



## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR AND QUARTER ENDED DECEMBER 31, 2014

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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, 2014 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 19, 2015 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**

*Ramon Mendoza, P. Eng., Vice President of Technical Services and Jesus Velador, Ph.D., Regional Exploration Manager are certified Qualified Persons ("QP") for the Company. Ramon Mendoza has reviewed this MD&A for QP technical disclosures. All National Instrument 43-101 technical reports can be found on the Company's website at [www.firstmajestic.com](http://www.firstmajestic.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).*

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

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HIGHLIGHTS	Fourth Quarter 2014	Fourth Quarter 2013	Change	Year to Date 2014	Year to Date 2013	Change
<b>Operating</b>						
Ore Processed / Tonnes Milled	683,528	701,617	(3%)	2,613,411	2,741,717	(5%)
Silver Ounces Produced	3,074,567	2,746,598	12%	11,748,721	10,641,465	10%
Silver Equivalent Ounces Produced	4,247,527	3,421,161	24%	15,257,958	12,791,527	19%
Cash Costs per Ounce <sup>(1)</sup>	\$8.51	\$9.66	(12%)	\$9.58	\$9.35	2%
All-in Sustaining Cost per Ounce <sup>(1)</sup>	\$14.43	n/a	n/a	\$17.71	n/a	n/a
Total Production Cost per Ounce <sup>(1)</sup>	\$10.68	\$11.11	(4%)	\$11.68	\$10.36	13%
Total Production Cost per Tonne <sup>(1)</sup>	\$47.15	\$42.69	10%	\$51.53	\$39.29	31%
Average Realized Silver Price per Ounce (\$/eq. oz.) <sup>(1)</sup>	\$16.30	\$20.61	(21%)	\$18.69	\$23.08	(19%)
<b>Financial</b>						
Revenues (\$ millions)	\$72.5	\$59.0	23%	\$245.5	\$251.3	(2%)
Mine Operating Earnings (\$ millions) <sup>(2)</sup>	\$5.8	\$14.3	(59%)	\$30.2	\$92.3	(67%)
Net Loss (\$ millions)	(\$64.6)	(\$81.2)	21%	(\$61.4)	(\$38.2)	(61%)
Operating Cash Flows before Movements in Working Capital and Income Taxes (\$ millions) <sup>(2)</sup>	\$21.1	\$20.4	3%	\$74.4	\$137.3	(46%)
Cash and Cash Equivalents (\$ millions)	\$40.3	\$54.8	(26%)	\$40.3	\$54.8	(26%)
Working Capital (\$ millions) <sup>(1)</sup>	(\$2.9)	\$32.8	(109%)	(\$2.9)	\$32.8	(109%)
<b>Shareholders</b>						
Loss per Share ("EPS") - Basic	(\$0.55)	(\$0.69)	21%	(\$0.52)	(\$0.33)	(60%)
Adjusted EPS <sup>(1)</sup>	\$0.04	\$0.05	(33%)	\$0.07	\$0.56	(88%)
Cash Flow per Share <sup>(1)</sup>	\$0.18	\$0.17	3%	\$0.63	\$1.17	(46%)
Weighted Average Shares Outstanding for the Periods	117,543,961	117,030,825	0%	117,444,276	116,935,325	0%

(1) The Company reports non-GAAP measures which include cash costs per ounce, all-in sustaining cost per ounce, total production cost per ounce, 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 21 to 25.

(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 25.

## Record Production

The Company achieved another quarter of record production, producing 3,074,567 ounces of silver and 4,247,527 of silver equivalent ounces, compared to 2,746,598 ounces of silver and 3,421,161 of silver equivalent ounces in the fourth quarter of 2013, increases of 12% and 24%, respectively.

Annual production in 2014 reached a record of 15,257,958 of silver equivalent ounces, in line with the Company's previous guidance of 14.8 million to 15.6 million ounces of silver equivalents. On a year over year basis, annual production increased 19% compared to 12,791,527 silver equivalent ounces produced in 2013. Silver production also increased 10% to 11,748,721 ounces compared to 10,641,465 ounces of silver in 2013.

Higher production for the year was primarily attributed to the ramp up of the Del Toro Silver Mine, which increased silver equivalent production by 90% compared to the prior year. In addition, the San Martin Silver Mine, which completed the expansion of its plant milling capacity in 2014, increased its silver equivalent ounces by 55% compared to the prior year.

## Revenues

The Company generated revenues of \$72.5 million in the fourth quarter of 2014, an increase of \$13.5 million or 23% compared to \$59.0 million in the fourth quarter of 2013. The increase in revenue was primarily due to the 54% increase in payable equivalent silver ounces sold compared to the same quarter of the prior year, partially offset by a 21% decrease in average silver price.

Revenues for the year ended December 31, 2014 were \$245.5 million, a decrease of \$5.8 million compared to \$251.3 million in 2013, as record production in 2014 resulted in a 21% increase in payable equivalent silver ounces sold. However, the increase in ounces sold was offset by a 19% decrease in average realized silver price per ounce compared to 2013. 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 and an increase in doré production from more tonnage milled at San Martin due to the completion of the plant expansion during the year.

### ***Mine Operating Earnings***

For the quarter ended December 31, 2014, mine operating earnings were \$5.8 million compared to \$14.3 million in the fourth quarter of 2013. The decrease was attributed to lower margins as a result of a 21% 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, 2014, the Company recognized mine operating earnings of \$30.2 million, a decrease of 67% compared to \$92.3 million in 2013. The decrease in mine operating earnings was primarily attributed to a 19% decline in average realized silver price per ounce during the year, higher production cost during the ramp up of the Del Toro mine, and \$17.1 million increase in depletion, depreciation and amortization expense primarily due to 123% increase in production from the new Del Toro mine.

### ***Net (Loss) Earnings***

Net loss after taxes for the fourth quarter and year ended December 31, 2014 were \$64.6 million and \$61.4 million, respectively, compared to net loss after taxes of \$81.2 million and \$38.2 million, respectively, in the comparative periods of 2013. Net loss in the current period was attributed to non-cash impairment charges totalling \$102.0 million (see "Impairment of Non-Current Assets" below).

Earnings per share ("EPS") for the fourth quarter and year ended December 31, 2014 were a loss of \$(0.55) and \$(0.52) per share, respectively. Adjusted EPS (see "non-GAAP measures"), normalized for non-cash or unusual items such as impairment of non-current assets, deferred income tax or recovery and share-based payments, for the quarter and year ended December 31, 2014 were \$0.04 and \$0.07, respectively.

### ***Cash Flows from Operations***

In the fourth quarter of 2014, operating cash flows before movements in working capital and income taxes were \$21.1 million (\$0.18 per share), compared to \$20.4 million (\$0.17 per share) in the fourth quarter of 2013. The decrease in cash flow per share was primarily attributed to a decrease in mine operating earnings, which were affected by a 21% decline in silver prices compared to the fourth quarter of 2013.

Operating cash flows before movements in working capital and income taxes for the year decreased 46% from \$137.3 million (\$1.17 per share) in 2013 to \$74.4 million (\$0.63 per share) in 2014. Cash flows from operations were lower due to much lower margins as a result of a 19% decrease in average realized silver prices.

During 2014, after the completion of three expansion projects at the San Martin, La Guitarra and Del Toro silver mines, the Company's focus shifted from the expansion of its operations into improving operational efficiency through continuing to optimize the mines to ensure profitability and to generate 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 ended December 31, 2014 was \$8.51 per payable ounce of silver, a decrease of 12% compared to \$9.66 in the fourth quarter of 2013. The decrease is primarily attributed to a \$0.79 per ounce increase in by-product, as La Parrilla and Del Toro increased by-product credits by 32% and 28%, respectively, compared to the same quarter of the prior year. In addition, production costs were lower due to the conversion to national grid power at Del Toro along with the favourable foreign exchange effect, as the average Mexican Pesos exchange rate against the U.S. Dollars depreciated 6% compared to the same quarter of the prior year.

Cash cost for the year was \$9.58 per ounce which was comparable to \$9.35 per ounce in the prior year. The increase in production costs of \$1.32 per ounce was mostly offset by a \$0.98 per ounce increase in by-product credits and a 4% favourable foreign exchange effect. The increase in cash cost per ounce was primarily attributed to higher production costs from the La Encantada mine due to higher mining costs for mining and hauling underground ore versus tailings in the prior year. Also, additional diesel and generator rental costs were incurred in first nine months of the year at Del Toro due to delays in the connection of the new 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.

Annual cash cost of \$9.58 per ounce was higher than the previous guidance of \$8.67 to \$9.12 per ounce primarily due to higher energy costs and lower than expected production at Del Toro as a result of the delay in connection of the new power line. With the connection of the power line and improvements made at Del Toro and San Martin to optimize production, the Company expects cash cost for 2015 to be in the range of \$8.29 to \$9.22 per ounce.

### ***All-In Sustaining Cost per Ounce***

Effective January 1, 2014, in conjunction with an initiative undertaken within the gold and silver mining industry, the Company voluntarily adopted the disclosure of all-in sustaining cost ("AISC") as a performance measure. 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. 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.

AISC for the fourth quarter and year ended December 31, 2014 were \$14.43 and \$17.71 per ounce, respectively. AISC for the year ended 2014 was above the previous guidance of \$16.66 to \$16.96 per ounce, but improved significantly in the fourth quarter as a result of economies of scale attributed to production improvements from Del Toro, San Martin and La Guitarra mines. In addition, the Company has started to see cost savings materialized from the new power line at Del Toro and ongoing re-negotiation with suppliers and contractors. The Company has provided 2015 guidance for AISC in the range of \$13.96 to \$15.48 per ounce.

### ***Del Toro Silver Mine Update***

Del Toro, the Company's newest silver mine, achieved record production of 817,754 silver ounces and 1,264,751 silver equivalent ounces, an increase of 65% and 77%, respectively, compared to the previous quarter. The mine had a challenging year as it encountered numerous operational issues during ramp up such as metallurgical issues with its transitional ore, a delay in connecting the new power line, and higher production costs due to lower than expected production. With the decision to process all ore through the flotation plant to improve economics, cost cutting measures and successful completion of the power line at the end of September, Del Toro is back on track and is estimated to produce 2.6 to 2.9 million silver ounces and 3.7 to 4.2 million equivalent silver ounces in 2015 at a cash cost per ounce of \$9.39 to \$9.96 per ounce.

### ***San Martin Mill Expansion***

The Company completed its mill expansion in 2014 and achieved milling throughput of 1,051 tpd during the fourth quarter of 2014. As a result of improvements in throughput, head grade and recoveries, San Martin achieved a record production of 2,118,261 equivalent ounces in 2014, a 55% increase from the 1,370,890 equivalent ounces in the prior year.

### ***Impairment of Non-Current Assets***

At December 31, 2014, the Company determined there were several indicators of potential impairment on its non-current assets which included the sharp decline in silver price during the year and the consequential impact on the Company's reserves and resources. Based on the Company's assessment at December 31, 2014, the Company concluded that an impairment charge of \$102.0 million, or \$66.0 million net of tax, was required, as the La Guitarra, Del Toro and San Martin mines had estimated recoverable value below their carrying value.

	Year Ended December 31, 2014
La Guitarra Silver Mine	\$ 58,656
San Martin Silver Mine	21,744
Del Toro Silver Mine	21,550
<b>Impairment of non-current assets</b>	<b>\$ 101,950</b>
Deferred income tax recovery	(35,938)
<b>Impairment of non-current assets, net of tax</b>	<b>\$ 66,012</b>

Key assumptions used by the Company to determine recoverable values include a long-term silver price of \$21.50 per ounce, long-term gold price of \$1,300 per ounce, and a discount rate of 8.5%, equivalent to the Company's weighted average cost of capital adjusted for specific project risks. Internal discounted cash flow economic models are projected using management's best estimate of recoverable mineral reserves and resources, future operating costs and capital expenditures, and long-term foreign exchange rates. Short-term metal pricing in the first four years of the cash flow projections are based on consensus analyst pricing. For mineral resources that were not valued using internal discounted cash flow economic models, recoverable values were estimated based on in-situ value of their resources and exploration potential. The in-situ values vary on a project by project basis, dependent on market comparables most closely related to their specific facts and circumstances.

The internal discounted cash flow economic models and in-situ values used to determine recoverable values are significantly affected by changes in key assumptions for future metal prices, capital expenditures, production cost estimates and discount rates. For sensitivity purposes, the Company has estimated as at December 31, 2014, a \$1 decrease in long-term silver price assumption would result in an additional \$13.3 million in impairment charge for the three affected mines, whereas a 1% increase in the discount rate would result in a \$12.7 million increase in impairment charge.

### ***Mexican Tax Reform***

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

- Imposition of a new 7.5% mining royalty;
- Imposition of 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
- Imposition of a 10% withholding tax on dividends distributed to resident individuals or foreign residents.

In 2013, the Company recognized a non-cash deferred income tax liability of \$35.1 million in respect of the new 7.5% mining royalty. During the year ended December 31, 2014, the Company reduced this deferred income tax liability by \$5.4 million principally due to the recording of an impairment of \$102.0 million on non-current assets. The remaining deferred income tax liability associated with the mining royalty 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 abolished the tax consolidation regime and consolidated groups will effectively need to be de-consolidated on a go forward basis. Existing groups are now required to assess the tax impact of deconsolidation using a mechanism specified in legislation. The Company has a remaining deconsolidation liability of \$37.0 million of which \$1.7 million is classified as a current income tax liability due in 2015, and the balance is non-current.

## 2015 PRODUCTION OUTLOOK AND ALL-IN SUSTAINING COST GUIDANCE

This section of the MD&A provides management's production and cost forecasts for 2015. 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.

In 2015, First Majestic aims to maintain its status as one of silver industry's purest and highest margin producers. The focus of the Company will be on operational efficiency and cash flow generation to ensure profitability in a low silver price environment. The Company is projecting its 2015 AISC to be within a range of \$13.96 to \$15.48 per ounce, or \$13.50 to \$14.96 per ounce after excluding non-cash items such as share-based payments and accretion of reclamation costs. Annual silver production is expected to increase to a new record range of 11.8 million to 13.2 million ounces (or 15.3 million to 17.1 million silver equivalent ounces), due to the following:

- Del Toro is expected to reach 3.7 to 4.2 million silver equivalent ounces with improvements to optimize throughput and metallurgical recoveries, compared to 3.7 million silver equivalent ounces in 2014;
- An upgrade and expansion of the crushing and grinding area at La Encantada is expected to increase operations to 3,000 tpd and production to 4.0 to 4.5 million silver equivalent ounces; and
- At La Guitarra, the underground development of the El Coloso area is expected to result in higher silver grades to be extracted and processed in 2015.

The following is a summary of the Company's 2015 outlook by producing mines:

Anticipated Operating Parameters	La Encantada	La Parrilla	Del Toro	San Martin	La Guitarra	Total
Tonnes processed ('000s)	839 - 938	645 - 721	556 - 622	347 - 388	160 - 179	2,547 - 2,848
Silver ounces ('000s)	4,028 - 4,502	2,624 - 2,933	2,555 - 2,856	1,774 - 1,982	794 - 887	11,775 - 13,160
Gold ounces	-	595 - 662	-	3,909 - 4,368	5,030 - 5,622	9,534 - 10,652
Pounds of lead ('000s)	-	15,142 - 16,924	21,014 - 23,486	-	-	36,156 - 40,410
Pounds of zinc ('000s)	-	13,515 - 15,105	-	-	-	13,515 - 15,105
Silver equivalent ounces ('000s)	4,028 - 4,502	4,326 - 4,835	3,733 - 4,172	2,049 - 2,291	1,149 - 1,284	15,285 - 17,084
Average silver grade (g/t)	249	156	199	209	182	205
Average recoveries (%)	60%	79%	72%	76%	85%	71%
Cash cost per ounce	\$8.73 - \$9.11	\$5.72 - \$6.36	\$9.39 - \$9.96	\$9.43 - \$10.15	\$8.18 - \$9.83	\$8.29 - \$9.22
Sustaining capital per ounce	\$2.25 - \$2.51	\$5.34 - \$5.96	\$2.94 - \$3.29	\$3.25 - \$3.63	\$5.11 - \$5.72	\$3.49 - \$3.91
Expansionary capital per ounce	\$1.90 - \$2.13	\$2.41 - \$2.69	\$2.24 - \$2.50	\$1.70 - \$1.90	\$5.97 - \$6.67	\$2.41 - \$2.70
Production cost per tonne	\$39.07 - \$40.89	\$40.29 - \$42.66	\$51.28 - \$53.76	\$58.74 - \$62.36	\$53.48 - \$61.22	\$45.63 - \$49.82

Metal average price assumptions for calculating equivalents: Silver \$17.00/oz, Gold \$1,200/oz, Lead \$0.95/lb, Zinc \$1.02/lb

An itemized breakdown of the 2015 AISC guidance is as follows:

All-In Sustaining Cost Calculation (\$/Ag Oz)	FY 2015
<b>Total Cash Costs per Payable Silver Ounce</b>	<b>8.29 - 9.22</b>
General and Administrative Costs	1.55 - 1.73
Workers' Participation	0.16 - 0.10
Sustaining Development Costs	1.51 - 1.69
Sustaining Property, Plant and Equipment Costs	1.71 - 1.91
Sustaining Exploration Costs	0.28 - 0.31
Share-based Payments (non-cash)	0.38 - 0.43
Accretion of Reclamation Costs (non-cash)	0.08 - 0.09
<b>All-In Sustaining Costs: (WGC definition)</b>	<b>13.96 - 15.48</b>
<b>All-In Sustaining Costs: (WGC excluding non-cash items)</b>	<b>13.50 - 14.96</b>

In 2015, the Company plans to invest a total of \$75.6 million on capital expenditures consisting of \$44.7 million sustaining capital and \$30.9 million in expansionary capital. The 2015 annual budget includes a total of \$29.1 million to be spent towards property, plant and equipment, \$37.1 million towards total development, \$8.1 million in total exploration and \$1.3 million towards corporate projects. Management has the flexibility to make adjustments to the projected 2015 budget should metal prices continue to remain weak in 2015.

## REVIEW OF OPERATING RESULTS

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

Production Highlights	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Ore processed/tonnes milled</b>								
La Encantada	186,411	169,659	183,177	181,924	252,467	248,578	269,517	368,679
La Parrilla	175,830	178,252	171,617	186,216	200,541	189,664	193,470	204,660
Del Toro <sup>(1)</sup>	175,552	134,474	174,645	144,822	122,838	77,439	74,193	45,391
San Martin	96,651	92,498	96,278	78,524	78,805	78,284	85,483	80,046
La Guitarra	49,084	46,313	45,307	46,177	46,966	47,380	45,735	31,581
<b>Consolidated</b>	<b>683,528</b>	<b>621,196</b>	<b>671,024</b>	<b>637,663</b>	<b>701,617</b>	<b>641,345</b>	<b>668,398</b>	<b>730,357</b>
<b>Silver equivalent ounces produced</b>								
La Encantada	792,605	813,701	1,079,122	1,046,224	962,505	931,027	1,132,399	1,136,603
La Parrilla	1,159,177	1,168,240	1,142,432	1,203,337	1,151,728	1,208,635	952,819	906,192
Del Toro <sup>(1)</sup>	1,264,751	712,860	899,710	801,460	693,561	567,723	499,357	176,495
San Martin	698,605	584,822	510,697	324,137	313,834	377,816	402,798	276,442
La Guitarra	332,389	243,913	223,262	256,514	299,533	285,256	280,744	236,060
<b>Consolidated</b>	<b>4,247,527</b>	<b>3,523,536</b>	<b>3,855,223</b>	<b>3,631,672</b>	<b>3,421,161</b>	<b>3,370,457</b>	<b>3,268,117</b>	<b>2,731,792</b>
<b>Silver ounces produced</b>								
La Encantada	788,369	806,055	1,073,636	1,043,573	959,312	900,077	1,104,973	1,116,732
La Parrilla	646,283	705,928	716,045	808,196	813,090	866,710	710,979	725,218
Del Toro <sup>(1)</sup>	817,754	495,714	730,580	646,669	550,026	416,716	369,772	148,084
San Martin	592,698	509,046	449,045	282,829	280,490	339,099	371,301	259,884
La Guitarra	229,463	163,696	128,912	114,230	143,680	166,635	210,941	187,746
<b>Consolidated</b>	<b>3,074,567</b>	<b>2,680,439</b>	<b>3,098,218</b>	<b>2,895,497</b>	<b>2,746,598</b>	<b>2,689,237</b>	<b>2,767,966</b>	<b>2,437,664</b>
<b>Gold ounces produced</b>								
La Encantada	59	43	24	20	53	61	51	72
La Parrilla	244	235	239	264	274	277	211	289
Del Toro <sup>(1)</sup>	158	101	164	194	117	74	83	26
San Martin	1,451	1,166	939	653	544	625	512	305
La Guitarra	1,414	1,236	1,435	2,244	2,531	1,905	1,138	892
<b>Consolidated</b>	<b>3,326</b>	<b>2,781</b>	<b>2,801</b>	<b>3,375</b>	<b>3,519</b>	<b>2,942</b>	<b>1,995</b>	<b>1,584</b>
<b>Lead pounds produced</b>								
La Parrilla	3,855,052	5,526,546	6,003,245	5,874,716	5,481,400	5,715,018	3,978,798	3,328,235
Del Toro <sup>(1)</sup>	7,909,108	4,177,246	3,127,904	2,719,091	2,874,489	2,828,533	1,967,741	729,879
<b>Consolidated</b>	<b>11,764,160</b>	<b>9,703,792</b>	<b>9,131,149</b>	<b>8,593,807</b>	<b>8,355,889</b>	<b>8,543,551</b>	<b>5,946,539</b>	<b>4,058,114</b>
<b>Zinc pounds produced</b>								
La Parrilla	4,580,260	3,222,877	2,496,990	2,319,225	1,601,494	1,736,809	1,758,510	1,627,065
Del Toro <sup>(1)</sup>	-	-	140,977	370,049	97,251	496,072	1,139,583	52,313
<b>Consolidated</b>	<b>4,580,260</b>	<b>3,222,877</b>	<b>2,637,967</b>	<b>2,689,274</b>	<b>1,698,745</b>	<b>2,232,881</b>	<b>2,898,093</b>	<b>1,679,378</b>
<b>Cash cost per ounce</b>								
La Encantada	\$ 11.50	\$ 11.39	\$ 8.67	\$ 8.67	\$ 10.61	\$ 10.70	\$ 8.85	\$ 8.79
La Parrilla	\$ 7.42	\$ 5.87	\$ 5.76	\$ 6.21	\$ 6.45	\$ 6.54	\$ 9.20	\$ 7.36
Del Toro <sup>(1)</sup>	\$ 7.03	\$ 15.94	\$ 14.70	\$ 16.50	\$ 12.16	\$ 9.29	\$ 8.20	\$ -
San Martin	\$ 7.32	\$ 9.60	\$ 10.02	\$ 12.94	\$ 13.96	\$ 10.34	\$ 10.91	\$ 13.87
La Guitarra	\$ 9.45	\$ 10.91	\$ 9.48	\$ 2.14	\$ 4.08	\$ 5.63	\$ 13.21	\$ 16.85
<b>Consolidated</b>	<b>\$ 8.51</b>	<b>\$ 10.41</b>	<b>\$ 9.63</b>	<b>\$ 9.88</b>	<b>\$ 9.66</b>	<b>\$ 8.84</b>	<b>\$ 9.43</b>	<b>\$ 9.49</b>
<b>Production cost per tonne</b>								
La Encantada	\$ 45.29	\$ 50.82	\$ 46.47	\$ 45.77	\$ 37.49	\$ 37.50	\$ 34.70	\$ 25.65
La Parrilla	\$ 42.68	\$ 44.48	\$ 45.58	\$ 41.38	\$ 35.80	\$ 40.82	\$ 37.79	\$ 31.78
Del Toro <sup>(1)</sup>	\$ 46.83	\$ 66.95	\$ 62.70	\$ 77.09	\$ 57.56	\$ 55.35	\$ 40.38	\$ -
San Martin	\$ 59.34	\$ 64.57	\$ 55.38	\$ 56.21	\$ 54.07	\$ 53.13	\$ 52.62	\$ 48.18
La Guitarra	\$ 47.30	\$ 48.01	\$ 47.44	\$ 50.07	\$ 52.87	\$ 50.25	\$ 49.90	\$ 62.01
<b>Consolidated</b>	<b>\$ 47.15</b>	<b>\$ 54.34</b>	<b>\$ 51.81</b>	<b>\$ 53.20</b>	<b>\$ 42.69</b>	<b>\$ 43.49</b>	<b>\$ 39.57</b>	<b>\$ 31.79</b>

(1) The Del Toro Silver Mine achieved commercial production on the flotation circuit on April 1, 2013 and on the cyanidation circuit on January 1, 2014.

## Consolidated Production Results for the Quarter and Year Ended December 31, 2014 and 2013

Fourth Quarter		CONSOLIDATED OPERATING RESULTS	Year to Date	
2014	2013		2014	2013
683,528	701,617	Ore processed/tonnes milled	2,613,411	2,741,717
201	191	Average silver grade (g/t)	206	193
70%	64%	Recovery (%)	68%	62%
-	109,629	Pre-commercial silver ounces produced	-	257,713
3,074,567	2,636,969	Commercial silver ounces produced	11,748,721	10,383,752
3,074,567	2,746,598	Total silver ounces produced	11,748,721	10,641,465
3,326	3,519	Gold ounces produced	12,283	10,040
11,764,160	8,355,889	Pounds of lead produced	39,192,908	26,904,093
4,580,260	1,698,745	Pounds of zinc produced	13,130,378	8,509,097
-	-	Tonnes of iron ore produced	1,332	14,633
4,247,527	3,421,161	Total production - ounces silver equivalent	15,257,958	12,791,527
\$8.51	\$9.66	Cash cost per ounce	\$9.58	\$9.35
\$14.43	n/a	All-in sustaining cost per ounce	\$17.71	n/a
\$10.68	\$11.11	Total production cost per ounce	\$11.68	\$10.36
\$47.15	\$42.69	Total production cost per tonne	\$51.53	\$39.29
11,772	13,280	Underground development (m)	49,030	53,257
5,990	8,324	Diamond drilling (m)	44,023	58,578

### Production

Total production for the fourth quarter of 2014 increased by 24% to 4,247,527 ounces of silver equivalent compared to 3,421,161 ounces of silver equivalent produced in the fourth quarter of 2013. Production in the fourth quarter of 2014 consisted of 3,074,567 ounces of silver, 3,326 ounces of gold, 11,764,160 pounds of lead and 4,580,260 pounds of zinc compared to 2,746,598 ounces of silver, 3,519 ounces of gold, 8,355,889 pounds of lead and 1,698,745 pounds of zinc. The increase in production was primarily attributed to the ramp up of the Del Toro mine and the mill expansion at San Martin; offset by a decrease in production at La Encantada due to less tonnage milled relating to the processing of only fresh mined ore.

Compared to the third quarter of 2014, production increased by 21% from 3,523,536 ounces of silver equivalents, which consisted of 2,680,439 ounces of silver, 2,781 ounces of gold, 9,703,792 pounds of lead, 3,222,877 pounds of zinc and 4,854 tonnes of iron ore.

Increase in production was primarily related to 10% increase in tonnes milled as well as 2% increase in head grades and 2% improvement in recoveries. At Del Toro, mill throughput increased by 31% while grade and recovery improved by 14% and 11%, respectively. At San Martin, tonnage milled increased by 4%, average silver grades by 5% and recovery by 6% resulted in an increase of 19% silver equivalent ounces during the quarter. At La Guitarra, the extraction of 26% higher average silver grade ore from the El Coloso area, as well as a 6% increase in ore processed and 4% improvement in recoveries produced a 36% increase in silver equivalents during the fourth quarter.

Total ore processed during the fourth quarter of 2014 amounted to 683,528 tonnes milled, representing an increase of 62,332 tonnes or 10% compared to the previous quarter primarily attributed to higher throughput rates at Del Toro. Mill availability at Del Toro improved by 31% as energy provided by the 115 kilovolt power line provided more consistent operations without power interruptions in the quarter.

### Cash Cost per Ounce

Cash cost per ounce, a non-GAAP measure, for the fourth quarter of 2014 was \$8.51 per ounce of payable silver compared to \$10.41 in the third quarter of 2014 and \$9.66 in the fourth quarter of 2013.

Cash cost per ounce for the fourth quarter consisted of production costs of \$10.68 per ounce, transportation, smelting and refining costs of \$3.32 per ounce, environmental duty and royalty cost of \$0.12 per ounce, offset with by-product credits of \$5.61 per ounce.

Compared to the third quarter of 2014, cash cost per ounce in the fourth quarter decreased by 18% or \$1.90 per ounce. The decrease in cash cost per ounce was primarily attributed to economies of scale from higher production at the Del Toro, San Martin and La Guitarra mines. At Del Toro, cash costs decreased by \$8.91 per ounce or 56% compared to the previous quarter due to higher tonnage milled and improvements in average silver grades and recoveries. In addition, Del Toro operated its first full quarter with the newly constructed 115 kilovolt power line supplying 100% of the required power to the mine, mill and buildings. At San Martin, cash costs decreased by \$2.28 per ounce or 24% compared to the third quarter of 2014 and it was attributed to 16% more silver ounces produced due to increases in tonnage, average silver grades and recoveries. At La Guitarra, cash cost decreased by 13% as production of silver ounces increased by 40% due to higher average silver grades and recoveries and an increase in tonnes milled.

Compared to the fourth quarter of 2013, the decrease in cash cost per ounce was \$1.15 per ounce or 12% and was primarily attributed to decreases in cash costs per ounce at the San Martin and Del Toro mines, 48% and 42%, respectively. This was offset by increases at La Guitarra, La Parrilla and Encantada of 132%, 15% and 8%, respectively. The increase at La Guitarra is attributed to lower by-product credits as gold production decreased 44% from the comparable period.

### ***All-In Sustaining Cost per Ounce***

Commencing in 2014, the Company is providing information relating to all-in sustaining costs. The definitions of these non-GAAP measures are detailed further in the All-In Sustaining Cost section on pages 22 to 23.

For the fourth quarter, the Company had a consolidated AISC of \$14.43 per ounce, a decrease of 27% compared to \$19.89 in the third quarter. AISC improved during the fourth quarter was primarily attributed to economies of scale from higher production at the Del Toro, San Martin and La Guitarra mines. In addition, the Company continues to reduce its workforce and has started to see cost savings materialized from the new power line at Del Toro and ongoing re-negotiations with suppliers and contractors.

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

The overall average head grade for the fourth quarter of 2014 was 201 grams per tonne ("g/t"), a 5% increase compared to 191 g/t in the fourth quarter of 2013 and an increase of 2% compared to 196 g/t in the third quarter of 2014. Compared to the previous quarter, average silver head grades have increased at Del Toro, San Martin and La Guitarra; offset by decreases at La Encantada and La Parrilla. La Guitarra experienced the highest increase in head grades during this period as the Company completed the transition from working in the old La Guitarra zone to the newly developed El Coloso zone.

Combined recoveries of silver for all mines in the fourth quarter were 70%, an increase of 6 points compared to 64% in the fourth quarter of 2013 and 68% in the third quarter of 2014.

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

In mine development, a total of 11,772 metres of underground development was completed in the fourth quarter of 2014, compared to 13,280 metres developed in the fourth quarter of 2013 and 12,546 metres completed in the previous quarter.

In exploration, there are currently six active drill rigs at the Company's five operating mines, two at La Guitarra and one at each of the other mines which is a reduction from the prior quarter as the budget for the exploration program was winding down at year end. In the fourth quarter of 2014, a total of 5,990 metres were drilled over 48 holes consisting of underground definition and in-fill drilling, representing a 67% decrease from the 18,335 metres drilled in the third quarter of 2014 and a 28% decrease from the 8,324 metres drilled in the fourth quarter of 2013.

## La Encantada Silver Mine, Coahuila, México

### Production Results for the Quarter and Year Ended December 31, 2014 and 2013

Fourth Quarter		LA ENCANTADA OPERATING RESULTS	Year to Date	
2014	2013		2014	2013
186,411	252,467	Ore processed/tonnes milled	721,171	1,139,241
248	228	Average silver grade (g/t)	282	227
53%	52%	Recovery (%)	57%	49%
788,369	959,312	Total silver ounces produced	3,711,633	4,081,094
59	53	Gold ounces produced	146	237
-	-	Tonnes of iron ore produced	1,332	14,633
792,605	962,505	Total production - ounces silver equivalent	3,731,652	4,162,534
\$11.50	\$10.61	Cash cost per ounce	\$9.86	\$9.66
\$17.76	n/a	All-in sustaining cost per ounce	\$15.50	n/a
\$10.71	\$9.90	Total production cost per ounce	\$9.17	\$9.25
\$45.29	\$37.49	Total production cost per tonne	\$46.99	\$33.01
4,344	3,210	Underground development (m)	13,818	14,132
3,367	6,611	Diamond drilling (m)	19,337	15,835

The La Encantada Silver Mine is an underground mine located in the northern México State of Coahuila, 708 kilometres northeast 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 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 792,605 equivalent ounces of silver were produced by the La Encantada processing plant during the fourth quarter of 2014. Production in the fourth quarter of 2014 decreased by 3% compared to the 813,701 equivalent ounces of silver produced in the third quarter of 2014 and decreased by 18% compared to the 962,505 equivalent ounces of silver produced in the fourth quarter of 2013. The reduction in silver ounces produced were a result of factors which reduced the tonnage of ore fed into the La Encantada processing plant, as described in the following paragraph.

Tonnage milled in the fourth quarter was 186,411 tonnes, an increase of 10% compared to 169,659 tonnes processed in the third quarter of 2014, and decreased by 26% compared to the 252,467 tonnes processed in the fourth quarter of 2013. The reduction in processed ore and grades were a direct result of a change in the production stope sequencing in order to have consistent grades and tonnage in the coming quarters as well as a shaft rehabilitation project that occurred during the quarter. Rehabilitation of the shaft will allow a more reliable extraction of ore from higher grade zones recently identified in the area of the "660" deposit. Due to the low silver price environment, at the beginning of the year the Company suspended the feed of old tailings and began processing only fresh mined ore. As a result, total mill tonnage has decreased compared to the same quarter in the prior year, however, the average head grade has increased from 228 g/t in the fourth quarter of 2013 to 248 g/t in the current quarter and a year to date average of 282 g/t compared to 227 g/t in the prior year. Recoveries were slightly lower at 53% in the fourth quarter due to a higher content of manganese, compared to 57% in the third quarter of 2014. Grades increases are due to the higher silver grade from fresh ore rather than blended ore with tailings.

With the increase of fresh ore from the mine and the elimination of old tailings, the overall cost per tonne of production has increased due to higher cost of mining from underground versus the lower costs of hauling tailings to the mill, as well as the additional cost of crushing, grinding and processing the fresh ore. Furthermore, certain overhead costs are fixed and the reduction of tonnes milled has resulted in a higher average cost per tonne. As a result of the above, total production cost per tonne for La Encantada was \$45.29 during the fourth quarter which was \$5.53 per tonne or 11% lower than the \$50.82 per tonne achieved in the previous quarter, but \$7.80 per tonne or 21% higher than the fourth quarter of 2013. Cash cost per ounce was \$11.50, comparable to the \$11.39 per ounce in the previous quarter and 8% higher than \$10.61 per ounce in the fourth quarter of 2013.

The Company's plan to increase production levels to 3,000 tpd was delayed from a late 2014 completion and is now expected to be completed by the end of June 2015 allowing for the ramp up to 3,000 tpd in July. As part of this process, a new 12' x 24' ball mill, crusher, two vibrating screens and a series of conveyor belts will be installed over the coming months.

A total of 4,344 metres were developed underground in the fourth quarter of 2014 compared to 3,537 metres in the third quarter of 2014 and 3,210 metres in the fourth quarter of 2013. The Company continues to explore the ore shoots from the Azul y Oro vein and the "990" and "990-2" chimneys along with the Buenos Aires extension, the Regalo vein and breccia and the San Francisco vein.

During the fourth quarter, the Company operated four drill rigs at La Encantada and completed a total of 3,367 metres of exploration and diamond drilling compared to 4,496 metres in the third quarter of 2014, representing a decrease of 25% and a decrease of 49% from the 6,611 metres in the fourth quarter of 2013. The decrease in drilling is related to the winding down of the 2014 budgeted exploration program. As a result of the exploration program, the Ojuelas area has been identified as a high priority for Resource development in La Encantada and more drilling has been planned in this area, for this reason the release of an updated NI 43-101 Technical Report is expected in late 2015.

## La Parrilla Silver Mine, Durango, México

### Production Results for the Quarter and Year Ended December 31, 2014 and 2013

Fourth Quarter		LA PARRILLA OPERATING RESULTS	Year to Date	
2014	2013		2014	2013
175,830	200,541	Ore processed/tonnes milled	711,915	788,335
142	166	Average silver grade (g/t)	158	162
80%	76%	Recovery (%)	79%	76%
646,283	813,090	Total silver ounces produced	2,876,452	3,115,997
244	274	Gold ounces produced	982	1,051
3,855,052	5,481,400	Pounds of lead produced	21,259,559	18,503,451
4,580,260	1,601,494	Pounds of zinc produced	12,619,352	6,723,878
1,159,177	1,151,728	Total production - ounces silver equivalent	4,673,186	4,219,374
\$7.42	\$6.45	Cash cost per ounce	\$6.30	\$7.31
\$11.09	n/a	All-in sustaining cost per ounce	\$11.54	n/a
\$11.96	\$9.11	Total production cost per ounce	\$11.11	\$9.51
\$42.68	\$35.80	Total production cost per tonne	\$43.51	\$36.45
2,378	2,989	Underground development (m)	8,981	12,004
685	249	Diamond drilling (m)	5,789	10,974

The La Parrilla Silver Mine, located approximately 65 kilometres southeast of the city of Durango, Durango State, México, 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, central laboratory, buildings, offices and associated infrastructure.

Total production at the La Parrilla mine was 1,159,177 equivalent ounces of silver in the fourth quarter of 2014, comparable with the 1,168,240 equivalent ounces of silver in the third quarter of 2014. The composition of the silver equivalent production in the fourth quarter of 2014 consisted of 646,283 ounces of silver, 244 ounces of gold, 3,855,052 pounds of lead and 4,580,260 pounds of zinc. This compares with a composition of 705,928 ounces of silver, 235 ounces of gold, 5,526,546 pounds of lead and 3,222,877 pounds of zinc produced in the third quarter of 2014, and 813,090 ounces of silver, 274 ounces of gold, 5,481,400 pounds of lead and 1,601,494 pounds of zinc in the fourth quarter of 2013.

In the fourth quarter of 2014, ore processed at La Parrilla decreased 1% to 175,830 tonnes compared to the 178,252 tonnes processed in the third quarter of 2014. During the quarter, the flotation circuit processed 94,513 tonnes having an average silver grade of 163 g/t and recovery of 91% while the cyanidation circuit processed 81,317 tonnes having an average silver grade of 118 g/t and a 64% recovery.

During the fourth quarter, total production cost was \$42.68 per tonne, 4% lower than the \$44.48 per tonne in the previous quarter. The production cost decrease was primarily attributed to cost savings from renegotiation with certain contractors. Cash cost was \$7.42 per ounce in the fourth quarter, an increase of 26% compared to \$5.87 per ounce in the previous quarter due to 8% decrease in silver production and lower by-product credits due to lower lead content in the Vacas zone, which has lower lead grade and higher zinc ore grade.

Compared to the fourth quarter of 2013, total production cost per tonne increased 19% from \$35.80 per tonne primarily attributed to a 12% decrease in tonnes milled. Cash cost per ounce increased 15% compared to \$6.45 per ounce in the fourth quarter of 2013 as a result of a 21% decrease in silver production, partially offset by increase in by-product credits from higher zinc production.

The development and construction of the underground rail haulage level (Level 11) is now 2,014 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 a

5,000 metre tunnel 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 2,378 metres of underground development were completed in the fourth quarter of 2014, compared to 2,315 metres in the third quarter of 2014 and 2,989 metres in the fourth quarter of 2013. A total of 685 metres of diamond drilling were completed in the fourth quarter of 2014 compared to 2,409 metres of diamond drilling in the third quarter of 2014 and 249 metres in the fourth quarter of 2013. At quarter end, one underground drill rig was active and a total of 11 holes were drilled during the quarter. The focus of the 2014 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.

## Del Toro Silver Mine, Zacatecas, México

### Production Results for the Quarter and Year Ended December 31, 2014 and 2013

Fourth Quarter		DEL TORO OPERATING RESULTS	Year to Date	
2014	2013		2014	2013
175,552	122,838	Ore processed/tonnes milled	629,493	319,861
194	209	Average silver grade (g/t)	193	213
75%	67%	Recovery (%)	69%	68%
-	109,629	Pre-commercial silver ounces produced	-	257,713
817,754	440,397	Commercial silver ounces produced	2,690,717	1,226,885
817,754	550,026	Total silver ounces produced	2,690,717	1,484,598
158	117	Gold ounces produced	617	300
7,909,108	2,874,489	Pounds of lead produced	17,933,349	8,400,642
-	97,251	Pounds of zinc produced	511,026	1,785,219
1,264,751	693,561	Total production - ounces silver equivalent	3,678,781	1,937,136
\$7.03	\$12.16	Cash cost per ounce	\$13.04	\$9.99
\$10.16	n/a	All-in sustaining cost per ounce	\$18.79	n/a
\$10.48	\$12.05	Total production cost per ounce	\$15.15	\$10.53
\$46.83	\$57.56	Total production cost per tonne	\$62.52	\$51.54
2,095	2,612	Underground development (m)	9,868	11,595
559	799	Diamond drilling (m)	7,145	11,429

The Del Toro Silver Mine is located 60 kilometres to the southeast of the Company's La Parrilla Silver Mine and consists of 557 contiguous hectares of mining claims and 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. Del Toro includes 4,000 tpd dual-circuit processing plant consisting of a 2,000 tpd flotation circuit, which was deemed commercial on April 1, 2013, and a 2,000 tpd cyanidation circuit, which was deemed commercial on January 1, 2014.

The Del Toro mine operated at an average of 1,908 tpd during the fourth quarter of 2014 and the plant processed 175,552 tonnes of ore with an average silver grade of 194 g/t. In the fourth quarter, the average metallurgical recoveries for silver were 75%, increasing from an average of 68% in the previous quarter. Total production of 817,754 silver ounces represents an increase of 65% compared to the previous quarter. The Lupita vein is currently providing most of the higher grade ore being fed to the mill and this material has resulted in improvements in metallurgical recoveries compared to the third quarter.

Del Toro has shown significant improvements compared to the previous quarter. During the fourth quarter, the mine realized consistent and efficient energy fully sourced from the newly constructed 115 kilovolt power line for the power requirements of the mine, mill and auxiliary buildings. This has resulted in lower costs, higher production and improved economics with the decommissioning of portable diesel power generation units. In addition, the use of new reagents and implementation of the new regrinding circuit improved recoveries.

Lead production reached a new quarterly record of 7,909,108 pounds. Lead grades and recoveries averaged 3.4% and 61%, respectively, in the fourth quarter which is an increase of 13% and 29% compared to the previous quarter due to higher quality sulphide ore production from Perseverancia.

Cash cost per ounce for the fourth quarter was \$7.03, a decrease of 56% compared to \$15.94 in the previous quarter. Production cost per tonne in the fourth quarter was \$46.83 compared to \$66.95 per tonne in the third quarter of 2014. The decrease of 30% was primarily attributed to further economies of scale gained with a 31% increase in tonnage milled. In addition, the consistent operations from the power line had a significant impact on cost savings.

All four tailings filters are operational and available for use and will recycle approximately 80% of the water used throughout the milling process. In August, the Company completed building a containment dam to mitigate any potential risk of material spillage.

At quarter end, one underground drill rig was active at Del Toro and a total of 5 holes were diamond drilled for a total of 559 metres compared to 5,181 metres in the third quarter of 2014 and 799 metres in the fourth quarter of 2013. A substantial portion of the drilling at Del Toro focused on delineation and infill drilling to explore extensions of known underground structures.

Total underground development at Del Toro in the fourth quarter of 2014 was 2,095 metres compared to the 2,479 metres in the third quarter of 2014 and 2,612 metres in the fourth quarter of the prior year.

## San Martin Silver Mine, Jalisco, México

### Production Results for the Quarter and Year Ended December 31, 2014 and 2013

Fourth Quarter		SAN MARTIN OPERATING RESULTS	Year to Date	
2014	2013		2014	2013
96,651	78,805	Ore processed/tonnes milled	363,951	322,618
249	156	Average silver grade (g/t)	213	153
77%	71%	Recovery (%)	73%	79%
592,698	280,490	Total silver ounces produced	1,833,618	1,250,774
1,451	544	Gold ounces produced	4,209	1,986
698,605	313,834	Total production - ounces silver equivalent	2,118,261	1,370,890
\$7.32	\$13.96	Cash cost per ounce	\$9.47	\$12.05
\$9.54	n/a	All-in sustaining cost per ounce	\$14.01	n/a
\$9.71	\$15.25	Total production cost per ounce	\$11.74	\$13.47
\$59.34	\$54.07	Total production cost per tonne	\$58.95	\$52.00
1,414	2,858	Underground development (m)	9,565	10,118
943	387	Diamond drilling (m)	5,564	8,667

The San Martin Silver Mine is an 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, México, 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 a Merrill-Crowe doré production system.

During the quarter, San Martin set a new quarterly production record of 592,698 silver ounces and 1,451 ounces of gold representing an increase of 16% and 24%, respectively, compared to the previous quarter. The increase was primarily due to a 5% increase in silver grades and a 6% increase in silver recoveries. Total production in the fourth quarter of 2014 was 698,605 ounces of silver equivalent, an increase of 19% compared to the 584,822 ounces of silver equivalent produced in the third quarter of 2014, and 123% higher than the 313,834 equivalent ounces of silver produced in the fourth quarter of 2013. This compares with 509,046 ounces of silver and 1,166 ounces of gold produced in the third quarter of 2014 and 280,490 ounces of silver and 544 ounces of gold in the fourth quarter of 2013.

In the fourth quarter of 2014, the San Martin mine averaged 1,051 tpd and processed a total of 96,651 tonnes, comparable to the 92,498 tonnes milled in the third quarter of 2014 and a 23% increase compared to the 78,805 tonnes milled in the fourth quarter of 2013. The average head grade was 249 g/t in the fourth quarter of 2014, compared to the 237 g/t in the third quarter of 2014 and 156 g/t in the fourth quarter of 2013. The increase in the ore grade compared to the prior quarters is due to higher grades from the development of new veins from the new Rosario mine.

Silver recovery in the fourth quarter of 2014 was 77%, compared to 72% in the third quarter of 2014 and 71% in the fourth quarter of 2013. The increase in recovery was attributed to improvements made in leaching and thickeners tanks, and precipitation processes.

During the fourth quarter, total production cost was \$59.34 per tonne, a decrease of 8% compared to \$64.57 per tonne in the previous quarter due to a 4% increase in tonnes milled. Cash cost was \$7.32 per ounce in the fourth quarter, a 24% decrease compared to \$9.60 per ounce in the previous quarter due to a 16% increase in silver production and a 24% increase in by-product credits from gold production.

Compared to the fourth quarter of 2013, total production cost per tonne was 10% higher while cash cost per ounce decreased 48% from \$13.96 per ounce to \$7.32 per ounce. The increase in production cost per tonne was

primarily due to increased milling costs from the 1,300 tpd mill expansion. The significant reduction in cash cost per ounce was a result of a 60% increase in silver head grade and 167% increase in gold by-products.

A total of 1,414 metres of underground development was completed in the fourth quarter of 2014 compared to 2,333 metres of development in the third quarter of 2014 and 2,858 metres in the fourth quarter of 2013.

During the fourth quarter, a total of 943 metres of diamond drilling were completed compared with 2,968 metres drilled in the third quarter of 2014 and 387 metres drilled in the fourth quarter of 2013. At the end of the quarter, one underground drill rig was active and drilled 6 holes during the fourth quarter within the Rosario mine, focusing on extension of the veins to assist with mining activities.

**La Guitarra Silver Mine, México State, México**  
**Production Results for the Quarter and Year Ended December 31, 2014 and 2013**

Fourth Quarter		LA GUITARRA OPERATING RESULTS	Year to Date	
2014	2013		2014	2013
49,084	46,966	Ore processed/tonnes milled	186,881	171,662
168	118	Average silver grade (g/t)	127	152
87%	81%	Recovery (%)	84%	84%
229,463	143,680	Total silver ounces produced	636,301	709,002
1,414	2,531	Gold ounces produced	6,329	6,466
332,389	299,533	Total production - ounces silver equivalent	1,056,078	1,101,593
\$9.45	\$4.08	Cash cost per ounce	\$8.53	\$10.60
\$17.21	n/a	All-in sustaining cost per ounce <sup>(1)</sup>	\$21.16	n/a
\$10.37	\$21.08	Total production cost per ounce	\$14.53	\$15.61
\$47.30	\$52.87	Total production cost per tonne	\$48.21	\$53.04
1,541	1,611	Underground development (m)	6,798	5,408
436	278	Diamond drilling (m)	6,188	11,673

The La Guitarra Silver Mine, acquired from Silvermex Resources Inc. in 2012, is located in the Temascaltepec Mining District in the State of México, near Toluca, México, approximately 130 kilometres southwest from México City. The La Guitarra mine consists of a recently expanded 500 tpd flotation mill with a new ball mill, new flotation cells, buildings and related infrastructure. The Company owns 100% of the La Guitarra mine.

During the fourth quarter of 2014, total production at La Guitarra was 332,389 equivalent ounces of silver, an increase of 36% compared to the 243,913 ounces produced in the third quarter of 2014 and an increase of 11% compared to the 299,533 ounces in the fourth quarter of 2013. The composition of the silver equivalent production in the quarter consisted of 229,463 ounces of silver and 1,414 ounces of gold, compared to 163,696 ounces of silver and 1,236 ounces of gold in the previous quarter and 143,680 ounces of silver and 2,531 ounces of gold in the fourth quarter of 2013. This represents a 40% increase in silver production compared to the previous quarter primarily due to a 27% increase in average silver grade as the Company completed the transition from working in the old La Guitarra zone to the newly developed El Coloso zone. Approximately 80% of 2015 production is planned to come from the El Coloso zone.

A total of 49,084 tonnes of ore were processed during the fourth quarter consisting of an average silver head grade of 168 g/t with recoveries of 87% compared to 46,313 tonnes of ore with silver head grades of 132 g/t and recoveries of 83% in the third quarter of 2014 and 46,966 tonnes of ore processed in the fourth quarter of 2013 with an average silver head grade of 118 g/t and recoveries of 81%. Mine production within the El Coloso area delivered 24,578 tonnes or 267 tpd during the quarter or 50% of total production.

Average production cost for the fourth quarter was \$47.30 per tonne, comparable to \$48.01 per tonne in the third quarter of 2014 and 11% lower than the \$52.87 per tonne in the same quarter of the prior year.

Cash cost in the fourth quarter was \$9.45 per ounce, a decrease of 13% or \$1.46 per ounce compared to \$10.91 per ounce in the third quarter of 2014 and an increase of 132% from the \$4.08 per ounce in the fourth quarter of 2013. The increase from the prior quarters was primarily attributed to a decrease in gold by-product credits relative to the production of silver ounces. The decrease in gold production was due to lower gold grade in the current production area of the El Coloso zone, but with higher silver grades.

A total of 1,541 metres of underground development was completed during the fourth quarter compared to 1,882 metres in the previous quarter and 1,611 metres in the fourth quarter of 2013. At quarter end, two underground drill rigs were active in the fourth quarter at the La Guitarra property. A total of 436 metres of diamond drilling were completed during the fourth quarter compared to 3,281 metres during the third quarter of 2014 and 278 metres in the fourth quarter of 2013. The focus was to assist underground mining activities and further define Reserves and Resources to support a NI 43-101 Technical Report which is expected to be released in the first quarter of 2015.

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 were not 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 México. 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 will result in a revised mine plan which will necessitate the filing of a new Technical Report, which is expected to be released in the first quarter of 2015. 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 prepared by Silvermex.

## **DEVELOPMENT AND EXPLORATION PROJECTS**

### **Plomosas Silver Project**

The Plomosas Silver Project, which was acquired with the Silvermex acquisition, consists of 13 mining concessions covering 6,986 hectares which include the adjacent Rosario and San Juan historic mines located in Sinaloa, México.

The two key areas of interest within the property boundaries are the historic operations of the Rosario and San Juan mines. Extensive facilities and infrastructure are in place on the property, including a fully functional mining camp facility, a 20 year surface rights agreement in good standing, a 30 year water use permit, tailings dam, a 60 kilometre 33 kV power line, a 120 man camp, an infirmary, offices, shops and warehouses, and an assay lab. As well, extensive underground development at the Rosario and San Juan mines allows for easy access to mineralized zones. These existing developments are expected to allow First Majestic to accelerate development at a significant cost savings when it determines to proceed with this project.

The Company is currently utilizing the mining camp infrastructure to maintain the old structures under care and maintenance. Future plans include drilling and development in order to prepare a NI 43-101 Technical report with resource estimates and economic evaluation.

No current timeline exists to begin investing at Plomosas. However this project remains a high priority for the Company.

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

The La Luz Silver Project is located 25 kilometres west of the town of Matehuala in San Luis Potosi State, México, 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 amount to 26 hectares.

To date, the Baseline Study and the Geo-hydrologic Study have been completed. 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 the remaining orders remain in front of the court. There is currently no estimate of when a final resolution can be expected. The Company is ready to submit the Environmental Impact Statement, the Risk Study and the Change of Use of Land Studies to government authorities once the courts resolve the outstanding matters.

There has been opposition to mining in the La Luz area 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 promote 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.

During the first quarter of 2014, the Company decided to suspend the project of restoring the old historic buildings at the Santa Ana Hacienda and the construction of the previously announced Thematic and Cultural Park and mining museum. To date, an amount of \$3.8 million has been invested in the project. The new cultural facility and mining museum was part of a "Sustainable Development Project" which was providing permanent long term jobs to the local communities but which have now been suspended.

### **Jalisco Group of Properties, Jalisco, México**

The Company acquired a group of mining claims totalling 5,245 hectares located in various mining districts located in Jalisco State, México. 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.

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.

In April 2014, the Company amended the option agreement, which requires the Optionee to spend \$3.0 million over the first five years to earn a 50% interest and an additional \$2.0 million over seven years to earn a 70% interest, with an option to earn a 90% interest by completing a bankable feasibility study within nine years. In exchange, First Majestic received an additional 3 million shares of common stock of the Optionee.

### **Divestiture of Minera Terra Plata**

On July 1, 2014, First Majestic received \$3.4 million in shares, equivalent to a 34.2% interest in Sundance Minerals Ltd. ("Sundance"), a privately held exploration company, in exchange for the Company's 100% wholly owned subsidiary, Minera Terra Plata S.A. de C.V. ("Terra Plata"). Terra Plata owns a 100% interest in the Penasco Quemado, the La Frazada and the Lobos projects, properties that First Majestic acquired through its acquisition of Silvermex Resources Inc. in July 2012. As part of the plan of arrangement, Sundance will then vend 100% of its shares to Albion Petroleum Ltd., a TSX Venture Exchange listed capital pool company, creating a new publicly listed exploration company to be named First Mining Finance Corp. ("Proposed Transaction"). This transaction is expected to be completed by mid-2015, pending regulatory approval.

As at July 1, 2014, Terra Plata had a net book value of \$3.6 million, comprised of \$3.7 million in mining interest, \$0.1 million in other receivables, net of \$0.2 million in deferred income tax liabilities, resulting in a loss of \$0.2 million on the disposal of the subsidiary.

Subsequent to the sale of Terra Plata, certain officers, directors and employees of First Majestic subscribed in a private placement in Sundance to raise CAD\$525,000 for a 7.6% minority interest in Sundance, which diluted First Majestic's interest in Sundance to 31.7%. Following the completion of the Proposed Transaction and subject to regulatory approval, First Majestic expects to distribute its interest in First Mining Finance Corp. to its shareholders by way of dividend in-kind.

As at December 31, 2014, the Company's investment in Sundance, accounted for as an investment in associate, has a carrying value of \$3.4 million and no income or loss has been recognized on the investment during the period.

## 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 are widely reported in the silver mining industry as benchmarks for performance, but do not have a standardized meaning and are 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, 2014						Three Months Ended December 31, 2013					
	La Encantada	La Parrilla	Del Toro	San Martin	La Guitarra	Total	La Encantada	La Parrilla	Del Toro	San Martin	La Guitarra	Total
<b>Cost of sales (as reported)</b>	\$ 44,873						\$ 31,437					
Add (Deduct): Cost of sales for Vancouver, Europe and intercompany elimination	(11,741)						(25)					
<b>Cost of sales (mine)</b>	\$ 7,326	\$ 8,218	\$ 9,371	\$ 5,659	\$ 2,558	\$ 33,132	\$ 10,134	\$ 8,303	\$ 5,978	\$ 4,282	\$ 2,715	\$ 31,412
Add: Third party smelting and refining	340	3,183	3,232	188	1,181	8,124	469	3,748	2,545	94	417	7,273
Add (Deduct): Workers participation	319	-	-	(282)	-	37	(78)	(351)	(30)	(270)	(29)	(758)
Deduct: Other non-cash costs	(104)	(188)	(6)	(83)	(12)	(393)	(99)	(77)	(89)	(62)	(54)	(381)
Inventory changes	1,160	276	(406)	595	13	1,638	(266)	(39)	(450)	403	(65)	(417)
<b>Total cash cost before by-product credits (A)</b>	\$ 9,041	\$ 11,489	\$ 12,191	\$ 6,077	\$ 3,740	\$ 42,538	\$ 10,160	\$ 11,584	\$ 7,954	\$ 4,447	\$ 2,984	\$ 37,129
Deduct: By-product credits	(11)	(6,829)	(6,675)	(1,758)	(1,626)	(16,899)	(19)	(6,499)	(2,812)	(547)	(2,502)	(12,379)
<b>Total cash cost (B)</b>	\$ 9,030	\$ 4,660	\$ 5,516	\$ 4,319	\$ 2,114	\$ 25,639	\$ 10,141	\$ 5,085	\$ 5,142	\$ 3,900	\$ 482	\$ 24,750
<b>Tonnes processed</b>	186,411	175,830	175,552	96,651	49,084	683,528	252,467	200,541	88,468	78,805	46,966	667,247
Total ounces of silver produced	788,369	646,283	817,754	592,698	229,463	3,074,567	959,312	813,090	440,397	280,490	143,680	2,636,969
Deduct: Metal deduction ounces	(3,153)	(18,742)	(32,710)	(2,371)	(5,737)	(62,713)	(3,838)	(25,231)	(17,616)	(1,122)	(25,852)	(73,659)
<b>Payable ounces of silver produced (C)</b>	785,216	627,541	785,044	590,327	223,726	3,011,854	955,474	787,859	422,781	279,368	117,828	2,563,310
<b>Mining cost per ounce</b>	\$ 3.38	\$ 4.40	\$ 3.84	\$ 3.13	\$ 3.93	\$ 3.70	\$ 2.95	\$ 3.11	\$ 4.78	\$ 5.98	\$ 8.97	\$ 3.91
<b>Milling cost per ounce</b>	5.43	5.13	4.69	4.59	3.13	4.84	5.49	4.33	5.28	6.54	6.31	5.25
<b>Indirect cost per ounce</b>	1.90	2.43	1.95	1.99	3.31	2.14	1.46	1.67	1.99	2.73	5.80	1.95
<b>Total production cost per ounce</b>	\$ 10.71	\$ 11.96	\$ 10.48	\$ 9.71	\$ 10.37	\$ 10.68	\$ 9.90	\$ 9.11	\$ 12.05	\$ 15.25	\$ 21.08	\$ 11.11
Transport and other selling costs per ounce	0.26	1.10	0.84	0.15	0.94	0.61	0.24	0.69	0.75	0.32	0.71	0.49
Smelting and refining costs per ounce	0.42	5.09	4.13	0.31	5.31	2.71	0.49	4.76	6.01	0.34	3.53	2.84
Environmental duty and royalties per ounce	0.11	0.16	0.09	0.12	0.10	0.12	-	0.14	-	-	-	0.04
<b>Cash cost per ounce before by-product credits (A/C)</b>	\$ 11.50	\$ 18.31	\$ 15.54	\$ 10.29	\$ 16.72	\$ 14.12	\$ 10.63	\$ 14.70	\$ 18.81	\$ 15.91	\$ 25.32	\$ 14.48
Deduct: By-product credits	-	(10.89)	(8.51)	(2.97)	(7.27)	(5.61)	(0.02)	(8.25)	(6.65)	(1.95)	(21.24)	(4.82)
<b>Cash cost per ounce (B/C)</b>	\$ 11.50	\$ 7.42	\$ 7.03	\$ 7.32	\$ 9.45	\$ 8.51	\$ 10.61	\$ 6.45	\$ 12.16	\$ 13.96	\$ 4.08	\$ 9.66
<b>Mining cost per tonne</b>	\$ 14.22	\$ 15.69	\$ 17.15	\$ 19.13	\$ 17.92	\$ 16.30	\$ 11.17	\$ 12.22	\$ 22.82	\$ 21.21	\$ 22.50	\$ 15.01
<b>Milling cost per tonne</b>	23.06	18.32	20.99	28.05	14.28	21.42	20.79	17.04	25.22	23.19	15.83	20.19
<b>Indirect cost per tonne</b>	8.01	8.67	8.70	12.16	15.09	9.44	5.53	6.54	9.52	9.67	14.54	7.49
<b>Total production cost per tonne</b>	\$ 45.29	\$ 42.68	\$ 46.83	\$ 59.34	\$ 47.30	\$ 47.15	\$ 37.49	\$ 35.80	\$ 57.56	\$ 54.07	\$ 52.87	\$ 42.69

The following table provides a detailed breakdown of by-product credits on a total and per silver ounce basis:

(expressed in thousands of U.S. dollars, except ounce and per ounce amounts)	Three Months Ended December 31, 2014						Three Months Ended December 31, 2013					
	La Encantada	La Parrilla	Del Toro	San Martin	La Guitarra	Total	La Encantada	La Parrilla	Del Toro	San Martin	La Guitarra	Total
<b>By-product credits attributed to:</b>												
Gold	\$ (11)	\$ (222)	\$ -	\$ (1,758)	\$ (1,626)	\$ (3,617)	\$ (19)	\$ (221)	\$ -	\$ (547)	\$ (2,502)	\$ (3,289)
Lead	-	(2,876)	(6,675)	-	-	(9,551)	-	(4,997)	(2,606)	-	-	(7,603)
Zinc	-	(3,731)	-	-	-	(3,731)	-	(1,281)	(206)	-	-	(1,487)
Iron	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total by-product credits</b>	\$ (11)	\$ (6,829)	\$ (6,675)	\$ (1,758)	\$ (1,626)	\$ (16,899)	\$ (19)	\$ (6,499)	\$ (2,812)	\$ (547)	\$ (2,502)	\$ (12,379)
<b>By-product credits cost per ounce</b>												
Gold	-	(0.35)	-	(2.97)	(7.27)	(1.20)	(0.02)	(0.28)	-	(1.95)	(21.24)	(1.28)
Lead	-	(4.58)	(8.51)	-	-	(3.17)	-	(6.34)	(6.16)	-	-	(2.96)
Zinc	-	(5.96)	-	-	-	(1.24)	-	(1.63)	(0.49)	-	-	(0.58)
Iron	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total by-product credits per ounce</b>	\$ -	\$ (10.89)	\$ (8.51)	\$ (2.97)	\$ (7.27)	\$ (5.61)	\$ (0.02)	\$ (8.25)	\$ (6.65)	\$ (1.95)	\$ (21.24)	\$ (4.82)

(expressed in thousands of U.S. dollars,  
except ounce and per ounce amounts)

	Year to Date Ended December 31, 2014						Year to Date Ended December 31, 2013					
	La Encantada	La Parrilla	Del Toro	San Martin	La Guitarra	Total	La Encantada	La Parrilla	Del Toro	San Martin	La Guitarra	Total
<b>Cost of sales (as reported)</b>						\$ 154,843						\$ 115,658
Add (Deduct): Cost of sales for Vancouver, Europe and intercompany elimination						(757)						(616)
<b>Cost of sales (mine)</b>	\$ 41,049	\$ 35,182	\$ 45,532	\$ 22,727	\$ 9,596	\$ 154,086	\$ 41,366	\$ 31,552	\$ 14,003	\$ 17,552	\$ 10,542	\$ 115,015
Add: Third party smelting and refining	1,526	12,530	8,617	580	3,311	26,564	1,904	12,922	6,774	436	3,975	26,011
Deduct: Workers participation	(1,827)	-	-	(282)	-	(2,109)	(1,047)	(351)	(30)	(270)	(58)	(1,756)
Deduct: Other non-cash costs	(160)	(329)	(6)	(127)	(12)	(634)	(216)	(156)	(157)	(96)	(125)	(750)
Inventory changes	(3,895)	(342)	(3,956)	(332)	119	(8,406)	(1,031)	15	(491)	(63)	(742)	(2,312)
<b>Total cash cost before by-product credits (A)</b>	\$ 36,693	\$ 47,041	\$ 50,187	\$ 22,566	\$ 13,014	\$ 169,501	\$ 40,976	\$ 43,982	\$ 20,099	\$ 17,559	\$ 13,592	\$ 136,208
Deduct: By-product credits	(231)	(29,486)	(16,332)	(5,264)	(7,730)	(59,043)	(1,731)	(21,892)	(8,354)	(2,546)	(7,418)	(41,941)
<b>Total cash cost (B)</b>	\$ 36,462	\$ 17,555	\$ 33,855	\$ 17,302	\$ 5,284	\$ 110,458	\$ 39,245	\$ 22,090	\$ 11,745	\$ 15,013	\$ 6,174	\$ 94,267
<b>Tonnes processed</b>	721,171	711,915	629,493	363,951	186,881	2,613,411	1,139,241	788,335	240,100	322,618	171,662	2,661,956
<b>Total ounces of silver produced</b>	3,711,633	2,876,452	2,690,717	1,833,618	636,301	11,748,721	4,081,094	3,115,997	1,226,885	1,250,774	709,002	10,383,752
Deduct: Metal deduction ounces	(14,847)	(87,673)	(94,597)	(7,334)	(15,908)	(220,359)	(18,137)	(95,173)	(51,372)	(5,506)	(126,310)	(296,498)
<b>Payable ounces of silver produced (C)</b>	3,696,786	2,788,779	2,596,120	1,826,284	620,393	11,528,362	4,062,957	3,020,824	1,175,513	1,245,268	582,692	10,087,254
<b>Mining cost per ounce</b>	\$ 2.96	\$ 4.03	\$ 5.44	\$ 3.95	\$ 5.46	\$ 4.07	\$ 2.56	\$ 3.59	\$ 3.92	\$ 4.59	\$ 6.60	\$ 3.51
<b>Milling cost per ounce</b>	4.71	4.92	7.71	5.52	4.65	5.56	5.50	4.42	4.78	6.29	4.47	5.13
<b>Indirect cost per ounce</b>	1.50	2.16	2.00	2.27	4.42	2.05	1.19	1.50	1.83	2.59	4.54	1.72
<b>Total production cost per ounce</b>	\$ 9.17	\$ 11.11	\$ 15.15	\$ 11.74	\$ 14.53	\$ 11.68	\$ 9.25	\$ 9.51	\$ 10.53	\$ 13.47	\$ 15.61	\$ 10.36
Transport and other selling costs per ounce	0.24	1.06	0.76	0.17	0.96	0.58	0.36	0.59	0.81	0.28	0.88	0.50
Smelting and refining costs per ounce	0.40	4.49	3.32	0.32	5.34	2.30	0.47	4.28	5.76	0.35	6.84	2.58
Environmental duty and royalties per ounce	0.11	0.21	0.10	0.12	0.16	0.14	-	0.18	-	-	-	0.05
<b>Cash cost per ounce before by-product credits (A/C)</b>	\$ 9.92	\$ 16.87	\$ 19.33	\$ 12.35	\$ 20.99	\$ 14.70	\$ 10.08	\$ 14.56	\$ 17.10	\$ 14.10	\$ 23.33	\$ 13.49
Deduct: By-product credits	(0.06)	(10.57)	(6.29)	(2.88)	(12.46)	(5.12)	(0.42)	(7.25)	(7.11)	(2.05)	(12.73)	(4.14)
<b>Cash cost per ounce (B/C)</b>	\$ 9.86	\$ 6.30	\$ 13.04	\$ 9.47	\$ 8.53	\$ 9.58	\$ 9.66	\$ 7.31	\$ 9.99	\$ 12.05	\$ 10.60	\$ 9.35
<b>Mining cost per tonne</b>	\$ 15.18	\$ 15.77	\$ 22.45	\$ 19.82	\$ 18.12	\$ 17.95	\$ 9.14	\$ 13.74	\$ 19.18	\$ 17.73	\$ 22.45	\$ 13.31
<b>Milling cost per tonne</b>	24.13	19.28	31.80	27.72	15.43	24.53	19.63	16.95	23.39	24.29	15.18	19.45
<b>Indirect cost per tonne</b>	7.68	8.46	8.27	11.41	14.66	9.05	4.24	5.76	8.97	9.98	15.41	6.53
<b>Total production cost per tonne</b>	\$ 46.99	\$ 43.51	\$ 62.52	\$ 58.95	\$ 48.21	\$ 51.53	\$ 33.01	\$ 36.45	\$ 51.54	\$ 52.00	\$ 53.04	\$ 39.29

The following table provides a detailed breakdown of by-product credits on a total and per silver ounce basis:

(expressed in thousands of U.S. dollars,  
except ounce and per ounce amounts)

	Year to Date Ended December 31, 2014						Year to Date Ended December 31, 2013					
	La Encantada	La Parrilla	Del Toro	San Martin	La Guitarra	Total	La Encantada	La Parrilla	Del Toro	San Martin	La Guitarra	Total
<b>By-product credits attributed to:</b>												
Gold	\$ (29)	\$ (800)	\$ (299)	\$ (5,264)	\$ (7,730)	\$ (14,122)	\$ (97)	\$ (860)	\$ (7)	\$ (2,546)	\$ (7,418)	\$ (10,928)
Lead	-	(18,584)	(15,460)	-	-	(34,044)	-	(16,435)	(6,866)	-	-	(23,301)
Zinc	-	(10,102)	(573)	-	-	(10,675)	-	(4,597)	(1,481)	-	-	(6,078)
Iron	(202)	-	-	-	-	(202)	(1,634)	-	-	-	-	(1,634)
<b>Total by-product credits</b>	\$ (231)	\$ (29,486)	\$ (16,332)	\$ (5,264)	\$ (7,730)	\$ (59,043)	\$ (1,731)	\$ (21,892)	\$ (8,354)	\$ (2,546)	\$ (7,418)	\$ (41,941)
<b>By-product credits cost per ounce</b>												
Gold	(0.01)	(0.29)	(0.11)	(2.88)	(12.46)	(1.22)	(0.02)	(0.28)	(0.01)	(2.05)	(12.73)	(1.08)
Lead	-	(6.66)	(5.96)	-	-	(2.95)	-	(5.45)	(5.84)	-	-	(2.30)
Zinc	-	(3.62)	(0.22)	-	-	(0.93)	-	(1.52)	(1.26)	-	-	(0.60)
Iron	(0.05)	-	-	-	-	(0.02)	(0.40)	-	-	-	-	(0.16)
<b>Total by-product credits per ounce</b>	\$ (0.06)	\$ (10.57)	\$ (6.29)	\$ (2.88)	\$ (12.46)	\$ (5.12)	\$ (0.42)	\$ (7.25)	\$ (7.11)	\$ (2.05)	\$ (12.73)	\$ (4.14)

## **ALL-IN SUSTAINING COSTS PER OUNCE**

All-In Sustaining Cost (“AISC”) is a non-GAAP measure and was calculated based on guidance provided by the World Gold Council (“WGC”) in June 2013. 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.

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.

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.

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, 2014							
	La Encantada	La Parrilla	Del Toro	San Martin	La Guitarra	Total Mines	Corporate	Total
<b>Cost of sales (as reported)</b>								<b>\$ 44,873</b>
Add (Deduct): Cost of sales for Vancouver, Europe and intercompany elimination								(11,741)
<b>Cost of sales (mine)</b>	<b>\$ 7,326</b>	<b>\$ 8,218</b>	<b>\$ 9,371</b>	<b>\$ 5,659</b>	<b>\$ 2,558</b>	<b>\$ 33,132</b>	<b>\$ -</b>	<b>\$ 33,132</b>
Third party smelting and refining	340	3,183	3,232	188	1,181	8,124	-	8,124
Other non-cash costs	(94)	(54)	1	(9)	(4)	(160)	-	(160)
Inventory changes	1,160	276	(406)	595	13	1,638	-	1,638
By-product credits	(11)	(6,829)	(6,675)	(1,758)	(1,626)	(16,899)	-	(16,899)
Sustaining capital expenditures	5,170	2,133	2,410	926	1,698	12,337	331	12,668
General and administrative expenses	-	-	-	-	-	-	4,015	4,015
Share-based payments	-	-	-	-	-	-	743	743
Accretion of decommissioning liabilities	51	33	45	32	30	191	-	191
<b>All-in sustaining costs</b>	<b>\$ 13,942</b>	<b>\$ 6,960</b>	<b>\$ 7,978</b>	<b>\$ 5,633</b>	<b>\$ 3,850</b>	<b>\$ 38,363</b>	<b>\$ 5,089</b>	<b>\$ 43,452</b>
<b>Payable ounces of silver produced</b>	<b>785,216</b>	<b>627,541</b>	<b>785,044</b>	<b>590,327</b>	<b>223,726</b>	<b>3,011,854</b>	<b>3,011,854</b>	<b>3,011,854</b>
<b>All-in sustaining costs per ounce</b>	<b>\$ 17.76</b>	<b>\$ 11.09</b>	<b>\$ 10.16</b>	<b>\$ 9.54</b>	<b>\$ 17.21</b>	<b>\$ 12.74</b>	<b>\$ 1.69</b>	<b>\$ 14.43</b>

(expressed in thousands of U.S. dollars, except ounce and per ounce amounts)	Year to Date Ended December 31, 2014							
	La Encantada	La Parrilla	Del Toro	San Martin	La Guitarra	Total Mines	Corporate	Total
<b>Cost of sales (as reported)</b>								<b>\$ 154,843</b>
Add (Deduct): Cost of sales for Vancouver, Europe and intercompany elimination								(757)
<b>Cost of sales (mine)</b>	<b>\$ 41,049</b>	<b>\$ 35,182</b>	<b>\$ 45,532</b>	<b>\$ 22,727</b>	<b>\$ 9,596</b>	<b>\$ 154,086</b>	<b>\$ -</b>	<b>\$ 154,086</b>
Third party smelting and refining	1,526	12,530	8,617	580	3,311	26,564	-	26,564
Other non-cash costs	(160)	(329)	(6)	(127)	(12)	(634)	-	(634)
Inventory changes	(3,895)	(342)	(3,956)	(332)	119	(8,406)	-	(8,406)
By-product credits	(231)	(29,486)	(16,332)	(5,264)	(7,730)	(59,043)	-	(59,043)
Sustaining capital expenditures	18,808	14,501	14,746	7,860	7,723	63,638	1,175	64,813
General and administrative expenses	-	-	-	-	-	-	18,677	18,677
Share-based payments	-	-	-	-	-	-	7,320	7,320
Accretion of decommissioning liabilities	217	140	188	134	122	801	-	801
<b>All-in sustaining costs</b>	<b>\$ 57,314</b>	<b>\$ 32,196</b>	<b>\$ 48,789</b>	<b>\$ 25,578</b>	<b>\$ 13,129</b>	<b>\$ 177,006</b>	<b>\$ 27,172</b>	<b>\$ 204,178</b>
Expansionary capital expenditures	6,901	5,814	12,563	6,416	7,879	39,573	1,728	80,874
<b>All-in costs (B)</b>	<b>\$ 64,215</b>	<b>\$ 38,010</b>	<b>\$ 61,352</b>	<b>\$ 31,994</b>	<b>\$ 21,008</b>	<b>\$ 216,579</b>	<b>\$ 28,900</b>	<b>\$ 285,052</b>
<b>Payable ounces of silver produced</b>	<b>3,696,786</b>	<b>2,788,779</b>	<b>2,596,120</b>	<b>1,826,284</b>	<b>620,393</b>	<b>11,528,362</b>	<b>11,528,362</b>	<b>11,528,362</b>
<b>All-in sustaining costs per ounce</b>	<b>\$ 15.50</b>	<b>\$ 11.54</b>	<b>\$ 18.79</b>	<b>\$ 14.01</b>	<b>\$ 21.16</b>	<b>\$ 15.35</b>	<b>\$ 2.36</b>	<b>\$ 17.71</b>

## **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 to Date Ended December 31,	
	2014	2013	2014	2013
<b>Revenues as reported</b>	<b>\$ 72,480</b>	<b>\$ 58,989</b>	<b>\$ 245,473</b>	<b>\$ 251,313</b>
Add back: smelting and refining charges	8,418	7,286	26,555	26,050
<b>Gross Revenues</b>	<b>80,898</b>	<b>66,275</b>	<b>272,028</b>	<b>277,363</b>
Payable equivalent silver ounces sold	4,961,920	3,215,055	14,551,096	12,018,168
<b>Average realized price per ounce of silver sold<sup>(1)</sup></b>	<b>\$ 16.30</b>	<b>\$ 20.61</b>	<b>\$ 18.69</b>	<b>\$ 23.08</b>
Average market price per ounce of silver per COMEX	\$ 16.45	\$ 20.77	\$ 19.04	\$ 23.82

(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.

## **ADJUSTED EARNINGS PER SHARE (“Adjusted EPS”)**

The Company uses the financial measure “Adjusted EPS” to supplement information in its consolidated financial statements. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, the Company and certain investors and analysts use this information to evaluate the Company’s performance. The Company excludes non-cash and unusual items from net 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 earnings as reported in the Company’s consolidated financial statements to adjusted net earnings and Adjusted EPS.

	Three Months Ended December 31,		Year Ended December 31,	
	2014	2013	2014	2013
<b>Net loss as reported</b>	<b>\$ (64,568)</b>	<b>\$ (81,229)</b>	<b>\$ (61,448)</b>	<b>\$ (38,232)</b>
Adjustments for non-cash or unusual items:				
Impairment of mining interests and goodwill	101,950	28,791	101,950	28,791
Deferred income tax (recovery) expense	(27,607)	51,032	(27,171)	63,164
Share-based payments	743	2,837	7,320	14,518
(Gain) loss from fair value adjustment of prepayment facility	(5,966)	2,907	(4,744)	(3,919)
Loss from investment in silver futures and marketable securities	84	1,628	690	6,601
(Recovery) write-down of mineral inventory	(1,419)	-	3,816	-
Gain (loss) from value added tax settlement	733	-	733	(711)
Write-down of AFS marketable securities	263	137	538	3,914
Loss on divestiture of subsidiary	-	-	248	-
Gain from First Silver litigation, net of fees	-	168	(14,004)	122
Gain from termination fee on Orko acquisition	-	-	-	(9,129)
<b>Adjusted net earnings</b>	<b>\$ 4,213</b>	<b>\$ 6,271</b>	<b>\$ 7,928</b>	<b>\$ 65,119</b>
Weighted average number of shares on issue - basic	117,543,961	117,030,825	117,444,276	116,935,325
<b>Adjusted EPS</b>	<b>\$ 0.04</b>	<b>\$ 0.05</b>	<b>\$ 0.07</b>	<b>\$ 0.56</b>

## **CASH FLOW PER SHARE**

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

	Three Months Ended December 31,		Year Ended December 31,	
	2014	2013	2014	2013
Operating Cash Flows before Movements in Working Capital and Income Taxes	\$ 21,087	\$ 20,400	\$ 74,404	\$ 137,269
Weighted average number of shares on issue - basic	117,543,961	117,030,825	117,444,276	116,935,325
Cash Flow per Share	\$ 0.18	\$ 0.17	\$ 0.63	\$ 1.17

## **WORKING CAPITAL**

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

	December 31, 2014	December 31, 2013
Current Assets	\$ 75,352	\$ 109,533
Less: Current Liabilities	(78,222)	(76,723)
Working Capital	\$ (2,870)	\$ 32,810

## **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, 2014 compared to the quarter ended December 31, 2013 (in thousands of dollars, except for per share amounts):

	Quarter Ended December 31,	
	2014	2013
<b>Revenues</b>	<b>\$ 72,480</b>	<b>\$ 58,989</b> (1)
Cost of sales (excludes depletion, depreciation and amortization)	44,873	31,437 (2)
<b>Gross margin</b>	<b>27,607</b>	<b>27,552</b>
Depletion, depreciation and amortization	21,774	13,298 (3)
<b>Mine operating earnings</b>	<b>5,833</b>	<b>14,254</b> (4)
General and administrative expenses	4,210	6,457 (5)
Share-based payments	743	2,837 (6)
Accretion of decommissioning liabilities	191	135
Impairment of mining interests and goodwill	101,950	28,791 (7)
Foreign exchange (gain) loss	(5,451)	654 (8)
<b>Operating (loss) earnings</b>	<b>(95,810)</b>	<b>(24,620)</b> (9)
Investment and other income (loss)	6,241	(4,617) (10)
Finance costs	(1,663)	(941) (11)
<b>Loss before income taxes</b>	<b>(91,232)</b>	<b>(30,178)</b>
Current income tax expense	943	19
Deferred income tax (recovery) expense	(27,607)	51,032
Income tax (recovery) expense	(26,664)	51,051 (12)
<b>Net loss for the period</b>	<b>\$ (64,568)</b>	<b>\$ (81,229)</b> (13)
<b>Loss per share (basic and diluted)</b>	<b>\$ (0.55)</b>	<b>\$ (0.69)</b> (13)

1. Revenues for the quarter ended December 31, 2014 increased by 23% to \$72,480,000 from \$58,989,000 in the fourth quarter of 2013. The increase in revenues was primarily attributed to 54% increase in silver equivalent ounces sold as the Company sold the 934,000 ounces of silver held in inventory at the end of third quarter, offset by a 21% decrease in average realized silver price.
2. Cost of sales in the fourth quarter of 2014 was \$44,873,000, an increase of \$13,436,000 or 43% compared to \$31,437,000 in the fourth quarter of 2013. The increase in cost of sales was primarily attributed to the 54% increase in payable equivalent ounces sold due to temporarily suspended sales of 934,000 ounces in the previous quarter, partially offset by decrease in production costs and favourable foreign exchange rate effect as a result a 6% depreciation in the Mexican Pesos against the U.S. Dollars compared to the same quarter of the prior year.
3. Depletion, depreciation and amortization increased from \$13,298,000 in the fourth quarter of 2013 to \$21,774,000 in the fourth quarter of 2014, an increase of \$8,476,000 or 64%, primarily attributed to the 54% increase in payable equivalent ounces sold, as well as depletion related to the Del Toro cyanidation plant expansion and additional depreciation and amortization expense from increase in production rates at the Del Toro, San Martin and La Guitarra mines.
4. Despite a 24% production growth, mine operating income of \$5,833,000 in the fourth quarter of 2014 decreased 59% compared to \$14,254,000 for the same quarter in the prior year. Mine operating earnings were primarily affected by lower silver prices and higher depletion, depreciation and amortization compared to the fourth quarter of 2013.
5. General and administrative expenses decreased by \$2,247,000 or 35% compared to the fourth quarter of 2013, primarily due to lower salaries and benefits, professional fees, travel and administrative expenses as part of the Company's cost reduction program.
6. Share-based payments decreased by \$2,094,000 or 74% compared to the fourth quarter of 2013, primarily due to a decrease in fair value of stock options granted and cancellation of stock options for management and operational positions eliminated during the quarter as part of the Company's cost-cutting efforts.

7. During the quarter ended December 31, 2014, as a result of the decline in silver prices, the Company recognized an impairment loss of \$101,950,000 (2013- \$28,791,000) on certain non-current assets (see "Impairment of Non-Current Assets" section).
8. Foreign exchange gain increased by \$6,105,000 or 933% compared to the fourth quarter of 2013 and was primarily due to foreign exchange gain on trade payables and deferred tax liabilities denominated in Mexican pesos, which depreciated 9% against the US dollar during the quarter.
9. Operating loss for the quarter was \$95,810,000 compared to operating loss of \$24,620,000 for the quarter ended December 31, 2013. The decrease in earnings was primarily due to a \$101,950,000 impairment of non-current assets and lower mine operating earnings, partially offset by foreign exchange gains and a decrease in share-based payments.
10. During the quarter ended December 31, 2014, the Company recognized investment and other income of \$6,241,000 compared to a loss of \$4,617,000 in the same quarter of the prior year. Investment and other income in the quarter was primarily attributed to a gain of \$5,966,000 on fair value adjustment of the Company's prepayment facility.
11. During the quarter ended December 31, 2014, the Company incurred \$1,663,000 in finance costs compared to \$941,000 in the same quarter of the prior year. The increase in finance costs was primarily related to \$1,001,000 in interest and accretion expense related to the prepayment facilities, which were capitalized as part of Del Toro construction cost in the same quarter of the prior year, and additional interest costs on leased assets.
12. During the quarter ended December 31, 2014, the Company recorded an income tax recovery of \$26,664,000 compared to an income tax expense of \$51,051,000 in the quarter ended December 31, 2013. The income tax recovery was the result a \$35,938,000 deferred tax recovery in relation to the impairment of certain non-current assets. Deferred income tax expense in the same quarter of the prior year also included a \$38,793,000 non-cash accounting adjustment to deferred income tax in relation to the new 2013 Mexican tax reforms. The effective income tax rate in the fourth quarter of 2014 was affected by taxation effects on foreign currency translation, Mexican mining duties and non-deductible expenses.
13. As a result of the foregoing, net loss for the quarter ended December 31, 2014 was \$64,568,000 or EPS of \$(0.55), compared to net loss of \$81,229,000 or EPS of \$(0.69) in the quarter ended December 31, 2013.

## REVIEW OF SELECTED ANNUAL FINANCIAL RESULTS

For the year ended December 31, 2014 compared to the years ended December 31, 2013 and 2012  
(in thousands of dollars, except for share amounts):

	Annual		
	2014	2013	2012
<b>Revenues</b>	<b>\$ 245,473</b>	<b>\$ 251,313</b>	<b>\$ 247,177</b> (1)
Cost of sales (excludes depletion, depreciation and amortization)	154,843	115,658	79,747 (2)
<b>Gross margin</b>	<b>90,630</b>	<b>135,655</b>	<b>167,430</b>
Depletion, depreciation and amortization	60,466	43,337	25,405 (3)
<b>Mine operating earnings</b>	<b>30,164</b>	<b>92,318</b>	<b>142,025</b> (4)
General and administrative	19,393	24,855	21,774 (5)
Share-based payments	7,320	14,518	10,646 (6)
Accretion of decommissioning liabilities	801	539	472
Impairment of mining interests and goodwill	101,950	28,791	- (7)
Acquisition costs	-	-	2,740
Foreign exchange (gain) loss	(6,312)	926	(174) (8)
<b>Operating (loss) earnings</b>	<b>(92,988)</b>	<b>22,689</b>	<b>106,567</b> (9)
Investment and other income	18,627	5,974	6,715 (10)
Finance costs	(6,576)	(2,470)	(2,293) (11)
<b>(Loss) earnings before income taxes</b>	<b>(80,937)</b>	<b>26,193</b>	<b>110,989</b>
Current income tax expense	7,682	1,261	4,429
Deferred income tax (recovery) expense	(27,171)	63,164	17,662
Income tax (recovery) expense	(19,489)	64,425	22,091 (12)
<b>Net (loss) earnings for the year</b>	<b>\$ (61,448)</b>	<b>\$ (38,232)</b>	<b>\$ 88,898</b> (13)
<b>(Loss) earnings per share (basic)</b>	<b>\$ (0.52)</b>	<b>\$ (0.33)</b>	<b>\$ 0.80</b> (13)
<b>(Loss) earnings per share (diluted)</b>	<b>\$ (0.52)</b>	<b>\$ (0.33)</b>	<b>\$ 0.79</b>
<b>Cash and cash equivalents</b>	<b>\$ 40,345</b>	<b>\$ 54,765</b>	<b>\$ 111,591</b>
<b>Total assets</b>	<b>\$ 771,342</b>	<b>\$ 854,952</b>	<b>\$ 813,031</b>
<b>Non-current liabilities</b>	<b>\$ 172,587</b>	<b>\$ 207,484</b>	<b>\$ 162,276</b>

- Revenues for the year ended December 31, 2014 decreased by 2% or \$5,840,000 to \$245,473,000 from \$251,313,000 compared to the prior year primarily due to a 19% decline in average realized silver price, partially offset by a 21% increase in payable silver equivalent ounces sold.
- Cost of sales for the year ended December 31, 2014 was \$154,843,000, an increase of 34% or \$39,185,000 compared to \$115,658,000 in 2013. The increase in cost of sales was attributed to a 21% increase in payable equivalent ounces sold, as well as increase in by-product production at La Parrilla and Del Toro, as by-product credits are presented as revenue but costs related to by-product productions are in cost of sales. Cost of sales in the year also includes \$3.8 million write-down of mineral inventories to its net realizable value as a result of decline in silver prices.
- Depletion, depreciation and amortization for the year ended December 31, 2014 was \$60,466,000, an increase of 40% or \$17,129,000 compared to \$43,337,000 in the prior year, primarily due to incremental depreciation and depletion expense related to commissioning of the cyanidation plant at Del Toro on January 1, 2014 and plant expansion of San Martin.
- Mine operating earnings decreased by 67% to \$30,164,000 for the year ended December 31, 2014, compared to \$92,318,000 in the prior year. Mine operating earnings were affected by the decline in silver prices, and higher depletion, depreciation and amortization expenses related to higher production at Del Toro and San Martin.
- General and administrative expenses for the year ended December 31, 2014 was \$19,393,000, a decrease of 22% compared to the prior year due to lower salaries and employee benefits, professional fees, travel and administrative expenses as part of the Company's cost reduction program.
- Share-based payments expense for the year ended December 31, 2014 decreased by \$7,198,000 or 50% compared to the prior year. The decrease was primarily due to cancellation of stock options for management and operational positions eliminated during the year as part of the Company's cost-cutting efforts, as well as

decrease in fair value of stock options granted in 2013 and 2014, when the Company's share price was lower at time of the grant compared to the prior year.

7. As a result of the decline in silver prices, the Company recognized an impairment loss of \$101,950,000 (2013-\$28,791,000) on certain non-current assets (see "Impairment of Non-Current Assets" section) during the year ended December 31, 2014.
8. Foreign exchange gain of \$6,312,000 for the year ended December 31, 2014 compared to foreign exchange loss of \$926,000 for the year ended December 31, 2013. Foreign exchange gain for the year was primarily due to foreign exchange gain on trade payables and deferred tax liabilities denominated in Mexican pesos, which depreciated 13% against the US dollar during the year.
9. Operating loss was \$92,988,000 for the year ended December 31, 2014, compared to operating earnings of \$22,689,000 for the year ended December 31, 2013, primarily due to the recognition of a \$101,950,000 impairment loss on certain mines and projects, as well as decrease in mine operating earnings, partially offset by decreases in general and administrative expenses and share-based payments.
10. During the year ended December 31, 2014 investment income was \$18,627,000 compared to investment and other income of \$5,974,000 in the prior year. The income is primarily attributed to the recognition of the deferred gain from the First Silver litigation of \$14,127,000 and gain of \$4,744,000 from fair value adjustment of the prepayment facilities. In the prior year, investment and other income was primarily comprised of a \$9,129,000 termination fee from the Orko acquisition, net of costs.
11. During the year ended December 31, 2014, the Company incurred \$6,576,000 in financing costs compared to \$2,470,000 in the prior year. The increase in financing costs was primarily related to \$3,883,000 in interest and accretion expense related to the prepayment facilities, which were capitalized as part of Del Toro construction cost in the prior year, and \$2,443,000 in financing costs related to the Company's finance leases.
12. During the year ended December 31, 2014, the Company recorded an income tax recovery of \$19,489,000 compared to an income tax expense of \$64,425,000 in 2013. The income tax recovery was primarily attributed to deferred tax adjustment related to the impairment of non-current assets, lower earnings before taxes and the prior year included a non-cash accounting adjustment of \$35,938,000 relating to the Mexican Tax Reform. The effective tax rate in the year ended December 31, 2014 was 24% compared to 246% in the year ended December 31, 2013. The decrease in effective tax rate reflects the taxation effects on the impairment on non-current assets, on foreign currency translation, non-deductible expenses and the Mexican Tax Reform which was effective January 1, 2014.
13. As a result of the foregoing, net loss for the year ended December 31, 2014 was \$61,448,000, or basic EPS of \$(0.52) compared to net loss of \$38,232,000 or EPS of \$(0.33) for 2013.

## SUMMARY OF QUARTERLY RESULTS

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

Financial Highlights	2014				2013			
	Q4 <sup>(1)</sup>	Q3 <sup>(2)</sup>	Q2 <sup>(3)</sup>	Q1 <sup>(4)</sup>	Q4 <sup>(5)</sup>	Q3 <sup>(6)</sup>	Q2 <sup>(7)</sup>	Q1 <sup>(8)</sup>
Revenue	\$ 72,480	\$ 40,770	\$ 66,927	\$ 65,296	\$ 58,989	\$ 76,882	\$ 48,372	\$ 67,070
Cost of sales	\$ 44,873	\$ 31,973	\$ 42,727	\$ 35,270	\$ 31,437	\$ 36,060	\$ 23,891	\$ 24,270
Depletion, depreciation and amortization	\$ 21,774	\$ 10,588	\$ 14,699	\$ 13,405	\$ 13,298	\$ 11,645	\$ 10,198	\$ 8,196
Mine operating earnings (loss)	\$ 5,833	\$ (1,791)	\$ 9,501	\$ 16,621	\$ 14,254	\$ 29,177	\$ 14,283	\$ 34,604
Net (loss) earnings after tax	\$ (64,568)	\$ (10,450)	\$ 7,590	\$ 5,980	\$ (81,229)	\$ 16,320	\$ 160	\$ 26,517
Earnings (loss) per share (basic)	\$ (0.55)	\$ (0.09)	\$ 0.06	\$ 0.05	\$ (0.69)	\$ 0.14	\$ 0.00	\$ 0.23
Earnings (loss) per share (diluted)	\$ (0.55)	\$ (0.09)	\$ 0.06	\$ 0.05	\$ (0.69)	\$ 0.14	\$ 0.00	\$ 0.23

### Notes:

1. In the quarter ended December 31, 2014, mine operating earnings was \$5,833,000 compared to mine operating loss of \$1,791,000 in the quarter ended September 30, 2014. The increase in mine operating earnings was attributed to additional silver equivalent ounces sold as approximately 934,000 ounces of silver sales that were suspended at the end of the third quarter of 2014 due to declining silver prices. Net loss for the quarter was \$64,568,000 compared to \$10,450,000 in the previous quarter due to a non-cash impairment charge of \$101,950,000, or \$66,012,000 net of tax, related to some of the Company's non-current assets during the quarter and related taxation effects.
2. In the quarter ended September 30, 2014, mine operating loss was \$1,791,000 compared to mine operating earnings of \$9,501,000 in the quarter ended June 30, 2014. The decrease in mine operating earnings was primarily attributed to the Company's decision to suspend approximately 934,000 in silver sales near the end of the quarter as a result of significant decline in silver prices during the quarter. Net earnings also decreased \$18,040,000 compared to the preceding quarter as a result of a decrease in mine operating earnings and a one-time litigation gain of \$14,127,000 recognized in the second quarter of 2014.
3. In the quarter ended June 30, 2014, mine operating earnings decreased by 43% to \$9,501,000 compared to \$16,621,000 in the quarter ended March 31, 2014. Net earnings increased by 27% to \$7,590,000 from \$5,980,000 in the quarter ended March 31, 2014. Increase in net earnings was primarily attributed to \$14.1 million litigation gain, partially offset by decrease in mine operating earnings due to 6% decrease in average realized silver price and higher depletion, depreciation and amortization due to increase in production rate.
4. In the quarter ended March 31, 2014, mine operating earnings improved 17% to \$16,621,000, compared to \$14,254,000 in the quarter ended December 31, 2013. Net earnings increased \$87,209,000 to \$5,980,000, compared to a loss of \$81,229,000 in the previous quarter. Net earnings in the previous quarter was affected by a \$28,791,000 non-cash impairment of non-current assets and \$38,793,000 non-cash adjustment to deferred income tax expense in relation to the Mexican Tax Reform.
5. 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.
6. 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.

7. 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.
8. 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.

## **LIQUIDITY**

At December 31, 2014, the Company held cash and cash equivalents of \$40.3 million and had a working capital deficit of \$2.9 million, compared to cash and cash equivalents of \$54.8 million and working capital of \$32.8 million at December 31, 2013. Cash and cash equivalents decreased by \$14.4 million during the year, primarily as a result of \$104.3 million spent on mining interests, property, plant and equipment, \$16.0 million on repayment of lease obligations, \$14.5 million on repayment of the prepayment facility, offset by \$93.4 million generated from operating activities and \$30.0 million proceeds from the new prepayment facility.

During the year, the Company expended \$70.2 million on mineral properties and \$34.1 million on property, plant and equipment compared to \$94.4 million expended on mineral properties and \$84.3 million expended on property, plant and equipment in 2013. Capital expenditures on mineral properties have decreased compared to the prior year as the Company suspended majority of discretionary capital expenditures due to the significant decline in silver price this year, as well as efforts by the Company to cut costs by re-negotiating all of its contracts with contractors and suppliers. Furthermore, capital expenditures on property, plant and equipment reduced as construction activity at Del Toro completed earlier in the year.

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.

## **MANAGEMENT OF RISKS AND UNCERTAINTIES**

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

### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they arise. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and to support its expansion plans. As at December 31, 2014, the Company has outstanding trade payables of \$25.9 million (2013 - \$20.9 million) which are generally payable in 90 days or less and accrued liabilities of \$14.4 million (2013 - \$13.6 million) which are generally payable within 12 months. Based on the Company's current operating plan, the Company believes it has sufficient cash on hand, combined with cash flows from operations, to meet its ongoing operating requirements as they arise for at least the next 12 months. If commodity prices in the metals markets were to decrease

significantly, or the Company was to deviate significantly from its operating plan, the Company may need a further injection of capital to address its cash flow requirements.

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	\$ 40,360	\$ 40,360	\$ -	\$ -	\$ -
Prepayment facilities	66,619	29,389	37,230	-	-
Finance lease obligations	29,430	12,883	15,268	1,279	-
Decommissioning liabilities	16,816	-	-	-	16,816
Purchase obligations and commitments	3,045	3,045	-	-	-
<b>Total Obligations</b>	<b>\$ 156,270</b>	<b>\$ 85,677</b>	<b>\$ 52,498</b>	<b>\$ 1,279</b>	<b>\$ 16,816</b>

### 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, 2014					December 31, 2013		
	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	\$ 6,898	\$ 643	\$ (750)	\$ 6,791	\$ 679	\$ 11,225	\$ 1,123	
Mexican peso	557	7,520	(20,507)	(12,430)	(1,243)	(6,784)	(678)	
	\$ 7,455	\$ 8,163	\$ (21,257)	\$ (5,639)	\$ (564)	\$ 4,441	\$ 444	

### 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, lead, zinc and iron ore, which accounts for approximately 22% 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 lead and zinc production at a fixed price. The Company does not use derivative instruments to hedge its commodity price risk to silver. The Company purchased call options on lead and zinc futures to mitigate potential exposure to future price increases in lead and zinc.

As at December 31, 2014, a 10% increase or decrease of metal prices would have the following impact on net earnings:

	December 31, 2014				
	Silver	Gold	Lead	Zinc	Effect of +/- 10% change in metal prices
Metals subject to provisional price adjustments	\$ 969	\$ 48	\$ 938	\$ 109	\$ 2,064
Metals in doré and concentrates inventory	86	13	6	-	105
Prepayment facilities	-	-	(4,204)	(1,670)	(5,874)
	<b>\$ 1,055</b>	<b>\$ 61</b>	<b>\$ (3,260)</b>	<b>\$ (1,561)</b>	<b>\$ (3,705)</b>

### Political and Country Risk

First Majestic currently conducts foreign operations primarily in México, 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.

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.

Since June 2013, Davila Santos has pursued various applications and appeals to reverse the judgment by the Supreme Court of British Columbia. As judgment against Davila Santos was not regarded as conclusive until outcome of the appeals were determinable, the sum of \$14.1 million received as partial payment of the judgment was recorded as deferred litigation gain on the Company's statements of financial position prior to the current period. On June 5, 2014, the Court of Appeal dismissed the appeal filed by the defendants. As a result, the Company has recognized the \$14.1 million deferred litigation gain as other income in the second quarter.

On June 27, 2014, Davila Santos filed an application for leave to appeal to the Supreme Court of Canada. It is of management's opinion that the defendant will not succeed. However, there can be no guarantee of collection on the remainder of the judgment amount and it is likely that it will be necessary to take additional action in México and/or elsewhere to recover the balance. Therefore, as at December 31, 2014, the Company has not accrued any of the remaining \$70.3 million (CAD\$81.5 million) unpaid judgment in favour of the Company.

## **SHARE REPURCHASE PROGRAM**

In March 2014, the Company received approval from the Toronto Stock Exchange to extend the Company's share repurchase program to repurchase up to 5,865,931 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, 2014, the Company repurchased and cancelled 140,000 (December 31, 2013 – 215,000) shares for a total consideration of \$0.9 million (December 31, 2013 - \$2.4 million), of which \$0.5 million (December 31, 2013 - \$0.8 million) was recorded as a reduction to share capital and the remaining balance of \$0.4 million (December 31, 2013 - \$1.6 million) was recorded against retained earnings.

## **OFF-BALANCE SHEET ARRANGEMENTS**

At December 31, 2014, 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 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, 2014 and 2013, there were no significant transactions with related parties outside of the ordinary course of business.

## **SUBSEQUENT EVENTS**

Subsequent to December 31, 2014:

- a) 2,267,055 options were granted with a weighted average exercise price of CAD\$6.14 and expire in five years from the grant date; and
- b) 62,000 options were cancelled.

Pursuant to the above subsequent events, the Company has 117,594,640 common shares outstanding as at the date on which the Company's consolidated financial statements were approved and authorized for issue by the Board of Directors.

## **CRITICAL JUDGEMENTS 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 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.

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 judgement 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 the Company's consolidated financial statements have been impacted by management's determination that commercial production was achieved for the following expansions:

- the flotation plant at the Del Toro mine achieved commercial production on April 1, 2013; and
- the 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 consider 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-expansory 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 judgements 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. Starting in 2014, capital assets are 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 withholding tax is effective January 1, 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 México-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 recognized a non-cash deferred income tax liability of \$35.1 million as at December 31, 2013 in respect of this royalty. During the year ended December 31, 2014, the Company reduced this deferred income tax liability by \$5.4 million principally due to the recording of an impairment of \$102.0 million on certain mines and projects. The remaining deferred income tax liability associated with the mining royalty 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 is also tax deductible for income tax purposes.

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, México 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 specified in legislation. The Company has a remaining deconsolidation liability of \$37.0 million of which \$1.7 million is classified as a current income tax liability due in 2015, and the balance is non-current.

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, 2014, the Company has total non-capital loss carryforwards of \$272.8 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 and Other Contingencies***

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.

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 as at December 31, 2014. The Company will continue to monitor developments in México and to assess the potential impact of these amendments.

## **CHANGES IN ACCOUNTING POLICIES AND ESTIMATES**

### **Accounting Policies Adopted Effective January 1, 2014**

#### ***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 adoption of this interpretation did not have a significant impact on the Company's 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 adoption of this standard did not have a significant impact on the Company's consolidated financial statements.

### **Future Changes in Accounting Policies**

#### ***Revenue Recognition***

In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers* ("IFRS 15") which supersedes IAS 11 – *Construction Contracts*, IAS 18 – *Revenue*, IFRIC 13 – *Customer Loyalty Programmes*, IFRIC 15 – *Agreements for the Construction of Real Estate*, IFRIC 18 – *Transfers of Assets from Customers*, and SIC 31 – *Revenue – Barter Transactions* involving Advertising Services. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

#### ***Financial instruments***

In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments* ("IFRS 9") to replace IAS 39 – *Financial Instruments: Recognition and Measurement*. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. IFRS 9 also includes a substantially reformed approach to hedge accounting. The standard is effective for annual periods

beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

### **Change in Accounting Estimates Effective January 1, 2014**

#### ***Change in Depreciation Method***

Effective January 1, 2014, the Company changed its depreciation method on long-lived assets which have expected useful lives equivalent to estimated life of mines, such as plant and buildings, from the straight-line method to the units-of-production method. The Company believes the units-of-production method better reflects the rate of depreciation of the asset, as well as the pattern of consumption of the future benefits to be derived from those assets, especially during the expansionary or ramp up stage of the asset. In accordance with IFRS, a change in depreciation method is applied on a prospective basis as a change in accounting estimate and, therefore, prior period results have not been restated.

### **OTHER**

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

- SEDAR at [www.sedar.com](http://www.sedar.com);
- the Company's Annual Information Form; and
- the Company's audited consolidated financial statements for the year ended December 31, 2014

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

### **Disclosure Controls and Procedures**

The Company's management, with the participation of its President and Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures. Based upon the results of that evaluation, the Company's President and Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2014, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in reports it files is recorded, processed, summarized and reported, within the appropriate time periods and is accumulated and communicated to management, including the President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

### **Internal Control over Financial Reporting**

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

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

The Company's internal control over financial reporting may not prevent or detect all misstatements because of inherent limitations. Additionally, projections of any evaluation of effectiveness for future periods are subject to

the risk that controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with the Company's policies and procedures.

Management assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2014 based on the criteria set forth in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management have concluded that, as at December 31, 2014, the Company's internal controls over financial reporting were effective and no material weakness was identified. There has been no change in the Company's internal control over financial reporting during the year ended December 31, 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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

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