package covers an area of 4,977 hectares within Real de Catorce, a historically significant mining district with estimated historic production of 230 million ounces of recovered silver between 1773 and 1990.

Preserving Local History and Culture

In 2011, First Majestic embarked on an ambitious Sustainable Development Program focused on preserving the local Huichol cultural heritage and promoting long term employment in the region. In 2013, the Company continued its commitment to the project and the community, furthering the restoration of the old historic buildings at the Santa Ana Hacienda and the construction of the Thematic and Cultural Park which will include a mining museum.

First Majestic's Jewelry, Music and Trade Schools

Programs offered under the project include a jewelry school, which completed its second term in 2013. Music and trade schools began offering courses this year with more than 60 students enrolled.

Funding for Social and Agricultural Programs

First Majestic donated Mx\$2.1 million to the Municipality of Real de Catorce in 2013 to help with land acquisition for a school. In addition, public baseball and football fields were built within the El Potrero community.



SAN LUIS POTOSÍ, MEXICO

“ FIRST MAJESTIC CONTINUES TO WORK WITH THE COMMUNITIES IN ORDER TO BRING THIS ONCE FAMOUS MINE BACK INTO PRODUCTION. ”

Ricardo Flores, Ing.
Manager of
La Luz
Silver Project



Reserves and Resources

Proven and Probable Reserves 2013

Mine/Project	Category	Mineral type	Tonnes	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	Ag (Oz)	AgEq (Oz)
La Encantada	Proven (UG)	Oxides	1,023,409	316	–	2.9	1.6	10,410,996	10,410,996
	Proven (tailings)	Oxides	5,304,946	105	–	0.6	0.2	17,903,993	17,903,993
	Probable (UG)	Oxides	1,030,341	269	–	2.6	1.2	8,916,063	8,916,063
	Total Proven & Probable (UG)	Oxides	7,358,696	157	–	1.2	0.5	37,231,053	37,231,053
La Parrilla	Proven (UG)	Oxides	417,722	192	0.06	0.4	0.2	2,574,698	2,620,763
	Proven (OP)	Oxides	533,799	63	0.06	–	–	1,081,207	1,140,073
	Probable (UG)	Oxides	1,105,650	190	0.06	0.5	0.5	6,751,587	6,873,515
	Total Proven & Probable (UG)	Oxides	2,057,170	157	0.06	0.3	0.3	10,407,492	10,634,351
	Proven (UG)	Sulphides	660,333	207	–	2.7	2.5	4,403,326	7,320,761
	Probable (UG)	Sulphides	1,474,118	176	–	1.6	2.8	8,326,819	13,771,114
	Total Proven & Probable (UG)	Sulphides	2,134,451	186	–	1.9	2.7	12,730,145	21,091,875
	Total Proven & Probable (UG)	Oxides + Sulphides	4,191,621	172	0.03	1.2	1.5	23,137,637	31,726,226
San Martin	Proven (UG)	Oxides	1,328,098	195	0.19	–	–	8,330,574	8,795,400
	Probable (UG)	Oxides	2,506,767	175	0.19	–	–	14,102,450	14,979,801
	Total Proven & Probable (UG)	Oxides	3,834,866	182	0.19	–	–	22,433,025	23,775,201
Del Toro	Proven (UG)	Oxides	788,673	153	0.01	2.3	2.2	3,873,145	3,894,579
	Probable (UG)	Oxides	363,158	134	0.00	1.9	2.0	1,559,124	1,562,493
	Total Proven & Probable (UG)	Oxides	1,151,831	147	0.01	2.2	2.2	5,432,269	5,457,072
	Proven (UG)	Sulphides	1,132,390	180	0.00	3.2	3.0	6,537,571	12,547,372
	Probable (UG)	Sulphides	1,757,932	245	0.23	4.4	4.6	13,855,578	27,997,288
	Total Proven & Probable (UG)	Sulphides	2,890,322	219	0.14	3.9	4.0	20,393,149	40,544,659
	Total Proven & Probable (UG)	Oxides + Sulphides	4,042,153	199	0.10	3.4	3.5	25,825,417	46,001,731
	Total Proven and Probable Reserves	Oxides + Sulphides	19,427,336	174	0.06	1.4	1.2	108,627,132	138,734,210

Inferred Resources 2013

Mine/Project	Category	Mineral type	Tonnes	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	Ag (Oz)	AgEq (Oz) in situ
La Encantada	Total Inferred (UG)	Oxides + Sulphides	4,348,724	156	–	1.1	1.5	21,822,446	21,822,446
La Parrilla	Inferred (UG)	Oxides	4,928,449	178	0.06	0.4	0.3	28,251,697	28,795,192
	Inferred (UG)	Sulphides	8,325,556	168	–	1.9	2.3	45,094,192	74,162,354
	Total Inferred (UG)	Oxides + Sulphides	13,254,005	172	0.02	1.3	1.5	73,345,889	102,957,546
San Martin	Inferred (UG)	Oxides	10,010,526	172	0.19	–	–	55,316,021	58,819,635
	Total Inferred (UG)	Oxides + Sulphides	11,004,187	161	0.17	0.1	0.1	57,038,225	62,442,241
Del Toro	Inferred (UG)	Oxides	1,602,922	167	0.04	2.4	2.1	8,589,178	8,701,325
	Inferred (UG)	Sulphides	5,283,964	174	0.12	3.5	5.4	29,500,830	70,594,560
	Total Inferred (UG)	Oxides + Sulphides	6,886,886	172	0.10	3.3	4.6	38,090,008	79,295,885
La Luz	Total Inferred (UG)	Oxides + Sulphides	1,854,964	220	–	–	–	13,120,462	13,120,462
Peñasco Quemado	Total Inferred (UG)	Oxides	100,000	41	–	–	–	131,818	131,818
La Frazada	Total Inferred (UG)	Sulphides	534,000	225	0.17	0.9	2.6	3,862,911	5,618,554
	Total Inferred Resources	Oxides + Sulphides	37,982,766	170	0.08	1.2	1.6	207,411,760	285,388,953
Del Toro	Other (Inferred Zn body)	Sulphides	4,181,904	7	0.01	0.2	3.1	991,969	12,522,062
Plomosas	Historic reserves (UG)	Sulphides	895,512	191	0.80	2.1	3.4	5,499,152	11,001,048

Measured and Indicated Resources 2013

Mine/Project	Category	Mineral type	Tonnes	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)	Ag (Oz)	AgEq (Oz) in situ
La Encantada	Measured (UG)	Oxides	1,380,065	199	–	1.6	3.3	8,830,896	8,830,896
	Indicated (UG)	Oxides	1,805,358	225	–	1.6	5.3	13,032,801	13,032,801
	Total Measured & Indicated (UG)	Oxides	3,185,423	213	–	1.6	4.4	21,863,698	21,863,698
La Parrilla	Measured (UG)	Oxides	78,039	164	0.06	0.5	0.0	411,576	420,182
	Indicated (UG)	Oxides	448,084	163	0.06	0.5	0.3	2,354,795	2,404,209
	Indicated (OP)	Oxides	608,203	88	0.06	–	–	1,712,576	1,779,647
	Total Measured & Indicated (UG & OP)	Oxides	1,134,326	123	0.06	0.2	0.1	4,478,948	4,604,038
	Measured (UG)	Sulphides	262,831	191	–	1.2	0.7	1,614,844	2,046,756
	Indicated (UG)	Sulphides	313,417	181	–	1.7	1.9	1,821,572	2,775,774
	Total Measured & Indicated (UG)	Sulphides	576,248	185	–	1.5	1.4	3,436,416	4,822,530
San Martin	Total Measured & Indicated (UG & OP)	Oxides + Sulphides	1,710,574	144	0.04	0.6	0.5	7,915,364	9,426,568
	Indicated (UG)	Oxides	475,399	158	0.19	–	–	2,411,853	2,578,240
	Total Measured & Indicated (UG)	Sulphides	741,387	60	–	0.7	1.5	1,426,856	2,753,917
Del Toro	Total Measured & Indicated (UG)	Oxides + Sulphides	1,216,786	98	0.07	0.4	0.9	3,838,709	5,332,156
	Measured (UG)	Oxides	631,191	142	0.00	1.3	1.5	2,883,228	2,887,098
	Indicated (UG)	Oxides	808,295	157	0.04	1.9	1.4	4,076,180	4,134,962
La Luz	Total Measured & Indicated (UG)	Oxides	1,439,486	150	0.02	1.6	1.4	6,959,408	7,022,059
	Measured (UG)	Sulphides	169,994	207	0.01	3.3	2.1	1,131,518	1,920,105
	Indicated (UG)	Sulphides	672,288	165	0.04	3.7	2.0	3,557,624	6,886,611
Peñasco Quemado	Total Measured & Indicated (UG)	Sulphides	842,282	173	0.03	3.6	2.0	4,689,142	8,806,715
	Total Measured & Indicated (UG)	Oxides + Sulphides	2,281,768	159	0.03	2.4	1.6	11,648,550	15,828,775
	Measured & Indicated (UG)	Oxides	2,656,428	222	–	–	–	18,960,160	18,960,160
La Frazada	Measured & Indicated (UG)	Oxides (tailings)	1,403,233	90	–	–	–	4,060,348	4,060,348
	Measured & Indicated (UG)	Sulphides	1,052,170	316	–	–	–	10,689,662	10,689,662
	Total Measured & Indicated (UG)	Oxides + Sulphides	5,111,831	205	–	–	–	33,710,170	33,710,170
Peñasco Quemado	Total Measured & Indicated (UG)	Oxides	2,565,000	117	–	–	–	9,648,598	9,648,598
La Frazada	Total Measured & Indicated (UG)	Sulphides	583,000	251	0.17	0.9	2.4	4,695,342	6,499,887
Total Measured and Indicated Resources	Oxides + Sulphides	16,654,381	174	0.02	0.8	1.3	93,320,430	102,309,851	

(1) In all cases, the metal prices considered were \$24.00 USD/Oz – Ag, \$1,400.00 USD/Oz – Au, \$0.95 USD/lb – Pb, and \$0.90 USD/lb – Zn.

(2) For the La Luz Silver Project, there have been no changes since the Technical Report dated July 25, 2008, except an update of Ag eq. according to recent metal prices.

(3) Management of First Majestic is not confident that the open pit mining plan contained in the technical reports commissioned by Silvermex for the La Guitarra Silver Mine is feasible. Accordingly, the Reserve and Resource calculations contained in the La Guitarra Silver Mine technical reports will need to be recalculated on the basis of an underground only mine. The results of this review may result in a revised mine plan which may necessitate the filing of a new technical report. Accordingly, the Resource and Reserve calculations contained in the technical reports commissioned by Silvermex for the La Guitarra Silver Mine have not been included in this Table. Readers are cautioned against relying on the previously filed technical reports relating to the La Guitarra Silver Mine and upon the Resource and Reserve calculations therein.

(4) The Reserve and Resources information provided above is based on internal qualified persons' (QPs) reporting as at December 31, 2013. The information provided was reviewed and validated by the Company's internal QP Mr. Ramon Davila, who has the appropriate relevant qualifications, and experience in mining and resource geology.

(5) The modification factors for Reserves and Resources are different, and are different for all mines.



ANNIVERSARY MEDALLION

This year, our beautiful new 10-ounce Anniversary Medallion pays tribute to First Majestic's 10 years of growth and success.

**THE
FIRST MAJESTIC
Silver Bullion Store**

Buy our silver online directly and securely—bars, ingots, coins and rounds.

What's better than owning shares in First Majestic Silver?

Owning silver mined by First Majestic! We are the only mining company offering our own 0.999 pure silver bullion for sale directly to shareholders and avid silver investors through our own online store. At the First Majestic Bullion Store (see link at www.firstmajestic.com) you can buy silver rounds, ingots, bars and medallions—online, securely and conveniently, 24/7.

Shopping at our Bullion Store, you'll find an easy-to-use interface and navigation system. To serve customers world-wide, the store accepts payments in both Canadian and U.S. dollars.

Product prices are determined by First Majestic management, based on market trends, and do not follow hourly and daily market fluctuations.

This year, our beautiful new 10-ounce Anniversary Medallion pays tribute to First Majestic's ten years of growth and success. These unique pieces, meticulously designed and minted, are a limited edition and selling quickly.

Our Bullion Store sales continue to grow, along with the store's popularity on social media. Follow us on Facebook and Twitter: www.facebook.com/FirstMajesticSilverBullion and www.twitter.com/FMBullion.

Available for purchase at our online store: ½ ounce & 1 ounce rounds, 5 and 10 ounce ingots, 1 kilo bars, 50 ounce free-poured bars, 5 and 10 ounce coins and 18 ounce coins set.

AVAILABLE FOR PURCHASE AT OUR ONLINE STORE	ROUNDS	INGOTS	POURED BARS	BARS	COIN SETS
	½ ounce	5 ounce	50 ounce	1 kilo	5 ounce
	1 ounce	10 ounce			10 ounce
					18 ounce



ADDRESS 1805-925 West Georgia Street Vancouver · BC · Canada V6C 3L2	TEL 604.688.3033 FAX 604.639.8873 TOLL FREE 1.866.529.2807	EMAIL info@firstmajestic.com WEB www.firstmajestic.com
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**MANAGEMENT'S
RESPONSIBILITY FOR
FINANCIAL REPORTING**

The consolidated financial statements of First Majestic Silver Corp. (the "Company") are the responsibility of the Company's management. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and reflect management's best estimates and judgment based on information currently available.

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

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

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

Keith Neumeyer,
President & Chief Executive Officer

February 25, 2014

Raymond Polman, CA
Chief Financial Officer

February 25, 2014



Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of First Majestic Silver Corp.

We have audited the accompanying consolidated financial statements of First Majestic Silver Corp. and subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of (loss) earnings, comprehensive (loss) income, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of First Majestic Silver Corp. and subsidiaries as at December 31, 2013 and 2012 and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

Chartered Accountants
Vancouver, Canada
February 25, 2014



Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of First Majestic Silver Corp.

We have audited the internal control over financial reporting of First Majestic Silver Corp. and subsidiaries (the "Company") as of December 31, 2013, based on the criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as at and for the year ended December 31, 2013 of the Company and our report dated February 25, 2014 expressed an unqualified opinion on those consolidated financial statements.

Chartered Accountants
Vancouver, Canada
February 25, 2014

Consolidated Statements of (Loss) Earnings
For the Years Ended December 31, 2013 and 2012

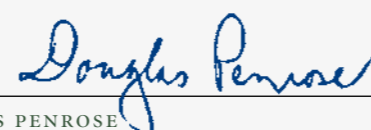
[amounts are expressed in thousands of United States dollars, except share and per share amounts]

	Note	Year Ended December 31,	
		2013	2012
Revenues	6	\$ 251,313	\$ 247,177
Cost of sales (excludes depletion, depreciation and amortization)		115,658	79,747
Gross margin		135,655	167,430
Depletion, depreciation and amortization		43,337	25,405
Mine operating earnings		92,318	142,025
General and administrative expenses	7	24,855	21,774
Share-based payments		14,518	10,646
Accretion of decommissioning liabilities		539	472
Impairment of goodwill and mining interests	14	28,791	-
Acquisition costs	29	-	2,740
Foreign exchange loss (gain)		926	(174)
Operating earnings		22,689	106,567
Investment and other income	8	5,974	6,715
Finance costs		(2,470)	(2,293)
Earnings before income taxes		26,193	110,989
Income taxes			
Current income tax expense	20	1,261	4,429
Deferred income tax expense	20	63,164	17,662
		64,425	22,091
Net (loss) earnings for the year		\$ (38,232)	\$ 88,898
(Loss) earnings per common share			
Basic		\$ (0.33)	\$ 0.80
Diluted		\$ (0.33)	\$ 0.79
Weighted average shares outstanding			
Basic	9	116,935,325	110,775,284
Diluted	9	116,935,325	112,859,088

Approved by the Board of Directors



KEITH NEUMEYER
Director



DOUGLAS PENROSE
Director

Consolidated Statements of Comprehensive (Loss) Income
For the Years Ended December 31, 2013 and 2012

[amounts are expressed in thousands of United States dollars]

	Year Ended December 31,	
	2013	2012
Net (loss) earnings for the year	\$ (38,232)	\$ 88,898
Other comprehensive income (loss)		
Items that may be subsequently reclassified to profit or loss:		
Unrealized loss on fair value of available for sale investments	(2,047)	(3,212)
Reclassification of impairment on available for sale investments	3,914	-
Currency translation gain	-	369
Other comprehensive income (loss)	1,867	(2,843)
Total comprehensive (loss) income for the year	\$ (36,365)	\$ 86,055

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2013 and 2012

[amounts are expressed in thousands of United States dollars]

	Note	Year Ended December 31,	
		2013	2012
OPERATING ACTIVITIES			
Net (loss) earnings for the year		\$ (38,232)	\$ 88,898
Adjustments for:			
Share-based payments		14,518	10,646
Depletion, depreciation and amortization		43,919	25,980
Accretion of decommissioning liabilities		539	472
Loss (gain) from silver futures and marketable securities	8	6,601	(6,211)
Gain and fair value adjustment on prepayment facility	18	(4,433)	–
Write-down of marketable securities	8	3,914	–
Impairment of goodwill and mining interests	14	28,791	–
Income tax expense	20	64,425	22,091
Proceeds from First Silver litigation	28	14,127	–
Acquisition costs	29	–	2,740
Finance costs		2,470	2,293
Unrealized foreign exchange loss (gain) and other		630	(133)
Operating cash flows before movements in working capital and income taxes		137,269	146,776
Net change in non-cash working capital items	26	4,353	1,274
Income taxes paid		(7,350)	(11,891)
Cash generated by operating activities		134,272	136,159
INVESTING ACTIVITIES			
Expenditures on mining interests		(94,445)	(99,300)
Acquisition of property, plant and equipment		(84,297)	(75,834)
Deposits paid for long-term assets		(5,288)	(7,525)
Realized (loss) gain on silver futures		(4,658)	6,172
Proceeds from disposal of marketable securities		23	5,244
Investment in marketable securities		–	(10,349)
Acquisition of Silvermex, net of cash acquired	29	–	8,614
Cash used in investing activities		(188,665)	(172,978)
FINANCING ACTIVITIES			
Proceeds from sale-and-leasebacks		16,121	5,528
Repayment of lease obligations		(9,331)	(6,716)
Proceeds from prepayment facility	18(a)	–	50,000
Repayment of prepayment and debt facilities	18(a),(b)	(5,447)	(1,284)
Finance costs paid		(2,470)	(1,812)
Proceeds from exercise of stock options	21(a)	1,789	10,609
Shares repurchased and cancelled	21(d)	(2,403)	–
Cash (used in) generated by financing activities		(1,741)	56,325
Effect of exchange rate on cash and cash equivalents held in foreign currencies		(692)	901
(Decrease) increase in cash and cash equivalents		(56,134)	19,506
Cash and cash equivalents, beginning of year		111,591	91,184
Cash and cash equivalents, end of year		\$ 54,765	\$ 111,591
Cash		\$ 45,307	\$ 108,419
Cash equivalents		9,458	3,172
Cash and cash equivalents, end of year		\$ 54,765	\$ 111,591
Supplemental cash flow information	26		

Consolidated Statements of Financial Position

As at December 31, 2013 and December 31, 2012

[amounts are expressed in thousands of United States dollars]

	Note	December 31,	
		2013	2012
Assets			
Current assets			
Cash and cash equivalents		\$ 54,765	\$ 111,591
Trade and other receivables	10	22,045	19,598
Income taxes receivable		–	8,664
Inventories	11	26,785	23,641
Other financial assets	12	4,177	7,237
Prepaid expenses and other		1,761	2,186
Total current assets		109,533	172,917
Non-current assets			
Mining interests	13	448,440	372,941
Property, plant and equipment	15	291,326	220,212
Deposits on long-term assets		5,653	9,751
Goodwill	14, 29	–	24,591
Deferred tax assets	20	–	12,619
Total assets		\$ 854,952	\$ 813,031
Liabilities and Equity			
Current liabilities			
Trade and other payables	16	\$ 34,534	\$ 37,398
Current portion of lease obligations	17	15,993	8,793
Current portion of prepayment and debt facilities	18	17,874	6,662
Income taxes payable	20	8,322	4,377
Total current liabilities		76,723	57,230
Non-current liabilities			
Lease obligations	17	20,297	14,185
Prepayment facility	18	26,342	44,241
Decommissioning liabilities	19	12,096	9,691
Deferred gain on litigation	28	14,127	–
Deferred tax liabilities	20	134,622	94,159
Total liabilities		284,207	219,506
Equity			
Share capital	21(a)	425,707	423,958
Equity reserves	22	46,543	31,219
Retained earnings		98,495	138,348
Total equity		570,745	593,525
Total liabilities and equity		\$ 854,952	\$ 813,031
Commitments (Note 13, Note 23(d)(ii))			
Contingent liabilities (Note 27)			
Subsequent events (Note 30)			

Consolidated Statements of Changes in Equity

For the Years Ended December 31, 2013 and 2012

[amounts are expressed in thousands of United States dollars, except share amounts]

	Share Capital		Equity Reserves				Retained earnings	Total equity
	Shares	Amount	Share-based payment	Available for sale revaluation	Foreign currency translation	Total equity reserves		
Balance at December 31, 2011	105,135,372	\$ 273,304	\$ 27,394	\$ 1,127	\$ (677)	\$ 27,844	\$ 49,450	\$ 350,598
Net earnings	–	–	–	–	–	–	88,898	88,898
Other comprehensive (loss) income	–	–	–	(3,212)	369	(2,843)	–	(2,843)
Share-based payments, net of related tax benefits (Note 22)	–	–	9,525	–	–	9,525	–	9,525
Shares issued for:								
Acquisition of Silvermex Resources Inc. (Note 29)	9,451,641	136,317	–	–	–	–	–	136,317
Exercise of options	2,174,250	10,609	–	–	–	–	–	10,609
Conversion of shares to be issued (Note 21(e))	250	–	–	–	–	–	–	–
Returned to treasury (Note 21(f))	(4,673)	(16)	–	–	–	–	–	(16)
Share warrants issued (Note 21(c))	–	–	646	–	–	646	–	646
Expiry of shares to be issued (Note 21(e))	–	(209)	–	–	–	–	–	(209)
Transfer of equity reserve upon exercise of options	–	3,953	(3,953)	–	–	(3,953)	–	–
Balance at December 31, 2012	116,756,840	\$ 423,958	\$ 33,612	\$ (2,085)	\$ (308)	\$ 31,219	\$ 138,348	\$ 593,525
Net loss	–	–	–	–	–	–	(38,232)	(38,232)
Other comprehensive income	–	–	–	1,867	–	1,867	–	1,867
Share-based payments, net of related tax benefits (Note 22)	–	–	14,199	–	–	14,199	–	14,199
Shares issued for exercise of options	483,000	1,789	–	–	–	–	–	1,789
Shares repurchased and cancelled (Note 21(d))	(215,000)	(782)	–	–	–	–	(1,621)	(2,403)
Transfer of equity reserve upon exercise of options	–	742	(742)	–	–	(742)	–	–
Balance at December 31, 2013	117,024,840	\$ 425,707	\$ 47,069	\$ (218)	\$ (308)	\$ 46,543	\$ 98,495	\$ 570,745

Notes to Consolidated Financial Statements

[tabular amounts are expressed in thousands of United States dollars]

1. Nature of Operations

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

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

2. Basis of Preparation

Statement Of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”).

Statement of Consolidation and Presentation

These consolidated financial statements have been prepared on an historical cost basis except for certain items that are measured at fair value including derivative financial instruments, marketable securities, and the prepayment facility. All dollar amounts presented are in United States dollars unless otherwise specified. The accounting policies in Note 3 of the consolidated financial statements have been applied in preparing these consolidated financial statements.

These consolidated financial statements incorporate the financial statements of the Company and its controlled subsidiaries. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries (see Note 24). First Silver Reserve Inc. (“First Silver”), one of the wholly-owned subsidiaries of the Company, underwent a wind-up and distribution of its assets and liabilities to the Company in December 2007 but First Silver has not been dissolved for legal purposes pending the outcome of litigation (see Note 28). Intercompany balances, transactions, income and expenses are eliminated on consolidation.

3. Summary of Significant Accounting Policies

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration of each business combination is measured, at the date of the exchange, as the aggregate of the fair value of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Acquisition-related costs incurred for the business combination are expensed. The acquiree’s identifiable assets, liabilities and contingent liabilities are recognized at their fair value at the acquisition date.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the consideration of the acquisition over the Company’s interest in the fair value of the net identifiable assets, liabilities and contingent liabilities recognized. If the Company’s interest in the fair value of the acquiree’s net identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition, the excess is recognized in earnings or loss immediately.

Goodwill may also arise as a result of the requirement under IFRS to record a deferred tax liability on the excess of the fair value of the acquired assets over their corresponding tax bases, with the corresponding offset recorded as goodwill.

Goodwill

Goodwill arising on the acquisition of a business is carried at cost as established at the date of the acquisition less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Company’s cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit and loss in the consolidated statements of earnings. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Foreign currency

The consolidated financial statements are presented in U.S. dollars. The individual financial statements of each entity are presented in their functional currency, which is the currency of the primary economic environment in which the entity operates. Prior to January 1, 2013, the functional currency of the Company’s head office was the Canadian dollar and the functional currency for all of the other entities was the U.S. dollar. The functional currency of the Company’s Canadian head office changed on a prospective basis from the Canadian dollar to the U.S. dollar effective January 1, 2013 as management determined that the currency of the primary economic environment in which the entity operates changed subsequent to First Majestic entering into the U.S. dollar denominated prepayment facility agreement in December 2012 (see Note 18(a)).

Transactions in foreign currencies are translated into the entities’ functional currencies at the exchange rates at the date of the transactions. Monetary assets and liabilities of the Company’s operations denominated in a currency other than the U.S. dollar are translated using exchange rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates on the dates of the initial transactions. Revenue and expense items are

Notes to Consolidated Financial Statements

[tabular amounts are expressed in thousands of United States dollars]

3. Summary of Significant Accounting Policies (continued)

Foreign currency (continued)

translated at the exchange rates in effect at the date of the underlying transaction, except for depletion and depreciation related to non-monetary assets, which are translated at historical exchange rates. Exchange differences are recognized in the statements of earnings in the period in which they arise.

Revenue recognition

Revenue is recognized upon delivery when the following conditions are met:

- control, title and risk of ownership of products passes to the buyer;
- the amount of revenue and costs related to the transaction can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- when collection is reasonably assured.

This occurs when title and insurance risk have passed to the customer and when the goods have been delivered to a contractually agreed location. Product pricing is determined at the point revenue is recognized by reference to active and freely traded commodity markets.

Revenue from the sale of metal doré or concentrate is recorded net of charges for treatment, refining and smelting. Revenue from the sale of material by-products is included within revenue.

Revenue from the sale of coins, ingots and bullion is recorded when the product has been shipped and funds have been received. When cash has been received from customers prior to shipping of the related silver coins, ingots and bullion, the amounts are recorded as unearned revenue until the products are shipped.

Metals in doré sold to third parties are priced on delivery. Final weights and assays are adjusted on final settlement which is approximately one month after delivery. Metals in concentrate sold to third-party smelters are provisionally priced and the price is not settled until a predetermined future date, typically one to four months after delivery to the customer, based on the market price at that time. The contract provides for a provisional payment on delivery based upon provisional assays and quoted metal prices. Revenues are recorded under these contracts at the time title passes from the Company to the buyer based on spot price on date of delivery, and subsequently adjusted to market price based on the expected date of the final settlement. As a result, the value of the Company's concentrate receivables changes as the underlying commodity market prices vary. This component of the contract is an embedded derivative, which is recorded at fair value with changes in fair value recorded in revenues and trade receivables. Adjustments to revenue for metal prices are recorded monthly and other adjustments related to the final settlement of weights and assays are recorded on final settlement.

Inventories

Stockpiled ore, work in process and finished goods inventories are valued at the lower of average cost and estimated net realizable value. Cost includes all direct costs incurred in production including direct labour and materials, freight, depreciation and amortization and directly attributable overhead costs. Net realizable value is calculated as the estimated price at the time of sale based on prevailing and future metal prices less estimated future production costs to convert the inventories into saleable form.

Any write-downs of inventory to net realizable value are recorded as cost of sales. If there is a subsequent increase in the value of inventories, the previous write-downs to net realizable value are reversed to the extent that the related inventory has not been sold.

Stockpiled ore inventory represents ore that has been extracted from the mine and is available for further processing. Costs added to stockpiled ore inventory are valued based on current mining cost per tonne incurred up to the point of stockpiling the ore and are removed at the average cost per tonne. Stockpiled ore tonnage is verified by periodic surveys and physical counts.

Work in process inventory includes precipitates, in-circuit inventories in tanks and in the milling process. Finished goods inventory includes metals in their final stage of production prior to sale, including primarily doré and concentrates at our operations and finished goods in-transit.

Materials and supplies inventories are valued at the lower of average cost and net realizable value. Costs include acquisition, freight and other directly attributable costs.

Exploration and evaluation expenditures

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activity includes:

- acquiring the rights to explore;
- researching and analyzing historical exploration data;
- gathering exploration data through topographical, geochemical and geophysical studies;
- exploratory drilling, trenching and sampling;
- determining and examining the volume and grade of the resource;
- surveying transportation and infrastructure requirements; and
- compiling pre-feasibility and feasibility studies.

Capitalization of exploration and evaluation expenditures commences on acquisition of a beneficial interest or option in mineral rights. Capitalized costs are recorded as a component of mining interests at cost less impairment charges, if applicable. No amortization is charged during the exploration and evaluation phase as the asset is not available for use.

3. Summary of Significant Accounting Policies (continued)

Exploration and evaluation expenditures (continued)

The majority of the Company's exploration and evaluation expenditures focus on mineral deposits in proximity to its existing mining operations. Where the Company is acquiring a new property, the Company makes a preliminary evaluation to determine that the property has significant potential to develop an economic ore body. Exploration and evaluation expenditures are transferred to development or producing mining interests when technical feasibility and commercial viability of the mineral resource have been demonstrated. Factors taken into consideration include:

- there is sufficient geological certainty of converting the mineral deposit into proven and probable reserves;
- life of mine plan and economic modeling support the economic extraction of such reserves and resources;
- for new properties, a scoping study and/or feasibility study demonstrates that the additional reserves and resources will generate a positive economic outcome; and
- operating and environmental permits exist or are reasonably assured as obtainable.

Exploration and evaluation expenditures remain as exploration mining interests and do not qualify as producing mining interests until the aforementioned criteria are met. Exploration and evaluation expenditures are transferred to development or producing mining interests when the technical feasibility and commercial viability of a mineral resource has been demonstrated according to the above mentioned factors.

Mining interests

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

Upon commencement of commercial production (see "Significant accounting estimates and judgments"), mining interests are depleted on a units-of-production basis over the estimated economic life of the mine. In applying the units of production method, depletion is determined using quantity of material extracted from the mine in the period as a portion of total quantity of material to be extracted in current and future periods based on proven and probable reserves and the portion of measured and indicated mineral resources considered to be highly probable to be economically extracted over the life of mine plan.

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

From time to time, the Company acquires or disposes of properties pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee with no obligation or sale until exercised or expired and, accordingly, are recorded as mineral property costs or recoveries when the payments are made or received.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment includes the purchase price or construction cost, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and borrowing costs related to the acquisition or construction of qualifying assets.

Depreciation is calculated on a straight-line basis over the useful life of the asset, ranging from two to twenty years, and commences when the asset is in the condition and location necessary for it to operate in the manner intended by management. Where an item of property, plant and equipment comprises of major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Assets under construction are recorded at cost and re-allocated to machinery and equipment when it becomes available for use.

Depreciation for machinery and equipment is calculated on a straight-line basis over the lesser of the useful life of the equipment or the life of mine, when it becomes available for use. Depreciation charges on assets that are directly related to mineral properties are allocated to those mineral properties.

The Company conducts an annual review of residual balances, useful lives and depreciation methods utilized for property, plant and equipment. Any changes in estimate that arise from this review are accounted for prospectively.

Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Finance costs are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs.

Notes to Consolidated Financial Statements

[tabular amounts are expressed in thousands of United States dollars]

3. Summary of Significant Accounting Policies (continued)

Stripping costs

Stripping costs incurred prior to the production stage of a mining property (pre-stripping costs) are capitalized and included in the carrying amount of the related mining property. During the production phase of a mine, stripping costs incurred to provide access to reserves and resources that will be produced in future periods that would not have otherwise been accessible are capitalized and included in the carrying amount of the related mining property.

Capitalized stripping costs are depleted on a units-of-production basis over the estimated economic life of the ore body that directly benefit from the stripping activities. Costs for regular waste removal that do not give rise to future economic benefits are included in mine operating costs in the period they are incurred.

Impairment of long-term assets

At each statement of financial position date, the Company reviews the carrying amounts of its long-term assets to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate independent cash flows, the Company estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs. For exploration and evaluation assets, indications include but are not limited to expiration of the right to explore, substantive expenditure in the specific area is neither budgeted nor planned, and if the entity has decided to discontinue exploration activity in the specific area.

If the recoverable amount of the asset or CGU is determined to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount and an impairment loss is recognized as an expense in the consolidated statements of earnings. Recoverable amount is the higher of fair value less costs to sell and value in use.

Fair value is determined as the amount that would be obtained from the sale of the asset or CGU in an arm's length transaction between knowledgeable and willing parties. Fair value for mining interests is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion projects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate to arrive at a net present value of the asset. Value in use is determined as the present value of the estimated cash flows expected to arise from the continued use of the asset or CGU in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Company's continued use and does not take into account future development. These assumptions are different to those used in calculating fair value and consequently are likely to provide a different result, usually lower.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognized for the asset or CGU in prior periods, adjusted for additional amortization which would have been recorded had the amount not been impaired. A reversal of an impairment loss is recognized as a gain in the statements of earnings.

Share-based payment transactions

Employees (including directors and officers) of the Company may receive a portion of their remuneration in the form of share based payment transactions ("share-based payments").

Equity instruments issued to employees are measured by reference to their fair value using the Black-Scholes model at the date on which they were granted. Forfeitures are estimated at grant date and adjusted for prospectively based on actual forfeitures. The costs of share-based payments are recognized, together with a corresponding increase in the equity reserve, over the period in which the services and/or performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date").

In situations where equity instruments are issued to non-employees, the share-based payments are measured at the fair value of goods or services received. If some or all of the goods or services received by the Company as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment.

No expense is recognized for awards that do not ultimately vest. The dilutive effect of outstanding options is reflected as additional dilution in the computation of diluted earnings per share.

Taxation

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case they are recognized in other comprehensive income or directly in equity. Current tax or deferred tax from the initial accounting for a business combination is included in the accounting for the business combination.

Current income taxes

Current income tax is based on taxable earnings for the year. The tax rates and tax laws to compute the amount payable are those that are substantively enacted in each tax regime at the date of the statement of financial position.

3. Summary of Significant Accounting Policies (continued)

Taxation (continued)

Deferred income taxes

Deferred income tax is recognized, using the liability method, on temporary differences between the carrying value of assets and liabilities in the statement of financial position, unused tax losses, unused tax credits and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are not recognized if the temporary difference arises in a transaction other than a business combination that at the time of the transaction affects neither the taxable nor the accounting earnings or loss. Deferred tax is determined using tax rates and tax laws that are substantively enacted at the date of the statement of financial position and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, and interests in joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences to the extent that the realization of the related tax benefit through future taxable earnings is probable.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset the current tax assets against the current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the asset until the asset is substantially ready for its intended use. Other borrowing costs are recognized as an expense in the period incurred.

Earnings per share

Basic earnings per share for the period is calculated by dividing the earnings attributable to equity holders of the Company by the weighted average number of shares outstanding during the reporting period.

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all potentially dilutive share equivalents, such as stock options and share purchase warrants and assumes the receipt of proceeds upon exercise of the options to determine the number of shares assumed to be purchased at the average market price during the period.

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale ("AFS"), loans and receivables, or at fair value through profit or loss ("FVTPL").

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Financial assets classified as AFS are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary due to a significant or prolonged decline in the fair value of that investment below its cost.

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit and loss in the statements of earnings.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial liabilities and equity instruments

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Notes to Consolidated Financial Statements

[tabular amounts are expressed in thousands of United States dollars]

3. Summary of Significant Accounting Policies (continued)

Financial liabilities and equity instruments (continued)

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial instruments and non-financial contracts may contain embedded derivatives, which are required to be accounted for separately at fair value as derivatives when the risks and characteristics of the embedded derivatives are not closely related to those of their host contract and the host contract is not carried at fair value. The Company regularly assesses its financial instruments and non-financial contracts to ensure that any embedded derivatives are accounted for in accordance with its policy. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise.

Cash and cash equivalents

Cash in the statement of financial position include cash on hand and held at banks and cash equivalents include short-term guaranteed investment certificates redeemable within three months or less at the date of purchase.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate of the obligation can be made. The amount recognized as a provision is the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as accretion expense or finance costs.

Significant accounting estimates and judgments

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

Critical judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

Functional currency

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. The Company has determined that the functional currency of each entity is the U.S. dollar. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

Business combinations

Determination of whether a set of assets acquired and liabilities assumed constitute a business may require the Company to make certain judgments, taking into account all facts and circumstances. A business consists of inputs, including non-current assets and processes, including operational processes, that when applied to those inputs have the ability to create outputs that provide a return to the Company and its shareholders.

Economic recoverability and probability of future economic benefits of exploration, evaluation and development costs

Management has determined that exploratory drilling, evaluation, development and related costs incurred which were capitalized have future economic benefits and are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

Commencement of commercial production

Prior to reaching commercial production levels intended by management, costs incurred are capitalized as part of the related mine or mill and proceeds from mineral sales are offset against costs capitalized. Depletion of capitalized costs for mining properties and depreciation and amortization of property, plant and equipment begin when operating levels intended by management have been reached.

3. Summary of Significant Accounting Policies (continued)

Significant accounting estimates and judgments (continued)

Commencement of commercial production (continued)

Determining when a mine or mill is in the condition necessary for it to be capable of operating in the manner intended by management is a matter of judgment dependant on the specific facts and circumstances. The following factors may indicate that commercial production has commenced:

- substantially all major capital expenditures have been completed to bring the mine or mill to the condition necessary for it to be capable of operating in the manner intended by management;
- the mine or mill has reached a pre-determined percentage of design capacity;
- the ability to sustain a pre-determined level of design capacity for a significant period of time (i.e., the ability to continue to produce ore at a steady or increasing level);
- the completion of a reasonable period of testing of the mine plant and equipment;
- the ability to produce a saleable product (i.e., the ability to produce concentrate within required sellable specifications);
- the mine or mill has been transferred to operating personnel from internal development groups or external contractors; and
- mineral recoveries are at or near the expected production levels.

The results of operations of the Company during the periods presented in these consolidated financial statements have been impacted by management's determination that commercial production was achieved for the following expansions:

- the 1,000 tonnes per day ("tpd") cyanidation plant at the La Parrilla mine achieved commercial production on March 1, 2012;
- the 1,000 tpd flotation plant at the Del Toro mine achieved commercial production on April 1, 2013; and
- the 1,000 tpd cyanidation plant at the Del Toro mine achieved commercial production on January 1, 2014.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are as follows:

Impairment of property, plant and equipment and mining interests

Management considers both external and internal sources of information in assessing whether there are any indications that the Company's property, plant and equipment and mining interests are impaired. External sources of information management considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of its property, plant and equipment and mining interests. Internal sources of information management considers include the manner in which mining properties and plant and equipment are being used or are expected to be used and indications of economic performance of the assets.

In determining the recoverable amounts of the Company's property, plant and equipment and mining interests, management makes estimates of the discounted future cash flows expected to be derived from the Company's mining properties, costs to sell the mining properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital expenditures, reductions in the amount of recoverable reserves, resources, and exploration potential, and/or adverse current economics can result in a write-down of the carrying amounts of the Company's property, plant and equipment and/or mining interests.

Depreciation and amortization rate for property, plant and equipment and depletion rate for mining interests

Depletion, depreciation and amortization expenses are allocated based on assumed asset lives. Should the asset life, depletion rates or depreciation rates differ from the initial estimate, the change in estimate would be made prospectively in the consolidated statements of earnings.

Estimated reclamation and closure costs

The Company's provision for decommissioning liabilities represents management's best estimate of the present value of the future cash outflows required to settle estimated reclamation and closure costs at the end of mine's life. The provision reflects estimates of future costs, inflation, movements in foreign exchange rates and assumptions of risks associated with the future cash outflows, and the applicable risk-free interest rates for discounting the future cash outflows. Changes in the above factors can result in a change to the provision recognized by the Company.

Changes to reclamation and closure cost obligations are recorded with a corresponding change to the carrying amounts of related mining properties. Adjustments to the carrying amounts of related mining properties can result in a change to future depletion expense.

Mineral reserve and resource estimates

The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects" issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position, results of operation and cash flows.

Notes to Consolidated Financial Statements

[tabular amounts are expressed in thousands of United States dollars]

3. Summary of Significant Accounting Policies (continued)

Significant accounting estimates and judgments (continued)

Inventory valuation

Finished goods, work-in-process and stockpile ore are valued at the lower of the average production costs or net realizable value. The assumptions used in the valuation of work-in-process inventories include estimates of silver and silver equivalents contained in the stockpile ore, the amount of silver that is expected to be recovered from the stockpile, the amount of silver in the mill circuits and assumption of the silver price expected to be realized when the silver is recovered. If these estimates or assumptions prove to be inaccurate, the Company could be required to write down the carrying value of its inventories, which would reduce the Company's earnings and working capital.

Valuation of share-based payments

The Company uses the Black-Scholes Option Pricing Model for valuation of share-based payments. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

Income taxes

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Forecasted cash flows from operations are based on life of mine projections internally developed and reviewed by management. Weight is attached to tax planning opportunities that are within the Company's control, and are feasible and implementable without significant obstacles. The likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual facts and circumstances of the relevant tax position evaluated in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. At the end of each reporting period, the Company reassesses unrecognized income tax assets.

Deferral of stripping costs

In determining whether stripping costs incurred during the production phase of a mining interest relate to mineral reserves and resources that will be mined in a future period and therefore should be capitalized, the Company treats the cost of removal of the waste material during a mine's production phase as deferred development costs where it gives rise to future benefits. These capitalized costs are subsequently amortized on a units-of-production basis over the reserves and resources that directly benefit from the specific stripping activity.

4. Changes in Accounting Policies

Accounting Policies Adopted Effective January 1, 2013

Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 - *Consolidated Financial Statements* ("IFRS 10") and IFRS 12 - *Disclosure of Interests in Other Entities* ("IFRS 12"). IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 12 outlines the disclosure requirements for interests in subsidiaries and other entities to enable users to evaluate the risks associated with interests in other entities and the effects of those interests on an entity's financial position, financial performance and cash flows. The adoption of this standard did not have a significant impact on the Company's consolidated financial statements.

Joint Arrangements

In May 2011, the IASB issued IFRS 11 - *Joint Arrangements* ("IFRS 11"), which provides guidance on accounting for joint arrangements. IFRS 11 classifies joint arrangements as either joint operations or joint ventures, depending on the rights and obligations of the parties involved. An entity accounts for a joint operation by recognizing its portion of the assets, liabilities, revenues and expenses. A joint venture is accounted for using the equity method and proportionate consolidation is no longer permitted. The adoption of this standard did not have a significant impact on the Company's consolidated financial statements.

Stripping Costs in the Production Phase of a Surface Mine

In October 2011, the IASB issued IFRIC 20 - *Stripping Costs in the Production Phase of a Surface Mine* ("IFRIC 20"), which clarifies the requirements for accounting for the cost of stripping activity in the production phase when two benefits accrue: (i) usable ore that can be used to produce inventory; and (ii) improved access to further quantities of material that will be mined in future periods. The Company adopted IFRIC 20 in compliance with the transitional requirements and the application of this standard did not result in an adjustment to the Company's consolidated financial statements.

4. Changes in Accounting Policies (continued)

Accounting Policies Adopted Effective January 1, 2013 (continued)

Fair Value Measurement

In May 2011, the IASB issued IFRS 13 - *Fair Value Measurement* ("IFRS 13"). This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 sets out a single IFRS framework for measuring fair value and outlines disclosure requirements about fair value measurements. The adoption of this standard did not have a significant impact on the Company's consolidated financial statements.

Disclosures on Offsetting of Financial Instruments

In December 2011, the IASB issued an amendment to IFRS 7 - *Financial Instruments: Disclosure* ("amendments to IFRS 7"). The amendments to IFRS 7 require more extensive disclosures about offsetting (also known as netting) of financial instruments. The new offsetting disclosure requirements are effective for annual periods beginning on or after January 1, 2013 and need to be applied retrospectively to all comparative periods. The Company has applied the amendments to IFRS 7 on a prospective basis, commencing January 1, 2013. The adoption of this amendment did not have a significant impact on the Company's comparative periods.

Items of Other Comprehensive Income

In June 2011, the IASB issued an amendment to IAS 1 ("amendments to IAS 1") - *Presentation of Items of Other Comprehensive Income*. The amendments to IAS 1 require items of other comprehensive income ("OCI"), along with their tax effects, to be grouped into those that will and will not subsequently be reclassified to profit or loss. The measurement and recognition of items of profit or loss and OCI are not affected by the amendments. The adoption of this standard did not have a significant impact on the Company's consolidated financial statements.

Future Changes in Accounting Policies Not Yet Effective as at December 31, 2013

Financial instruments

The IASB intends to replace IAS 39 - *Financial Instruments: Recognition and Measurement* ("IAS 39") in its entirety with IFRS 9 - *Financial Instruments* ("IFRS 9") in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. On July 24, 2013, the IASB tentatively decided to defer the mandatory effective date until the finalization of the impairment, classification and measurement requirements, with earlier adoption still permitted. The Company will evaluate the impact the final standard will have on its consolidated financial statements when issued.

Levies imposed by governments

In May 2013, the IASB issued IFRIC 21 - *Levies* ("IFRIC 21"), an interpretation of IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets* ("IAS 37"), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past activity or event ("obligating event") described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The Company is currently evaluating the impact of the adoption of this interpretation on its consolidated financial statements.

Recoverable Amount Disclosures

In May 2013, the IASB issued amendments to IAS 36 - *Impairment of Assets* ("amendments to IAS 36"). The amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or CGU to periods in which an impairment loss has been recognized or reversed. The amendments also expand and clarify the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less cost of disposal. The amendments are effective for annual periods beginning on or after January 1, 2014 and should be applied retrospectively. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

5. Segmented Information

The Company has eight reporting segments, including five segments located in Mexico, one development project in Mexico, one retail market segment in Canada and one silver trading segment in Europe. All of the Company's operations are within the mining industry and its major products are refined silver, gold, lead and zinc produced from doré and concentrates. Transfer pricing agreements between reporting segments are set on an arms-length basis in a manner similar to transactions with third parties. Coins and bullion cost of sales are based on transfer pricing agreements and inventory is costed on a first-in first-out basis.

A reporting segment is defined as a component of the Company that:

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

Management evaluates reporting segment performance based on mine operating earnings as other expenses are not allocated to the segments or used to evaluate performance. Significant information relating to the Company's reporting segments is summarized in the following table:

Notes to the Consolidated Financial Statements

[tabular amounts are expressed in thousands of United States dollars]

5. Segmented Information (continued)

	Year Ended December 31, 2013					At December 31, 2013	
	Revenue	Cost of sales ⁽¹⁾	Depletion, depreciation and amortization	Mine operating earnings (loss)	Capital expenditures	Total assets	Total liabilities
Mexico							
La Encantada	\$ 91,563	\$ 41,366	\$ 11,964	\$ 38,233	\$ 24,036	\$ 145,596	\$ 37,872
La Parrilla	79,847	36,307	14,827	28,713	37,544	203,384	29,003
Del Toro	25,043	14,003	5,083	5,957	80,213	202,526	44,858
San Martin	30,379	17,552	4,418	8,409	23,785	107,553	35,728
La Guitarra	17,034	10,542	6,804	(312)	15,362	130,910	30,884
La Luz	–	–	–	–	4,095	30,721	364
Canada							
Coins and Bullion Sales	2,802	2,699	–	103	11	725	28
Europe							
Silver Sales	158,193	146,453	–	11,740	–	21,126	4,424
Corporate and Eliminations	(153,548)	(153,264)	241	(525)	5,051	12,411	101,046
Consolidated	\$ 251,313	\$ 115,658	\$ 43,337	\$ 92,318	\$ 190,097	\$ 854,952	\$ 284,207

	Year Ended December 31, 2012					At December 31, 2012	
	Revenue	Cost of sales ⁽¹⁾	Depletion, depreciation and amortization	Mine operating earnings (loss)	Capital expenditures	Total assets	Total liabilities
Mexico							
La Encantada	\$ 89,974	\$ 35,088	\$ 9,629	\$ 45,257	\$ 33,282	\$ 136,510	\$ 27,736
La Parrilla	82,596	35,836	10,442	36,318	60,800	175,410	42,546
Del Toro	–	–	–	–	74,229	122,152	22,764
San Martin	22,289	12,401	3,943	5,945	19,120	83,652	19,214
La Guitarra	5,291	5,375	1,389	(1,473)	7,691	172,472	35,940
La Luz	–	–	–	–	3,287	27,031	338
Canada							
Coins and Bullion Sales	3,858	3,677	–	181	108	535	122
Europe							
Silver Sales	190,683	138,178	1	52,504	–	53,225	4,608
Corporate and Eliminations	(147,514)	(150,808)	1	3,293	4,527	42,044	66,238
Consolidated	\$ 247,177	\$ 79,747	\$ 25,405	\$ 142,025	\$ 203,044	\$ 813,031	\$ 219,506

(1) Cost of sales excludes depletion, depreciation and amortization.

6. Revenues

	Year Ended December 31, 2013	Year Ended December 31, 2012
Gross revenue from payable metals:		
Silver	\$ 235,422	\$ 242,732
Gold	10,928	6,325
Lead	23,301	10,698
Zinc	6,078	3,460
Other	1,634	1,777
Gross revenue	\$ 277,363	\$ 264,992
Less: refining & smelting costs	(26,050)	(17,815)
Revenues	\$ 251,313	\$ 247,177

7. General and Administrative Expenses

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

	Year Ended December 31, 2013	Year Ended December 31, 2012
Corporate administration	\$ 8,332	\$ 7,114
Salaries and benefits	10,121	8,267
Audit, legal and professional fees	4,478	4,637
Filing and listing fees	390	523
Directors fees and expenses	952	658
Depreciation	582	575
	\$ 24,855	\$ 21,774

8. Investment and Other Income

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

	Year Ended December 31, 2013	Year Ended December 31, 2012
Termination fee from Orko acquisition, net of costs (a)	\$ 9,129	\$ –
Gain from fair value adjustment of prepayment facility (Note 18(a))	3,919	–
(Loss) gain from investment in silver futures (Note 12(c))	(4,818)	6,172
(Loss) gain from investment in marketable securities (Note 12(b))	(1,783)	39
Write-down of marketable securities (Note 12(a))	(3,913)	–
Interest income and other	822	504
Gain from insurance claim	1,350	–
Gain from value added tax settlement (Note 27)	711	–
Gain from First Silver litigation (Note 28)	557	–
	\$ 5,974	\$ 6,715

Notes to the Consolidated Financial Statements

[tabular amounts are expressed in thousands of United States dollars]

8. Investment and Other Income (continued)

(a) Termination Fee from Orko Acquisition

In December 2012, First Majestic entered into an arrangement agreement with Orko Silver Corp. ("Orko") to acquire all of the issued and outstanding shares of Orko. In February 2013, Orko declared that another company made a superior offer and First Majestic elected not to match the superior offer. Upon termination of the arrangement agreement, the Company received an \$11.4 million termination fee from Orko in February 2013. Net of related professional fees, legal and underwriter costs incurred in 2013, the Company recognized a gain of \$9.1 million in other income in 2013.

9. Earnings Per Share

The calculations of basic and diluted earnings per share for the years ended December 31, 2013 and 2012 are based on the following:

	Year Ended December 31, 2013	Year Ended December 31, 2012
Net (loss) earnings for the year	\$ (38,232)	\$ 88,898
Weighted average number of shares on issue - basic	116,935,325	110,775,284
Adjustment for stock options	–	2,083,804
Weighted average number of shares on issue - diluted ⁽¹⁾	116,935,325	112,859,088
(Loss) earnings per share - basic	\$ (0.33)	\$ 0.80
(Loss) earnings per share - diluted	\$ (0.33)	\$ 0.79

(1) Diluted weighted average number of shares for the year ended December 31, 2013 excludes 5,208,520 (2012 – 919,645) anti-dilutive options and \$nil warrants (2012 – 329,377).

10. Trade and Other Receivables

Trade and other receivables of the Company are comprised of:

	December 31, 2013	December 31, 2012
Trade receivables	\$ 8,974	\$ 6,637
Value added taxes and other taxes recoverable, net of allowance	12,437	12,285
Other	634	676
	\$ 22,045	\$ 19,598

11. Inventories

	December 31, 2013	December 31, 2012
Finished product - doré and concentrates	\$ 609	\$ 1,982
Work in process	5,548	4,135
Stockpile	4,740	2,558
Materials and supplies	15,361	14,791
Silver coins and bullion including in-process shipments	527	175
	\$ 26,785	\$ 23,641

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

12. Other Financial Assets

	December 31, 2013	December 31, 2012
Marketable securities - available for sale (a)	\$ 349	\$ 2,421
Marketable securities - fair value through profit or loss (b)	3,028	4,816
Derivatives (c)	800	–
	\$ 4,177	\$ 7,237

(a) Marketable Securities – Available For Sale

As at December 31, 2013, the Company holds various investments designated as available for sale ("AFS") marketable securities with total fair value of \$0.3 million (2012 - \$2.4 million) and original cost of \$4.4 million (2012 - \$4.5 million). Changes in fair value on AFS marketable securities are recognized in other comprehensive income or loss, unless there is objective evidence of impairment. During the year ended December 31, 2013, management assessed a cumulative impairment loss of \$3.9 million (2012 - \$nil) on the Company's investment in AFS marketable securities, which was reclassified from other comprehensive income (loss) into investment and other income.

(b) Marketable Securities – Fair Value Through Profit or Loss

As at December 31, 2013, the Company held 400,000 units of Sprott Physical Silver Trust (PSLV) with a fair value of \$3.0 million (2012 - \$4.8 million), which were acquired at a cost of \$13.20 per unit. These trust units are classified as fair value through profit or loss ("FVTPL") marketable securities, with changes in fair value recorded through profit or loss. During the year ended December 31, 2013, the Company recognized a loss of \$1.8 million (2012 – \$nil) related to its FVTPL marketable securities.

(c) Derivatives

The Company carries a long position on silver futures, expiring in March 2014, equivalent to 480,000 ounces of silver at an average price of \$19.70 at December 31, 2013. The derivatives asset of \$0.8 million (2012 - \$nil) reflects a deposit of \$1.0 million for the margin requirement to hold the silver futures, net of an unrealized loss of \$0.2 million at December 31, 2013. During the year ended December 31, 2013, the Company recognized a loss of \$4.8 million (2012 – gain of \$6.2 million) related to investment in silver futures, recognized in investment and other income.

13. Mining Interests

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

	December 31, 2013	December 31, 2012
Producing properties	\$ 267,677	\$ 196,057
Exploration properties (non-depletable)	180,763	176,884
	\$ 448,440	\$ 372,941

Notes to Consolidated Financial Statements

[tabular amounts are expressed in thousands of United States dollars]

13. Mining Interests (continued)

Producing properties are allocated as follows:

Producing Properties	La Encantada	La Parrilla	Del Toro	San Martin	La Guitarra	Total
Cost						
At December 31, 2011	\$ 27,264	\$ 47,190	\$ –	\$ 42,077	\$ –	\$ 116,531
Acquired from Silvermex (Note 29)	–	–	–	–	47,188	47,188
Additions	13,523	35,476	–	5,171	4,191	58,361
Change in decommissioning liabilities	566	253	–	(583)	(728)	(492)
Transfer from exploration properties	3,884	858	–	1,913	–	6,655
At December 31, 2012	\$ 45,237	\$ 83,777	\$ –	\$ 48,578	\$ 50,651	\$ 228,243
Additions	13,663	26,598	11,251	8,319	6,906	66,737
Change in decommissioning liabilities	(303)	51	1,821	(88)	459	1,940
Transfer from exploration properties	588	229	18,095	1,419	758	21,089
At December 31, 2013	\$ 59,185	\$ 110,655	\$ 31,167	\$ 58,228	\$ 58,774	\$ 318,009
Accumulated depletion and amortization						
At December 31, 2011	\$ (6,040)	\$ (5,402)	\$ –	\$ (13,973)	\$ –	\$ (25,415)
Depletion and amortization	(1,586)	(2,654)	–	(2,066)	(465)	(6,771)
At December 31, 2012	\$ (7,626)	\$ (8,056)	\$ –	\$ (16,039)	\$ (465)	\$ (32,186)
Depletion and amortization	(2,659)	(7,171)	(1,224)	(1,665)	(5,427)	(18,146)
At December 31, 2013	\$ (10,285)	\$ (15,227)	\$ (1,224)	\$ (17,704)	\$ (5,892)	\$ (50,332)
Carrying values						
At December 31, 2012	\$ 37,611	\$ 75,721	\$ –	\$ 32,539	\$ 50,186	\$ 196,057
At December 31, 2013	\$ 48,900	\$ 95,428	\$ 29,943	\$ 40,524	\$ 52,882	\$ 267,677

Exploration properties are allocated as follows:

Exploration Properties	La Encantada	La Parrilla	Del Toro	San Martin	La Guitarra	La Luz	Other	Total
Cost								
At December 31, 2011	\$ 3,520	\$ 5,670	\$ 22,112	\$ 15,035	\$ –	\$ 20,412	\$ –	\$ 66,749
Acquired from Silvermex (Note 29)	–	–	–	–	53,000	–	18,100	71,100
Exploration and evaluation expenditures	3,429	4,143	26,171	6,435	2,054	2,434	417	45,083
Proceeds from option payment (h)	–	–	–	(440)	–	–	–	(440)
Change in decommissioning liabilities	–	–	938	–	–	109	–	1,047
Transfer to producing properties	(3,884)	(858)	–	(1,913)	–	–	–	(6,655)
At December 31, 2012	\$ 3,065	\$ 8,955	\$ 49,221	\$ 19,117	\$ 55,054	\$ 22,955	\$ 18,517	\$ 176,884
Exploration and evaluation expenditures	2,316	3,599	15,827	962	1,263	1,320	759	26,046
Capitalization of borrowing costs (Note 18(a))	–	–	3,193	–	–	–	–	3,193
Impairment (Note 14)	–	–	–	–	–	–	(4,200)	(4,200)
Change in decommissioning liabilities	–	–	–	–	–	(71)	–	(71)
Transfer to producing properties	(588)	(229)	(18,095)	(1,419)	(758)	–	–	(21,089)
At December 31, 2013	\$ 4,793	\$ 12,325	\$ 50,146	\$ 18,660	\$ 55,559	\$ 24,204	\$ 15,076	\$ 180,763

13. Mining Interests (continued)

(a) La Encantada Silver Mine, Coahuila State

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

(b) La Parrilla Silver Mine, Durango State

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

There is a net smelter royalty (“NSR”) agreement of 1.5% of sales revenue associated with the Quebradillas Mine, with a maximum cumulative payable of \$2.5 million. During the year ended December 31, 2013, the Company paid royalties of \$0.5 million (2012 - \$0.9 million), respectively. As at December 31, 2013, total royalties paid to date for the Quebradillas NSR is \$1.9 million.

(c) Del Toro Silver Mine, Zacatecas State

The Del Toro Silver Mine is located 60 km to the southeast of the Company’s La Parrilla Silver Mine and consists of 405 contiguous hectares of mining claims, including the Dolores area, plus an additional 129 hectares of surface rights covering the area surrounding the San Juan mine. The Del Toro operation represents the consolidation of two old underground silver mines, the Perseverancia and San Juan mines, which are approximately one km apart. The Del Toro mine currently consists of a 1,000 tpd flotation circuit and a 1,000 tpd cyanidation circuit. First Majestic owns 100% of the Del Toro Silver Mine.

During 2013, the Company entered into several option agreements to acquire six adjacent mineral properties, namely the Chalchihuites, Navidad, Milagros, Zaragoza, Santa Clara and Ivone properties. These properties consist of 492 hectares of mineral rights. If fully exercised, the total purchase price will amount to \$3.3 million, of which \$1.1 million has been paid, \$0.6 million is due in 2014, \$1.2 million in 2015 and the remaining balance of \$0.4 million due over years 2016 and 2017.

(d) San Martin Silver Mine, Jalisco State

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

(e) La Guitarra Silver Mine, State of Mexico

The La Guitarra Silver Mine was acquired through the acquisition of Silvermex Resources Inc. in July 2012. The La Guitarra Silver Mine is located in the Temascaltepec Mining District in the State of Mexico, near Toluca, Mexico and approximately 130 km south west from Mexico City. The mine covers 39,714 hectares of mining claims within the Temascaltepec Mining District. The La Guitarra mine consists of two underground operation centers and a flotation mill with a capacity of 500 tpd. The Company owns 100% of the La Guitarra Silver Mine.

In January 2014, the Company entered into two option agreements to acquire various adjacent mining concessions, namely El Coloso, Amplicación Los Comales, San Jose, Jessica and Nazareno de Anecas properties. These properties consist of 757 hectares of mineral rights. If fully exercised, the total purchase price will amount to \$5.4 million, of which \$2.8 million will be settled in common shares of First Majestic in 2014 (see Note 30(a)), \$0.6 million in cash is due in 2014, and \$0.5 million in each of the following four years.

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

The La Luz Silver Project, is located 25 km west of the town of Matehuala in San Luis Potosi State, Mexico, near the village of Real de Catorce and was acquired in November 2009, through the acquisition of Normabec Mining Resources Ltd. The Company owns 100% of the La Luz Silver Project and all of the associated mining claims of what was historically known as the Santa Ana mine and consists of 36 mining concessions covering 4,977 hectares. In July 2013, the Company completed the acquisition of an additional 21 hectares of surface rights on adjacent properties for \$1.0 million.

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[tabular amounts are expressed in thousands of United States dollars]

13. Mining Interests (continued)

(g) Plomosas Silver Project, State of Sinaloa

The Plomosas Silver Project (formerly known as Rosario) was acquired through the acquisition of Silvermex Resources Inc. in July 2012. Plomosas has a total of 16,279 hectares of mining concessions in southeast State of Sinaloa, Mexico. The mining concession consolidates two past producing mines: Plomosas and San Juan.

Extensive infrastructure is in place at Plomosas, including a fully functional mining camp facility at the Plomosas mine. Facilities and infrastructure at Plomosas include a 20 year surface rights agreement in good standing, a 30 year water use permit, tailings dam, 60 km of 33 kilowatt power line, 120 person camp, infirmary, offices, shops and warehouses, and assay lab.

(h) Jalisco Group of Properties, Jalisco State

The Company also owns the Jalisco Group of Properties which consist of 5,240 hectares of mining claims in Jalisco State, Mexico. On April 15, 2011, a definitive agreement was entered into with Sonora Resources Corp. (the "Optionee") whereby the Optionee has an option to acquire up to 90% in the Jalisco Group of Properties (the "Properties") located in Jalisco State, Mexico. The Optionee issued 10 million shares of common stock with a fair value of \$3.4 million to the Company and is committed to spend \$3 million over the first three years to earn a 50% interest and \$5 million over five years to earn a 70% interest. In order to obtain a 90% interest, the Optionee is required to complete a bankable feasibility study within seven years. First Majestic will retain a 10% free carried interest and a 2.375% NSR. The fair value of common shares received from the Optionee was recorded in other financial assets with a corresponding reduction in the carrying value of the San Martin mining interests. In May 2012, the Company received an additional two million common shares of the Optionee, valued at \$0.4 million as a result of their failure to file a registration statement qualifying the original 10 million shares of common stock issued for free trading. The fair value of the common shares received from the Optionee was recorded as a reduction in the carrying value of mining interest in the second quarter of 2012.

(i) Other Exploration Properties

With the acquisition of Silvermex Resources Inc. in 2012, the Company also acquired a number of exploration stage properties in Mexico, including the Peñasco Quemado Silver Project in the State of Sonora, the La Frazada Silver Project in the State of Nayarit and the Los Lobos Silver Project in the State of Sonora.

14. Impairment of Goodwill and Mining Interests

The Company reviews the carrying amounts of its long-term assets at each statement of financial position date to determine whether there is any indication that those assets are impaired. During 2013, a change in the business climate as evidenced by the decline in silver price and the Mexican Tax Reform (see Note 20 – "Income Taxes"), are indicators of possible impairment.

At December 31, 2013, the Company tested the recoverability of its investment in all of its producing mines and exploration projects based on their fair market value less estimated costs to sell ("FVLCTS"). For producing mines, FVLCTS were estimated based on life-of-mine ("LOM") after-tax cash flow projections which incorporate management's best estimates of future metal prices, production based on current estimates of recoverable reserves and resources, future operating costs and capital expenditures, inflation, and long-term foreign exchange rates. Metal pricing included in the cash flow projections are based on consensus analyst pricing. Projected cash flows are discounted using the Company's weighted average costs of capital which includes estimates for risk-free interest rates, market value of the Company's equity, market return on equity, share volatility and debt-to-equity financing ratio. For non-producing assets, FVLCTS were estimated based on in-situ value of their resources and exploration potential. The metal pricing environment related to valuation of exploration-related in-situ ounces and the market value thereof have also declined with a varying impact on the Company's exploration projects. The in-situ values vary dependent on facts and circumstances at each individual project. The impact of this change was assessed on a project by project basis, applying the market comparables most closely related to the specifics of the exploration property. Management's estimate of the FVLCTS is classified as level 3 in the fair value hierarchy.

It was determined that the Company's investment in mining interests acquired from Silvermex Resources Inc. in July 2012 (see Note 29), including the La Guitarra Silver Mine, the Peñasco Quemado Silver Project, the La Frazada Silver Project and the Los Lobos Silver Project had recoverable values below their carrying values, and as a result the Company recorded total impairment charges of \$28.8 million in 2013 broken down as follow:

14. Impairment of Goodwill and Mining Interests (continued)

	Year Ended December 31, 2013
Impairment of goodwill of the La Guitarra Silver Mine	\$ 24,591
Peñasco Quemado Silver Project	1,600
La Frazada Silver Project	2,100
Los Lobos Silver Project	500
Impairment of goodwill and mining interests	\$ 28,791
Deferred income tax recovery	(1,481)
Impairment of goodwill and mining interests, net of tax	\$ 27,311

The projected cash flows used to determine FVLCTS are significantly affected by changes in assumptions for future metal prices, future capital expenditures, production cost estimates and discount rates. For the purpose of 2013 year end impairment testing, the Company used a long-term silver price of \$22.30 and discount rates of 9% to 11%, equivalent to the Company's weighted average cost of capital, adjusted for specific project risks.

15. Property, Plant and Equipment

Property, plant and equipment are composed of the following:

	Land and Buildings	Machinery and Equipment	Assets under Construction	Other	Total
Cost					
At December 31, 2011	\$ 20,675	\$ 92,098	\$ 37,402	\$ 3,753	\$ 153,928
Acquired from Silvermex (Note 29)	2,126	6,724	1,710	267	10,827
Additions	17,151	19,243	59,318	3,615	99,327
Transfers	6,876	28,336	(35,212)	–	–
At December 31, 2012	\$ 46,828	\$ 146,401	\$ 63,218	\$ 7,635	\$ 264,082
Additions	13,927	40,576	38,662	4,149	97,314
Transfers and disposals	23,012	28,319	(49,668)	(1,819)	(156)
At December 31, 2013	\$ 83,767	\$ 215,296	\$ 52,212	\$ 9,965	\$ 361,240
Accumulated depreciation and amortization					
At December 31, 2011	\$ (5,331)	\$ (17,302)	\$ –	\$ (2,255)	\$ (24,888)
Depreciation and amortization	(4,446)	(13,246)	–	(1,290)	(18,982)
At December 31, 2012	\$ (9,777)	\$ (30,548)	\$ –	\$ (3,545)	\$ (43,870)
Depreciation and amortization	(4,142)	(20,417)	–	(1,572)	(26,131)
Transfers and disposals	1	86	–	–	87
At December 31, 2013	\$ (13,918)	\$ (50,879)	\$ –	\$ (5,117)	\$ (69,914)
Carrying values					
At December 31, 2012	\$ 37,051	\$ 115,853	\$ 63,218	\$ 4,090	\$ 220,212
At December 31, 2013	\$ 69,849	\$ 164,417	\$ 52,212	\$ 4,848	\$ 291,326

(1) Included in land and buildings is \$6.6 million (2012 - \$5.4 million) of land properties which are not subject to depreciation.

(2) Included in property, plant and equipment is \$51.5 million (2012 - \$26.8 million) of equipment under finance lease.

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[tabular amounts are expressed in thousands of United States dollars]

15. Property, Plant and Equipment (continued)

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

	La Encantada	La Parrilla	Del Toro	San Martin	La Guitarra	La Luz	Corporate	Total
Cost								
At December 31, 2011	\$ 65,737	\$ 57,354	\$ 7,005	\$ 19,283	\$ -	\$ 2,673	\$ 1,876	\$ 153,928
Acquired from Silvermex (Note 29)	-	-	-	-	9,352	-	1,475	10,827
Additions	16,330	21,018	48,058	7,404	1,446	853	4,218	99,327
At December 31, 2012	\$ 82,067	\$ 78,372	\$ 55,063	\$ 26,687	\$ 10,798	\$ 3,526	\$ 7,569	\$ 264,082
Additions	8,057	7,347	53,135	14,504	7,193	2,775	4,303	97,314
Transfers and disposals	(37)	6,294	(6,322)	(60)	(18)	-	(13)	(156)
At December 31, 2013	\$ 90,087	\$ 92,013	\$ 101,876	\$ 41,131	\$ 17,973	\$ 6,301	\$ 11,859	\$ 361,240
Accumulated depreciation and amortization								
At December 31, 2011	\$ (10,609)	\$ (8,385)	\$ -	\$ (4,923)	\$ -	\$ (73)	\$ (898)	\$ (24,888)
Depreciation and amortization	(7,944)	(7,538)	-	(1,933)	(997)	(23)	(547)	(18,982)
At December 31, 2012	\$ (18,553)	\$ (15,923)	\$ -	\$ (6,856)	\$ (997)	\$ (96)	\$ (1,445)	\$ (43,870)
Depreciation and amortization	(9,305)	(7,656)	(3,859)	(2,753)	(1,377)	(31)	(1,150)	(26,131)
Transfers and disposals	16	8	1	60	2	-	-	87
At December 31, 2013	\$ (27,842)	\$ (23,571)	\$ (3,858)	\$ (9,549)	\$ (2,372)	\$ (127)	\$ (2,595)	\$ (69,914)
Carrying values								
At December 31, 2012	\$ 63,514	\$ 62,449	\$ 55,063	\$ 19,831	\$ 9,801	\$ 3,430	\$ 6,124	\$ 220,212
At December 31, 2013	\$ 62,245	\$ 68,442	\$ 98,018	\$ 31,582	\$ 15,601	\$ 6,174	\$ 9,264	\$ 291,326

16. Trade and Other Payables

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

Trade payables and accrued liabilities are comprised of the following items:

	December 31, 2013	December 31, 2012
Trade payables	\$ 20,889	\$ 20,827
Accrued liabilities	13,645	16,571
	\$ 34,534	\$ 37,398

17. Lease Obligations

The Company has entered into leases for various mining and plant equipment. These leases have terms of 36 to 60 months with interest rates ranging from 4.8% to 9.1%. Assets under finance leases are pledged as security against the lease obligation. The following is a schedule of future minimum lease payments under the finance leases:

	December 31, 2013	December 31, 2012
Less than one year	\$ 17,680	\$ 10,233
More than one year but not more than five years	21,508	15,232
Gross payments	39,188	25,465
Less: future finance charges	(2,898)	(2,487)
Present value of minimum lease payments	\$ 36,290	\$ 22,978
Financial statement presentation:		
Current portion of lease obligations	\$ 15,993	\$ 8,793
Lease obligations	20,297	14,185
Present value of minimum lease payments	\$ 36,290	\$ 22,978

18. Prepayment and Debt Facilities

(a) Prepayment Facility

In December 2012, the Company entered into a \$50.0 million prepayment facility agreement ("Prepayment Facility"). Under the terms of the agreement, the Company received \$50.0 million from lender as an advance against a portion of the Company's lead and zinc concentrate production for a period of 36 months commencing in July 2013. The Prepayment Facility bears an annual interest rate of LIBOR plus 3.5%. Principal and interest is payable monthly based on pre-determined amounts of lead and zinc production at market prices. A total of 12,158 metric tonnes of lead and 13,176 metric tonnes of zinc will be delivered over the 36 months period. Under the Prepayment Facility agreement, the Company is required to limit the aggregate amount of debt below \$135.0 million, excluding finance leases, which should also not exceed \$75.0 million.

In July 2013, to mitigate potential exposure to future price increases in lead and zinc, the Company entered into an agreement with the same lender to purchase call options on lead and zinc futures ("Call Option") equivalent to remaining production to be delivered under the terms of the Prepayment Facility. The total cost of the Call Option was \$3.1 million, settled monthly over the remaining term of the Prepayment Facility.

The Prepayment Facility is classified as a FVTPL financial liability and is recorded at fair market value, based on the forward market price of lead and zinc and discounted at an effective interest rate of 6.7%. Fair value adjustment gains or losses are recorded as other income. The Call Option is classified as FVTPL financial asset or liability and is recorded at fair market value, based on its quoted market price. Borrowing costs in relation to the Prepayment Facility were capitalized as construction costs of the Del Toro mine until commercial production was achieved on January 1, 2014.

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[tabular amounts are expressed in thousands of United States dollars]

18. Prepayment and Debt Facilities (continued)

(a) Prepayment Facility (continued)

Movements in the Prepayment Facility and Call Option during the year ended December 31, 2013 are summarized as follows:

Opening balance, December 31, 2012	\$ 50,403
Movements during the period:	
Repayments	(4,947)
Gain on fixed price contract	(514)
Fair value adjustment of remaining repayments, including call options	(3,919)
Capitalized interest and accretion	3,193
Ending balance, December 31, 2013	\$ 44,216
Remaining repayments	
Less than one year	\$ 16,091
More than one year but not more than five years	33,839
Gross value of remaining repayments	49,930
Cumulative mark-to-market adjustment of remaining repayments, including call options	(1,453)
Adjusted value of remaining repayments	48,477
Less: future finance charges	(4,261)
Fair value at December 31, 2013	\$ 44,216

The Prepayment Facility and the Call Option are subject to an enforceable master netting arrangement in the form of an International Swaps and Derivatives Association ("ISDA") agreement with the lender. On every predetermined settlement date, the payments and/or receipts are settled between the Company and the lender on a net basis. As such, the fair values of the Prepayment Facility and the Call Option are presented in an offsetting basis as follows:

	At December 31, 2013	At December 31, 2012
Offsetting of financial instruments		
Prepayment facility	45,599	50,403
Call option	(1,383)	-
	\$ 44,216	\$ 50,403
Financial statement presentation:		
Short-term portion of prepayment facility	17,874	6,162
Long-term portion of prepayment facility	26,342	44,241
	\$ 44,216	\$ 50,403

(b) Aurcana Debt

At December 31, 2012, the Company had a \$0.5 million non-interest bearing debt payable to Aurcana Corporation. The balance was fully paid by the Company on January 9, 2013.

19. Decommissioning Liabilities

The Company has an obligation to undertake restoration, rehabilitation and environmental work when environmental disturbance is caused by the development and ongoing production of a mining property, as well as the decommissioning of the plant or other restoration work. A provision for environmental rehabilitation has been estimated based on the Company's interpretation of current regulatory requirements and is recognized at the present value of such costs. The present value of the reclamation liabilities may be subject to change based on management's current estimates, changes in the remediation technology or changes to the applicable laws and regulations. Changes in estimate of reclamation liabilities are recorded against mining interests.

Movements in decommissioning liabilities during the year ended December 31, 2013 and 2012 are allocated as follow:

At December 31, 2013	La Encantada Silver Mine	La Parrilla Silver Mine	Del Toro Silver Mine	San Martin Silver Mine	La Guitarra Silver Mine	La Luz Silver Project	Total
Anticipated settlement date	2025	2031	2022	2035	2027	2030	
Undiscounted value of estimated cash flow	\$ 3,876	\$ 2,925	\$ 3,192	\$ 3,138	\$ 2,280	\$ 1,026	\$ 16,437
Estimated mine life (years)	12	18	9	22	14	17	
Discount rate	7.2%	7.7%	6.8%	7.9%	7.2%	7.2%	
Balance at December 31, 2011	\$ 2,319	\$ 1,248	\$ -	\$ 1,997	\$ -	\$ 559	\$ 6,123
Movements during the period:							
Acquired from Silvermex (Note 29)	-	-	-	-	1,954	-	1,954
Change in rehabilitation provision	566	253	938	(583)	(728)	109	555
Interest or accretion expense	165	106	-	134	67	-	472
Interest or accretion expense capitalized	-	-	-	-	-	46	46
Foreign exchange loss	175	94	-	150	73	49	541
Balance at December 31, 2012	\$ 3,225	\$ 1,701	\$ 938	\$ 1,698	\$ 1,366	\$ 763	\$ 9,691
Movements during the period:							
Change in rehabilitation provision	(303)	51	1,821	(88)	459	(71)	1,869
Interest or accretion expense	192	117	42	113	75	-	539
Interest or accretion expense capitalized	-	-	14	-	-	50	64
Foreign exchange gain	(21)	(11)	(6)	(10)	(8)	(11)	(67)
Balance at December 31, 2013	\$ 3,093	\$ 1,858	\$ 2,809	\$ 1,713	\$ 1,892	\$ 731	\$ 12,096

Notes to Consolidated Financial Statements

[tabular amounts are expressed in thousands of United States dollars]

20. Income Taxes

The following is a reconciliation of income taxes calculated at the combined statutory tax rate to the income tax expense for the years ended December 31, 2013 and 2012:

	Year Ended December 31, 2013	Year Ended December 31, 2012
Net earnings before tax	\$ 26,193	\$ 110,989
Combined statutory tax rate	25.75%	25.00%
Income tax expense computed at statutory tax rate	\$ 6,745	\$ 27,747
Reconciling items:		
Impact of initial recognition of 7.5% mining royalty in Mexico	35,111	–
Impact of change in Mexico statutory tax rates	3,682	–
Impairment of goodwill	6,332	–
Other non-deductible expenses	4,043	3,843
Impact of inflationary adjustments	489	(1,435)
Effect of different foreign statutory tax rates on earnings of subsidiaries	(662)	(9,979)
Impact of foreign exchange on deferred income tax assets and liabilities	4,019	1,563
Change in unrecognized deferred income tax asset	178	788
Other	4,488	(436)
Income tax expense	\$ 64,425	\$ 22,091
Effective tax rate	246%	20%
Current income tax expense	\$ 1,261	\$ 4,429
Deferred income tax expense	63,164	17,662
Income tax expense	\$ 64,425	\$ 22,091

The Canadian combined statutory tax rate increased from 25.0% to 25.75% in 2013 due to an increase in the provincial tax rate for British Columbia from 10.0% to 11.0%.

The tax provision on earnings is computed after taking account of intercompany transactions such as interest on loans, sales, other charges and credits among subsidiaries resulting from their capital structure as well as from the various jurisdictions in which operations and assets are owned. For these reasons, the effective tax rate differs from the combined corporate statutory rate in Canada. The Company's effective tax rate and its cash tax cost depend on the laws of numerous countries and the provisions of multiple income tax conventions between various countries in which the Company operates.

For the year ended December 31, 2013, the effective tax rate of 246% (2012 – 20%) was significantly higher than the combined corporate statutory tax rate primarily due to the initial recognition impact of major tax reforms enacted in Mexico during fiscal 2013 that are effective January 1, 2014. The significant items impacting the effective tax rate include the introduction of a 7.5% mining royalty in Mexico, elimination of a scheduled reduction of Mexico corporate statutory tax rate to 29% in 2014 and 28% in 2015, and non-deductible impairment of goodwill.

On December 11, 2013, the Mexican government enacted a tax reform to introduce a mining royalty effective January 2014. This royalty is deductible for tax purposes and is calculated as 7.5% of a royalty base which is computed as taxable revenues for income tax purposes (except interest and inflationary adjustment), less allowable deductions for income tax purposes (except interest, inflationary adjustment, depreciation and mining fees), less prospecting and exploration expenses of the year.

The Company has taken the position that the 7.5% mining royalty is an income tax in accordance with IFRS for financial reporting purpose, as it is based on a measure of revenue less certain specified costs. On substantial enactment, a taxable temporary difference arises, as property, plant and equipment and mining assets have book basis but no tax basis for purposes of the royalty. The Company has recognized a deferred tax liability of \$35.1 million as at December 31, 2013 in respect of this royalty. This deferred tax liability will be drawn down to \$nil as a reduction to tax expense over the life of mine as the mine and its related assets are depleted or depreciated.

20. Income Taxes (continued)

The movement in deferred tax assets and deferred tax liabilities is shown below:

Deferred tax assets	Losses	Share issue costs	Deductible stock option benefit	Provisions	Deferred tax asset not recognized	Total
At December 31, 2011	\$ 6,587	\$ 446	\$ 2,140	\$ 7,768	\$ (793)	\$ 16,148
(Expense) benefit to income statement	9,608	(39)	(116)	(2,433)	(1,158)	5,862
Expense to equity	–	–	(1,121)	–	–	(1,121)
Acquisition of Silvermex (Note 29)	14,452	–	–	854	(5,998)	9,308
At December 31, 2012	\$ 30,647	\$ 407	\$ 903	\$ 6,189	\$ (7,949)	\$ 30,197
(Expense) benefit to income statement	33,907	(407)	(557)	3,972	7,217	44,132
Expense to equity	–	–	(319)	–	–	(319)
At December 31, 2013	\$ 64,554	\$ –	\$ 27	\$ 10,161	\$ (732)	\$ 74,010
Deferred tax liabilities		Property, plant and equipment and mining interests	Effect of Mexican tax deconsolidation	Other	Total	
At December 31, 2011		\$ 57,360	\$ –	\$ (646)	\$ 56,714	
Expense to income statement		19,760	–	3,851	23,611	
Acquisition of Silvermex (Note 29)		31,002	–	410	31,412	
At December 31, 2012		\$ 108,122	\$ –	\$ 3,615	\$ 111,737	
Expense to income statement		60,897	41,609	4,796	107,302	
Reclassified to current income taxes payable		–	(10,407)	–	(10,407)	
At December 31, 2013		\$ 169,019	\$ 31,202	\$ 8,411	\$ 208,632	
Financial statement presentation						
At December 31, 2012						
Deferred tax assets					\$ 12,619	
Deferred tax liabilities					94,159	
Deferred tax liabilities, net					\$ 81,540	
At December 31, 2013						
Deferred tax assets					\$ –	
Deferred tax liabilities					134,622	
Deferred tax liabilities, net					\$ 134,622	

Deferred tax assets are recognized for tax losses to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits of these losses is dependent upon numerous factors, including the future profitability of operations in the jurisdictions in which the tax losses arose.

The aggregate amount of taxable temporary differences associated with investments in subsidiaries for which deferred taxes have not been recognized, as at December 31, 2013 is \$107.2 million.

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[tabular amounts are expressed in thousands of United States dollars]

20. Income Taxes (continued)

At December 31, 2013, the Company did not recognize the deferred tax assets shown below:

	Year Ended December 31, 2013	Year Ended December 31, 2012
Non-capital losses	732	6,968
Capital losses	–	415
Unrealized foreign exchange	–	566
Total	\$ 732	\$ 7,949

The Mexico tax reform enacted in December 2013 also abolished the existing tax consolidation regime effective as of January 1, 2014 and requires consolidated groups to deconsolidate. Existing groups are now required to assess the tax impact of deconsolidation using a mechanism established transition rules specified in legislation for which the final applied rules are expected to be released in the next few months. The Company is reviewing the impact and will communicate the financial impact when it is finally determined in the applied Mexican tax rules.

The tax deconsolidation results in the availability of entity level loss carryforwards that were previously used to shelter taxable income of other group companies. As at December 31, 2013, the Company has total entity level non-capital loss carryforwards of \$217.0 million for Mexican income tax purposes that may be carried forward to reduce taxable income.

As at December 31, 2013, the Company has available Canadian and Mexican non-capital tax losses, which if not utilized will expire as follows:

Year of expiry	Canadian non-capital losses	Mexican non-capital losses	Total
2014	\$ –	\$ 2,265	\$ 2,265
2016	–	5,216	5,216
2017	–	18,047	18,047
2018	–	30,340	30,340
2019	–	13,288	13,288
2020	–	337	337
2021	–	35,828	35,828
2022	–	62,423	62,423
2023	–	49,299	49,299
2028	2,709	–	2,709
2032	1,870	–	1,870
Total	\$ 4,579	\$ 217,043	\$ 221,622

21. Share Capital

(a) Authorized and issued capital

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

	Shares	Amount
Balance at December 31, 2011	105,135,372	\$ 273,304
Shares issued for:		
Acquisition of Silvermex Resources Inc. (Note 29)	9,451,641	136,317
Exercise of options	2,174,250	10,609
Conversion of shares to be issued (e)	250	–
Returned to treasury (f)	(4,673)	(16)
Expiry of shares to be issued (e)	–	(209)
Transfer of equity reserve upon exercise of options and warrants	–	3,953
Balance at December 31, 2012	116,756,840	\$ 423,958
Shares issued for exercise of options	483,000	1,789
Shares repurchased and cancelled (d)	(215,000)	(782)
Transfer of equity reserve upon exercise of options	–	742
Balance at December 31, 2013	117,024,840	\$ 425,707

(b) Stock options

Under the terms of the Company's Stock Option Plan, the maximum number of shares reserved for issuance under the Plan is 10% of the issued shares on a rolling basis. Options may be exercisable over periods of up to five years as determined by the Board of Directors of the Company and the exercise price shall not be less than the closing price of the shares on the day preceding the award date, subject to regulatory approval. All stock options granted prior to May 19, 2012 are subject to vesting with 25% vesting upon issuance and 25% vesting each six months thereafter. All stock options granted thereafter are subject to vesting with 25% vesting on first anniversary from the date of grant, and 25% vesting each six months thereafter.

The following table summarizes the information about stock options outstanding and exercisable at December 31, 2013:

Exercise prices (CAD\$)	Options Outstanding			Options Exercisable		
	Number of Options	Weighted Average Exercise Price (CAD\$/Share)	Weighted Average Remaining Life (Years)	Number of Options	Weighted Average Exercise Price (CAD\$/Share)	Weighted Average Remaining Life (Years)
2.03 - 3.70	322,500	3.03	0.71	322,500	3.03	0.71
10.62 - 14.58	1,058,075	11.64	3.58	466,250	12.51	2.00
15.55 - 19.45	1,733,300	17.10	2.93	1,092,800	16.81	2.88
20.03 - 22.45	2,094,645	21.48	3.97	199,915	22.42	3.91
	5,208,520	16.85	3.34	2,081,465	14.25	2.45

Notes to Consolidated Financial Statements

[tabular amounts are expressed in thousands of United States dollars]

21. Share Capital (continued)

(b) Stock options (continued)

As of December 31, 2013, incentive stock options represent 4% (December 31, 2012 - 5%) of issued and outstanding common capital. The aggregate intrinsic values of vested share options (the market value less the exercise value) at December 31, 2013 and December 31, 2012 were \$2.2 million and \$22.6 million, respectively.

The changes in stock options issued during the years ended December 31, 2013 and 2012 are as follows:

	Year Ended December 31, 2013		Year Ended December 31, 2012	
	Number of Options	Weighted Average Exercise Price (CAD\$/share)	Number of Options	Weighted Average Exercise Price (CAD\$/share)
Balance, beginning of the year	4,603,520	14.59	4,934,375	8.31
Granted	1,963,075	18.04	2,039,645	19.59
Exercised	(483,000)	3.77	(2,174,250)	4.83
Cancelled or expired	(875,075)	14.82	(196,250)	16.88
Balance, end of the year	5,208,520	16.85	4,603,520	14.59

The weighted average closing share price at date of exercise for the year ended December 31, 2013 was CAD\$13.53 (2012 - CAD\$20.36).

The aggregate fair value of stock options granted during the year ended December 31, 2013 was \$13.0 million (2012 - \$16.7 million).

The weighted average fair value of employee stock options granted during the year ended December 31, 2013 was \$6.63 (2012 - \$8.28) per share, which was estimated using the Black Scholes Option Pricing Model with the following assumptions:

	Year Ended December 31, 2013	Year Ended December 31, 2012
Average risk-free interest rate (%)	1.31	1.24
Expected life (years)	3.38	3.38
Expected volatility (%)	53.50	62.75
Expected dividend yield (%)	-	-
Forfeiture rate (%)	5.00	5.00

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

21. Share Capital (continued)

(c) Share purchase warrants

The Company has no share purchase warrants outstanding as at December 31, 2013.

The changes in share purchase warrants during the years ended December 31, 2013 and 2012 are as follows:

	Year Ended December 31, 2013		Year Ended December 31, 2012	
	Number of Warrants	Weighted Average Exercise Price (CAD\$/share)	Number of Warrants	Weighted Average Exercise Price (CAD\$/share)
Balance, beginning of the year	329,377	25.36	-	-
Issued	-	-	338,295	25.22
Cancelled or expired	(329,377)	25.36	(8,918)	20.00
Balance, end of the year	-	-	329,377	25.36

During the year ended December 31, 2012, as part of consideration for the acquisition of Silvermex, the Company issued 338,295 replacement warrants with an aggregate fair value of \$646,000. The fair value of share purchase warrants issued in 2012 was estimated using the Black Scholes Option Pricing Model with the following assumptions:

	Year Ended December 31, 2012
Weighted average fair value at grant date (\$)	1.93
Expected dividend yield (%)	-
Average risk-free interest rate (%)	1.05
Expected life (years)	1.43
Expected volatility (%)	62.10
Forfeiture rate (%)	-

(d) Share repurchase program

In March 2013, the Company received approval from the Toronto Stock Exchange to repurchase up to 5,848,847 common shares of the Company over the next 12 months through a normal course issuer bid in the open market. During the year ended December 31, 2013, the Company repurchased and cancelled 215,000 shares for a total consideration of \$2.4 million (CAD\$2.5 million).

(e) Share capital to be issued

In 2006, First Majestic and First Silver entered into a business combination agreement to acquire all of the remaining issued and outstanding shares of First Silver. Former shareholders of First Silver had until September 14, 2012 to surrender any certificate formerly representing First Silver shares. After such date, all First Majestic shares to which the former First Silver shareholder was entitled are deemed to have been cancelled.

In 2012, the prior shareholders of First Silver redeemed 250 shares of First Majestic. As at September 14, 2012, 98,530 shares of First Silver, exchangeable for 49,265 shares of First Majestic, were yet to be exchanged and were deemed cancelled. As a result, the remaining value of shares to be issued of \$209,000 was realized as other income during 2012.

(f) Shares returned to treasury

In November 2009, the Company completed a plan of arrangement to acquire all of the issued and outstanding shares of Normabec Mining Resources Ltd. ("Normabec"). Holders of Normabec shares were entitled to receive 0.060425 First Majestic shares for each common share of Normabec within three years from the date of the acquisition. In December 2012, 4,673 First Majestic shares still were not redeemed by Normabec shareholders and were cancelled.

Notes to Consolidated Financial Statements

[tabular amounts are expressed in thousands of United States dollars]

22. Equity Reserves

	Year Ended December 31, 2013	Year Ended December 31, 2012
Share-based payments reserve (a)		
Balance at beginning of year	\$ 33,612	\$ 27,394
Share-based payments recognized in profit and loss and related tax benefit	14,199	9,525
Share warrants issued (Note 21(c))	–	646
Reclassified to share capital for exercise of stock options	(742)	(3,953)
Balance at end of year	\$ 47,069	\$ 33,612
Available for sale revaluation reserve (b)		
Balance at beginning of year	\$ (2,085)	\$ 1,127
Loss on available for sale marketable securities	(2,047)	(3,212)
Reclassification of impairment on available for sale investments (Note 12(a))	3,914	–
Balance at end of year	\$ (218)	\$ (2,085)
Foreign currency translation reserve (c)		
Balance at beginning of year	\$ (308)	\$ (677)
Currency translation gain	–	369
Balance at end of year	(308)	(308)
Total equity reserves per statements of financial position	\$ 46,543	\$ 31,219

(a) Share-based payments reserve

The share-based payments reserve records the cumulative amount recognized under IFRS 2 in respect of options granted and shares purchase warrants issued but not exercised to acquire shares of the Company and related tax benefits of \$0.3 million (2012 – \$1.1 million).

(b) Available for sale revaluation reserve

The available for sale revaluation reserve principally records the fair value gains or losses related to available for sale financial instruments, net of amount reclassified as impairment.

(c) Foreign currency translation reserve

The foreign currency translation reserve represents exchange differences arising on the translation of non-U.S. dollar functional currency operations within the Company into the U.S. dollar presentation currency. Effective January 1, 2013, all of the Company's entities have the U.S. dollar as their functional currency.

23. Financial Instruments

(a) Capital risk management

The Company's objective when managing capital is to maintain its ability to continue as a going concern while at the same time maximizing growth of its business and providing returns to its shareholders' investments. The Company's overall strategy with respect to capital risk management remains unchanged from the prior year ended December 31, 2012.

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

	December 31, 2013	December 31, 2012
Equity	\$ 570,745	\$ 593,525
Prepayment and debt facilities	44,216	50,903
Lease obligations	36,290	22,978
Less: cash and cash equivalents	(54,765)	(111,591)
	\$ 596,486	\$ 555,815

23. Financial Instruments (continued)

(a) Capital risk management (continued)

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

The Company's investment policy is to invest its cash in highly liquid short-term interest bearing investments with maturities of 90 days or less, selected with regards to the expected timing of expenditures from continuing operations. The Company expects that its available capital resources will be sufficient to carry out its development plans and operations for at least the next 12 months.

The Company is not subject to any externally imposed capital requirements with the exception of complying with covenant under the Prepayment Facility agreement (see Note 18(a)).

(b) Categories of financial instruments

	December 31, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Loans and receivables				
Cash and cash equivalents	\$ 54,765	\$ 54,765	\$ 111,591	\$ 111,591
Trade and other receivables	22,045	22,045	19,598	19,598
Fair value through profit or loss				
Marketable securities	3,028	3,028	4,816	4,816
Derivatives	800	800	–	–
Available for sale				
Marketable securities	349	349	2,421	2,421
Total financial assets	\$ 80,987	\$ 80,987	\$ 138,426	\$ 138,426
Financial liabilities				
Fair value through profit or loss				
Prepayment facility	\$ 44,216	\$ 44,216	\$ 50,403	\$ 50,403
Other financial liabilities				
Trade and other payables	34,534	34,534	37,398	37,398
Debt facility	–	–	500	500
Total financial liabilities	\$ 78,750	\$ 78,750	\$ 88,301	\$ 88,301

(c) Fair value of financial instruments

The Company uses various valuation techniques in determining the fair value of financial assets and liabilities based on the extent to which the fair value is observable. The following fair value hierarchy is used to categorize and disclose the Company's financial assets and liabilities held at fair value for which a valuation technique is used:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: All inputs which have a significant effect on the fair value are observable, either directly or indirectly, for substantially the full contractual term.

Level 3: Inputs which have a significant effect on the fair value are not based on observable market data.

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[tabular amounts are expressed in thousands of United States dollars]

23. Financial Instruments (continued)

(c) Fair value of financial instruments (continued)

	December 31, 2013		December 31, 2012	
	Level 1	Level 2	Level 1	Level 2
Financial assets				
Cash equivalents	\$ –	\$ 8,832	\$ –	\$ –
Accounts receivable related to concentrate sales ⁽¹⁾	–	7,939	–	4,823
Marketable securities ⁽²⁾	3,377	–	7,237	–
Derivatives ⁽²⁾	800	–	–	–
Financial liabilities				
Prepayment facility ⁽³⁾	\$ (1,383)	\$ 45,599	\$ –	\$ 50,403

(1) Accounts receivable related to concentrate sales are subject to provisional pricing with the selling price adjusted at the end of the quotational period. At each reporting date, the Company's accounts receivable related to concentrate sales are marked-to-market based on a quoted forward price for which there exists an active commodity market.

(2) Derivative financial instruments and marketable securities are valued based on unadjusted quoted prices for identical assets in an active market obtained from securities exchanges.

(3) The prepayment facility is valued based on the market value of lead and zinc to be delivered, determined using the forward price curve of the respective metals, discounted at market discount rate. Zinc and lead call options acquired in relation to the prepayment facility are valued based on unadjusted quoted prices for identical assets in an active market obtained from security exchanges.

There were no transfers between levels 1, 2 and 3 during the years ended December 31, 2013 and 2012.

(d) Financial risk management

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

i) Credit Risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its contractual obligations. The Company's credit risk relates primarily to trade receivables in the ordinary course of business and VAT and other receivables. The Company sells and receives payment upon delivery of its silver doré and by-products primarily through three international organizations. Additionally, silver-lead concentrates and related base metal by-products are sold primarily through four international organizations with good credit ratings. Payments of receivables are scheduled, routine and received within 60 days of submission; therefore, the balance of overdue trade receivables owed to the Company in the ordinary course of business is not significant.

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

ii) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they arise. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and to support its expansion plans. As at December 31, 2013, the Company has outstanding trade payables of \$20.9 million (December 31, 2012 - \$20.8 million) which are generally payable in 90 days or less and accrued liabilities of \$13.6 million (December 31, 2012 - \$16.5 million) which are generally payable within 12 months. The Company believes it has sufficient cash on hand, combined with cash flows from operations, to meet operating requirements as they arise for at least the next 12 months.

23. Financial Instruments (continued)

(d) Financial risk management (continued)

ii) Liquidity Risk (continued)

The Company's liabilities and commitments have maturities which are summarized below:

	Payments Due By Period				
	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Trade and other payables	\$ 34,534	\$ 34,534	\$ –	\$ –	\$ –
Prepayment facility	49,930	16,091	33,839	–	–
Finance lease obligations	39,188	17,680	17,766	3,742	–
Decommissioning liabilities	16,437	–	–	–	16,437
Total Obligations	\$ 140,089	\$ 68,305	\$ 51,605	\$ 3,742	\$ 16,437

iii) Currency Risk

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

	December 31, 2013				December 31, 2012		
	Cash and cash equivalents	Trade and other receivables	Trade and other payables	Net assets (liabilities) exposure	Effect of +/- 10% change in currency	Net assets (liabilities) exposure	Effect of +/- 10% change in currency
Canadian dollar	\$ 11,873	\$ 395	\$ (1,043)	\$ 11,225	\$ 1,123	\$ 5,001	\$ 500
Mexican peso	763	12,647	(20,194)	(6,784)	(678)	(7,237)	(724)
	\$ 12,636	\$ 13,042	\$ (21,237)	\$ 4,441	\$ 444	\$ (2,236)	\$ (224)

iv) Commodity Price Risk

Commodity price risk is the risk that movements in the spot price of silver have a direct and immediate impact on the Company's income or the value of its related financial instruments. The Company also derives by-product revenue from the sale of gold, zinc, lead and iron ore, which accounts for approximately 17% of the Company's gross revenue. The Company's sales are directly dependent on commodity prices that have shown volatility and are beyond the Company's control. The Company has a forward sales agreement to sell a portion of the Company's zinc and lead production at a fixed price over a 36 months period commencing July 2013. The Company does not use derivative instruments to hedge its commodity price risk to silver. In July 2013, the Company purchased call options on lead and zinc futures equivalent to remaining production to be delivered under the terms of the prepayment facility. The call options were purchased to mitigate potential exposure to future price increases in lead and zinc.

As at December 31, 2013, a 10% increase or decrease of metal prices at December 31, 2013 would have the following impact on net earnings:

	December 31, 2013				
	Silver	Gold	Lead	Zinc	Effect of +/- 10% change in metal prices
Metals subject to provisional price adjustments	\$ 1,306	\$ 158	\$ 555	\$ 37	\$ 2,056
Metals in doré and concentrates inventory	47	1	11	3	62
Prepayment facility	–	–	(2,377)	(2,446)	(4,823)
	\$ 1,353	\$ 159	\$ (1,811)	\$ (2,406)	\$ (2,705)

Notes to Consolidated Financial Statements

[tabular amounts are expressed in thousands of United States dollars]

23. Financial Instruments (continued)

(d) Financial risk management (continued)

v) Interest Rate Risk

The Company is exposed to interest rate risk on its short-term investments. The Company monitors its exposure to interest rates and has not entered into any derivative contracts to manage this risk.

The Company's interest bearing financial assets comprise of cash and cash equivalents which bear interest at a mixture of variable and fixed rates for pre-set periods of time. As at December 31, 2013, the Company's exposure to interest bearing liabilities is limited to its prepayment facility and finance leases.

Based on the Company's interest rate exposure at December 31, 2013, a change of 25 basis points increase or decrease of market interest rate does not have a significant impact on net earnings.

24. Subsidiaries

Details of the Company's significant subsidiaries at December 31, 2013 are as follows:

Name of subsidiary	Principal activity	Place of incorporation and operation	% Ownership
First Majestic Silver Corp.	Holding company and silver sales	Canada	100%
First Silver Reserve Inc.	Holding company	Canada	100%
Corporación First Majestic, S.A. de C.V.	Holding company	Mexico	100%
First Majestic Plata, S.A. de C.V.	Silver mining company	Mexico	100%
Minera El Pilón, S.A. de C.V.	Silver mining company	Mexico	100%
Minera La Encantada, S.A. de C.V.	Silver mining company	Mexico	100%
First Majestic Del Toro, S.A. de C.V.	Silver mining company	Mexico	100%
La Guitarra Compañía Minera, S.A. de C.V.	Silver mining company	Mexico	100%
Minera Real Bonanza, S.A. de C.V.	Silver mining company	Mexico	100%
Minera La Rastra, S.A. de C.V.	Silver mining company	Mexico	100%
Minera Terra Plata, S.A. de C.V.	Silver mining company	Mexico	100%
Majestic Services, S.A. de C.V.	Service company	Mexico	100%
Servicios para La Industria Minera, S.A. de C.V.	Service company	Mexico	100%
Servicios Minero-Metalúrgicos Industriales, S.A. de C.V.	Service company	Mexico	100%
Administración y Servicios Integrales ASI, S.A. de C.V.	Service company	Mexico	100%
Mantenimiento Central Para Equipo Minero, S.A. de C.V.	Service company	Mexico	100%
0915623 B.C. Ltd.	Holding company	Canada	100%
FMS Investment Cooperatië UA	Investment company	Netherlands	100%
FMS Investco B.V.	Investment company	Netherlands	100%
FMS Trading AG	Silver trading company	Switzerland	100%
FMS Capital AG	Treasury company	Switzerland	100%

25. Key Management Personnel Compensation

Key management personnel include the members of the Board of Directors and officers of the Company, who have the authority and responsibility for planning, directing and controlling the activities of the Company. The remuneration of directors and officers was as follows:

	Year Ended December 31, 2013	Year Ended December 31, 2012
Salaries, bonuses, fees and benefits		
Independent members of the Board of Directors	\$ 892	\$ 598
Other members of key management	3,396	2,788
Share-based payments		
Independent members of the Board of Directors	442	480
Other members of key management	5,471	4,664
	\$ 10,201	\$ 8,530

26. Supplemental Cash Flow Information

	Year Ended December 31, 2013	Year Ended December 31, 2012
Net change in non-cash working capital items:		
Increase in trade and other receivables	\$ (2,447)	\$ (3,303)
Increase in inventories	(3,143)	(5,835)
Increase in prepaid expenses and other	(535)	(489)
Decrease in net taxes receivable	8,298	9,924
Increase in trade and other payables	2,180	977
	\$ 4,353	\$ 1,274
Non-cash investing and financing activities:		
Transfer of share-based payments reserve upon exercise of options	\$ 742	\$ 3,953
Capitalization of borrowing costs (Note 18(a))	(3,193)	–
Assets acquired by finance lease	(6,523)	(10,071)
Shares issued for acquisition of Silvermex (Note 29)	–	136,317
Warrants issued for acquisition of Silvermex (Note 29)	–	646
	\$ (8,974)	\$ 130,845

Notes to Consolidated Financial Statements

[tabular amounts are expressed in thousands of United States dollars]

27. Contingent Liabilities

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

During 2010, La Guitarra Compañía Minera, S.A. de C.V. ("La Guitarra"), a subsidiary acquired by the Company in 2012, had a tax reassessment from the Mexican tax authorities for the fiscal year 2003 relating to ineligible VAT refunds and tax treatment of intercompany loans with a maximum potential exposure of \$3.1 million (40.8 million Mexican pesos). La Guitarra had previously posted cash as collateral for a bond held with the Mexican tax authorities for \$3.1 million (40.8 million Mexican pesos) and also accrued a VAT payable of \$3.1 million related to the tax reassessment. In 2013, the Company submitted a voluntary tax amnesty and remitted \$2.4 million (31.5 million Mexican pesos) in exchange for a credit on the remaining balance of \$0.7 million (9.3 million Mexican pesos). As at December 31, 2013, the 2003 tax reassessment had been fully settled with the Mexican tax authorities and the cash was returned. The gain on settlement of \$0.7 million was recorded in other income.

During 2011, Minera El Pilón, S.A. de C.V., a subsidiary of the Company, received tax assessments from the Mexican tax authority Servicio de Administracion Tributaria for fiscal years 2004 to 2007 relating to various tax treatments with a maximum potential remittance of approximately \$5.8 million (75.7 million Mexican pesos). As at December 31, 2013, the Company has defended itself successfully in all of these tax assessments. Professional fees of \$0.3 million (2012 - \$0.1 million) were incurred and expensed as general and administrative expenses during the year in relation to the appeal process.

In 2012, the Mexican government introduced changes to the federal labour law which made certain amendments to the law relating to the use of service companies and subcontractors and the obligations with respect to workers' participation benefits. These amendments may have an effect on the distribution of profits to workers and result in additional financial obligations to the Company. The Company continues to be in compliance with the federal labour law and believes that these amendments will not result in any new material obligations. Based on this assessment, the Company has not accrued any provisions for the year ended December 31, 2013. The Company will continue to monitor developments in Mexico and to assess the potential impact of these amendments.

28. First Silver Litigation

In May 2006, the Company acquired a controlling interest in First Silver for \$50.8 million ("the Agreement"). The purchase price was payable to the Vendor ("Davila Santos") in three instalments. The first and second instalments totaling \$38.1 million were paid in accordance with the Agreement. The final 25% instalment of \$12.7 million was not paid to Davila Santos pending a legal action by the Company against Davila Santos and his private company involving a mine in Mexico ("the Bolaños Mine") as set out further below.

In November 2007, the Company and First Silver commenced an action against Davila Santos, who was a director and the President and Chief Executive Officer of First Silver at the time of the Agreement ("the Action"). The Company and First Silver alleged, among other things, that Davila Santos through his private company, acquired control of the Bolaños Mine in breach of his fiduciary duties to First Silver. In their Statement of Defence, the defendants denied that Davila Santos violated his fiduciary duties to First Silver.

Davila Santos also filed a counterclaim ("the Counterclaim") against the Company in which he claimed for unpaid amounts and interest under the Agreement. As of July 16, 2009, the unpaid amount, together with interest calculated at the contractual interest rate of 6%, amounted to \$14.2 million. As a result of a consent order in the Action on July 16, 2009, the sum of \$13.6 million was paid into the trust account of Davila Santos' lawyers pending the outcome of the Action ("the Trust Funds"), leaving an unpaid balance under the Agreement of CDN\$0.6 million ("the Unpaid Balance"). In the Counterclaim, Davila Santos also claimed, among other things, interest at 6% compounded annually and calculated daily on the Trust Funds and the Unpaid Balance and reimbursements of all costs and expenses, including his legal fees, incurred by Davila Santos in pursuing his claims against the Company.

The trial of the Action and Counterclaim commenced in the Supreme Court of British Columbia in Vancouver, British Columbia in April 2012. In April 2013, the Company received a positive judgment from the Court, which awarded the sum of \$93.8 million in favour of First Majestic against the defendants. As for the Counterclaim, on June 25, 2013, the Court held that Davila Santos was only entitled to simple post-judgment interest on the Unpaid Balance commencing July 16, 2009, and that both the Unpaid Balance and this interest were to be set-off against the amount awarded to the Company. Davila Santos' claim for costs and expenses was dismissed. As well, the Court ordered that the Trust Funds and all earned interest thereon since July 16, 2009 be paid to the Company's lawyers. These funds, totalling \$14.1 million, were received by the Company on June 27, 2013 in partial payment of the April 24, 2013 judgment, leaving an unpaid amount of approximately \$79.0 million.

28. First Silver Litigation (continued)

The judgments by the Supreme Court of British Columbia in favour of the Company were appealed by the defendants. On June 27, 2013, a justice of the Court of Appeal of British Columbia ordered the defendant to post security or provide a letter of credit in the amount of \$79.0 million by September 25, 2013. Additionally, the Supreme Court of British Columbia has granted orders restricting any transfer or encumbrance of the Bolaños Mine by the defendant and limiting mining at the Bolaños Mine. The orders also require that the defendant preserve net cash flow from the Bolaños Mine in a holding account and periodically provide to the Company certain information regarding the Bolaños Mine and the holding account. The defendant did not post security nor provided a letter of credit and as a result, on October 23, 2013, the defendant's appeal ("the Appeal Dismissal Order") was dismissed by the Court of Appeal.

On October 30, 2013, the defendant initiated an application to vary or discharge the Appeal Dismissal Order requiring a written motion within 14 days and a hearing with a three judge panel to determine if the appeal judge made an error in law or principle. The outcome of this application is presently not determinable. Judgment against Davila Santos should not be regarded as conclusive until such time as all avenues for appeal have been exhausted and the Company cautions that even if the results of all such appeals are in the Company's favour it is likely that it will be necessary to take additional action in Mexico and/or elsewhere to try to recover the unpaid portion of the judgment. The outcome of any such action is not presently determinable.

During the year ended December 31, 2013, the Company recognized a gain of \$0.6 million related to the reversal of interest and costs previously accrued for the Action. The \$14.1 million payment received on June 27, 2013 was recorded as a deferred gain and will only be recognized in the event all avenues for the defendant's appeals have been exhausted. There can be no guarantee of collection on the remainder of the judgment amount and accordingly, as at December 31, 2013, the Company has not accrued any additional amounts related to the remaining \$79.0 million unpaid judgment in favour of the Company.

29. Acquisition Of Silvermex Resources Inc.

On July 3, 2012, the Company completed the plan of arrangement (the "Arrangement") previously announced on April 3, 2012 to acquire all of the issued and outstanding common shares of Silvermex Resources Inc. Shareholders of Silvermex received 0.0355 First Majestic shares and CAD\$0.0001 for each share of Silvermex. Pursuant to closing of the transaction, First Majestic issued 9,451,641 common shares, 338,295 replacement warrants and \$26,000 in cash for the acquisition. The total consideration was valued at \$137.0 million (CAD\$138.7 million) at the acquisition date. Total transaction costs for the acquisition was \$2.7 million which were expensed in 2012.

The acquisition strengthened First Majestic's position, adding the La Guitarra Silver Mine as the Company's fourth producing asset with additional growth potential. La Guitarra further diversifies production and cash flow across the Company's portfolio of producing mines and other exploration projects in Mexico, including the Plomosas, Peñasco Quemado, La Frazada and Los Lobos projects.

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

Consideration:	
9,451,641 First Majestic common shares x CAD\$14.60 per share	\$ 136,317
338,295 First Majestic replacement warrants (Note 21(c))	646
Cash paid (266.2 million Silvermex shares x CAD\$0.0001 per share)	26
Total consideration	\$ 136,989
Allocation of purchase price	
Cash and cash equivalents	\$ 11,380
Inventories	3,145
Mining interests	118,287
Property, plant and equipment	10,827
Goodwill	24,591
Deposit on long-term assets	482
Other net working capital	(7,665)
Decommissioning liabilities	(1,954)
Deferred tax liabilities, net	(22,104)
	\$ 136,989

Notes to Consolidated Financial Statements

[tabular amounts are expressed in thousands of United States dollars]

29. Acquisition Of Silvermex Resources Inc. (continued)

Goodwill of \$24,591,000 was recognized at the time of the acquisition primarily as a result of the requirement under IFRS to record deferred tax liability on the excess of the fair value of the acquired assets over their corresponding tax bases, with the corresponding offset recorded as goodwill. At December 31, 2013, the Company tested the recoverability of its investment in the mining interests acquired as part of the Silvermex acquisition and assessed them to be impaired (see Note 14).

Financial and operating results of Silvermex are included in the Company's consolidated financial statements effective July 3, 2012. During the year ended December 31, 2012, the acquisition of Silvermex contributed revenues of \$5,291,000 and loss of \$459,000 to the Company's net earnings. Had the business combination been effected at January 1, 2012, revenues of the Company would have been \$252,034,000 and earnings would have been \$82,684,000 for the year ended December 31, 2012 (unaudited). Management considers these pro forma numbers to represent an approximate measure of the performance of the consolidated entity during 2012.

30. Subsequent Events

Subsequent to December 31, 2013:

- (a) 293,784 shares valued at \$2.8 million were granted for acquisition of mineral properties adjacent to the La Guitarra Silver Mine (see Note 13(e));
- (b) 1,736,642 options were granted with a weighted average exercise price of CAD\$10.44 and expire in five years from the grant date;
- (c) 48,500 options were cancelled; and
- (d) Management determined that the 1,000 tpd cyanidation plant at the Del Toro Silver Mine achieved commercial production on January 1, 2014.

Pursuant to the above subsequent events, the Company has 117,318,624 common shares outstanding as at the date on which these consolidated financial statements were approved and authorized for issue by the Board of Directors.

31. Approval of Financial Statements

The consolidated financial statements of First Majestic Silver Corp. for the year ended December 31, 2013 were approved and authorized for issue by the Board of Directors on February 25, 2014.

Management's Discussion and Analysis

For the Year and Fourth Quarter Ended December 31, 2013

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements of First Majestic Silver Corp. ("First Majestic" or "the Company") for the year ended December 31, 2013, which are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). This MD&A contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein. All dollar amounts are expressed in United States ("US") dollars and tabular amounts are expressed in thousands of dollars unless otherwise indicated. All information contained in this MD&A is current as of February 25, 2014 unless otherwise stated.

Forward-Looking Statements

Certain information contained herein constitutes forward-looking statements. Forward-looking statements are frequently characterized by words such as "plan", "expect", "forecast", "project", "intend", "believe", "anticipate", "outlook" and other similar words, or statements that certain events or conditions "may" or "will" occur. Forward-looking statements are based on the opinions and estimates of management at the dates the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include, without limitation: the inherent risks involved in the mining, exploration and development of mineral properties, the uncertainties involved in interpreting drilling results and other geological data, fluctuating metal prices, the possibility of project delays or cost overruns or unanticipated excessive operating costs and expenses, uncertainties related to the necessity of financing, the availability of and costs of financing needed in the future, and other factors described in the Company's Annual Information Form under the heading "Risk Factors". The Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change other than as required by securities laws. The reader is cautioned not to place undue reliance on forward-looking statements.

Qualified Persons

Leonel Lopez, C.P.G., P.G. of Runge Pincock Minarco (formerly Pincock Allen & Holt) is the independent Qualified Person ("QP") for the Company. Ramon Davila, Ing., the Company's Chief Operating Officer and Carlos Wong, M.Sc., Ore Reserves Compliance Manager, are also certified QPs. Leonel Lopez has reviewed the technical information reported in the National Instrument 43-101 technical reports regarding the La Parrilla Silver Mine, the La Encantada Silver Mine, the San Martin Silver Mine and the Del Toro Silver Mine. Ramon Davila has reviewed this MD&A for QP technical disclosures. All National Instrument 43-101 technical reports can be found on the Company's website at www.firstmajestic.com or on SEDAR at www.sedar.com.

Additional information on the Company, including the Company's Annual Information Form, is also available on SEDAR at www.sedar.com and on the Company's website at www.firstmajestic.com.

Fourth Quarter				Full Year		
2013	2012	Change	Highlights	2013	2012	Change
Operating						
701,617	701,618	(0%)	Ore Processed / Tonnes Milled	2,741,717	2,542,288	8%
3,421,161	2,562,926	33%	Silver Equivalent Ounces Produced	12,791,527	9,110,452	40%
2,746,598	2,311,146	19%	Silver Ounces Produced	10,641,465	8,260,434	29%
\$9.66	\$9.26	4%	Cash Costs per Ounce ⁽¹⁾	\$9.35	\$9.08	3%
\$42.69	\$28.24	51%	Total Production Cost per Tonne ⁽¹⁾	\$39.29	\$28.62	37%
\$20.61	\$32.42	(36%)	Average Realized Silver Price Per Ounce (\$/eq. oz.) ⁽¹⁾	\$23.08	\$31.10	(26%)
Financial						
\$59.0	\$71.0	(17%)	Revenues (\$ millions)	\$251.3	\$247.2	2%
\$14.3	\$39.5	(64%)	Mine Operating Earnings (\$ millions) ⁽²⁾	\$92.3	\$142.0	(35%)
(\$81.2)	\$22.4	(463%)	Net (Loss) Earnings (\$ millions) ⁽³⁾	(\$38.2)	\$88.9	(143%)
\$20.4	\$43.2	(53%)	Operating Cash Flows Before Movements in Working Capital and Income Taxes (\$ millions) ⁽²⁾	\$137.3	\$146.8	(6%)
\$54.8	\$111.6	(51%)	Cash and Cash Equivalents (\$ millions)	\$54.8	\$111.6	(51%)
\$32.8	\$115.7	(72%)	Working Capital (\$ millions) ⁽¹⁾	\$32.8	\$115.7	(72%)
Shareholders						
(\$0.69)	\$0.19	(462%)	(Loss) Earnings Per Share ("EPS") - Basic	(\$0.33)	\$0.80	(141%)
\$0.05	\$0.26	(80%)	Adjusted EPS ⁽¹⁾	\$0.56	\$1.05	(47%)
\$0.17	\$0.37	(53%)	Cash Flow Per Share ⁽¹⁾	\$1.17	\$1.32	(11%)
117,030,825	116,442,639	1%	Weighted Average Shares Outstanding for the Periods	116,935,325	110,775,284	6%

(1) The Company reports non-GAAP measures which include Cash Costs per Ounce, Total Production Cost per Tonne, Average Realized Silver Price per Ounce, Working Capital, Adjusted EPS and Cash Flow Per Share. These measures are widely used in the mining industry as a benchmark for performance, but do not have a standardized meaning and may differ from methods used by other companies with similar descriptions. See "Non-GAAP Measures" on pages 93 to 96.

(2) The Company reports additional GAAP measures which include Mine Operating Earnings and Operating Cash Flows Before Movements in Working Capital and Income Taxes. These additional financial measures are intended to provide additional information and do not have a standardized meaning prescribed by IFRS. See descriptions in "Additional GAAP Measures" on page 97.

(3) Net loss in the fourth quarter and year ended December 31, 2013 includes an impairment charge on goodwill and mining interests of \$28.8 million and a non-cash charge of \$38.8 million to deferred income tax expense in relation to the Mexican Tax Reform enacted in December 2013.

Record Production

The Company achieved another quarter of record production, producing 2,746,598 ounces of silver and 3,421,161 of silver equivalent ounces, compared to 2,311,146 ounces of silver and 2,562,926 of silver equivalent ounces in the fourth quarter of 2012, increases of 19% and 33%, respectively.

Annual production in 2013 increased 40% to reach a record of 12,791,527 of silver equivalent ounces compared to 9,110,452 silver equivalent ounces produced in 2012. Silver production also increased 29% to 10,641,465 ounces compared to 8,260,434 ounces of silver in 2012.

Higher production for the year was primarily attributed to the ramp up of the 1,000 tonnes per day ("tpd") flotation and 1,000 tpd cyanidation circuits at the new Del Toro Silver Mine, which accounted for 53% of the increase in silver equivalents production. In addition, the Company's 2013 results included a full year of production from the La Guitarra Silver Mine compared to half year of production in 2012 since the acquisition of Silvermex Resources Inc. in July 2012. Furthermore, production at La Parrilla and San Martin also increased 21% and 33%, respectively, compared to the prior year due to more tonnage milled.

Revenues

The Company generated revenues of \$59.0 million in the fourth quarter of 2013, a decrease of \$12.0 million or 17% compared to \$71.0 million in the fourth quarter of 2012. The decrease in revenue was primarily due to the 36% decline in average silver price compared to the same quarter of the prior year, partially offset by 35% increase in payable equivalent silver ounces sold.

Revenues for the year ended December 31, 2013 were \$251.3 million, an increase of \$4.1 million compared to \$247.2 million in 2012, as record production in 2013 resulted in 41% increase in payable equivalent silver ounces sold. However, the increase in ounces sold was offset by a 26% decrease in average realized silver price per ounce compared to 2012. Higher revenues were also partially offset by higher metal deductions and increased smelting and refining charges related to an increase in concentrate production from the new Del Toro mine, full year of La Guitarra operations and higher throughput at the La Parrilla flotation plant.

Mine Operating Earnings

For the quarter ended December 31, 2013, mine operating earnings were \$14.3 million compared to \$39.5 million in the fourth quarter of 2012. The decrease was attributed to lower margins as a result of a 36% decrease in average realized silver price per ounce, as well as higher depletion, depreciation and amortization expense from expanded production and operations.

For the year ended December 31, 2013, the Company recognized mine operating earnings of \$92.3 million, a decrease of 35% compared to \$142.0 million in 2012. The decrease in mine operating earnings was primarily attributed to a 26% decline in average realized silver price per ounce during the year, while depletion, depreciation and amortization expense increased by \$17.9 million due to an 8% increase in tonnage milled and additional depreciation and amortization from the new Del Toro mine and full year of La Guitarra operations.

Net (Loss) Earnings

Net loss after taxes for the fourth quarter and year ended December 31, 2013 were \$81.2 million and \$38.2 million respectively, compared to net earnings after taxes of \$22.4 million and \$88.9 million in the comparative periods of 2012. Net loss in the current period was attributed to non-cash impairment charges totalling \$28.8 million (see "Impairment of Goodwill and Mining Interests" below) and a non-cash accounting adjustment of \$38.8 million to deferred income tax liabilities as a result of the recently enacted Mexican Tax Reform (see "Mexican Tax Reform" below).

Earnings per share ("EPS") for the fourth quarter and year ended December 31, 2013 were a loss of \$(0.69) and \$(0.33), respectively. Adjusted EPS (see "non-GAAP measures"), normalized for non-cash or unusual items, for the quarter and year ended December 31, 2013 were \$0.05 and \$0.56, respectively.

Cash Flows from Operations

In the fourth quarter of 2013, operating cash flows before movements in working capital and income taxes was \$20.4 million (\$0.17 per share), compared to \$43.2 million (\$0.37 per share) in the fourth quarter of 2012. The decrease in cash flow per share was primarily attributed to decrease in mine operating earnings, which were affected by a 36% decline in silver prices compared to the fourth quarter of 2012.

Operating cash flows before movements in working capital and income taxes for the year decreased 6% from \$146.8 million (\$1.32 per share) in 2012 to \$137.3 million (\$1.17 per share) in 2013. Cash flows from operations were lower due to decrease of 26% in average realized silver prices, which were partially offset by a 41% increase in payable equivalent silver ounces sold.

In 2014, the Company's focus is operational efficiency, to continue optimizing the mines to ensure profitability and generation of operating cash flows in the current lower silver price environment.

Cash Cost per Ounce

Cash cost per ounce (after by-product credits) for the fourth quarter and year ended December 31, 2013 were \$9.66 and \$9.35, respectively, a slight increase of 4% and 3% compared to \$9.26 and \$9.08 per ounce in the comparable periods of 2012.

The increase in cash cost per ounce was primarily attributed to higher production costs from the increase in mining and haulage costs at La Encantada due to a higher proportion of fresh ore from the mine compared to old tailings, additional diesel and generator rental costs incurred at Del Toro due to delays in the construction of the power line, and higher than expected smelting and refining costs at the new Del Toro mine due to penalty costs for impurities as the mill is refining its metallurgical processes during the ramp

up of this new mine. Increases in production costs were mostly offset by higher by-product credits from La Parrilla, Del Toro and La Guitarra as these mines continue to ramp up their production through 2013.

Effective 2014, the Company will adopt the guidance on All-In Sustaining Cost ("AISC"), which is a non-GAAP industry measure to provide greater visibility, comparability and representation of the total costs associated with producing silver from its current operations. Please see "2014 Outlook" section for more detail on AISC.

Del Toro Silver Mine Construction

Phase 1 construction of the Del Toro Silver Mine for the 1,000 tpd flotation plant was completed and inaugurated in a special ceremony on January 23, 2013. The first delivery of concentrates was shipped to the smelter during February 2013 and the plant was deemed by management to have reached commercial production criteria on April 1, 2013.

Phase 2 expansion included the addition of a 1,000 tpd cyanidation circuit allowing for the production of silver doré bars. Commissioning of the cyanidation commenced on October 20, 2013 and the first pour of silver bars began in late November. The new 1,000 tpd cyanidation circuit was deemed by management to have reached commercial production criteria on January 1, 2014.

By the end of 2013, the Del Toro mine had completed Phase 1 and 2 of the plant construction, with a combined throughput capacity of 2,000 tpd (1,000 tpd flotation and 1,000 tpd cyanidation). As previously announced, to conserve capital in a reduced silver price environment, management is changing its capital investment and production plan for the Del Toro mine. Management has decided to delay the ramp up to 4,000 tpd until further notice. With some minor plant and process modifications, the Company is planning to accelerate the ramp up of the cyanidation circuit to 2,000 tpd in early 2014 and further ramping up to 2,200 tpd by the end of 2014; however, the Company plans to reduce the flotation circuit production level from 1,000 tpd to approximately 550 tpd during 2014. The capital investments that will be delayed include the installation of one of the two semi-autogenous grinding ("SAG") mills and the completion of the San Juan shaft. Management believes this plan will yield production of approximately 2.7 million to 2.9 million silver ounces or 3.2 million to 3.5 million ounces of silver equivalents from Del Toro during 2014, while effectively reducing the treatment and refining cost of concentrates.

San Martin Mill Expansion

The San Martin mill expansion from 900 tpd to 1,200 tpd was completed during the fourth quarter of 2013. The expansion of the processing plant was completed in late December with the final installation of a new and larger 9.5' x 12' ball mill to replace the older 8.5' x 12' ball mill. The larger ball mill is expected to be more reliable and capable of reaching planned throughputs of 1,300 tpd during the first quarter of 2014.

Mexican Tax Reform

In late 2013, a new Income Tax Law was enacted in Mexico ("Mexican Tax Reform") which became effective January 1, 2014. Key provisions of the Mexican Tax Reform that may affect the Company consist of:

- Imposes a new 7.5% mining royalty. This royalty is deductible for tax purposes and is calculated as 7.5% of a royalty base which is computed as taxable revenues (except interest and inflationary adjustment), less allowable deductions for income tax purposes (except interest, inflationary adjustment, depreciation and mining fees), less prospecting and exploration expenses of the year;
- Imposes a new environmental duty of 0.5% of gross income arising from the sale of gold and silver;
- Corporate income tax rate to remain at 30%, eliminating the scheduled reduction to 29% in 2014 and to 28% in 2015;
- Elimination of the Business Flat Tax ("IETU");
- Elimination of the option for depreciation of capital assets on an accelerated basis;
- Elimination of 100% deduction on exploration expenses for locating and quantifying new deposits in pre-operating periods. These exploration costs will be amortized on a straight-line basis over 10 years;
- Reduction of deductibility for various employee fringe benefits; and
- Imposes a 10% withholding tax on dividends distributed to resident individuals or foreign residents (including foreign corporations). According to the Mexico-Canada tax treaty, this dividend withholding tax rate may be reduced to 5%.

The Company has taken the position that the new 7.5% mining royalty is an income tax in accordance with IFRS for financial reporting purpose, as it is based on a measure of revenue less certain specified costs. On substantial enactment, a taxable temporary difference arises, as property, plant and equipment and mining assets have book basis but no tax basis for purposes of the royalty. The Company has recognized a non-cash deferred income tax liability of \$35.1 million as at December 31, 2013 in respect of this royalty. In addition, the Company recognized \$3.7 million for the 2% change in Mexican statutory tax rates on any temporary difference on its existing long-term assets. The combined \$38.8 million non-cash adjustment to deferred income tax liability will be drawn down to \$nil as a reduction to tax expense over the life of mine as the mine and its related assets are depleted or depreciated.

In addition to the above, the Mexican Tax Reform abolishes the tax consolidation regime and consolidated groups will effectively be de-consolidated on a go forward basis. Existing groups are now required to assess the tax impact of deconsolidation using a mechanism established transition rules specified in legislation for which the final applied rules are expected to be released in the next few months. The Company is reviewing the impact and will communicate the financial impact when it is finally determined in the applied Mexican tax rules.

Impairment of Goodwill and Mining Interests

During 2013, metal prices declined significantly and have remained at these lower levels. As a result, the Company assessed the recoverable amounts of each of its cash-generating units ("CGU's"), including goodwill.

The recoverable amounts of each CGU was determined based on its fair market value less cost to sell ("FVLCTS"), estimated based on life-of-mine ("LOM") cash flow projections which incorporate management's best estimates of future metal prices, production based on current estimates of recoverable reserves and resources, future operating costs and capital expenditures, inflation, and long-term foreign exchange rates. Metal pricing included in the cash flow projections are based on analyst consensus of estimates. Projected cash flows are discounted using the Company's weighted average costs of capital which includes estimates for risk-free interest rates, market value of the Company's equity, market return on equity, share volatility and debt-to-equity financing ratio. For non-producing assets, FVLCTS were estimated based on in-situ value of their resources and exploration potentials. The metal pricing environment related to valuation of exploration-related in-situ ounces and the market value thereof have also declined with a varying impact on the Company's exploration projects. The in-situ values vary dependent on facts and circumstances at each individual project. The impact of this change was assessed on a project by project basis, applying the market comparables most closely related to the specifics of the exploration property. Management's estimate of the FVLCTS is classified as level 3 in the fair value hierarchy.

It was determined that the Company's investment in mining interests acquired from Silvermex Resources Inc. ("Silvermex") in July 2012, including the La Guitarra Silver Mine, the Peñasco Quemado Silver Project, the La Frazada Silver Project and the Los Lobos Silver Project had recoverable values below their carrying values, and as a result the Company recorded total impairment charges of \$28.8 million in 2013 broken down as follow:

	Year Ended December 31, 2013
Impairment of goodwill of the La Guitarra Silver Mine	\$ 24,591
Peñasco Quemado Silver Project	1,600
La Frazada Silver Project	2,100
Los Lobos Silver Project	500
Impairment of goodwill and mining interests	\$ 28,791
Deferred income tax recovery	(1,481)
Impairment of goodwill and mining interests, net of tax	\$ 27,311

The projected cash flows are significantly affected by changes in assumptions for future metal prices, future capital expenditures, production cost estimates and discount rates. For the purpose of 2013 year end impairment testing, the Company used a long-term silver price of \$22.30 per ounce and discount rates ranging from 9% to 11%, equivalent to the Company's weighted average cost of capital, adjusted for specific project risks.

2014 Production Outlook and All-In Sustaining Cost Guidance

This section of the MD&A provides management's production forecasts for 2014. These forward-looking estimates are subject to the cautionary note regarding the risks associated with relying on forward-looking statements as stated at the beginning of this MD&A.

For 2014, the Company anticipates silver production will increase by 19% to 25% and to a new annual range of 12.7 million to 13.3 million ounces (or 14.8 million to 15.6 million silver equivalent ounces) with the following upcoming developments, based on 330 operating days in the various mine production plans:

- At Del Toro, total throughput from the dual circuit processing plant is expected to average 2,600 tpd (2,100 tpd from cyanidation and 500 tpd from flotation), reaching 2,200 tpd from cyanidation and 550 tpd from flotation by year end;
- As a result of the recent expansion at San Martin, the cyanidation plant is expected to average 1,300 tpd starting in early 2014. This increase in mill capacity from the previously 900 tpd is expected to produce an additional 0.5 million ounces of silver plus modest amounts of gold per year;
- At La Encantada, an upgrade and expansion of the crushing and grinding area which will allow the processing of fresh underground ore to be increased in the second half of 2014. In addition, the reprocessing of old tailings has been eliminated from the mill feed due to the low metal price environment. This modification is expected to improve both silver recoveries and the head grade at the mill; and
- Due to the underground development of the El Coloso Project at the La Guitarra mine in the second half of 2013, the Company expects higher silver grades to be extracted and processed in the second half of 2014.

The Company continues to focus on operational efficiency, to optimize the mines to ensure profitability in a low price environment. These modifications are aimed to maintain First Majestic as one of the silver industry's purest and highest margin producers.

The following is a summary of the Company's 2014 outlook by producing mines:

Anticipated Operating Parameters	La Encantada	La Parrilla	Del Toro	San Martin	La Guitarra	Total
Tonnes processed ('000s)	931 - 980	637 - 670	760 - 799	436 - 458	168 - 176	2,932 - 3,083
Silver ounces ('000s)	4,150 - 4,368	3,079 - 3,232	2,754 - 2,895	1,725 - 1,813	946 - 995	12,654 - 13,303
Gold ounces	-	461 - 485	1,450 - 1,524	2,381 - 2,503	4,076 - 4,285	8,368 - 8,797
Pounds of lead ('000s)	-	14,656 - 15,408	6,482 - 6,815	-	-	21,138 - 22,223
Pounds of zinc ('000s)	-	10,346 - 10,877	2,758 - 2,899	-	-	13,104 - 13,776
Silver equivalent ounces ('000s)	4,150 - 4,368	4,270 - 4,484	3,276 - 3,444	1,873 - 1,969	1,201 - 1,263	14,770 - 15,528
Average silver grade (g/t)	236	184	156	152	207	190
Average recoveries (%)	60%	79%	72%	81%	85%	71%
Cash cost per ounce	\$8.78 - \$9.23	\$7.00 - \$7.36	\$9.18 - \$9.66	\$8.69 - \$9.13	\$9.21 - \$9.68	\$8.67 - \$9.12
Production cost per ounce	\$7.09 - \$7.45	\$9.19 - \$9.67	\$10.41 - \$10.95	\$9.54 - \$10.02	\$9.35 - \$9.83	\$8.80 - \$9.26
Sustaining capital per ounce	\$3.54 - \$3.72	\$4.67 - \$4.91	\$4.84 - \$5.09	\$5.24 - \$5.50	\$9.22 - \$9.69	\$4.66 - \$4.90
Expansionary capital per ounce	\$1.97 - \$2.07	\$1.76 - \$1.85	\$4.81 - \$5.06	\$2.02 - \$2.12	\$6.77 - \$7.12	\$3.35 - \$3.52
Production cost per tonne	\$32.21 - \$33.87	\$41.82 - \$43.96	\$38.56 - \$40.54	\$37.60 - \$39.52	\$51.46 - \$54.10	\$37.51 - \$39.43

Metal average price assumptions for calculating equivalents: Silver \$20.00/oz, Gold \$1,250/oz, Lead \$0.95/lb, Zinc \$0.90/lb

The Company, in conjunction with an initiative undertaken within the mining industry, is voluntarily incorporating All-In Sustaining Cost ("AISC"), a non-GAAP measure, into its 2014 forward guidance. The Company believes AISC is a more comprehensive measure than Cash Cost Per Ounce for the Company's consolidated operating performance by providing greater visibility, comparability and representation of the total costs associated with producing silver from its current operations.

AISC is a non-GAAP measure and was calculated based on guidance provided by the World Gold Council ("WGC") in June 2013. It is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. WGC is not a regulatory industry organization and does not have the authority to develop accounting standards for disclosure requirements. Other mining companies may calculate AISC differently as a result of differences in underlying accounting principles and policies applied, as well as differences in definitions of sustaining versus development capital expenditures.

The Company defines sustaining capital expenditures as, "costs incurred to sustain and maintain existing assets at current productive capacity and constant planned levels of productive output without resulting in an increase in the life of assets, future earnings, or improvements in recovery or grade. Sustaining capital includes costs required to improve/enhance assets to minimum standards for reliability, environmental or safety requirements. Sustaining capital expenditures excludes all expenditures at the Company's new projects and certain expenditures at current operations which are deemed expansionary in nature."

AISC includes total production cash costs incurred at the Company's mining operations, which forms the basis of the Company's total cash costs. Additionally, the Company includes sustaining capital expenditures, corporate general and administrative expense, exploration and evaluation costs, share-based payments and reclamation cost accretion. The Company believes that this measure represents the total sustainable costs of producing silver from current operations, and provides the Company and other stakeholders of the Company with additional information of the Company's operational performance and ability to generate cash flows. As the measure seeks to reflect the full cost of silver production from current operations, new project capital and expansionary capital at current operations are not included. Certain other cash expenditures, including tax payments, dividends and financing costs are also not included.

All-In Sustaining Cost	2014 Outlook
Cash Costs Per Ounce⁽¹⁾	\$8.67 - \$9.12
General and administrative costs	1.69 - 1.77
Share-based payments (non-cash)	0.77 - 0.81
Accretion and amortization of reclamation costs (non-cash)	0.08 - 0.09
Development sustaining capital	2.89 - 3.04
Exploration sustaining capital	0.58 - 0.61
Property, plant and equipment capital	1.19 - 1.25
All-in sustaining costs⁽²⁾	\$15.87 - \$16.69

(1) Cash Costs per Ounce is a non-GAAP measure widely used in the mining industry as a benchmark for performance, but do not have a standardized meaning and may differ from methods used by other companies with similar descriptions. See "Non-GAAP Measures" on pages 22 to 23. To conform to WGC's guidance on AISC, the Company has included workers' participation costs in the range of \$0.38 - \$0.39 in the calculation of Cash Cost Per Ounces for 2014.

(2) With the Mexican Tax Reform effective January 1, 2014, the 0.5% environmental duty calculated based on revenues is now incorporated into cash cost per ounce and all-in sustaining cost per ounce guidance. The 75% mining royalty that became effective January 1, 2014 is characterized as an income tax and is therefore not included in the metrics referenced above.

In 2014, the Company plans to spend a total of \$106.0 million on sustaining capital for current operations including expansionary capital for a number of growth projects. The annual budget includes a total of \$42.3 million to be spent towards plant, property and equipment, \$55.7 million towards total development and \$8.0 million in total exploration.

Review of Operating Results

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

Production Highlights	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Ore processed/tonnes milled								
La Encantada	252,467	248,578	269,517	368,679	407,221	388,462	382,172	337,940
La Parrilla	200,541	189,664	193,470	204,660	186,434	175,630	169,786	147,938
Del Toro ⁽¹⁾	122,838	77,439	74,193	45,391	-	-	-	-
San Martin	78,805	78,284	85,483	80,046	77,803	72,257	63,841	72,305
La Guitarra ⁽²⁾	46,966	47,380	45,735	31,581	30,160	30,339	-	-
Consolidated	701,617	641,345	668,398	730,357	701,618	666,688	615,799	558,183
Silver equivalent ounces produced								
La Encantada	962,505	931,027	1,132,399	1,136,603	1,117,254	1,090,966	1,041,292	861,506
La Parrilla	1,151,728	1,208,635	952,819	906,192	931,718	851,628	843,307	860,739
Del Toro ⁽¹⁾	693,561	567,723	499,357	176,495	-	-	-	-
San Martin	313,834	377,816	402,798	276,442	267,635	257,688	217,623	284,974
La Guitarra ⁽²⁾	299,533	285,256	280,744	236,060	246,319	237,803	-	-
Consolidated	3,421,161	3,370,457	3,268,117	2,731,792	2,562,926	2,438,085	2,102,222	2,007,219
Silver ounces produced								
La Encantada	959,312	900,077	1,104,973	1,116,732	1,099,154	1,068,863	1,022,094	846,391
La Parrilla	813,090	866,710	710,979	725,218	758,692	708,021	690,954	719,143
Del Toro ⁽¹⁾	550,026	416,716	369,772	148,084	-	-	-	-
San Martin	280,490	339,099	371,301	259,884	253,212	238,514	204,200	261,269
La Guitarra ⁽²⁾	143,680	166,635	210,941	187,746	200,088	189,839	-	-
Consolidated	2,746,598	2,689,237	2,767,966	2,437,664	2,311,146	2,205,237	1,917,248	1,826,803
Gold ounces produced								
La Encantada	53	61	51	72	70	86	63	19
La Parrilla	274	277	211	289	318	245	226	134
Del Toro ⁽¹⁾	117	74	83	26	-	-	-	-
San Martin	544	625	512	305	274	347	244	458
La Guitarra ⁽²⁾	2,531	1,905	1,138	892	878	859	-	-
Consolidated	3,519	2,942	1,995	1,584	1,540	1,537	533	611
Lead pounds produced								
La Parrilla	5,481,400	5,715,018	3,978,798	3,328,235	3,751,074	3,307,944	3,005,209	3,176,662
Del Toro ⁽¹⁾	2,874,489	2,828,533	1,967,741	729,879	-	-	-	-
Consolidated	8,355,889	8,543,551	5,946,539	4,058,114	3,751,074	3,307,944	3,005,209	3,176,662
Zinc pounds produced								
La Parrilla	1,601,494	1,736,809	1,758,510	1,627,065	1,363,330	844,953	1,423,890	1,320,726
Del Toro ⁽¹⁾	97,251	496,072	1,139,583	52,313	-	-	-	-
Consolidated	1,698,745	2,232,881	2,898,093	1,679,378	1,363,330	844,953	1,423,890	1,320,726
Cash cost per ounce								
La Encantada	\$ 10.61	\$ 10.70	\$ 8.85	\$ 8.79	\$ 7.87	\$ 8.19	\$ 8.35	\$ 9.69
La Parrilla	\$ 6.45	\$ 6.54	\$ 9.20	\$ 7.36	\$ 8.48	\$ 8.58	\$ 8.35	\$ 8.14
Del Toro ⁽¹⁾	\$ 12.16	\$ 9.29	\$ 8.20	\$ -	\$ -	\$ -	\$ -	\$ -
San Martin	\$ 13.96	\$ 10.34	\$ 10.91	\$ 13.87	\$ 12.88	\$ 12.96	\$ 12.75	\$ 8.67
La Guitarra ⁽²⁾	\$ 4.08	\$ 5.63	\$ 13.21	\$ 16.85	\$ 18.45	\$ 13.62	\$ -	\$ -
Consolidated	\$ 9.66	\$ 8.84	\$ 9.43	\$ 9.49	\$ 9.26	\$ 9.19	\$ 8.83	\$ 8.96
Production cost per tonne								
La Encantada	\$ 37.49	\$ 37.50	\$ 34.70	\$ 25.65	\$ 20.06	\$ 21.52	\$ 21.30	\$ 23.27
La Parrilla	\$ 35.80	\$ 40.82	\$ 37.79	\$ 31.78	\$ 32.39	\$ 36.32	\$ 33.46	\$ 38.87
Del Toro ⁽¹⁾	\$ 57.56	\$ 55.35	\$ 40.38	\$ -	\$ -	\$ -	\$ -	\$ -
San Martin	\$ 54.07	\$ 53.13	\$ 52.62	\$ 48.18	\$ 45.46	\$ 45.94	\$ 43.66	\$ 38.64
La Guitarra ⁽²⁾	\$ 52.87	\$ 50.25	\$ 49.90	\$ 62.01	\$ 68.59	\$ 65.09	\$ -	\$ -
Consolidated	\$ 42.69	\$ 43.49	\$ 39.57	\$ 31.79	\$ 28.24	\$ 30.05	\$ 26.97	\$ 29.24

(1) The Del Toro Silver Mine was inaugurated on January 23, 2013 and achieved commercial production on the flotation circuit on April 1, 2013.

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

Consolidated Production Results for the Quarter and Year Ended December 31, 2013 and 2012

Quarter Ended December 31,		Consolidated Operating Results	Year Ended December 31,	
2013	2012		2013	2012
701,617	701,618	Ore processed/tonnes milled	2,741,717	2,542,288
191	176	Average silver grade (g/t)	193	171
64%	58%	Recovery (%)	62%	59%
109,629	–	Pre-commercial silver ounces produced	257,713	28,639
2,636,969	2,311,146	Commercial silver ounces produced	10,383,752	8,231,795
2,746,598	2,311,146	Total silver ounces produced	10,641,465	8,260,434
3,519	1,540	Gold ounces produced	10,040	4,221
8,355,889	3,751,074	Pounds of lead produced	26,904,093	13,240,889
1,698,745	1,363,330	Pounds of zinc produced	8,509,097	4,952,899
–	4,432	Tonnes of iron ore produced	14,633	18,329
3,421,161	2,562,926	Total production - ounces silver equivalent	12,791,527	9,110,452
\$9.66	\$9.26	Cash cost per ounce⁽¹⁾	\$9.35	\$9.08
\$11.11	\$8.97	Total production cost per ounce⁽¹⁾	\$10.36	\$9.08
\$42.69	\$28.24	Total production cost per tonne⁽¹⁾	\$39.29	\$28.62
13,280	14,802	Underground development (m)	53,257	57,267
8,324	25,940	Diamond drilling (m)	58,578	135,769

(1) The Company reports non-GAAP measures which include total production costs per tonne, production costs per ounce and cash cost per ounce of payable silver, in order to manage and evaluate operating performance at each of the Company's mines. These measures, established by the Silver Institute (Production Cost Standards, June 2011), are widely used in the silver mining industry as a benchmark for performance, but do not have a standardized meaning. See "Non-GAAP Measures" on pages 93 to 94.

Production

Total production for the fourth quarter of 2013 increased by 33% to 3,421,161 ounces of silver equivalent compared to the 2,562,926 ounces of silver equivalent produced in the fourth quarter of 2012. Production in the fourth quarter consisted of 2,746,598 ounces of silver, 3,519 ounces of gold, 8,355,889 pounds of lead and 1,698,745 pounds of zinc compared to 2,311,146, ounces of silver, 1,540 ounces of gold, 3,751,074 pounds of lead, 1,363,330 pounds of zinc and 4,432 tonnes of iron ore produced in the fourth quarter of 2012. The increase in production was primarily due to production contributed from the new Del Toro Silver Mine, as well as improvements in tonnes milled, head grades and recoveries at La Parrilla and upgrades at the San Martin processing plant.

Compared to the third quarter of 2013, production increased by 2% from 3,370,457 ounces of silver equivalents, which consisted of 2,689,237 ounces of silver, 2,942 ounces of gold, 8,543,551 pounds of lead, 2,232,881 pounds of zinc and 5,203 tonnes of iron ore.

Total ore processed during the fourth quarter amounted to 701,617 tonnes milled, representing an increase of 9% over the previous quarter primarily due to the additional tonnage from the new Del Toro cyanidation circuit and continued operational improvements on the flotation circuit at Del Toro.

Cash Cost per Ounce

Cash cost per ounce, a non-GAAP measure, for the fourth quarter of 2013 was \$9.66 per ounce of payable silver compared to \$8.84 in the third quarter of 2013 and \$9.26 in the fourth quarter of 2012.

Cash cost per ounce for the fourth quarter consists of production costs of \$11.11 per ounce, transportation, smelting and refining costs of \$3.33 per ounce, royalty cost (La Parrilla's Quebradillas mine) of \$0.04 per ounce, offset with by-product credits of \$4.82 per ounce. Compared to the fourth quarter of 2012, the increase in cash cost per ounce of \$0.40 was primarily attributed to higher production costs from the increase in underground mining and haulage costs at La Encantada as a higher proportion of fresh ore from the mine was fed to the mill, additional diesel and generator rental costs incurred at Del Toro due to delays in the construction of the power line, and higher than expected smelting and refining costs at the new Del Toro mine due to penalty costs for impurities as the mill was working to improve its metallurgy process during the early stage ramp up of this new mine. In addition to the above, there were general inflationary effects in consumable costs such as electricity and diesel by approximately 8% to 10%. Increases in production costs were mostly offset by higher by-product credits from La Parrilla and La Guitarra as these mines continued to ramp up their flotation production through 2013.

Compared to the third quarter of 2013, cash cost per ounce in the fourth quarter increased 9% or \$0.82 per ounce. The increase in cash cost per ounce was due to lower silver production at San Martin, as well as early stage production challenges at Del Toro's flotation plant, as the mine had higher than expected consumption of electricity and diesel costs, while also incurring higher smelting and refining costs due to high impurities in concentrates.

Head Grades and Recoveries

The overall average head grade for the fourth quarter of 2013 was 191 grams per tonne ("g/t"), a 15 g/t increase or 9% increase compared to 176 g/t in the fourth quarter of 2012 and an 11 g/t decrease or 5% decrease compared to 202 g/t in the third quarter of 2013. The increase from the same quarter of the prior year was primarily attributed to 24% increase in head grades from La Encantada due to a higher proportion of fresh ore being processed, 15% higher grades from San Martin, offset by 50% lower head grade from the La Guitarra mine as production ore came from areas within the La Guitarra vein which contained higher gold grades in conjunction with lower silver grades.

Combined recoveries of silver for all mines in the fourth quarter were 64%, an increase of 9% compared to 58% in the fourth quarter of 2012, and remained relatively unchanged compared to 65% in the third quarter of 2013.

Development and Exploration

A total of 13,280 metres of underground development was completed in the fourth quarter of 2013, compared to 14,802 metres developed in the fourth quarter of 2012 and 10,923 metres completed in the previous quarter. For the year ended 2013, a total of 53,257 metres of development was completed compared to 57,267 metres in 2012.

In the fourth quarter of 2013, a total of 8,324 metres were drilled over 89 holes consisting primarily of definition drilling and surface exploration drilling, representing a 6% increase from the 7,823 metres drilled in the third quarter of 2013 and 68% decrease from the 25,940 metres drilled in the fourth quarter of 2012. For the year ended 2013, a total of 58,578 metres were drilled compared to 135,769 metres drilled in 2012. As previously indicated, since the second quarter, the Company has decided to reduce its drilling program, with the majority of metres planned to be drilled by the Company's own personnel and equipment and only for the support of mining production, as well as a current focus on preparing resource estimations for the future NI 43-101 Technical Reports. There are currently nine active drill rigs at the Company's five operating mines, four of which are located at the La Encantada mine. The reduced drilling program is expected to delay the release of the planned NI 43-101 Technical Report updates to late 2014, depending on drilling progress to be achieved.

La Encantada Silver Mine, Coahuila, Mexico

Production Results for the Quarter and Year Ended December 31, 2013 and 2012

Quarter Ended December 31,		La Encantada Operating Results	Year Ended December 31,	
2013	2012		2013	2012
252,467	407,221	Ore processed/tonnes milled	1,139,241	1,515,795
228	184	Average silver grade (g/t)	227	176
52%	46%	Recovery (%)	49%	47%
959,312	1,099,154	Total silver ounces produced	4,081,094	4,036,502
53	70	Gold ounces produced	237	238
-	4,432	Tonnes of iron ore produced	14,633	18,329
962,505	1,117,254	Total production - ounces silver equivalent	4,162,534	4,111,018
\$10.61	\$7.87	Cash cost per ounce ⁽¹⁾	\$9.66	\$8.46
\$9.90	\$7.47	Total production cost per ounce ⁽¹⁾	\$9.25	\$8.11
\$37.49	\$20.06	Total production cost per tonne ⁽¹⁾	\$33.01	\$21.46
3,210	3,554	Underground development (m)	14,132	14,338
6,611	3,186	Diamond drilling (m)	15,835	19,390

(1) The Company reports non-GAAP measures which include production costs per tonne, production costs per ounce and cash cost per ounce of payable silver, in order to manage and evaluate operating performance at each of the Company's mines. These measures, established by the Silver Institute (Production Cost Standards, June 2011), are widely used in the silver mining industry as a benchmark for performance, but do not have a standardized meaning. See "Non-GAAP Measures" on pages 93 to 94

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

A total of 962,505 equivalent ounces of silver were produced by the La Encantada plant during the fourth quarter of 2013. Production in the fourth quarter of 2013 increased 3% compared to the 931,027 equivalent ounces of silver produced in the third quarter of 2013 and decreased by 14% compared to the 1,117,254 equivalent ounces of silver produced in the fourth quarter of 2012.

Tonnage milled in the fourth quarter increased 2% to 252,467 tonnes compared to 248,578 tonnes processed in the third quarter of 2013, and decreased 38% compared to the 407,221 tonnes processed in the fourth quarter of 2012.

Since the second quarter of 2013, the planned mix of fresh ore to old tailings processed through the plant was changed by reducing the tailings feed by almost 50% while slightly increasing the feed of fresh ore. During the fourth quarter of 2013, the ratio of fresh ore to old tailings was 72%:28% (18:7) with a total throughput in the fourth quarter averaging 3,042 tpd consisting of an average of 2,202 tpd of fresh mine ore and 840 tpd of old tailings. With the increase of fresh ore from the mine and reduction of old tailings, the overall cost per tonne of production has increased due to higher cost of mining from the underground mine compared to the low cost of hauling old tailings to the mill. Total production cost per tonne for La Encantada was \$37.49 during the fourth quarter and was consistent with the previous quarter while cash cost per ounce in the current quarter was \$10.61 and comparable to the \$10.70 in the third quarter of 2013.

In 2014, the Company is planning to upgrade and expand the crushing and grinding areas to allow the underground extraction of fresh mine ore to be increased in the second half of 2014, including the installation of a new 24' x 14' ball mill. In addition, beginning in January 2014, the reprocessing of old tailings has been eliminated from the mill feed due to the low metal price environment. This modification is expected to improve both silver recoveries and the head grade at the mill.

A total of 3,210 metres were developed underground in the fourth quarter of 2013 compared to 3,195 metres in the third quarter of 2013 and 3,554 metres in the fourth quarter of 2012. Currently, the primary areas of focus are the surrounding ore bodies of the Milagros and San Javier breccia pipes. Additionally, mine development and production continues from the San Francisco vein and the "990" and "990-2" chimneys. At the recently discovered Regalo and Brecha vein, new mining areas are being prepared for production. In addition, the 310 stope at level 1610 and the extension of the Buenos Aires area at 1850 level began preparation during the quarter. These new areas are being prepared to support the planned increase in fresh mine ore production in 2014.

During the fourth quarter, the Company operated four drill rigs and completed a total of 6,611 metres of diamond drilling compared to 2,928 metres in the third quarter of 2013, representing an increase of 126%, and an increase of 108% from the 3,186 metres in the fourth quarter of 2012. The increase in drilling is related to the Company's plan to define reserves and resources in preparation for an updated NI 43-101 Technical Report. The Company's original plan of having an updated NI 43-101 Technical Report has been delayed until late 2014 due to budget cuts and the need to complete its drilling plans.

La Parrilla Silver Mine, Durango, Mexico

Production Results for the Quarter and Year Ended December 31, 2013 and 2012

Quarter Ended December 31,		La Parrilla Operating Results	Year Ended December 31,	
2013	2012		2013	2012
200,541	186,434	Ore processed/tonnes milled	788,335	679,788
166	166	Average silver grade (g/t)	162	170
76%	76%	Recovery (%)	76%	78%
-	-	Pre-commercial silver ounces produced	-	28,639
813,090	758,692	Commercial silver ounces produced	3,115,997	2,848,171
813,090	758,692	Total silver ounces produced	3,115,997	2,876,810
274	318	Gold ounces produced	1,051	923
5,481,400	3,751,074	Pounds of lead produced	18,503,451	13,240,889
1,601,494	1,363,330	Pounds of zinc produced	6,723,878	4,952,899
1,151,728	931,718	Total production - ounces silver equivalent	4,219,374	3,487,392
\$6.45	\$8.48	Cash cost per ounce ⁽¹⁾	\$7.31	\$8.38
\$9.11	\$8.24	Total production cost per ounce ⁽¹⁾	\$9.51	\$8.54
\$35.80	\$32.39	Total production cost per tonne ⁽¹⁾	\$36.45	\$35.03
2,989	5,198	Underground development (m)	12,004	20,606
249	4,618	Diamond drilling (m)	10,974	26,204

(1) The Company reports non-GAAP measures which include production costs per tonne, production costs per ounce and cash cost per ounce of payable silver, in order to manage and evaluate operating performance at each of the Company's mines. These measures, established by the Silver Institute (Production Cost Standards, June 2011), are widely used in the silver mining industry as a benchmark for performance, but do not have a standardized meaning. See "Non-GAAP Measures" on pages 93 to 94.

The La Parrilla Silver Mine, located approximately 65 kilometres southeast of the city of Durango, Durango State, Mexico, is a complex of producing underground operations consisting of the Rosarios / La Rosa and La Blanca mines which are inter-connected through underground workings, and the San Marcos, Vacas and Quebradillas mines which are connected via above-ground gravel roads. The total mining concessions consist of 69,460 hectares and the Company owns 45 hectares and leases an additional 69 hectares of surface rights, for a total of 114 hectares of surface rights. The Company owns 100% of the La Parrilla Silver Mine. La Parrilla includes a 2,000 tpd dual-circuit processing plant consisting of a 1,000 tpd cyanidation circuit and a 1,000 tpd flotation circuit, buildings, offices and associated infrastructure. The plant, including flotation and cyanidation circuits, was operating at a combined average throughput of 2,416 tpd in the fourth quarter of 2013.

Total production at the La Parrilla mine was 1,151,728 equivalent ounces of silver in the fourth quarter of 2013, which was a decrease of 5% compared to 1,208,635 equivalent ounces in the third quarter of 2013 due to slight decrease in grade and recoveries of silver. Compared to the fourth quarter of 2012, total production increased 24% primarily due to 8% increase in tonnage processed. The composition of the silver equivalent production in the fourth quarter of 2013 consisted of 813,090 ounces of silver, 274 ounces of gold, 5,481,400 pounds of lead and 1,601,494 pounds of zinc. This compares with a composition of 866,710 ounces of silver, 277 ounces of gold, 5,715,018 pounds of lead and 1,736,809 pounds of zinc produced in the third quarter of 2013, and 758,692 ounces of silver, 318 ounces of gold, 3,751,074 pounds of lead and 1,363,330 pounds of zinc in the fourth quarter of 2012.

In the fourth quarter of 2013, a total of 200,541 tonnes of ore were processed at La Parrilla, representing an increase of 6% when compared with the 189,664 tonnes processed in the third quarter of 2013, and an increase of 8% when compared with the 186,434 tonnes processed in the fourth quarter of 2012. During the quarter, 97,429 tonnes or 46% of the total ore were extracted from the open pit area at the Quebradillas mine with an average grade of 112 g/t

compared to 97,196 tonnes with an average grade of 124 g/t in the third quarter of 2013, causing the average grade to decrease from 182 g/t in the third quarter to 166 g/t in fourth quarter of 2013. Due to a decrease in silver grades at the Quebradillas open pit, production from higher grade underground areas, primarily from San Marcos, was increased during the year. In addition, the new Vacas mine was brought into production in the second half of 2013 at a rate of 313 tpd containing sulphide ore with silver grades ranging from 200 g/t to 240 g/t. Combined recovery levels of silver for both circuits in the fourth quarter were 76% compared to 78% in the third quarter of 2013 and 76% in the fourth quarter of 2012.

A total of 2,989 metres of underground development were completed in the fourth quarter of 2013, compared to 2,213 metres in the third quarter of 2013 and 5,198 metres in the fourth quarter of 2012. The Company continued a reduced pace of construction for the extensive underground ore haulage at Level 11. The development and construction of the rail haulage level is now 1,057 metres in length. Due to the reduction in development costs relating to budget cuts, the 5,000 metre project completion timeline has been extended until the end of 2016. This new haulage and underground electric rail system will consist of 5,000 metres of development and a shaft of 260 vertical metres and will eventually replace the current less efficient above-ground system of trucking ore to the mill. Once completed, this investment is eventually expected to improve ore logistics, ultimately reducing overall operating costs and thereby delivering operational efficiencies.

A total of 249 metres of diamond drilling were completed in the fourth quarter of 2013 compared to 177 metres of diamond drilling in the third quarter of 2013 and 4,618 metres in the fourth quarter of 2012. One drill rig was operating during the fourth quarter and drilled nine holes. The focus of the annual exploration program was on the Rosarios, Quebradillas, Vacas, San Marcos, La Intermedia and La Blanca mines, as well as the Viboras, San Nicolas and the newly discovered La Estrella vein areas. The results from this exploration program are expected to be included in an updated NI 43-101 Technical Report which will now be delayed until the second half of 2014, due to budget cuts.

Del Toro Silver Mine, Zacatecas, Mexico

Production Results for the Quarter and Year Ended December 31, 2013 and 2012

Quarter Ended December 31,		Del Toro Operating Results	Year Ended December 31,	
2013	2012		2013	2012
122,838	n/a	Ore processed/tonnes milled	319,861	n/a
209	n/a	Average silver grade (g/t)	213	n/a
67%	n/a	Recovery (%)	68%	n/a
109,629	n/a	Pre-commercial silver ounces produced	257,713	n/a
440,397	n/a	Commercial silver ounces produced	1,226,885	n/a
550,026	n/a	Total silver ounces produced	1,484,598	n/a
117	n/a	Gold ounces produced	300	n/a
2,874,489	n/a	Pounds of lead produced	8,400,642	n/a
97,251	n/a	Pounds of zinc produced	1,785,219	n/a
693,561	n/a	Total production - ounces silver equivalent	1,937,136	n/a
\$12.16	n/a	Cash cost per ounce⁽¹⁾	\$9.99	n/a
\$12.05	n/a	Total production cost per ounce⁽¹⁾	\$10.53	n/a
\$57.56	n/a	Total production cost per tonne⁽¹⁾	\$51.54	n/a
2,612	2,870	Underground development (m)	11,595	11,450
799	5,687	Diamond drilling (m)	11,429	37,066

(1) The Company reports non-GAAP measures which include production costs per tonne, production costs per ounce and cash cost per ounce of payable silver, in order to manage and evaluate operating performance at each of the Company's mines. These measures, established by the Silver Institute (Production Cost Standards, June 2011), are widely used in the silver mining industry as a benchmark for performance, but do not have a standardized meaning. See "Non-GAAP Measures" on pages 93 to 94

The Del Toro Silver Mine is located 60 kilometres to the southeast of the Company's La Parrilla Silver Mine and consists of 533 contiguous hectares of mining claims, including the acquisition of four new mining concessions covering 51 hectares and the application to acquire two new mining concessions covering an additional 37 hectares. In addition, Del Toro has 209 hectares of surface rights. The Del Toro operation represents the consolidation of three historical silver mines, the Perseverancia, San Juan and Dolores mines, which are approximately one and three kilometres apart, respectively. First Majestic owns 100% of the Del Toro Silver Mine.

Phase 1 construction of the Del Toro Silver Mine for the 1,000 tpd flotation plant was completed and inaugurated in a special ceremony on January 23, 2013. The first delivery of concentrates was shipped to the smelter during February 2013 and the plant was deemed commercial on April 1, 2013.

Phase 2 of construction of the 1,000 tpd cyanidation plant, including leaching tanks, thickeners, the Merrill-Crowe area, the clarification circuit, the installation of two precipitate filter presses, two induction furnaces and two tailings filters is now completed. Commissioning of the cyanidation plant began on October 20, 2013 and the first official pouring of silver doré bars was celebrated on November 20, 2013. The new cyanidation circuit was deemed commercial effective January 1, 2014 having reached commercial operating levels.

To conserve capital in a reduced silver price environment, management is altering its capital investment and production plan for the Del Toro mine. Management has decided to delay the ramp up to 4,000 tpd. With some minor plant and process modifications, the Company is planning to accelerate the ramp up of the cyanidation circuit to 2,000 tpd by early 2014, and further ramping up to 2,200 tpd by the end of 2014; however, the Company will be reducing the flotation circuit production plan from 1,000 tpd to approximately 550 tpd during 2014. Capital investments will be delayed for the installation of one of the two SAG mills and the completion of the San Juan shaft.

During the fourth quarter, the new cyanidation circuit had an average throughput of 904 tpd (based on 38 operating days) and the flotation circuit has been operating at an average of 1,196 tpd (based on 74 operating days out of 92 calendar days) for a combined average operating rate of 2,100 tpd. The flotation circuit continues to operate having processed 88,468 tonnes during the fourth quarter with an average silver grade of 226 g/t and a 69% recovery of silver. The new cyanidation circuit processed a total of 34,370 tonnes with an average head grade of 164 g/t silver and recoveries of 60%. As the Company continues to ramp up the cyanidation to 2,000 tpd, it is expected that grades and recoveries will come closer to rates indicated in the Pre-feasibility Study (PFS) dated August 20, 2012.

Cash cost per ounce for the fourth quarter was \$12.16, an increase of \$2.87 compared to \$9.29 in the previous quarter. The increase in cash cost per ounce is primarily attributed to additional diesel and generator rental costs due to delays in the construction of the power line, additional smelting and refining costs due to impurities and some inefficiencies related to early stage operations. Cash cost per ounce is expected to decline in mid-2014 when the power line is completed and the Company can eliminate the rental of generators to supply power to the dual circuits and stabilize the milling and metallurgy process.

During the fourth quarter, the crushing area was upgraded to handle the expanded mill capacity of 2,000 tpd. The cyanidation circuit, which includes a 12' x 14' ball mill, pumps, motors, and Merrill-Crowe mechanism are now fully operational. Tailings filters #1 and #2 are currently in operation, while tailings filter #3 and #4 were successfully installed and being tested. These four tailings filters will be able to handle up to a 4,000 tpd plant operation and will recycle approximately 80% of the water used throughout the milling process. Recycling mill waste-water is not only cost efficient and environmentally friendly, it also reduces operational risk in the event that local water supplies are threatened by natural disruptions such as severe droughts. Del Toro is now the third operation under First Majestic's control that utilizes this new environmentally friendly tailings filtration technology.

The construction of the 45 km, 115 KW power line from the State of Durango is approximately 90% complete but has experienced several delays due to its length and routing complexities. Due to route changes of the power line at three towns along the route, the scheduled completion date of the power line has been delayed

from July 2013 to mid-2014. In order to have sufficient power to support the cyanidation plant, the National power company has offered to provide up to 6 MW on a temporary basis on an existing 34 KW power line to be connected in February 2014 until the new power line is completed and ready to commission.

During late 2013, the Company entered into several option agreements to acquire six adjacent mineral properties, namely the Chalchihuites, Navidad, Milagros, Zaragosa, Santa Clara and Ivone properties. These properties consist of 492 hectares of mineral rights. When fully exercised, the total purchase price will amount to \$3.3 million, of which \$1.1 million has been paid, \$0.6 million is due in 2014, \$1.2 million in 2015 and the remaining balance of \$0.4 million due over years 2016 and 2017.

During the quarter, one underground drill rig was active at Del Toro and a total of 10 holes were diamond drilled for a total of 799 metres compared to 2,856 metres in the third quarter of 2013 and 5,687 metres in the fourth quarter of 2012.

Total underground development at Del Toro in the fourth quarter of 2013 was 2,612 metres compared to the 1,817 metres in the third quarter of 2013. Current development programs are focused on the San Juan, Perseverancia/San Nicolas and Dolores mines for preparation of the upcoming increase in production.

As at December 31, 2013, the Company had invested a combined \$122.5 million in construction of the Del Toro project, of which \$114.2 million relates to Phase 1 and 2 construction and \$8.3 million relates to Phase 3 expansion.

San Martin Silver Mine, Jalisco, Mexico

Production Results for the Quarter and Year Ended December 31, 2013 and 2012

Quarter Ended December 31,		San Martin Operating Results	Year Ended December 31,	
2013	2012		2013	2012
78,805	77,803	Ore processed/tonnes milled	322,618	286,206
156	136	Average silver grade (g/t)	153	136
71%	75%	Recovery (%)	79%	76%
280,490	253,212	Total silver ounces produced	1,250,774	957,195
544	274	Gold ounces produced	1,986	1,323
313,834	267,635	Total production - ounces silver equivalent	1,370,890	1,027,920
\$13.96	\$12.88	Cash cost per ounce ⁽¹⁾	\$12.05	\$11.72
\$15.25	\$14.04	Total production cost per ounce ⁽¹⁾	\$13.47	\$13.05
\$54.07	\$45.46	Total production cost per tonne ⁽¹⁾	\$52.00	\$43.46
2,858	1,966	Underground development (m)	10,118	8,473
387	4,361	Diamond drilling (m)	8,667	35,037

(1) The Company reports non-GAAP measures which include production costs per tonne, production cost per ounce and cash cost per ounce of payable silver, in order to manage and evaluate operating performance at each of the Company's mines. These measures, established by the Silver Institute (Production Cost Standards, June 2011), are widely used in the silver mining industry as a benchmark for performance, but do not have a standardized meaning. See "Non-GAAP Measures" on pages 93 to 94.

The San Martin Silver Mine is a producing underground mine located near the town of San Martin de Bolaños in the Bolaños River valley, in the northern portion of the State of Jalisco, Mexico, 150 kilometres by air or 250 kilometres by paved road north of Guadalajara City. The San Martin mine is 100% owned by the Company. The mine comprises of 33 contiguous mining concessions in the San Martin de Bolaños mining district that cover mineral rights for 37,518 hectares, including the application to acquire two new mining concessions covering 29,676 hectares which are in the process of registration. In addition, the mine owns 160 hectares of surface land where the processing plant, camp, office facilities, maintenance shops, and tailings dams are located, and an additional 1,296 hectares of surface rights. The newly expanded 1,300 tpd mill and processing plant consists of crushing, grinding and conventional cyanidation by agitation in tanks and Merrill-Crowe doré production system.

The expansion of the processing plant was completed in late December. The installation of a new 9.5' x 12' ball mill to replace the older 8.5' x 12' ball mill was completed and is currently being tested. This new larger ball mill is expected to be more reliable and capable of reaching planned throughputs of 1,300 tpd. The ramp up to full capacity of 1,300 tpd is now expected to be reached in the first quarter of 2014. At full capacity of 1,300 tpd, San Martin's annual silver production is anticipated to increase by over 50% to approximately 1.75 million to 1.85 million ounces of silver in the form of doré bars with potential upside from gold credits over the life of the mine.

Total production in the fourth quarter of 2013 was 313,834 ounces of silver equivalent, a decrease of 17% compared to the 377,816 ounces of silver equivalent produced in the third quarter of 2013, but 17% higher than the 267,635 equivalent ounces of silver produced in the fourth quarter of 2012. The ounces of silver equivalent produced in the fourth quarter of 2013 consisted of 280,490 ounces of silver and 544 ounces of gold. This compares with 339,099 ounces of silver and 625 ounces of gold produced in the third quarter of 2013 and 253,212 ounces of silver and 274 ounces of gold in the fourth quarter of 2012.

Production was affected by some down time during the expansion into new equipment including the agitation tanks, impacting leaching time and the counter current washing system, resulting in lower recoveries during the fourth quarter. Silver recovery in the fourth quarter of 2013 was 71%, compared to 82% in the third quarter of 2013 and 75% in the fourth quarter of 2012.

In the fourth quarter of 2013, a total of 78,805 tonnes were processed at the San Martin mine, consistent when compared to the 78,284 tonnes milled in the third quarter of 2013 and 77,803 tonnes milled in the fourth quarter of 2012. The average head grade was 156 g/t in the fourth quarter of 2013, compared to the 165 g/t in the third quarter of 2013 and 136 g/t in the fourth quarter of 2012. The decrease in the ore grade compared to third quarter of 2013 was due to lower grade in the stopes and the increase in ore grade compared to the same quarter of the prior year was attributed to production from the newly developed Rosarios/Huichola areas.

During the fourth quarter, a total of 387 metres of diamond drilling were completed compared with 376 metres of drilling in the third quarter of 2013 and 4,361 metres drilled in the fourth quarter of 2012. The exploration program has been deferred due to the budget cuts in the second half of the year for cost reduction. One underground drill rig was active during the fourth quarter within the San Martin property, focusing on the La Huichola, Rosarios, Condesa and Intermedia veins.

A total of 2,858 metres of development were completed in the fourth quarter of 2013 compared to 2,267 metres of development in the third quarter of 2013 and 1,966 metres in the fourth quarter of 2012. This mine development was primarily focused at the new Rosarios area where seven areas are now in production.

On May 28, 2013, an updated NI 43-101 Technical Report was released indicating an increase of Proven and Probable Reserves by 224% to 22.0 million silver ounces, resulting in an increase in the Reserve life to 9.5 years at the higher throughput of 1,300 tpd.

La Guitarra Silver Mine, Mexico State, Mexico

Production Results for the Quarter and Year Ended December 31, 2013 and 2012

Quarter Ended December 31,		La Guitarra Operating Results	Year Ended December 31,	
2013	2012		2013	2012 ⁽²⁾
46,966	30,160	Ore processed/tonnes milled	171,662	60,499
118	236	Average silver grade (g/t)	152	230
81%	87%	Recovery (%)	84%	87%
143,680	200,088	Total silver ounces produced	709,002	389,927
2,531	878	Gold ounces produced	6,466	1,737
299,533	246,319	Total production - ounces silver equivalent	1,101,593	484,122
\$4.08	\$18.45	Cash cost per ounce ⁽¹⁾	\$10.60	\$15.94
\$21.08	\$15.92	Total production cost per ounce ⁽¹⁾	\$15.61	\$14.92
\$52.87	\$68.59	Total production cost per tonne ⁽¹⁾	\$53.04	\$66.84
1,611	1,214	Underground development (m)	5,408	2,400
278	8,088	Diamond drilling (m)	11,673	18,072

(1) The Company reports non-GAAP measures which include production costs per tonne, production cost per ounce and cash cost (including smelting and refining charges) per ounce of payable silver, in order to manage and evaluate operating performance at each of the Company's mines. These measures, established by the Silver Institute (Production Cost Standards, June 2011), are widely used in the silver mining industry as a benchmark for performance, but do not have a standardized meaning. See "Non-GAAP Measures" on pages 93 to 94.

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

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

At the time of the acquisition, the La Guitarra mine consisted of two underground operating areas and a flotation mill with a capacity of 350 tpd, producing approximately 0.8 million ounces of silver equivalent per year. Since then, the Company has completed an expansion of the milling and flotation areas from 350 tpd to 500 tpd without disrupting operations. The upgraded La Guitarra mill has been operating at the higher throughput since April 24, 2013. The new 500 tpd circuit, resulting from the installation of a new ball mill and new flotation cells, is anticipated to produce approximately 1.2 million ounces of silver equivalent annually, representing over one million ounces of pure silver plus a modest amount of gold. This newly expanded mill averaged 566 tpd of production based on 83 operating days out of 92 calendar days during the fourth quarter of 2013.

During the fourth quarter of 2013, total production at La Guitarra was 299,533 equivalent ounces of silver, an increase of 5% compared to the 285,256 ounces produced in the third quarter of 2013 and an increase of 22% compared to the 246,319 ounces in the fourth quarter of 2012. Average production cost for the fourth quarter was \$52.87 per tonne, a 5% increase compared to \$50.25 per tonne in the third quarter of 2013 but was a 23% improvement from \$68.59 in the same quarter of the prior year. Reduction of costs has been a priority since First Majestic took control of the La Guitarra mine in the third quarter of 2012.

Since taking control of La Guitarra, First Majestic has reduced production cost per tonne by more than 59% to an average cost of \$53.04 per tonne in 2013, from over \$128.00 per tonne in the second quarter of 2012 prior to acquisition.

Prior to June 2013, the silver/gold concentrates being produced at the mine were primarily being shipped to La Parrilla for further leaching in the cyanidation process, converting the concentrates into doré bars. Since then, the full production of silver-gold concentrates was sold under a new smelter agreement with a third party, allowing the Company to discontinue concentrate shipments to the La Parrilla mine for further refining. As a result of this new agreement, the Company has achieved a significant reduction in treatment charges and transportation costs, which decreased from \$8.06 per ounce in the second quarter to \$4.24 per ounce in the current quarter. Cash cost in the fourth quarter was \$4.08, which decreased by 28% compared to \$5.63 in the third quarter. The decrease was primarily attributed to increase in gold by-product credits and reduction of smelting and refining costs.

The composition of the silver equivalent production in the fourth quarter consisted of 143,680 ounces of silver and 2,531 ounces of gold, compared to 166,635 ounces of silver and 1,905 ounces of gold in the previous quarter. A total of 46,966 tonnes of ore were processed during the fourth quarter consisting of an average head grade of 118 g/t with recoveries of 81% compared to 47,380 tonnes of ore processed in the third quarter of 2013 with an average head grade of 135 g/t and recoveries of 81%. During the fourth quarter, production ore came from areas within the La Guitarra vein which contained higher gold grades in conjunction with lower silver grades. The average silver grade is expected to improve once production commences at the new Joya Larga structure. This new area has indicated grades ranging between 200 g/t to 350 g/t of silver.

The permitting of a 1,000 tpd cyanidation processing facility is currently in the planning and evaluation stage. It is anticipated that permit applications will be submitted to the Mexican authorities in 2014. Once this new processing facility is permitted and fully constructed, production of silver doré bars is anticipated to replace the production of silver/gold concentrates.

A total of 1,611 metres of underground development was completed during the fourth quarter compared to 1,431 metres in the third quarter of 2013 and 1,214 metres in the fourth quarter of 2012. Mine development at the Joya Larga structure within the El Coloso area has now reached 151 metres along the vein and has successfully reached the economical production area. Initial ore extraction began in December at a rate of 48 tpd and preparation continues to further increase ore extraction to a rate of 160 tpd by the second half of 2014. Two underground drill rigs were active in the fourth quarter within the La Guitarra property. A total of 278 metres of diamond drilling were completed during the fourth quarter compared to 1,486 metres during the third quarter of 2013 and 8,088 metres in the fourth quarter of 2012. The focus was to assist underground mining activities and further define Reserves and Resources to support an updated NI 43-101 Technical Report scheduled to be released in the late 2014 due to budget cuts.

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

Development and Exploration Projects

La Luz Silver Project, San Luis Potosi, Mexico

The La Luz Silver Project is located 25 kilometres west of the town of Matehuala in San Luis Potosi State, Mexico, near the village of Real de Catorce. The Company owns 100% of the La Luz Silver Project and all of the associated mining claims of what was historically known as the Santa Ana Mine and consists of 36 mining concessions covering 4,977 hectares, with estimated historical production of 230 million ounces between 1773 and 1990. In July 2013, the Company completed the acquisition of an additional 21 hectares of surface rights covering 29 adjacent properties for \$1.0 million. The total surface rights on different properties at La Luz amounted to 26 hectares.

To date, the Baseline Study and the Geo-hydrologic Study have been completed. The Environmental Impact Statement, the Risk Study and the Change of Use of Land Studies are expected to be presented to government authorities in late 2014 subject to the legal activities presently in progress. The Company has submitted three different legal orders to obtain the approvals to present its final permit applications. The Company has obtained one positive resolution and expects the remaining orders to be approved in 2014.

A metallurgical test to define the final flow sheet diagram for a flotation plant, which is required for final permitting, was completed and the final studies for the tailings pond are now in progress.

There has been opposition from certain groups of indigenous people and non-government organizations. An injunction was placed by the Company to defend against the attempt by the indigenous peoples to issue a constitutional decree to declare certain areas in San Luis Potosi as natural protected areas, including areas within which the La Luz mine has been duly granted mining concessions. These legal matters are being addressed in the Mexican courts by the Company. Contrary to independent reports regarding the La Luz project, the Company has no plans to do any mining above ground, no plans for open pit mining, and has no plans for the use of cyanide in any of its processing activities on or around the La Luz project.

The Company is continuing with the project of restoring the old historic buildings at the Santa Ana Hacienda and the construction of the previously announced Thematic and Cultural Park which will include a mining museum. A new information centre was also inaugurated in the town of Real de Catorce during the first quarter. To date, an amount of \$3.3 million has been invested in the project, which is expected to be completed in 2014. Public access will be granted to certain areas by the end of 2013. This new cultural facility and mining museum is part of a "Sustainable Development Project" which will provide permanent long term jobs to the local communities. The Sustainable Development Project includes a jewelry school which completed its second term with a total of 40 students having graduated to date. Also, music and crafts (trade) schools began their first courses with more than 60 students, paying special attention to individuals between the ages of 10 to 20 years of age. In addition, public baseball and football fields were built within the El Potrero community.

As a result of recent droughts in the area, a sustainable agricultural program has been initiated to cultivate various types of cactus to improve the ecology of the region and sustainability of the local community.

Jalisco Group of Properties, Jalisco, Mexico

The Company acquired a group of mining claims totalling 5,245 hectares located in various mining districts located in Jalisco State, Mexico. During 2008, surface geology and mapping began with the purpose of defining future drill targets. However, exploration has since been discontinued as the Company focuses its capital investment on other higher priority projects, including the Del Toro Silver Mine and La Luz Silver Project.

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

Plomosas Silver Project and other Exploration Properties

The Company owns an extensive portfolio of exploration stage properties, some of which were acquired during the Silvermex acquisition. The highest priority project, the Plomosas Silver Project, which consists of the adjacent Rosario and San Juan historic mines in the Sinaloa, Mexico was scheduled for drilling in 2013. However, due to budget cuts, this exploration program has been delayed. The Company is also assessing its portfolio of other exploration properties to determine if these additional properties fit within the Company's production focused portfolio.

Non-GAAP Measures

CASH COST PER OUNCE AND TOTAL PRODUCTION COST PER TONNE

"Cash costs per ounce" and "total production cost per tonne" are non-GAAP measures used by the Company to manage and evaluate operating performance at each of the Company's operating mining units, and is widely reported in the silver mining industry as a benchmark for performance, but does not have a standardized meaning and is disclosed in addition to IFRS measures. The following tables provide a detailed reconciliation of these measures to our cost of sales, as reported in our consolidated financial statements.

(expressed in thousands of U.S. dollars, except ounce and per ounce amounts)	Three Months Ended December 31, 2013						Three Months Ended December 31, 2012				
	La Encantada	La Parrilla	Del Toro	San Martin	La Guitarra	Total	La Encantada	La Parrilla	San Martin	La Guitarra	Total
Cost of sales (as reported)	\$ 31,437						\$ 23,686				
Add (Deduct): Cost of sales for Vancouver, Europe and intercompany elimination	(25)						(425)				
Cost of sales (mine)	\$ 10,134	\$ 8,303	\$ 5,978	\$ 4,282	\$ 2,715	\$ 31,412	\$ 9,637	\$ 8,216	\$ 3,358	\$ 2,050	\$ 23,261
Add: Third party smelting and refining	469	3,748	2,545	94	417	7,273	569	3,693	87	1,821	6,170
Deduct: Workers' participation cost	(78)	(351)	(30)	(270)	(29)	(758)	(558)	–	–	(58)	(616)
Inventory changes	(266)	(39)	(450)	403	(65)	(417)	(264)	(1,274)	127	274	(1,137)
Other non-cash costs	(99)	(77)	(89)	(62)	(54)	(381)	(269)	(326)	99	(85)	(581)
Total cash cost before by-product credits (A)	\$ 10,160	\$ 11,584	\$ 7,954	\$ 4,447	\$ 2,984	\$ 37,129	\$ 9,115	\$ 10,309	\$ 3,671	\$ 4,002	\$ 27,097
Deduct: By-product credits attributed to:											
Gold	(19)	(221)	–	(547)	(2,502)	(3,289)	(29)	(355)	(425)	(1,604)	(2,413)
Lead	–	(4,997)	(2,606)	–	–	(7,603)	(2)	(2,853)	–	–	(2,855)
Zinc	–	(1,281)	(206)	–	–	(1,487)	–	(883)	–	–	(883)
Iron	–	–	–	–	–	–	(475)	–	–	–	(475)
Total by-product credits	(19)	(6,499)	(2,812)	(547)	(2,502)	(12,379)	(506)	(4,091)	(425)	(1,604)	(6,626)
Total cash cost (B)	\$ 10,141	\$ 5,085	\$ 5,142	\$ 3,900	\$ 482	\$ 24,750	\$ 8,609	\$ 6,218	\$ 3,246	\$ 2,398	\$ 20,471

Tonnes processed	252,467	200,541	88,468	78,805	46,966	667,247	407,221	186,434	77,803	30,160	701,618
Total ounces of silver produced	959,312	813,090	440,397	280,490	143,680	2,636,969	1,099,154	758,692	253,212	200,088	2,311,146
Deduct: Metal deduction ounces	(3,838)	(25,231)	(17,616)	(1,122)	(25,852)	(73,659)	(5,495)	(25,097)	(1,266)	(70,144)	(102,002)
Payable ounces of silver produced (C)	955,474	787,859	422,781	279,368	117,828	2,563,310	1,093,659	733,595	251,946	129,944	2,209,144

Mining cost per ounce	\$ 2.95	\$ 3.11	\$ 4.78	\$ 5.98	\$ 8.97	\$ 3.91	\$ 1.77	\$ 2.65	\$ 3.57	\$ 7.01	\$ 2.57
Milling cost per ounce	5.49	4.33	5.28	6.54	6.31	5.25	4.75	4.34	7.35	3.40	4.83
Indirect cost per ounce	1.46	1.67	1.99	2.73	5.80	1.95	0.95	1.25	3.12	5.51	1.57
Total production cost per ounce	\$ 9.90	\$ 9.11	\$ 12.05	\$ 15.25	\$ 21.08	\$ 11.11	\$ 7.47	\$ 8.24	\$ 14.04	\$ 15.92	\$ 8.97
Transport and other selling costs per ounce	0.24	0.69	0.75	0.32	0.71	0.49	0.35	0.60	0.18	0.87	0.44
Smelting and refining costs per ounce	0.49	4.76	6.01	0.34	3.53	2.84	0.52	5.03	0.34	14.01	2.79
Royalties per ounce	–	0.14	–	–	–	0.04	–	0.19	–	–	0.06
Cash cost per ounce before by-product credits (A/C)	\$ 10.63	\$ 14.70	\$ 18.81	\$ 15.91	\$ 25.32	\$ 14.48	\$ 8.34	\$ 14.06	\$ 14.56	\$ 30.80	\$ 12.26
By-product credits cost per ounce											
Gold	(0.02)	(0.28)	–	(1.95)	(21.24)	(1.28)	(0.04)	(0.48)	(1.68)	(12.35)	(1.09)
Lead	–	(6.34)	(6.16)	–	–	(2.96)	(0.00)	(3.89)	–	–	(1.29)
Zinc	–	(1.63)	(0.49)	–	–	(0.58)	–	(1.20)	–	–	(0.40)
Iron	–	–	–	–	–	–	(0.43)	–	–	–	(0.22)
Total by-product credits	(0.02)	(8.25)	(6.65)	(1.95)	(21.24)	(4.82)	(0.47)	(5.58)	(1.68)	(12.35)	(3.00)
Cash cost per ounce (B/C)	\$ 10.61	\$ 6.45	\$ 12.16	\$ 13.96	\$ 4.08	\$ 9.66	\$ 7.87	\$ 8.48	\$ 12.88	\$ 18.45	\$ 9.26

Mining cost per tonne	\$ 11.17	\$ 12.22	\$ 22.82	\$ 21.21	\$ 22.50	\$ 15.01	\$ 4.74	\$ 10.42	\$ 11.55	\$ 30.20	\$ 8.10
Milling cost per tonne	20.79	17.04	25.22	23.19	15.83	20.19	12.76	17.06	23.82	14.65	15.21
Indirect cost per tonne	5.53	6.54	9.52	9.67	14.54	7.49	2.56	4.91	10.09	23.74	4.93
Total production cost per tonne	\$ 37.49	\$ 35.80	\$ 57.56	\$ 54.07	\$ 52.87	\$ 42.69	\$ 20.06	\$ 32.39	\$ 45.46	\$ 68.59	\$ 28.24

Cash cost per ounce is compiled after deducting by-product credits related to lead, zinc and iron production. For the quarter ended December 31, 2013, by-product credits of approximately \$4.82 per payable silver ounce (2012 - \$3.00) were deducted from operating costs in the calculation of cash cost per ounce.

(expressed in thousands of U.S. dollars, except ounce and per ounce amounts)	Year Ended December 31, 2013						Year Ended December 31, 2012					
	La Encantada	La Parrilla	Del Toro	San Martin	La Guitarra	Total	La Encantada	La Parrilla	San Martin	La Guitarra	Total	
Cost of sales (as reported)	\$ 115,658						\$ 79,747					
Add (Deduct): Cost of sales for Vancouver, Europe and intercompany elimination	(643)						(497)					
Cost of sales (mine)	\$ 41,366	\$ 31,552	\$ 14,003	\$ 17,552	\$ 10,542	\$ 115,015	\$ 35,088	\$ 26,324	\$ 12,445	\$ 5,393	\$ 79,250	
Add: Third party smelting and refining	1,904	12,922	6,774	436	3,975	26,011	1,927	12,600	310	2,978	17,815	
Deduct: Workers' participation cost	(1,047)	(351)	(30)	(270)	(58)	(1,756)	(2,144)	–	–	(58)	(2,202)	
Inventory changes	(1,031)	15	(491)	(63)	(742)	(2,312)	1,657	(16)	386	(1,048)	979	
Other non-cash costs	(216)	(156)	(157)	(96)	(125)	(750)	(601)	(534)	29	57	(1,049)	
Total cash cost before by-product credits (A)	\$ 40,976	\$ 43,982	\$ 20,099	\$ 17,559	\$ 13,592	\$ 136,208	\$ 35,927	\$ 38,374	\$ 13,170	\$ 7,322	\$ 94,793	
Deduct: By-product credits attributed to:												
Gold	(97)	(860)	(7)	(2,546)	(7,418)	(10,928)	(172)	(1,158)	(1,994)	(3,001)	(6,325)	
Lead	–	(16,435)	(6,866)	–	–	(23,301)	(2)	(10,696)	–	–	(10,698)	
Zinc	–	(4,597)	(1,481)	–	–	(6,078)	–	(3,460)	–	–	(3,460)	
Iron	(1,634)	–	–	–	–	(1,634)	(1,777)	–	–	–	(1,777)	
Total by-product credits	(1,731)	(21,892)	(8,354)	(2,546)	(7,418)	(41,941)	(1,951)	(15,314)	(1,994)	(3,001)	(22,260)	
Total cash cost (B)	\$ 39,245	\$ 22,090	\$ 11,745	\$ 15,013	\$ 6,174	\$ 94,267	\$ 33,976	\$ 23,060	\$ 11,176	\$ 4,321	\$ 72,533	
Tonnes processed	1,139,241	788,335	240,100	322,618	171,662	2,661,956	1,515,795	670,670	286,206	60,499	2,533,170	
Total ounces of silver produced	4,081,094	3,115,997	1,226,885	1,250,774	709,002	10,383,752	4,036,502	2,848,171	957,195	389,927	8,231,795	
Deduct: Metal deduction ounces	(18,137)	(95,173)	(51,372)	(5,506)	(126,310)	(296,498)	(20,182)	(98,376)	(3,926)	(118,819)	(241,303)	
Payable ounces of silver produced (C)	4,062,957	3,020,824	1,175,513	1,245,268	582,692	10,087,254	4,016,320	2,749,795	953,269	271,108	7,990,492	
Mining cost per ounce	\$ 2.56	\$ 3.59	\$ 3.92	\$ 4.59	\$ 6.60	\$ 3.51	\$ 1.85	\$ 2.89	\$ 3.79	\$ 6.14	\$ 2.58	
Milling cost per ounce	5.50	4.42	4.78	6.29	4.47	5.13	5.34	4.45	6.82	3.46	5.15	
Indirect cost per ounce	1.19	1.50	1.83	2.59	4.54	1.72	0.92	1.20	2.44	5.32	1.35	
Total production cost per ounce	\$ 9.25	\$ 9.51	\$ 10.53	\$ 13.47	\$ 15.61	\$ 10.36	\$ 8.11	\$ 8.54	\$ 13.05	\$ 14.92	\$ 9.08	
Transport and other selling costs per ounce	0.36	0.59	0.81	0.28	0.88	0.50	0.36	0.59	0.44	1.11	0.48	
Smelting and refining costs per ounce	0.47	4.28	5.76	0.35	6.84	2.58	0.48	4.58	0.32	10.98	2.23	
Royalties per ounce	–	0.18	–	–	–	0.05	–	0.24	–	–	0.08	
Cash cost per ounce before by-product credits (A/C)	\$ 10.08	\$ 14.56	\$ 17.10	\$ 14.10	\$ 23.33	\$ 13.49	\$ 8.95	\$ 13.95	\$ 13.81	\$ 27.01	\$ 11.87	
By-product credits cost per ounce												
Gold	(0.02)	(0.28)	(0.01)	(2.05)	(12.73)	(1.08)	(0.04)	(0.42)	(2.09)	(11.07)	(0.79)	
Lead	–	(5.45)	(5.84)	–	–	(2.30)	–	(3.89)	–	–	(1.35)	
Zinc	–	(1.52)	(1.26)	–	–	(0.60)	–	(1.26)	–	–	(0.43)	
Iron	(0.40)	–	–	–	–	(0.16)	(0.45)	–	–	–	(0.22)	
Total by-product credits	(0.42)	(7.25)	(7.11)	(2.05)	(12.73)	(4.14)	(0.49)	(5.57)	(2.09)	(11.07)	(2.79)	
Cash cost per ounce (B/C)	\$ 9.66	\$ 7.31	\$ 9.99	\$ 12.05	\$ 10.60	\$ 9.35	\$ 8.46	\$ 8.38	\$ 11.72	\$ 15.94	\$ 9.08	
Mining cost per tonne	\$ 9.14	\$ 13.74	\$ 19.18	\$ 17.73	\$ 22.45	\$ 13.31	\$ 4.90	\$ 11.84	\$ 12.62	\$ 27.49	\$ 8.15	
Milling cost per tonne	19.63	16.95	23.39	24.29	15.18	19.45	14.14	18.26	22.71	15.51	16.23	
Indirect cost per tonne	4.24	5.76	8.97	9.98	15.41	6.53	2.42	4.93	8.13	23.84	4.24	
Total production cost per tonne	\$ 33.01	\$ 36.45	\$ 51.54	\$ 52.00	\$ 53.04	\$ 39.29	\$ 21.46	\$ 35.03	\$ 43.46	\$ 66.84	\$ 28.62	

Cash cost per ounce is compiled after deducting by-product credits related to lead, zinc and iron production. For the year ended December 31, 2013, by-product credits of approximately \$4.14 per payable silver ounce (2012 - \$2.79) were deducted from operating costs in the calculation of cash cost per ounce.

AVERAGE REALIZED SILVER PRICE PER OUNCE

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

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

	Three Months Ended December 31,		Year Ended December 31,	
	2013	2012	2013	2012
Revenues as reported	\$ 58,989	\$ 71,007	\$ 251,313	\$ 247,177
Add back: smelting and refining charges	7,286	6,373	26,050	17,815
Gross Revenues	66,275	77,380	277,363	264,992
Payable equivalent silver ounces sold	3,215,055	2,386,860	12,018,168	8,519,448
Average realized price per ounce of silver sold⁽¹⁾	\$ 20.61	\$ 32.42	\$ 23.08	\$ 31.10
Average market price per ounce of silver per COMEX	\$ 20.77	\$ 32.56	\$ 23.82	\$ 31.17

(1) Average realized price per ounce of silver sold in each reporting period is affected by mark-to-market adjustments and final settlements on concentrate shipments in prior periods. Concentrates sold to third-party smelters are provisionally priced and the price is not settled until a predetermined future date, typically one to four months after delivery to the customer, based on the market price at that time. The mark-to-market adjustments do not apply to doré sales which constitute the majority of the Company's silver sales.

ADJUSTED EARNINGS PER SHARE ("ADJUSTED EPS")

The Company uses the financial measure "Adjusted EPS" to supplement information in its audited consolidated financial statements. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, the Company and certain investors and analysts use this information to evaluate the Company's performance. The Company excludes non-cash and unusual items from net (loss) earnings to provide a measure which allows the Company and investors to evaluate the operating results of the underlying core operations. The presentation of Adjusted EPS is not meant to be a substitute for EPS presented in accordance with IFRS, but rather should be evaluated in conjunction with such IFRS measure.

The following table provides a detailed reconciliation of net (loss) earnings as reported in the Company's audited consolidated financial statements to adjusted net earnings and Adjusted EPS.

	Three Months Ended December 31,		Year Ended December 31,	
	2013	2012	2013	2012
Net (loss) earnings as reported	\$ (81,229)	\$ 22,350	\$ (38,232)	\$ 88,898
Adjustments for non-cash or unusual items:				
Impairment of goodwill and mining interests	28,791	–	28,791	–
Deferred income tax expense	51,032	4,022	63,164	17,662
Loss (gain) from fair value adjustment of prepayment facility	2,907	403	(3,919)	403
Share-based payments	2,837	2,870	14,518	10,646
Loss (gain) from investment in silver futures and marketable securities	1,628	553	6,601	(6,216)
Write-down of AFS marketable securities	137	–	3,914	–
Gain from First Silver litigation, net of fees	168	526	122	2,013
Gain from termination fee on Orko acquisition	–	–	(9,129)	–
Gain from value added tax settlement	–	–	(711)	–
Acquisition costs for Silvermex Resources Inc.	–	129	–	2,740
Adjusted net earnings	\$ 6,271	\$ 30,853	\$ 65,119	\$ 116,146
Weighted average number of shares on issue - basic	117,030,825	116,442,639	116,935,325	110,775,284
Adjusted EPS	\$ 0.05	\$ 0.26	\$ 0.56	\$ 1.05

CASH FLOW PER SHARE

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

	Three Months Ended December 31,		Year Ended December 31,	
	2013	2012	2013	2012
Operating Cash Flows before Movements in Working Capital and Income Taxes	\$ 20,400	\$ 43,188	\$ 137,269	\$ 146,776
Weighted average number of shares on issue - basic	117,030,825	116,442,639	116,935,325	110,775,284
Cash Flow per Share	\$ 0.17	\$ 0.37	\$ 1.17	\$ 1.32

WORKING CAPITAL

Working capital is determined based on current assets and current liabilities as reported in the Company's audited consolidated financial statements. The Company uses working capital as a measure of the Company's short-term financial health and operating efficiency.

	At December 31,	
	2013	2012
Current Assets	\$ 109,533	\$ 172,917
Less: Current Liabilities	(76,723)	(57,230)
Working Capital	\$ 32,810	\$ 115,687

ALL-IN SUSTAINING COST

Effective January 1, 2014, for future reporting periods the Company will be voluntarily adopting all-in sustaining costs ("AISC"). The Company believes AISC is a more comprehensive measure than Cash Cost Per Ounce for the Company's consolidated operating performance by providing greater visibility, comparability and representation of the total costs associated with producing silver from its current operations.

AISC was calculated based on guidance provided by the World Gold Council ("WGC") in June 2013. It is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. WGC is not a regulatory industry organization and does not have the authority to develop accounting standards for disclosure requirements. Other mining companies may calculate AISC differently as a result of differences in underlying accounting principles and policies applied, as well as differences in definitions of sustaining capital versus expansionary capital expenditures.

The Company defines Sustaining Capital expenditures as "Capital costs incurred to sustain and maintain existing assets to achieve constant planned levels of production. This includes costs required to ensure that assets retain their existing productive capacity and improving/enhancing assets to minimum standards for reliability, environmental and safety requirements over the planned life of the mine."

For mining companies sustaining capital is typically described as ongoing maintenance, necessary activities, and non-discretionary spending that does not increase the capacity or productivity, and costs that are not deemed expansionary in nature. Costs specifically excluded from sustaining capital include day to day operating costs, tax expenses, financing costs, dividend payments, corporate G&A, merger and acquisition costs, and reclamation and rehabilitation costs.

AISC, in accordance with the WGC definition begins with the Company's total cash costs and additionally, it incorporates the Company's sustaining capital expenditures, corporate general and administrative expense, exploration and evaluation costs, share-based payments and reclamation cost accretion. The Company believes that this measure represents the total costs of producing silver from current sustainable operations, and provides the Company and other stakeholders of the Company with additional information of the Company's operational performance and ability to generate sustainable cash flows.

Additional GAAP Measures

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

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

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

Review of Fourth Quarter Financial Results

For the quarter ended December 31, 2013 compared to the quarter ended December 31, 2012
(in thousands of dollars, except for per share amounts):

	Fourth Quarter		
	2013	2012	
Revenues	\$ 58,989	\$ 71,007	(1)
Cost of sales (excludes depletion, depreciation and amortization)	31,437	23,686	(2)
Gross margin	27,552	47,321	
Depletion, depreciation and amortization	13,298	7,861	(3)
Mine operating earnings	14,254	39,460	(4)
General and administrative expenses	6,457	7,218	(5)
Share-based payments	2,837	2,870	
Accretion of decommissioning liabilities	135	137	
Impairment of goodwill and mining interests	28,791	–	(6)
Acquisition costs	–	129	
Foreign exchange loss (gain)	654	(440)	
Operating (loss) earnings	(24,620)	29,546	(7)
Investment and other loss	(4,617)	(628)	(8)
Finance costs	(941)	(925)	
(Loss) earnings before income taxes	(30,178)	27,993	
Current income tax expense	19	1,621	
Deferred income tax expense	51,032	4,022	
Income tax expense	51,051	5,643	(9)
Net (loss) earnings for the period	\$ (81,229)	\$ 22,350	(10)
(Loss) earnings per share (basic)	\$ (0.69)	\$ 0.19	(10)
(Loss) earnings per share (diluted)	\$ (0.69)	\$ 0.19	

1. Revenues for the quarter ended December 31, 2013 decreased by 17% to \$58,989,000 from \$71,007,000 in the fourth quarter of 2012. The decrease in revenues was primarily attributed to a 36% decrease in average realized silver price, partially offset by a 35% increase in equivalent silver ounces sold due to production from the new Del Toro Silver Mine as well as increased production at San Martin and La Parrilla. Revenue was also affected by higher smelting and refining costs related to increased concentrate output from the La Parrilla and the Del Toro mines.

2. Cost of sales in the fourth quarter of 2013 was \$31,437,000, an increase of \$7,751,000 or 33% compared to \$23,686,000 in the fourth quarter of 2012. The increase in cost of sales was primarily attributed to a 35% increase in payable equivalent ounces sold.

3. Depletion, depreciation and amortization increased from \$7,861,000 in the fourth quarter of 2012 to \$13,298,000 in the fourth quarter of 2013, an increase of \$5,437,000 or 69%. The increase was due to additional depreciation and depletion expense from the new Del Toro mine and expansion of the La Guitarra and San Martin mines.

4. Despite a 33% production growth, mine operating earnings decreased by 64% in the fourth quarter of 2013 to \$14,254,000, a decrease of \$25,206,000 when compared to \$39,460,000 for the same quarter in the prior year. Mine operating earnings were primarily affected by lower silver prices and increases in depletion, depreciation and amortization compared to the fourth quarter of 2012.

5. General and administrative expenses has decreased by \$761,000 or 11% compared to the same quarter in the prior year. The decrease was attributed to lower salaries and benefits as part of the Company's initiative for cost reduction, as well as lower legal fees relating to the First Silver Reserve Inc. ("First Silver") trial.

6. During the quarter ended December 31, 2013, as a result of the decline in silver prices and the Mexican Tax Reform, the Company recognized an impairment loss of \$28,791,000 on certain mining interests which were acquired from Silvermex Resources Inc. in July 2012.

7. Operating loss for the quarter was \$24,620,000, compared to operating earnings of \$29,546,000 for the quarter ended December 31, 2012. The decrease was primarily due to lower mine operating earnings and impairment loss on goodwill and mining interests.

8. During the quarter ended December 31, 2013, the Company recognized investment and other loss of \$4,617,000 compared to \$628,000 in the same quarter in the prior year. The investment loss in the fourth quarter of 2013 was attributed to a \$2,906,000 loss from fair value adjustment of the prepayment facility, a loss of \$1,169,000 from investment in silver futures, \$464,000 loss on investment in FVTPL marketable securities and a \$137,000 write-down on available-for-sale marketable securities.

9. During the quarter ended December 31, 2013, the Company recorded an income tax expense of \$51,051,000 compared to an income tax expense of \$5,643,000 in the quarter ended December 31, 2012. The increase in taxes was attributed to a \$38,793,000 non-cash accounting adjustment to deferred income tax in relation to the Mexican Tax Reform, foreign exchange effects, partially offset by decrease in earnings before taxes.

10. As a result of the foregoing, net loss for the quarter ended December 31, 2013 was \$81,229,000 or EPS of \$(0.69), compared to net earnings of \$22,350,000 or EPS of \$0.19 in the quarter ended December 31, 2012.

Review of Annual Financial Results and Selected Annual Financial Information

For the year ended December 31, 2013 compared to the years ended December 31, 2012 and 2011
(in thousands of dollars, except for share amounts):

	Annual			
	2013	2012	2011	
Revenues	\$ 251,313	\$ 247,177	\$ 245,514	(1)
Cost of sales (excludes depletion, depreciation and amortization)	115,658	79,747	66,787	(2)
Gross margin	135,655	167,430	178,727	
Depletion, depreciation and amortization	43,337	25,405	15,440	(3)
Mine operating earnings	92,318	142,025	163,287	(4)
General and administrative	24,855	21,774	15,969	(5)
Share-based payments	14,518	10,646	5,948	(6)
Accretion of decommissioning liabilities	539	472	622	
Impairment of goodwill and mining interests	28,791	–	–	(7)
Acquisition costs	–	2,740	435	(8)
Foreign exchange loss (gain)	926	(174)	483	
Operating earnings	22,689	106,567	139,830	(9)
Investment and other income (loss)	5,974	6,715	(1,030)	(10)
Finance costs	(2,470)	(2,293)	(1,263)	
Earnings before income taxes	26,193	110,989	137,537	
Current income tax expense	1,261	4,429	10,920	
Deferred income tax expense	63,164	17,662	23,043	
Income tax expense	64,425	22,091	33,963	(11)
Net (loss) earnings for the year	\$ (38,232)	\$ 88,898	\$ 103,574	(12)
(Loss) earnings per share (basic)	\$ (0.33)	\$ 0.80	\$ 1.00	(12)
(Loss) earnings per share (diluted)	\$ (0.33)	\$ 0.79	\$ 0.96	
Cash and cash equivalents	\$ 54,765	\$ 111,591	\$ 91,184	
Total assets	\$ 854,952	\$ 813,031	\$ 443,312	
Non-current liabilities	\$ 207,484	\$ 162,276	\$ 64,845	

1. Revenues for the year ended December 31, 2013 increased by 2% or \$4,136,000 to \$251,313,000 from \$247,177,000 during the prior year. While payable equivalent ounces sold increased by 41% compared to the prior year, revenues were affected by a 26% decrease in average realized silver price and higher smelting and refining costs related to increased concentrate output from La Parrilla and Del Toro mines.

2. Cost of sales for the year ended December 31, 2013 was \$115,658,000 an increase of 45% or \$35,911,000 compared to \$79,747,000 in 2012. The increase in cost of sales was attributed to a 41% increase in payable equivalent ounces sold and 3% increase in cash cost per ounce.

3. Depletion, depreciation and amortization increased by 71% to \$43,337,000 for the year ended December 31, 2013, primarily due to incremental depreciation expense from the addition of the new Del Toro mine and full year of depletion, depreciation and amortization from the La Guitarra mine, as well as higher depletion expense from 8% increase in tonnage of ore processed.

4. Mine operating earnings decreased by 35% to \$92,318,000 for the year ended December 31, 2013, compared to \$142,025,000 in the prior year. Mine operating earnings were affected by the decrease in silver prices and higher depletion, depreciation and amortization expenses.

5. General and administrative expenses for the year ended December 31, 2013 increased \$2,979,000 or 14% compared to the prior year due to higher professional fees, additional administrative expenses for the newly recruited senior management for expanded operations and a resulting increase in salaries and employee benefits.

6. Share-based payments expense for the year ended December 31, 2013 increased by \$3,872,000 or 36% compared to the same period of the prior year. The increase was primarily due to stock options granted in 2013 and 2012, including amortization of the stock option benefit for the additional senior management recruited in Mexico in preparation for expanded operations. The Company's higher share price at time of the grant compared to the prior year also contributed to the increase in the Company's share-based payments expense.

7. During the year ended December 31, 2013, as a result of the decline in silver prices and the Mexican Tax Reform, the Company recognized an impairment loss of \$28,791,000 on certain mining interests which were acquired from Silvermex Resources Inc. in July 2012.

8. In 2012, the Company incurred acquisition costs of \$2,740,000 related to the acquisition of Silvermex. The transaction was completed in July 2012 and was valued at \$137.0 million at the time of the acquisition.

9. Operating earnings was \$22,689,000 for the year ended December 31, 2013, compared to operating earnings of \$106,567,000 for the year ended December 31, 2012, due to decrease in mine operating earnings, impairment of goodwill and mining interests, higher general and administrative, share-based payments expenses and foreign exchange losses.

10. During the year ended December 31, 2013, investment and other income was \$5,974,000 compared to \$6,715,000 in the prior year. The income is primarily attributed to a net gain of \$9,129,000 from the termination fee related to the Orko

acquisition, a \$3,919,000 gain from fair value adjustment of the prepayment facility, a gain of \$1,355,000 from payouts on insurance claims relating to theft of concentrates in late 2012, and a \$557,000 gain from the First Silver litigation, offset by a \$3,915,000 write-down on available-for-sale marketable securities, a \$4,818,000 loss on silver futures contracts and a \$1,783,000 loss on mark-to-market adjustments of marketable securities.

11. During the year ended December 31, 2013, the Company recorded an income tax expense of \$64,425,000 compared to \$22,091,000 in 2012. The \$42,334,000 increase in income tax expense was primarily attributed to a non-cash accounting adjustment of \$38,793,000 relating to the Mexican Tax Reform, partially offset by lower earnings.

12. As a result of the foregoing, net loss for the year ended December 31, 2013 was \$38,232,000 or EPS of \$(0.33), compared to net earnings of \$88,898,000 or EPS of \$0.80 per common share for 2012.

Summary of Quarterly Results

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

Financial Highlights	2013				2012			
	Q4 ⁽¹⁾	Q3 ⁽²⁾	Q2 ⁽³⁾	Q1 ⁽⁴⁾	Q4 ⁽⁵⁾	Q3 ⁽⁶⁾	Q2 ⁽⁷⁾	Q1 ⁽⁸⁾
Revenue	\$ 58,989	\$ 76,882	\$ 48,372	\$ 67,070	\$ 71,007	\$ 63,581	\$ 54,774	\$ 57,815
Cost of sales	\$ 31,437	\$ 36,060	\$ 23,891	\$ 24,270	\$ 23,686	\$ 20,912	\$ 18,456	\$ 16,693
Depletion, depreciation and amortization	\$ 13,298	\$ 11,645	\$ 10,198	\$ 8,196	\$ 7,861	\$ 6,832	\$ 5,259	\$ 5,453
Mine operating earnings	\$ 14,254	\$ 29,177	\$ 14,283	\$ 34,604	\$ 39,460	\$ 35,837	\$ 31,059	\$ 35,669
Net (loss) earnings after tax	\$ (81,229)	\$ 16,320	\$ 160	\$ 26,517	\$ 22,350	\$ 24,869	\$ 15,321	\$ 26,358
(Loss) earnings per share (basic)	\$ (0.69)	\$ 0.14	\$ 0.00	\$ 0.23	\$ 0.19	\$ 0.22	\$ 0.14	\$ 0.25
(Loss) earnings per share (diluted)	\$ (0.69)	\$ 0.14	\$ 0.00	\$ 0.23	\$ 0.19	\$ 0.21	\$ 0.14	\$ 0.24

NOTES:

- In the quarter ended December 31, 2013, mine operating earnings decreased \$14,923,000 or 51% compared to the quarter ended September 30, 2013, primarily attributed to decrease of 17% or 673,621 ounces of payable equivalent silver ounces sold. More ounces were sold in the prior quarter due to sale of approximately 650,000 ounces of silver sales that were suspended and delayed at the end of the second quarter. In addition, depletion, depreciation and amortization was higher due to 9% increase in tonnes milled during the fourth quarter compared to the prior quarter. Net loss after tax was \$81,229,000 compared to net earnings of \$16,320,000. The decrease was attributed to \$28,791,000 impairment on goodwill and mining interests, \$14,923,000 decline in mine operating earnings, as well as \$38,793,000 non-cash adjustment to deferred income tax expense recorded during the quarter in relation to the Mexican Tax Reform.
- In the quarter ended September 30, 2013, mine operating earnings increased \$14,894,000 or 104% compared to the quarter ended June 30, 2013, primarily attributed to an increase of 57% or 1,407,022 ounces of payable equivalent silver ounces sold, which includes approximately 650,000 ounces of silver sales that were suspended and delayed at the end of the second quarter of 2013 due to declining silver prices. Net earnings after tax was \$16,320,000, an increase of \$16,160,000 compared to the previous quarter due to increase in mine operating earnings and investment and other income.
- In the quarter ended June 30, 2013, mine operating earnings decreased \$20,321,000 or 59% compared to the quarter ended March 31, 2013, primarily attributed to a 25% decline in silver prices and management's decision to suspend approximately 700,000 ounces of silver sales near quarter end in order to maximize future profits. Net earnings after tax was \$160,000, a decrease of \$26,357,000 compared to the previous quarter due to decrease in mine operating earnings and \$5,864,000 loss on investment in silver futures and marketable securities, compared to a one-time gain of \$9,131,000 from termination fee of the Orko acquisition in the previous quarter.
- In the quarter ended March 31, 2013, mine operating earnings decreased \$4,856,000 or 12% compared to the quarter ended December 31, 2012, primarily attributed to 9% decline in silver prices and higher cost of sales due to appreciation of the Mexican peso against the US dollar. Net earnings after tax increased by \$4,167,000 or 19% compared to the previous quarter, due to gain from termination fee of the Orko acquisition and gain on fair value adjustment of the prepayment facility.
- In the quarter ended December 31, 2012, mine operating earnings increased \$3,623,000 or 10% compared to the quarter ended September 30, 2012, primarily attributed to 5% increase in production, partially offset by higher depletion, depreciation and amortization expense. Net earnings after tax decreased by \$2,519,000 or 10% compared to the third quarter of 2012 due to a \$6,017,000 decrease in investment income compared to the previous quarter.
- In the quarter ended September 30, 2012, mine operating earnings increased \$4,778,000 or 15% compared to the quarter ended September 30, 2012 primarily attributed to 16% increase in production, partially offset by higher depletion, depreciation and amortization expense. Net earnings after tax increased by \$9,548,000 or 62% compared to the third quarter of 2012. The increase was due to increase in mine operating earnings and \$9,016,000 increase in investment income compared to the third quarter of 2012.
- In the quarter ended June 30, 2012, mine operating earnings decreased \$4,610,000 or 13% compared to the quarter ended March 31, 2012. The decrease was primarily attributed to \$3,041,000 or 5% decrease in revenue due to a 13% decrease in average revenue per ounce of silver sold, partially offset by 5% increase in production. Net earnings after tax decreased \$11,037,000 compared to the prior quarter, primarily due to an investment loss of \$3,627,000 during the quarter compared to an investment gain of \$5,581,000 in the previous quarter. The investment loss was related to loss on silver futures and marketable securities during the current quarter.
- In the quarter ended March 31, 2012, mine operating earnings decreased \$2,714,000 or 7% compared to the quarter ended December 31, 2011. The decrease was primarily attributed to \$2,986,000 or 5% decrease in revenue due to 2% less ounces of silver equivalents sold compared to the previous quarter. Net earnings after tax increased \$5,019,000 compared to the prior quarter, primarily due to an investment income of \$5,581,000 from a gain on silver futures and marketable securities during the quarter and a lower effective tax rate due to the new global tax structure that the Company established in late 2011.

Liquidity

At December 31, 2013, the Company held cash and cash equivalents of \$54.8 million and had working capital of \$32.8 million, compared to cash and cash equivalents of \$111.6 million and working capital of \$115.7 million at December 31, 2012. Cash and cash equivalents decreased by \$56.8 million during the year, primarily as a result of \$178.7 million of investments in property, plant and equipment and mineral property interests, \$9.3 million of repayments on lease obligations, \$5.3 million on deposits on long-term assets and \$4.7 million realized loss on derivative financial instruments, offset by \$134.3 million generated from operating activities and \$16.1 million from proceeds from lease financings.

During the year, the Company expended \$94.4 million on mineral properties and \$84.3 million on property, plant and equipment compared to \$99.3 million expended on mineral properties and \$75.8 million expended on property, plant and equipment in the previous year. Capital expenditures are comparable to the prior year due to the on-going construction at Del Toro and the scaling up of the San Martin and La Guitarra expansion which included capital expenditures for property, plant and equipment as well as mine development for the increased tonnage to the mill.

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

With \$54.8 million in cash and cash equivalents at December 31, 2013, the Company believes it has sufficient funds to meet current operating and its reduced capital requirements.

Management of Risks And Uncertainties

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

Credit Risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its contractual obligations. The Company's credit risk relates primarily to trade receivables in the ordinary course of business and VAT and other receivables. The Company sells and receives payment upon delivery of its silver doré and by-products primarily through three international organizations. Additionally, silver-lead concentrates and related base metal by-products are sold primarily through four international organizations with good credit ratings. Payments of receivables are scheduled, routine and received within 60 days of submission; therefore, the balance of overdue trade receivables owed to the Company in the ordinary course of business is not significant.

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

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they arise. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and to support its expansion plans. As at December 31, 2013, the Company has outstanding trade payables of \$20.9 million (December 31, 2012 - \$20.8 million) which are generally payable in 90 days or less and accrued liabilities of \$13.6 million (December 31, 2012 - \$16.5 million) which are generally payable within 12 months. The Company believes it has sufficient cash on hand, combined with cash flows from operations, to meet operating requirements as they arise for at least the next 12 months.

The Company's liabilities and commitments have maturities which are summarized below:

	Payment Due By Period				
	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Trade and other payables	\$ 34,534	\$ 34,534	\$ –	\$ –	\$ –
Prepayment facility	49,930	16,091	33,839	–	–
Finance lease obligations	39,188	17,680	17,766	3,742	–
Decommissioning liabilities	16,437	–	–	–	16,437
Purchase obligations and commitments ⁽¹⁾	35,207	35,207	–	–	–
Total Obligations	\$ 175,296	\$ 103,512	\$ 51,605	\$ 3,742	\$ 16,437

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

Currency Risk

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

				December 31, 2013		December 31, 2012	
	Cash and cash equivalents	Trade and other receivables	Trade and other payables	Net assets (liabilities) exposure	Effect of +/- 10% change in currency	Net assets (liabilities) exposure	Effect of +/- 10% change in currency
Canadian dollar	\$ 11,873	\$ 395	\$ (1,043)	\$ 11,225	\$ 1,123	\$ 5,001	\$ 500
Mexican peso	763	12,647	(20,194)	(6,784)	(678)	(7,237)	(724)
	\$ 12,636	\$ 13,042	\$ (21,237)	\$ 4,441	\$ 444	\$ (2,236)	\$ (224)

Commodity Price Risk

Commodity price risk is the risk that movements in the spot price of silver have a direct and immediate impact on the Company's income or the value of its related financial instruments. The Company also derives by-product revenue from the sale of gold, zinc, lead and iron ore, which accounts for approximately 17% of the Company's gross revenue. The Company's sales are directly dependent on commodity prices that have shown volatility and are beyond the Company's control. The Company has a forward sales agreement to sell a portion of the Company's zinc and lead production at a fixed price over a 36 months period commencing July 2013. The Company does not use derivative instruments to hedge its commodity price risk to silver. In July 2013, the Company purchased call options on lead and zinc futures equivalent to remaining production to be delivered under the terms of the prepayment facility. The call options were purchased to mitigate potential exposure to future price increases in lead and zinc.

As at December 31, 2013, a 10% increase or decrease of metal prices at December 31, 2013 would have the following impact on net earnings:

						December 31, 2013
	Silver	Gold	Lead	Zinc	Effect of +/- 10% change in metal prices	
Metals subject to provisional price adjustments	\$ 1,306	\$ 158	\$ 555	\$ 37	\$ 2,056	
Metals in doré and concentrates inventory	47	1	11	3	62	
Prepayment facility	–	–	(2,377)	(2,446)	(4,823)	
	\$ 1,353	\$ 159	\$ (1,811)	\$ (2,406)	\$ (2,705)	

Interest Rate Risk

The Company is exposed to interest rate risk on its short term investments. The Company monitors its exposure to interest rates and has not entered into any derivative contracts to manage this risk.

The Company's interest bearing financial assets comprise of cash and cash equivalents which bear interest at a mixture of variable and fixed rates for pre-set periods of time. As at December 31, 2013, the Company's exposure to interest bearing liabilities is limited to its prepayment facility and finance leases.

Based on the Company's interest rate exposure at December 31, 2013, a change of 25 basis points increase or decrease of market interest rate does not have a significant impact on net earnings.

Political and Country Risk

First Majestic currently conducts foreign operations primarily in Mexico, and as such the Company's operations are exposed to various levels of political and economic risks by factors outside of the Company's control. These potential factors include, but are not limited to: royalty and tax increases or claims by governmental bodies, expropriation or nationalization, foreign exchange controls, high rates of inflation, extreme fluctuations in foreign currency exchange rates, import and export regulations, cancellation or renegotiation of contracts and environmental and permitting regulations. The Company currently has no political risk insurance coverage against these risks.

The Company is unable to determine the impact of these risks on its future financial position or results of operations. Changes, if any, in mining or investment policies or shifts in political attitude in foreign countries may substantively affect Company's exploration, development and production activities.

Environmental and Health and Safety Risks

The Company's activities are subject to extensive laws and regulations governing environmental protection and employee health and safety. Environmental laws and regulations are complex and have tended to become more stringent over time. The Company is required to obtain governmental permits and in some instances air, water quality, and mine reclamation rules and permits. The Company has complied with environmental taxes applied to the use of certain fossil fuels according to the Kyoto Protocol. Although the Company makes provisions for reclamation costs, it cannot be assured that these provisions will be adequate to discharge its future obligations for these costs. Failure to comply with applicable environmental and health and safety laws may result in injunctions, damages, suspension or revocation of permits and imposition of penalties. While the health and safety of our people and responsible environmental stewardship are our top priorities, there can be no assurance that First Majestic has been or will be at all times in complete compliance with such laws, regulations and permits, or that the costs of complying with current and future environmental and health and safety laws and permits will not materially and adversely affect the Company's business, results of operations or financial condition.

Claims and Legal Proceedings Risks

The Company is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of business activities. Many factors, both known and unknown, could cause actual results, performance or achievements to be materially different from the results, performance or achievements that are or may be expressed or implied by such forward-looking statements or information and the Company has made assumptions and estimates based on or related to many of these factors. Such factors include, without limitation: availability of time on court calendars in Canada and elsewhere; the recognition of Canadian judgments under Mexican law; the possibility of settlement discussions; the risk of appeal of judgment; and the insufficiency of the defendant's assets to satisfy the judgment amount. Each of these matters is subject to various uncertainties and it is possible that some of these matters may be resolved unfavourably to the Company. First Majestic carries liability insurance coverage and establishes provisions for matters that are probable and can be reasonably estimated. In addition, the Company may be involved in disputes with other parties in the future which may result in a significant impact on our financial condition, cash flow and results of operations.

In April 2013, the Company received a positive judgment on the First Silver trial from the Supreme Court of British Columbia (the "Court"), which awarded a sum of \$93.8 million in favour of First Majestic against the defendants (see Note 28 of the Company's consolidated financial statements for the year ended December 31, 2013). An amount of \$14.1 million were received by the Company in June 2013 as partial payment of the judgment, leaving an unpaid amount of approximately \$79.0 million. The judgments by the Court in favour of the Company were appealed by the defendants, but the appeal was dismissed in October 2013. The defendant has initiated an application to vary or discharge the appeal dismissal order requiring a further hearing with a three judge panel to determine if the appeal judge made an error in law or principle. The outcome of this application is presently not determinable. Judgment against the defendants should not be regarded as conclusive until such time as all avenues for appeal have been exhausted and the Company cautions that even if the results of all such appeals are in the Company's favour it is likely that it will be necessary to take additional action in Mexico and/or elsewhere to try to recover the unpaid portion of the judgment. There can be no guarantee of collection on the remaining \$79.0 million of the judgment amount and accordingly, as at December 31, 2013, the Company has not accrued any additional amounts related to the remaining unpaid judgment in favour of the Company.

Off-Balance Sheet Arrangements

At December 31, 2013, the Company had no material off-balance sheet arrangements such as contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that generate financing, liquidity, market or credit risk to the Company, other than contingent liabilities and vendor liability and interest, as disclosed in this MD&A and the audited consolidated financial statements and the related notes.

Related Party Transactions

Amounts paid to related parties were incurred in the normal course of business and measured at the exchange amount, which is the amount agreed upon by the transacting parties and on terms and conditions similar to non-related parties. During the year ended December 31, 2013 and 2012, there were no significant transactions with related parties outside of the ordinary course of business.

Subsequent Events

Subsequent to December 31, 2013:

- a) 293,784 shares valued at \$2.8 million were granted for acquisition of mineral properties adjacent to the La Guitarra Silver Mine;
- b) 1,736,642 options were granted with a weighted average exercise price of CAD\$10.44 and expire in five years from the grant date;
- c) 48,500 options were cancelled; and
- d) Management determined that the 1,000 tpd cyanidation plant at the Del Toro Silver Mine achieved commercial production on January 1, 2014.

Pursuant to the above subsequent events, the Company has 117,318,624 common shares outstanding as at the date on which these consolidated financial statements were approved and authorized for issue by the Board of Directors.

Critical Judgments and Estimates

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

Critical judgments exercised in applying accounting policies and assumptions and estimation uncertainties that have the most significant effect on the amounts recognized in the consolidated financial statements are outlined as follows:

Economic recoverability and probability of future economic benefits of exploration, evaluation and development costs

Management has determined that exploratory drilling, evaluation, development and related costs incurred which were capitalized have future economic benefits and are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, history of conversion of mineral deposits to Proven and Probable Reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

Commencement of commercial production and production levels intended by management

Prior to reaching commercial production levels intended by management, costs incurred are capitalized as part of the costs of related mill or mill and proceeds from mineral sales are offset against costs capitalized. Depletion of capitalized costs for mining properties and depreciation and amortization of property, plant and equipment begin when operating levels intended by management have been reached.

Determining when a mine or mill is in the condition necessary for it to be capable of operating in the manner intended by management is a matter of judgment dependant on the specific facts and circumstances. The following factors may indicate that commercial production has commenced:

- substantially all major capital expenditures have been completed to bring the mine or mill to the condition necessary for it to be capable of operating in the manner intended by management;
- the mine or mill has reached a pre-determined percentage of design capacity;
- the ability to sustain a pre-determined level of design capacity for a significant period of time (i.e., the ability to continue to produce ore at a steady or increasing level);
- the completion of a reasonable period of testing of the mine plant and equipment;
- the ability to produce a saleable product (i.e., the ability to produce concentrate within required sellable specifications);
- the mine or mill has been transferred to operating personnel from internal development groups or external contractors; and
- mineral recoveries are at or near the expected production levels.

The results of operations of the Company during the periods presented in these consolidated financial statements have been impacted by management's determination that commercial production was achieved for the following expansions:

- the 1,000 tpd cyanidation plant at the La Parrilla mine achieved commercial production on March 1, 2012;
- the 1,000 tpd flotation plant at the Del Toro mine achieved commercial production on April 1, 2013; and
- the 1,000 tpd cyanidation plant at the Del Toro mine achieved commercial production on January 1, 2014.

Functional currency

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. The Company has determined that the functional currency of each entity is the US dollar. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

Impairment of property, plant and equipment assets, mining interests and goodwill

Management considers both external and internal sources of information in assessing whether there are any indications that the Company's property, plant and equipment, mining interests and goodwill are impaired. External sources of information management considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of its property, plant and equipment, mining interests and goodwill. Internal sources of information management considers include the manner in which mining properties and plant and equipment are being used or are expected to be used and indications of economic performance of the assets.

In determining the recoverable amounts of the Company's property, plant and equipment, mining interests and goodwill, management makes estimates of the discounted future cash flows expected to be derived from the Company's mining properties, costs to sell the mining properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future non-expansionary capital expenditures, reductions in the amount of recoverable reserves, resources, and exploration potential, and/or adverse current economics can result in a write-down of the carrying amounts of the Company's property, plant and equipment and/or mining interests.

Depreciation and amortization rate for property, plant and equipment and depletion rate for mineral interests

Depletion, depreciation and amortization expenses are allocated based on assumed asset lives. Should the asset life, depletion rates or depreciation rates differ from the initial estimate, the change in estimate would be made prospectively in the consolidated statements of earnings.

Estimated reclamation and closure costs

The Company's provision for decommissioning liabilities represents management's best estimate of the present value of the future cash outflows required to settle estimated reclamation and closure costs at the end of mine's life. The provision reflects estimates of future costs, inflation, movements in foreign exchange rates and assumptions of risks associated with the future cash outflows, and the applicable risk-free interest rates for discounting the future cash outflows. Changes in the above factors can result in a change to the provision recognized by the Company.

Changes to reclamation and closure cost obligations are recorded with a corresponding change to the carrying amounts of related mining properties. Adjustments to the carrying amounts of related mining properties can result in a change to future depletion expense.

Mineral reserve estimates

The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control.

Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position and results of operation.

Inventory valuation

Finished goods, work-in-process and stockpile ore are valued at the lower of the average production costs or net realizable value. The assumptions used in the valuation of work-in process inventories include estimates of silver contained in the stockpile ore, assumptions of the amount of silver that is expected to be recovered from the stockpile, the amount of silver in the mill circuits and assumption of the silver price expected to be realized when the silver is recovered. If these estimates or assumptions prove to be inaccurate, the Company could be required to write-down the recorded value of its work-in-process inventories, which would reduce the Company's earnings and working capital.

Valuation of share-based payments

The Company uses the Black-Scholes Option Pricing Model for valuation of share-based payments. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

Income and other taxes

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Forecasted cash flows from operations are based on life of mine projections internally developed and reviewed by management. Weight is attached to tax planning opportunities that are within the Company's control, and are feasible and implementable without significant obstacles. The likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual facts and circumstances of the relevant tax position evaluated in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. At the end of each reporting period, the Company reassesses unrecognized income tax assets.

Mexican Tax Reform

In late 2013, the Mexican government approved a tax reform that enacted a new Mexican Income Tax Law (“MITL”), effective January 1, 2014, and repealed the Flat Tax Law (“IETU”). The new MITL maintains the current 30% corporate income tax rate, eliminating the previously scheduled reduction to 29% in 2014 and to 28% in 2015.

The new MITL eliminates the option to depreciate capital assets on an accelerated basis, as well as the 100% tax deduction for a mining company’s pre-operating expenses. As of 2014, capital assets will be depreciated on a straight-line basis using the provided allowed percentage for each type of asset, and pre-production expenses will be amortized over a 10 year period.

The new MITL also imposes a 10% withholding tax on dividends distributed to resident individuals or foreign residents (including foreign corporations). This new withholding tax will apply beginning in 2014, but not to distributions of profits subject to corporate-level tax prior to 2014, so the pre-2014 tax paid profits balance distributions are exempted. Per the Mexico-Canada tax treaty this dividend withholding tax rate may be reduced to 5%.

The tax reform also included in the Mexican Federal Fees Law a new 7.5% mining royalty on taxpayers with mining concessions. This royalty is deductible for tax purposes and is calculated as 7.5% of a royalty base which is computed as taxable revenues for income tax purposes (except interest and inflationary adjustment), less allowable deductions for income tax purposes (except interest, inflationary adjustment, depreciation and mining fees), less prospecting and exploration expenses of the year. The Company has taken the position that the royalty is an income tax as it is based on a measure of revenue less certain specified costs. On substantial enactment, a taxable temporary difference arises, as property, plant and equipment and mining assets have book basis but no tax basis for purposes of the royalty. The Company has recognized a deferred tax liability of \$35.1 million as at December 31, 2013 in respect of this royalty. This deferred tax liability will be drawn down to \$nil as a reduction to tax expense over the life of mine as the mine and its related assets are depleted or depreciated.

The tax reform also creates a new environmental duty equal to 0.5% of gross revenues from the sale of gold and silver, which will also be tax deductible for income tax purposes.

First Majestic estimates a non-cash adjustment to deferred income tax liabilities of approximately \$38.8 million related to the deferred tax impacts of the above tax changes, including \$35.1 million on the 7.5% mining royalty and \$3.7 million for the elimination of a scheduled reduction of Mexico corporate statutory tax rate to 29% in 2014 and 28% in 2015.

Management executed a corporate restructuring for tax purposes effective January 1, 2008, enabling it on a limited basis to consolidate its tax losses of certain subsidiaries against the taxable incomes of other subsidiaries. In December 2009, Mexico introduced tax consolidation reform rules, which effective January 2010, would require companies to begin the recapture of the benefits of tax consolidation within five years of receiving each annual consolidation benefit, and phased in over a five year period. First Majestic’s first tax deferral benefit from consolidation was realized in 2008, and as such the benefit of tax consolidation was expected to be recaptured from 2014 to 2023.

The tax reform abolished the existing consolidation regime effective as of January 1, 2014 and offers a revised simplified form of tax integration over a three year period. Existing groups are now required to assess the tax impact of deconsolidation using a mechanism established transition rules specified in legislation for which the final applied rules are expected to be released in the next few months. The Company is reviewing the impact and will communicate the financial impact when it is finally determined in the applied Mexican tax rules.

The tax deconsolidation results in the availability of entity level loss carryforwards that were previously used to shelter taxable income of other group companies. As at December 31, 2013, the Company has total non-capital loss carryforwards of \$217.0 million on a non-consolidated basis for Mexican income tax purposes that may be carried forward to reduce taxable income on a company by company basis.

Deferred tax assets are recognized for these tax losses to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits of these losses is dependent upon numerous factors, including the future profitability of individual operations in the legal entities in which the tax losses arose.

Tax Contingencies

During 2010, La Guitarra Compañía Minera, S.A. de C.V. (“La Guitarra”), a subsidiary acquired by the Company in 2012, had a tax reassessment from the Mexican tax authorities for the fiscal year 2003 relating to ineligible VAT refunds and tax treatment of intercompany loans with a maximum potential exposure of \$3.1 million (40.8 million Mexican pesos). La Guitarra had previously posted cash as collateral for a bond held with the Mexican tax authorities for \$3.1 million (40.8 million Mexican pesos) and also accrued a VAT payable of \$3.1 million related to the tax reassessment. In 2013, the Company submitted a voluntary tax amnesty and remitted \$2.4 million (31.5 million Mexican pesos) in exchange for a credit on the remaining balance of \$0.7 million (9.3 million Mexican pesos). As at December 31, 2013, the 2003 tax reassessment had been fully settled with the Mexican tax authorities and the cash was returned. The gain on settlement of \$0.7 million was recorded in other income.

During 2011, Minera El Pilón, S.A. de C.V., a subsidiary of the Company, received tax assessments from the Mexican tax authority Servicio de Administracion Tributaria for fiscal years 2004 to 2007 relating to various tax treatments with a maximum potential remittance of approximately \$5.8 million (75.7 million Mexican pesos). As at December 31, 2013, the Company has defended itself successfully in all of these tax assessments. Therefore, no provision was recorded for tax exposure relating to these reassessments. Professional fees of \$0.3 million (2012 - \$0.1 million) were incurred and expensed as general and administrative expenses during the year in relation to the appeal process.

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

Changes in Accounting Policies

Accounting Policies Adopted Effective January 1, 2013

Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 - *Consolidated Financial Statements* (“IFRS 10”) and IFRS 12 - *Disclosure of Interests in Other Entities* (“IFRS 12”). IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 12 outlines the disclosure requirements for interests in subsidiaries and other entities to enable users to evaluate the risks associated with interests in other entities and the effects of those interests on an entity’s financial position, financial performance and cash flows. The adoption of this standard did not have a significant impact on the Company’s consolidated financial statements.

Joint Arrangements

In May 2011, the IASB issued IFRS 11 - *Joint Arrangements* (“IFRS 11”), which provides guidance on accounting for joint arrangements. IFRS 11 classifies joint arrangements as either joint operations or joint ventures, depending on the rights and obligations of the parties involved. An entity accounts for a joint operation by recognizing its portion of the assets, liabilities, revenues and expenses. A joint venture is accounted for using the equity method and proportionate consolidation is no longer permitted. The adoption of this standard did not have a significant impact on the Company’s consolidated financial statements.

Stripping Costs in the Production Phase of a Surface Mine

In October 2011, the IASB issued IFRIC 20 – *Stripping Costs in the Production Phase of a Surface Mine* (“IFRIC 20”), which clarifies the requirements for accounting for the cost of stripping activity in the production phase when two benefits accrue: (i) usable ore that can be used to produce inventory; and (ii) improved access to further quantities of material that will be mined in future periods. The Company adopted IFRIC 20 in compliance with the transitional requirements and the application of this standard did not result in an adjustment to the Company’s consolidated financial statements.

Fair Value Measurement

In May 2011, the IASB issued IFRS 13 - *Fair Value Measurement* (“IFRS 13”). This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 sets out a single IFRS framework for measuring fair value and outlines disclosure requirements about fair value measurements. The adoption of this standard did not have a significant impact on the Company’s consolidated financial statements.

Disclosures on Offsetting of Financial Instruments

In December 2011, the IASB issued an amendment to IFRS 7 – *Financial Instruments: Disclosure* (“amendments to IFRS 7”). The amendments to IFRS 7 require more extensive disclosures about offsetting (also known as netting) of financial instruments. The new offsetting disclosure requirements are effective for annual periods beginning on or after January 1, 2013 and need to be applied retrospectively to all comparative periods. The Company has applied the amendments to IFRS 7 on a prospective basis, commencing January 1, 2013. The adoption of this amendment did not have a significant impact on the Company’s comparative periods.

Items of Other Comprehensive Income

In June 2011, the IASB issued an amendment to IAS 1 (“amendments to IAS 1”) – *Presentation of Items of Other Comprehensive Income*. The amendments to IAS 1 require items of other comprehensive income (“OCI”), along with their tax effects, to be grouped into those that will and will not subsequently be reclassified to profit or loss. The measurement and recognition of items of profit or loss and OCI are not affected by the amendments. The adoption of this standard did not have a significant impact on the Company’s consolidated financial statements.

Future Changes in Accounting Policies Not Yet Effective as at December 31, 2013

Financial Instruments

The IASB intends to replace IAS 39 – *Financial Instruments: Recognition and Measurement* (“IAS 39”) in its entirety with IFRS 9 – *Financial Instruments* (“IFRS 9”) in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. On July 24, 2013, the IASB tentatively decided to defer the mandatory effective date until the finalization of the impairment, classification and measurement requirements, with earlier adoption still permitted. The Company will evaluate the impact the final standard will have on its consolidated financial statements when issued.

Levies Imposed by Governments

In May 2013, the IASB issued IFRIC 21 – *Levies* (“IFRIC 21”), an interpretation of IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* (“IAS 37”), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past activity or event (“obligating event”) described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The Company is currently evaluating the impact of the adoption of this interpretation on its consolidated financial statements.

Recoverable Amount Disclosures

In May 2013, the IASB issued amendments to IAS 36 – *Impairment of Assets* (“amendments to IAS 36”). The amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or CGU to periods in which an impairment loss has been recognized or reversed. The amendments also expand and clarify the disclosure requirements applicable when an asset or CGU’s recoverable amount has been determined on the basis of fair value less cost of disposal. The amendments are effective for annual periods beginning on or after January 1, 2014 and should be applied retrospectively. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

Other

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

- SEDAR at www.sedar.com;
- the Company’s Annual Information Form; and
- the Company’s audited consolidated financial statements for the year ended December 31, 2013

Corporate Information

Board of Directors and Officers

Keith Neumeyer
President & Chief Executive
Officer & Director

Ramon Davila, Ing. M.Sc. Eng.
Chief Operating Officer & Director

Raymond Polman, B.Sc., CA
Chief Financial Officer

Martin Palacios, MBA, CMC
Chief Information Officer

Connie Lillico, B.A.
Corporate Secretary

Douglas Penrose, B.Comm., CA^{1,3}
Chairman & Director

Robert McCallum, B.Sc., P.Eng.^{1,2,3}
Director

Tony Pezzotti^{1,2}
Director

David A. Shaw, Ph.D.^{2,3}
Director

1. Audit Committee.
2. Compensation and Nominating Committee.
3. Corporate Governance Committee.

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Todd Anthony, MBA
Vice President of Investor Relations

Jill Anne Arias, Dip. T (Marketing)
Vice President of Marketing

Bullion Sales
sales@firstmajestic.com

Annual General Meeting

Date: Tuesday, May 27, 2014
Time: 10:00 am, Terminal City Club
837 West Hastings Street
Vancouver, BC Canada V6C 1B6

MARKET INFORMATION	TRADING SYMBOLS				
	TSX:	FR	NYSE:	AG	FSE:

