

## COMBINATION AGREEMENT

**THIS AGREEMENT** dated for reference August 9, 2006.

BETWEEN:

**FIRST MAJESTIC RESOURCE CORP.**, a corporation constituted and existing under the laws of the Province of British Columbia ,

("First Majestic ")

AND:

**FIRST SILVER RESERVE INC.**, a corporation constituted and existing under the laws of the Province of British Columbia ,

("First Silver")

RECITALS:

A. The respective boards of directors of First Silver and First Majestic have approved the combination of First Majestic and First Silver pursuant to the Arrangement, providing for, among other things, the acquisition by First Majestic on the Effective Date of all of the issued and outstanding First Silver Shares;

B. The independent committee of the board of directors of First Silver has unanimously determined that the Arrangement is in the best interests of First Silver and is fair to the First Silver Shareholders and has recommended that the board of directors recommend that the First Silver Shareholders approve the Arrangement at the First Silver Meeting subject to the terms of this Agreement; and

C. Subject to the provisions hereof, the board of directors of First Silver has unanimously recommended that the First Silver Shareholders approve the Arrangement at the First Silver Meeting.

NOW, THEREFORE, THIS AGREEMENT WITNESSES THAT, in consideration of the mutual covenants and agreements hereinafter set forth and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto covenant and agree as follows:

### **1. INTERPRETATION**

#### **1.1 Definitions**

In this Agreement, including the Schedules hereto, unless there is something in the subject matter inconsistent therewith, the following terms will have the following meanings and grammatical variations of those terms will have corresponding meanings:

- (a) "**Acquisition Proposal**" means any offer or proposal, other than the Arrangement, for (i) the direct or indirect acquisition or distribution of First Silver Shares representing more than 25% of the number of First Silver Shares then outstanding; or (ii) any amalgamation, merger, sale of First Silver's assets representing more than 25% of the book value of its assets (on a consolidated basis), take-over bid, plan of arrangement, exchange offer,

issuer bid, dividend or distribution out of the ordinary course of business, recapitalization, liquidation or winding-up of, reverse take-over or other business combination or similar transaction involving First Silver or its assets;

- (b) "**Act**" means the *Business Corporations Act* (British Columbia), as now in effect and as it may be amended or replaced from time to time, prior to the Effective Date;
- (c) "**Affiliate**" has the meaning attributed to that term in the Securities Act;
- (d) "**Agreement**", "**hereof**", "**hereunder**" and similar expressions mean this agreement, including the recitals and Schedules hereto and includes any agreement or instrument supplementary or ancillary hereto;
- (e) "**Appropriate Regulatory Approvals**" means those sanctions, rulings, consents, orders, exemptions, permits and other approvals (including the lapse, without objection, of a prescribed time under a Law that states that a transaction may be implemented if a prescribed time lapses following the giving of notice without an objection being made) of Governmental Entities, regulatory agencies or self-regulatory organizations, as set out in Schedule A hereto;
- (f) "**Arrangement**" means an arrangement under the provisions of Sections 288 to 299 of the Act on the terms and conditions set forth in this Agreement and the Plan of Arrangement and any amendment or variation thereto made in accordance with the terms of this Agreement, Section 5 of the Plan of Arrangement or made at the direction of the Court (with the consent of the parties, acting reasonably) in the Final Order;
- (g) "**Benefit Plan**" means a pension, retirement, profit sharing, bonus, savings, deferred compensation, stock option, share purchase, share appreciation, group insurance or other material employee or retiree benefit plan, programme or arrangement, formal or informal, registered, unregistered or supplementary, oral or written, maintained or contributed to, or required to be contributed to, in the case of First Silver, by or on behalf of First Silver or a Subsidiary of First Silver or in respect of which First Silver or a Subsidiary of First Silver has an actual, actuarial or contingent liability and, in the case of First Majestic, by or on behalf of First Majestic or a Subsidiary of First Majestic or in respect of which First Majestic or a Subsidiary of First Majestic has an actual, actuarial or contingent liability;
- (h) "**Business Day**" means a day which is not a Saturday, Sunday or a statutory holiday in British Columbia;
- (i) "**Circular**" means the management information circular of First Silver to be prepared and sent to First Silver Shareholders in connection with the First Silver Meeting, which shall be in form, scope and content satisfactory to First Silver and First Majestic, each acting reasonably;
- (j) "**Claim**" means any written claim or notice of any nature whatsoever, including any demand, dispute, notification of liability, notification of remediation work, order, obligation, debt, cause of action, action, suit, proceeding, litigation, arbitration, judgment, award or assessment;

- (k) "**Contaminant**" means any pollutants, explosives, dangerous goods and substances, underground or above ground storage tanks, deleterious substances, special waste, liquid waste, industrial waste, hauled liquid waste or waste of any other kind, toxic substances, hazardous wastes, hazardous materials, hazardous substances or contaminants or any other substance the storage, manufacture, disposal, handling, treatment, generation, use, transport or release into the environment of which is prohibited, controlled or regulated under any Environmental Law;
- (l) "**Court**" means the Supreme Court of the Province of British Columbia;
- (m) "**Dissent Rights**" means the rights of dissent in respect of the Arrangement described in Section 3 of the Plan of Arrangement;
- (n) "**Effective Date**" means the date upon which a copy of the Final Order is filed with the registered office of First Silver;
- (o) "**Effective Time**" has the meaning ascribed thereto in the Plan of Arrangement;
- (p) "**Environmental Activity**" means any activity, event or circumstance in respect of a Contaminant, including, without limitation, its storage, use, holding, collection, purchase, accumulation, assessment, generation, manufacture, construction, processing, treatment, stabilization, disposition, handling or transportation, or its Release, escape, leaching, dispersal or migration into the natural environment, including the movement through or in the air, soil (land surface or subsurface strata), surface water or groundwater;
- (q) "**Environmental Law**" means any and all Laws in effect on the date hereof relating to pollution or the environment or any Environmental Activity;
- (r) "**Environmental Permits**" means, collectively, all permits, licences, certificates, variances, remediation orders and authorizations of or any registration with, any Government Entity pursuant to any Environmental Law;
- (s) "**Final Order**" means the final order of the Court approving the Arrangement as such order may be amended by the Court (with the consent of the parties, acting reasonably) at any time prior to the Effective Date or, if appealed, then, unless such appeal is withdrawn or denied, as affirmed or as amended (with the consent of the parties, acting reasonably) on appeal;
- (t) "**First Majestic Assets**" means all assets, property and rights in which First Majestic holds a participating interest directly or indirectly through any Subsidiary of First Majestic;
- (u) "**First Majestic Broker Warrants**" means the broker warrants to be issued upon exercise of the First Majestic Underwriter Compensation Option, each of which entitles the holder thereof to acquire one First Majestic Share upon the valid exercise of such warrant in accordance with the terms thereof;

- (v) **"First Majestic Disclosure Documents"** means the following disclosure documents of First Majestic:
- (i) short form prospectus of First Majestic dated July 19, 2006;
  - (ii) the annual audited financial statements of First Majestic for the year ended June 30, 2005;
  - (iii) management information circular in respect of the annual general meeting of First Majestic Shareholders held on December 15, 2005;
  - (iv) interim unaudited financial statements of First Majestic for the periods ended September 30, 2005 and December 31, 2005;
  - (v) amended and restated interim unaudited financial statements of First Majestic for the period ended March 31, 2006;
  - (vi) revised annual information form dated as of June 28, 2006;
  - (vii) the business acquisition report dated July 6, 2006 with respect to the acquisition of approximately 63% of the issued and outstanding shares of First Silver; and
  - (viii) material change reports (other than confidential material change reports) of First Majestic filed with any securities regulatory authority or issued by First Majestic since July 1, 2005.

which First Majestic Disclosure Documents have been or will have been filed to the extent required by Securities Legislation;

- (w) **"First Majestic Financial Statements"** means the audited financial statements of First Majestic in respect of the fiscal year ended June 30, 2005 and the interim unaudited financial statements for the periods ended September 30, 2005, December 31, 2005 and amended and restated March 31, 2006 forming part of the First Majestic Disclosure Documents;
- (x) **"First Majestic Shareholders"** means the holders of First Majestic Shares;
- (y) **"First Majestic Shares"** means common shares in the capital of First Majestic as constituted on the date hereof;
- (z) **"First Majestic Stock Option Plan"** means the stock option plan of First Majestic approved by the shareholders of First Majestic on December 15, 2005, as may be amended from time to time by First Majestic;
- (aa) **"First Majestic Stock Options"** means the outstanding options to purchase First Majestic Shares issued pursuant to the First Majestic Stock Option Plan;
- (bb) **"First Majestic Underwriter Compensation Options"** means the outstanding underwriter compensation options exercisable without additional consideration into First Majestic Broker Warrants;

- (cc) **"First Silver Assets"** means all assets, property and rights in which First Silver holds a participating interest;
- (dd) **"First Silver Disclosure Documents"** means the following disclosure documents of First Silver:
- (i) management information circular in respect of the annual meeting of First Silver Shareholders held on June 19, 2006;
  - (ii) audited financial statements for the year ended December 31, 2005
  - (iii) amended and restated interim unaudited financial statements for the period ended March 31, 2006; and
  - (iv) material change reports (other than confidential material change reports) filed with any securities regulatory authority or issued by First Silver since January 1, 2006,

which First Silver Disclosure Documents have been or will have been filed to the extent required by Securities Legislation;

- (ee) **"First Silver Financial Statements"** means the audited financial statements of First Silver in respect of the fiscal year ended December 31, 2005 and amended and restated unaudited financial statements for the period ended March 31, 2006 forming part of the First Silver Disclosure Documents;
- (ff) **"First Silver Majority of Minority Resolution"** means the ordinary resolution of the First Silver Shareholders, other than First Majestic and any other First Silver Shareholder who is an "interested party" or "related party" (as defined in OSC Rule 61-501), approving the Arrangement by way of a majority of the First Silver Shares voted at the First Silver Meeting as contemplated in Section 2.2 hereof, such resolution to be substantially in the form and content as set out in Schedule B hereto;
- (gg) **"First Silver Meeting"** means the special meeting of the First Silver Shareholders (including any adjourned or postponed meeting) to be held for the purpose of considering and, if deemed advisable, approving the First Silver Special Resolution and, if required, the First Silver Majority of the Minority Resolution;
- (hh) **"First Silver Options"** means the rights (whether or not vested) to purchase First Silver Shares which are from time to time outstanding under the First Silver Stock Option Plan;
- (ii) **"First Silver Special Resolution"** means the special resolution of the First Silver Shareholders approving the Arrangement by at least 66% of the First Silver Shares voted at the First Silver Meeting in accordance with Section 289 of the Act (or any replacement thereof) as contemplated in Section 2.2 hereof, such special resolution to be substantially in the form and content as set out in Schedule B hereto;
- (jj) **"First Silver Shareholders"** means the holders of First Silver Shares shown from time to time in the register maintained by or on behalf of First Silver in respect of First Silver Shares;

- (kk) "**First Silver Shares**" means the common shares in the capital of First Silver;
- (ll) "**First Silver Stock Option Plan**" means the stock option plan of First Silver dated June 22, 1998 as constituted as of the date hereof pursuant to which participants are granted First Silver Options;
- (mm) "**GAAP**" means Canadian generally accepted accounting principles from time to time and which meet the standards established by the Canadian Institute of Chartered Accountants;
- (nn) "**Governmental Entity**" means any (i) multinational, federal, provincial, state, regional, municipal, local or other government, governmental or public department, central bank, court, tribunal, arbitral body, commission, board, bureau or agency, including securities regulatory authorities, domestic or foreign, (ii) subdivision, agent, commission, board, or authority of any of the foregoing, or (iii) quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing, including the TSX and the TSXV;
- (oo) "**including**" means including without limitation;
- (pp) "**Interim Order**" means an interim order of the Court pursuant to Section 291 of the Act, as such order may be amended, supplemented or varied by the Court, in respect of the Arrangement as contemplated by Section 2.4;
- (qq) "**Law**" means all statutes, regulations, statutory rules, policies, orders, and terms and conditions of any grant of approval, permission, authority or license of any court, Governmental Entity, statutory body (including the TSX and the TSXV) or self-regulatory authority, and the term "applicable" with respect to such Law and in the context that refers to one or more Persons, means that such Law applies to such Person or Persons or its or their business, undertaking, property or securities and emanates from a Governmental Entity, statutory body or regulatory authority having jurisdiction over the Person or Persons or its or their business, undertaking, property or securities;
- (rr) "**Letter of Transmittal**" means the letter of transmittal to be forwarded by First Silver to First Silver's Shareholders, other than First Majestic, with the Circular, which shall be in form and scope satisfactory to First Silver and First Majestic, each acting reasonably;
- (ss) "**Lien**" means any mortgage, hypothec, prior claim, lien, pledge, assignment for security, security interest, lease, option, right of third parties or other charge or encumbrance, including the lien or retained title of a conditional vendor, and any easement, servitude, right of way or other encumbrance on title to real or immovable property or personal or movable property;
- (tt) "**Mailing Date**" means August 14, 2006, or such earlier or later date as agreed upon by First Silver and First Majestic;
- (uu) "**Material Adverse Change**", when used in connection with First Majestic or First Silver, means any change, event, occurrence or change in state of facts with respect to its condition (financial or otherwise), properties, assets, liabilities, obligations (whether absolute, accrued, conditional or otherwise), businesses, operations or results of operations or those of its Subsidiaries including any actual or threatened enforcement, civil or other proceeding by a Governmental Entity that is, or would reasonably be

expected to be, material and adverse to the business, operations or financial condition of such party and its Subsidiaries taken as a whole, other than any change, event or occurrence (i) relating to the Canadian or United States' economy or financial, currency exchange, securities or commodity markets in general, or in markets for silver on a current or forward basis, (ii) affecting the Canadian or United States silver mining industry in general, other than where the effects of such change on the relevant party are materially disproportionate to the effects of such change on the other party or (iii) related to the Arrangement or the public announcement thereof or the trading prices of the First Silver Shares or the First Majestic Shares immediately following or reasonably attributable to the announcement of the Arrangement;

- (vv) "**Material Adverse Effect**" means any effect that constitutes a Material Adverse Change;
- (ww) "**Material Agreements**" means, in the case of First Silver, all agreements to which First Silver or a Subsidiary of First Silver is a party described or referred to in the First Silver Disclosure Documents and all other contracts, agreements, licences and instruments to which First Silver or a Subsidiary of First Silver is a party or by which any of them is bound which are material to First Silver and its Subsidiary, taken as a whole and, in the case of First Majestic, means all agreements to which First Majestic or a Subsidiary of First Majestic is a party described or referred to in the First Majestic Disclosure Documents and all other contracts, agreements, licenses and instruments to which First Majestic or a Subsidiary of First Majestic is a party or by which any of them is bound which are material to First Majestic and its Subsidiaries, taken as a whole;
- (xx) "**Meeting Date**" means September 7, 2006 or such later date as agreed upon by First Silver and First Majestic and set forth in the Interim Order;
- (yy) "**Misrepresentation**" has the meaning attributed to that term as at the date hereof in the Securities Act;
- (zz) "**Permitted Lien**" means any Lien for Taxes not yet due and payable or the validity of which is being contested at the time by the relevant party in good faith through proper legal proceedings;
- (aaa) "**Person**" includes any individual, firm, partnership, joint venture, venture capital fund, limited liability company, unlimited liability company, association, trust, trustee, executor, administrator, legal personal representative, estate, group, body corporate, corporation, unincorporated association or organization, Governmental Entity, First Nation, syndicate or other entity, whether or not having legal status;
- (bbb) "**Plan of Arrangement**" means the plan of arrangement substantially in the form and content as set out in Schedule C hereto and any amendments or variations thereto made in accordance with Section 6.1 hereof, Section 5 of the Plan of Arrangement or made at the direction of the Court (with the consent of the parties, acting reasonably) in the Final Order;
- (ccc) "**Pre-Effective Date Period**" shall mean the period from and including the date hereof to and including the Effective Time;
- (ddd) "**Representatives**" means the officers, directors, employees, consultants or legal counsel of a party to this Agreement;

- (eee) "**Release**" means discharge, spray, inject, inoculate, abandon, deposit, spill, leak, seep, migrate, pour, emit, empty, throw, dump, place or exhaust, and when used as a noun has a similar meaning;
- (fff) "**Securities Act**" means the *Securities Act* (British Columbia), as now in effect and as it may be amended from time to time prior to the Effective Date;
- (ggg) "**Securities Legislation**" means the Securities Act and the equivalent Law in the other provinces of Canada and in the United States, and the published instruments and rules of any Governmental Entity administering those statutes, as well as the rules, regulations, by-laws and policies of the TSX and TSXV;
- (hhh) "**Special Committee**" means a committee of independent directors of First Silver established by the board of directors of First Silver;
- (iii) "**Subsidiary**" has the meaning attributed to that term in the Act;
- (jjj) "**Superior Offer**" means an unsolicited bona fide offer, the terms of which are considered in good faith by the board of directors of First Majestic or First Silver (following consultation with and advice received from independent outside legal counsel), as applicable, to be clearly superior to the terms of the Arrangement, and which must be accepted and/or recommended to shareholders in order to meet the board of directors' fiduciary obligations.
- (kkk) "**Tax Code**" means the Internal Revenue Code of 1986 of the United States, as amended and the rules and regulations promulgated thereunder.
- (lll) "**Tax**" or "**Taxes**" means, with respect to any Person, all income taxes (including any tax on or based upon net income, gross income, income as specially defined, earnings, profits or selected items of income, earnings or profits) and all capital taxes, gross receipts taxes, environmental taxes, sales taxes, use taxes, royalties, *ad valorem* taxes, value added taxes, transfer taxes, franchise taxes, social service taxes, license taxes, withholding taxes, payroll taxes, health taxes, employer health taxes, employment taxes, Canada or Quebec Pension Plan premiums, excise taxes, social security premiums, workers' compensation premiums, employment or unemployment insurance or compensation premiums, stamp taxes, occupation taxes, premium taxes, property taxes, windfall profits taxes, alternative or add-on minimum taxes, goods and services tax, customs duties or other taxes, fees, imports, assessments or charges of any kind whatsoever, together with any interest and any penalties or additional amounts imposed by any taxing authority (domestic or foreign) on that Person, and any interest, penalties, additional taxes and additions to tax imposed with respect to the foregoing;
- (mmm) "**Tax Returns**" means all returns, declarations, reports, information returns and statements required to be filed with any taxing authority relating to Taxes;
- (nnn) "**Termination Date**" means October 31, 2006 or any later date as may be agreed to in writing by First Silver and First Majestic;
- (ooo) "**TSX**" means the Toronto Stock Exchange;
- (ppp) "**TSXV**" means the TSX Venture Exchange;

- (qqq) “**United States**” means “United States” as defined in Regulation S of the U.S. Securities Act;
- (rrr) “**U.S. Exchange Act**” means the United States Securities Exchange Act of 1934, as amended; and
- (sss) “**U.S. Securities Act**” means the United States *Securities Act of 1933*, as amended.

## 1.2 **Interpretation Not Affected by Headings, etc.**

The division of this Agreement into Sections and other portions and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation hereof. Unless otherwise indicated, all references to a Section followed by a number and/or a letter refer to the specified Section of this Agreement. The terms "this Agreement", "hereof", "herein" and "hereunder" and similar expressions refer to this Agreement (including the Schedules hereto) and not to any particular Section or other portion hereof and include any agreement or instrument supplementary or ancillary hereto.

## 1.3 **Number and Gender**

In this Agreement, unless the context otherwise requires, words used herein importing the singular include the plural and vice versa and words importing gender include all genders.

## 1.4 **Date of Any Action**

In the event that any date on which any action is required to be taken hereunder by any of the parties hereto is not a Business Day, such action shall be required to be taken on the next succeeding day which is a Business Day.

## 1.5 **Subsidiaries**

Notwithstanding any other provision hereof, to the extent any covenants contained herein relate, directly or indirectly, to a Subsidiary of either First Silver or First Majestic, each such provision will be construed as a covenant by First Silver or First Majestic, as the case may be, to cause (to the fullest extent to which it is legally capable) that Subsidiary to perform the required action.

## 1.6 **Currency**

Unless otherwise stated, all references in this Agreement to sums of money are expressed in lawful money of Canada.

## 1.7 **Knowledge**

Each reference herein to the knowledge of a party means, unless otherwise specified, the existing knowledge of any vice-president or more senior officer of such party without inquiry.

## 1.8 **Statutory References**

Any reference in this Agreement to a statute includes all rules and regulations made thereunder, all amendments to that statute or the rules and regulations made thereunder in force from time to time, and any statute or rule or regulation that supplements, supersedes or replaces that statute or the rules or regulations made thereunder.

## 1.9 **Entire Agreement**

This Agreement and the other agreements and documents referred to herein, constitute the entire agreement between the parties hereto pertaining to the terms of the Arrangement and ancillary arrangements and supersede all other prior agreements, understandings, negotiations and discussions, whether oral or written, between the parties hereto with respect to the terms of the Arrangement and such arrangements.

## 1.10 **Accounting Matters**

Unless otherwise stated, all accounting terms used in this Agreement shall have the meanings attributable thereto under GAAP and all determinations of an accounting nature required to be made hereunder in respect of any party shall be made in a manner consistent with GAAP as historically applied by such party.

## 1.11 **Schedules**

The following are the Schedules to this Agreement, which form an integral part hereof:

- Schedule A: Appropriate Regulatory Approvals
- Schedule B: First Silver Resolution
- Schedule C: Plan of Arrangement
- Schedule D: Representations and Warranties of First Silver
- Schedule E: Representations and Warranties of First Majestic

## 1.12 **Date of Agreement**

For all purposes, including the representations and warranties given in Section 3 and Schedules D and E, the date of this Agreement shall be August 9, 2006, notwithstanding its subsequent amendment or amendment and restatement from time to time.

## **2. THE ARRANGEMENT**

### **2.1 The Arrangement**

Subject to the terms of the Plan of Arrangement, at the Effective Time, the following shall occur and shall be deemed to have occurred in the following order without any further act or formality:

- (a) each First Silver Share, other than First Silver Shares held by First Majestic or held by holders who have validly exercised Dissent Rights (as contemplated in Section 3 of the Plan of Arrangement) shall be and shall be deemed to be transferred to First Majestic and, subject to Section 4.2 of the Plan of Arrangement, each of the holders thereof (other than First Majestic) shall receive, at its election as set out in the Letter of Transmittal:
  - (i) One (1) First Majestic Share for every two (2) First Silver Shares held; or
  - (ii) cash consideration for their First Silver Shares in the amount of \$2.165 per First Silver Share held, payable on the basis of 50% upon the Effective Date and the balance payable in two equal instalments on the first and second anniversary of the Effective Date, with interest payable quarterly at 6.0% per annum on the unpaid balance from the Effective Date provided that in the event that a holder of

a First Silver Share submits a Letter of Transmittal 90 or more days following the Effective Date, such holder shall only be entitled to receive First Majestic Shares for the First Silver Shares held by them in accordance with Section 2.1(a)(i);

- (b) 12,324,600 First Silver Shares owned by First Majestic shall be and shall be deemed to be returned to treasury for cancellation by First Silver;
- (c) each First Silver Option, to the extent that it has not been exercised shall be transferred to First Majestic in exchange for a share purchase option of First Majestic to purchase that number of First Majestic Shares determined by dividing the number of First Silver Shares subject to each such First Silver Option by two (2) at an exercise price per First Majestic Share equal to the exercise price per First Silver Share of each such First Silver Option multiplied by two (2), with a term to expiry equivalent to the First Silver Option exercised. If the foregoing calculation results in the option being exercisable for a fraction of a First Majestic Share, then the number of First Majestic Shares subject to such option shall be rounded down to the nearest whole number of shares and the aggregate exercise price for the option will be reduced by the exercise price for one (1) First Majestic Share multiplied by the fractional entitlement. All options issued by First Majestic on such exchange shall be governed by the First Majestic Stock Option Plan;
- (d) with respect to each First Silver Share and First Silver Option transferred to First Majestic pursuant to the Plan of Arrangement, at the Effective Time, without any further act or formality:
  - (i) the holder thereof shall cease to be the holder of such security and the name of the holder thereof shall be removed from the register of such securities of First Silver; and
  - (ii) the holder thereof shall be deemed to have executed and delivered all consents, releases, assignments and waivers, statutory or otherwise, required to validly transfer such security in accordance with the Plan of Arrangement.

## 2.2 **Implementation Steps by First Silver**

First Silver covenants in favour of First Majestic that First Silver shall:

- (a) as soon as reasonably practicable taking into account the proposed Mailing Date, apply in a manner acceptable to First Majestic, acting reasonably, under subsection 289 of the Act for the Interim Order in a manner consistent with this Agreement, and thereafter diligently proceed to seek the Interim Order;
- (b) subject to receipt of the Interim Order and the mailing of the Circular, as soon as reasonably practicable, convene and hold the First Silver Meeting on or before the Meeting Date for the purpose of having First Silver Shareholders consider and, if deemed advisable, approve the First Silver Special Resolution and, if required, the First Silver Majority of Minority Resolution (and for any other proper purpose relating to the Arrangement as may be set out in the notice for such meeting);
- (c) if: (i) at the First Silver Meeting the approval of the First Silver Special Resolution and, if required, the approval of the First Silver Majority of the Minority Resolution is obtained in accordance with the Interim Order (including any variation thereof approved by First

Silver and First Majestic) is obtained; (ii) any other approvals required by the Interim Order (including any variation thereof approved by First Silver and First Majestic) are obtained, and (iii) all Appropriate Regulatory Approvals are obtained, as soon as reasonably practicable thereafter apply to the Court for the Final Order on such terms as the Court may direct and as First Silver and First Majestic may agree and thereafter diligently seek the Final Order; and

- (d) if the Final Order is obtained, on a date and time agreed with First Majestic, acting reasonably, subject to the fulfillment or waiver of each of the conditions set forth in Section 5 hereof, file, as soon as reasonably practicable following satisfaction or waiver of each of such conditions and completion of all steps required by the Plan of Arrangement to be completed prior to the Effective Date, a copy of the Final Order with the registered office of First Silver.

### 2.3 **Implementation Steps by First Majestic**

First Majestic covenants in favour of First Silver that First Majestic shall:

- (a) cooperate with, assist and consent to First Silver seeking the Interim Order and the Final Order;
- (b) as soon as reasonably practicable, apply for and use all commercially reasonable efforts to obtain all orders required from the applicable Canadian securities authorities, if any, to permit the issuance and first resale of the securities of First Majestic issued pursuant to the Arrangement without qualification with or approval of or the filing of any prospectus or similar document with, or the taking of any proceeding with, or the obtaining of any further order, ruling or consent from, any Governmental Entity or regulatory authority under any applicable Securities Legislation, or the fulfillment of any other legal requirement in any such jurisdiction; and
- (c) as soon as reasonably practicable, apply for and use all commercially reasonable efforts to obtain all applicable regulatory approvals (including those of the TSXV) to enable the First Majestic Shares issuable in connection with the Arrangement to be listed and posted for trading on the TSXV by the Effective Date.

### 2.4 **Interim Order**

The petition for the application referred to in Section 2.2(a) shall request that the Interim Order provide for the holding of a meeting of First Silver Shareholders pursuant to Section 289 of the Act and:

- (a) for the class of Persons to whom notice is to be provided in respect of the Arrangement and the First Silver Meeting and for the manner in which such notice is to be provided;
- (b) that the requisite approval for the First Silver Special Resolution shall be two-thirds of the votes cast on the First Silver Special Resolution by First Silver Shareholders present in person or by proxy at the First Silver Meeting;
- (c) that the requisite approval for the First Silver Majority of the Minority Resolution shall be greater than 50% of the votes cast on the First Silver Majority of the Minority Resolution;

- (d) that, in all other respects, the terms, restrictions and conditions of the Articles of First Silver, including quorum requirements and all other matters, and the provisions of applicable Law shall apply in respect of the First Silver Meeting; and
- (e) for the grant of the Dissent Rights.

## 2.5 **Circular**

First Silver and First Majestic shall proceed diligently in a co-ordinated manner using commercially reasonable efforts to jointly prepare as quickly as possible the Circular together with any other documents required by the Securities Act or other applicable Law in connection with the Arrangement and the First Silver Meeting for mailing by the Mailing Date. First Silver agrees to provide to First Majestic a reasonable opportunity to review and to comment on the Circular and First Silver shall take into consideration and make such changes thereto as are reasonably requested by First Majestic. Each of First Silver and First Majestic shall ensure that the information relating to it which is provided in the Circular does not contain any Misrepresentation. First Silver shall ensure that the Circular complies with all applicable Law and provides the First Silver Shareholders with information in sufficient detail to permit them to form a reasoned judgment concerning the matters to be placed before them at the First Silver Meeting. Each of First Silver and First Majestic shall promptly notify the other if, at any time during the Pre-Effective Date Period, it becomes aware that the Circular contains a Misrepresentation. In such event, First Silver and First Majestic shall co-operate in the preparation of a supplement or amendment to the Circular, as the case may be, that corrects that Misrepresentation, and will cause the same to be distributed to the First Silver Shareholders and filed with each applicable Governmental Entity under applicable Securities Legislation.

First Silver shall cause the Circular and any other documentation required in connection with the First Silver Meeting to be sent to each First Silver Shareholder as soon as reasonably practicable following receipt of the Interim Order and to be filed as required by the Interim Order and applicable Law.

## 2.6 **Board Recommendation**

First Silver confirms that its board of directors has unanimously approved this Agreement, the Arrangement and the Plan of Arrangement, has determined, after consultation with the Special Committee and its financial advisors, that the Arrangement is fair, from a financial point of view, to the First Silver Shareholders and has resolved to unanimously recommend approval of the Arrangement by the First Silver Shareholders. The Circular will set forth (among other things) the recommendation of the board of directors of First Silver as described above and will include a summary of the valuation and fairness opinion of Evans & Evans, Inc.

## 2.7 **Preparation of Filings**

- (a) First Silver and First Majestic shall cooperate in:
  - (i) the preparation and filing of any application for the orders and the preparation of any required documents reasonably deemed by First Majestic or First Silver to be necessary to discharge their respective obligations under applicable Securities Legislation in Canada in connection with the Arrangement and the other transactions contemplated hereby;
  - (ii) the taking of all such action as may be required under applicable Securities Legislation in Canada in connection with the issuance of the First Majestic

Shares in connection with the Arrangement; provided, however, that neither First Majestic nor First Silver shall be required to register or qualify as a foreign corporation or to take any action that would subject it to service of process in any jurisdiction where such entity is not now so subject, except as to matters and transactions arising solely from the offer and sale of the First Majestic Shares; and

- (iii) the taking of all such action as may be required under the Act in connection with the transactions contemplated by this Agreement and the Plan of Arrangement.
  
- (b) Each of First Silver and First Majestic shall furnish to the other all such information concerning it and its shareholders as may be required (and, in the case of its shareholders, available to it) for the effectuation of the actions described in Sections (b), 2.5 and the foregoing provisions of this Section 2.7, and each covenants that no information furnished by it (to its knowledge in the case of information concerning its shareholders) in connection with such actions or otherwise in connection with the consummation of the Arrangement and the other transactions contemplated by this Agreement will, at the date such information is provided, contain any Misrepresentation.

## 2.8 **Solicitation of Proxies**

First Silver agrees that First Majestic may at any time, directly or through a soliciting dealer, actively solicit proxies in favour of the First Silver Special Resolution and the First Silver Majority of the Minority Resolution and acknowledges that First Majestic may, subject to applicable Law, utilize the Circular as a proxy circular of First Majestic for such purpose; provided that in exercising such rights, First Majestic and its agents shall co-operate on a reasonable basis with First Silver. First Silver agrees that it will solicit proxies for the approval of the First Silver Special Resolution and the First Silver Majority of the Minority Resolution in accordance with the Circular and the Interim Order, and if requested by First Majestic, will retain a proxy solicitation firm or information agent in furtherance of such solicitation.

## 2.9 **U.S. Securities Law Matters**

The parties agree that the Arrangement will be carried out with the intention that all shares issued on completion of the Arrangement to the holders of First Silver Shares and First Silver Options in exchange for such securities will be issued in reliance on the exemption from the registration requirements of the U.S. Securities Act provided by Section 3(a)(10) of the U.S. Securities Act (the "Section 3(a)(10) Exemption"). In order to ensure the availability of the Section 3(a)(10) Exemption, the parties agree that the Arrangement will be carried out on the following basis:

- (a) the Arrangement will be subject to the approval of the Court;
- (b) the Court will be advised as to the intention of the parties to rely on the Section 3(a)(10) Exemption prior to the hearing required to approve the Arrangement;
- (c) the Court will be required to satisfy itself as to the fairness of the Arrangement;
- (d) the order approving the Arrangement that is obtained from the Court will expressly state that the Arrangement is approved by the Court as being fair to the holders of First Silver Shares and First Silver Options;

- (e) First Silver will ensure that each holder of First Silver Shares and First Silver Options entitled to receive securities in exchange of their First Silver securities on completion of the Arrangement will be given adequate notice advising them of their right to attend the hearing of the Court to give approval of the Arrangement and providing them with sufficient information necessary for them to exercise that right;
- (f) the Interim Order approving the meeting of the securityholders of First Silver to approve the Arrangement will specify that each securityholder entitled to receive securities in exchange of their First Silver securities will have the right to appear before the Court so long as they enter an appearance within a reasonable time; and
- (g) the Final Order shall include a statement to the following effect:

“This Order will serve as a basis of a claim to an exemption, pursuant to section 3(a)(10) of the United States Securities Act of 1933 from the registration requirements otherwise imposed by that Act, regarding the distribution of securities of First Majestic Resource Corp. to persons entitled to receive securities in exchange of their First Silver Reserve Inc. securities pursuant to the Plan of Arrangement.”

### **3. REPRESENTATIONS AND WARRANTIES**

#### **3.1 Representations and Warranties of First Silver**

First Silver hereby makes to First Majestic the representations and warranties as set forth in Schedule D to this Agreement and acknowledges that First Majestic is relying upon such representations and warranties in connection with the matters contemplated by this Agreement.

#### **3.2 Representations and Warranties of First Majestic**

First Majestic hereby makes to First Silver the representations and warranties as set forth in Schedule E to this Agreement and acknowledges that First Silver is relying upon such representations and warranties in connection with the matters contemplated by this Agreement.

### **4. COVENANTS**

#### **4.1 Retention of Goodwill**

During the Pre-Effective Date Period, each of First Silver and its Subsidiary and First Majestic and its Subsidiaries shall, subject to the fact that a transaction involving their respective businesses is contemplated hereby, continue to carry on their respective businesses in a manner consistent with prior practice, working to preserve the attendant goodwill of such entities and to contribute to retention of that goodwill to and after the Effective Date, but subject to the following provisions of this Section 4. The following provisions of this Section 4 are intended to be in furtherance of this general commitment.

#### **4.2 Covenants of First Silver**

- (a) First Silver covenants and agrees that, during the Pre-Effective Date Period (or until the earlier termination of this Agreement in accordance with Section 6), except (i) with the prior consent of First Majestic to any deviation therefrom, which shall not be unreasonably withheld, (ii) as required to comply with any Law; or (iii) with respect to

any matter expressly contemplated by this Agreement or the Plan of Arrangement, First Silver shall, and shall cause its Subsidiary to:

- (i) carry on its business in, and only in, the ordinary and regular course in substantially the same manner as heretofore conducted and, to the extent consistent with such business, use all reasonable efforts to preserve intact its present business organization and keep available the services of its present officers and employees and others having business dealings with it to the end that its goodwill and business shall be maintained;
- (ii) not commence to undertake a substantial expansion of its business facilities or an expansion that is out of the ordinary and regular course of business or inconsistent with prior practice;
- (iii) not split, combine or reclassify any of the outstanding First Silver Shares nor declare, set aside or pay any dividends on or make any other distributions on or in respect of the outstanding First Silver Shares;
- (iv) not amend the notice of articles or articles of First Silver or materially amend the constating documents of its Subsidiary;
- (v) not sell, pledge, encumber, allot, reserve, set aside or issue, authorize or propose the sale, pledge, encumbrance, allotment, reservation, setting aside or issuance of, or purchase or redeem or propose the purchase or redemption of, any shares in its capital stock or of its Subsidiary thereof or any class of securities convertible or exchangeable into, or rights, warrants or options to acquire, any such shares or other convertible or exchangeable securities, except for (A) transactions between its wholly-owned Subsidiary and First Silver and (B) the issuance of securities of First Silver on the exercise of First Silver Options granted prior to the date hereof;
- (vi) not, whether through its board of directors or otherwise, accelerate the vesting of any unvested First Silver Options, or otherwise amend, vary or modify the First Silver Stock Option Plan or any First Silver Options;
- (vii) not reorganize, amalgamate or merge First Silver or any Subsidiary with any other Person, nor acquire or agree to acquire by amalgamating, merging or consolidating with, purchasing the shares of or substantially all of the assets of or otherwise, any business of any corporation, partnership, association or other business organization or division thereof, which acquisition would be material to its business or financial condition on a consolidated basis (other than relating to transactions between its wholly-owned Subsidiary and First Silver);
- (viii) except with respect to the sale of assets of First Silver or its Subsidiary in the ordinary and regular course of business consistent with past practice, not sell, pledge, encumber, lease or otherwise dispose of any material assets (other than relating to transactions between its wholly-owned Subsidiary and First Silver);
- (ix) not guarantee the payment of material indebtedness or incur material indebtedness for money borrowed or issue or sell any debt securities;

- (x) not:
  - (A) other than in the ordinary and regular course of business and consistent with past practice or pursuant to existing employment, pension, supplemental pension, termination, compensation arrangements or policies, enter into or materially modify any employment, severance, collective bargaining or similar agreements, policies or arrangements with, or grant any material bonuses, salary increases, stock options, pension or supplemental pension benefits, profit sharing, retirement allowances, deferred compensation, incentive compensation, severance or termination pay to, or make any loan to, any officers or directors of it; or
  - (B) other than in the ordinary and regular course of business and consistent with past practice or pursuant to existing employment, pension, supplemental pension, termination, compensation arrangements or policies, in the case of employees who are not officers or directors, take any action with respect to the entering into or modifying of any material employment, severance, collective bargaining or similar agreements, policies or arrangements or with respect to the grant of any material bonuses, salary increases, stock options, pension or supplemental pension benefits, profit sharing, retirement allowances, deferred compensation, incentive compensation, severance or termination pay or any other form of compensation or profit sharing or with respect to any increase of benefits payable;
- (xi) not, except in the ordinary and regular course of business and consistent with past practice: (A) satisfy or settle any Claims or liabilities prior to the same being due, which are, individually or in the aggregate, material (B) grant any waiver, exercise any option or relinquish any contractual rights which are, individually or in the aggregate, material or (C) enter into any interest rate, currency or commodity swaps, hedges or other similar financial instruments;
- (xii) use its reasonable commercial efforts to cause its current insurance (or re-insurance) policies not to be cancelled or terminated or any of the coverage thereunder to lapse, and subject to the current state of the insurance markets, unless simultaneously with such termination, cancellation or lapse, replacement policies underwritten by insurance and re-insurance companies of nationally recognized standing providing coverage equal to or greater than the coverage under the cancelled, terminated or lapsed policies for substantially similar premiums are in full force and effect;
- (xiii) not settle or compromise any Claim brought by any present, former or purported holder of any of its securities in connection with the transactions contemplated by this Agreement or the Arrangement prior to the Effective Date;
- (xiv) except in the usual, ordinary and regular course of business and consistent with past practice or as required by applicable Law, not enter into or modify in any material respect any material contract, agreement, commitment or arrangement which new material contract or series of related new material contracts or modification to an existing material contract or series of related existing material

contracts, would reasonably be expected to have a Material Adverse Effect on First Silver;

- (xv) incur or commit to capital expenditures only in the ordinary course consistent with past practice and not, in any event, incur or commit to making any single capital expenditure in excess of \$50,000;
  - (xvi) not make any changes to existing accounting practices relating to First Silver or its Subsidiary except as required by Law or required by GAAP or make any material Tax election inconsistent with past practice; and
  - (xvii) promptly advise First Majestic orally and, if then requested, in writing:
    - (A) of any event occurring subsequent to the date of this Agreement that would or could reasonably be expected to render any representation or warranty of First Silver contained in this Agreement (except any such representation or warranty which speaks as of a date prior to the occurrence of such event), if made on or as of the date of such event or the Effective Date, untrue or inaccurate in any material respect;
    - (B) of any Material Adverse Change in respect of First Silver; and
    - (C) of any material breach by First Silver of any covenant or agreement contained in this Agreement.
- (b) First Silver shall and shall cause its Subsidiary during the Pre-Effective Date Period to perform all obligations required or desirable to be performed by First Silver or its Subsidiary under this Agreement, co-operate with First Majestic in connection therewith, and do all such other acts and things as may be necessary or desirable in order to consummate and make effective, as soon as reasonably practicable, the transactions contemplated by this Agreement and, without limiting the generality of the foregoing, First Silver shall (and where appropriate shall cause its Subsidiary to):
- (i) apply for and use all reasonable efforts to obtain all Appropriate Regulatory Approvals in each case relating to First Silver or its Subsidiary and, in doing so, to keep First Majestic reasonably informed as to the status of the proceedings related to the Appropriate Regulatory Approvals;
  - (ii) apply for and use all reasonable efforts to obtain the Interim Order and the Final Order;
  - (iii) carry out the terms of the Interim Order (including mailing the Circular to First Silver Shareholders and others as ordered by the Interim Order) and the Final Order applicable to it and use its reasonable efforts to comply promptly with all requirements which applicable Law may impose on First Silver or its Subsidiary with respect to the transactions contemplated hereby and by the Arrangement;
  - (iv) defend all lawsuits or other legal, regulatory or other proceedings to which it is a party challenging or affecting this Agreement or the consummation of the transactions contemplated hereby;

- (v) use its reasonable efforts to have lifted or rescinded any injunction or restraining order or other order relating to First Silver or the First Silver Shares which may adversely affect the ability of the parties to consummate the transactions contemplated hereby;
- (vi) effect all necessary registrations, filings and submissions of information required by Governmental Entities from First Silver or its Subsidiary; and
- (vii) use its reasonable efforts to obtain all necessary waivers, consents and approvals required to be obtained by First Silver or its Subsidiary from other parties to Material Agreements.

#### 4.3

#### **Covenants of First Majestic**

- (a) First Majestic covenants and agrees that during the Pre-Effective Date Period (or until the earlier termination of this Agreement in accordance with Section 6), except (i) with the consent of First Silver to any deviation therefrom, which shall not be unreasonably withheld, (ii) as required to comply with any Law, or (iii) with respect to any matter contemplated by this Agreement or the Plan of Arrangement, First Majestic shall and shall cause each of its Subsidiaries to:
  - (i) carry on its business in, and only in, the ordinary and regular course in substantially the same manner as heretofore conducted and, to the extent consistent with such business, use all reasonable efforts to preserve intact its present business organization and keep available the services of its present officers and employees and others having business dealings with it to the end that its goodwill and business shall be maintained;
  - (ii) not split, combine or reclassify any of the outstanding First Majestic Shares nor declare, set aside or pay any dividends on or make any other distributions on or in respect of the outstanding First Majestic Shares;
  - (iii) not amend the notice of articles or articles of First Majestic ;
  - (iv) not make any changes to existing accounting practices related to First Majestic except as required by Law or required by GAAP or make any material Tax election inconsistent with past practice;
  - (v) not redeem or propose the purchase or redemption of, any shares in its capital stock (other than pursuant to the exercise of options and warrants outstanding on the date hereof) or any class of securities convertible or exchangeable into, or rights, warrants or options to acquire, any such shares or other convertible or exchangeable securities;
  - (vi) not reorganize, amalgamate or merge First Majestic or any of its Subsidiaries with any other Person, nor acquire or agree to acquire by amalgamating, merging or consolidating with, purchasing the shares of or substantially all of the assets of or otherwise, any business of any corporation, partnership, association or other business organization or division thereof, which acquisition would be material to its business or financial condition on a consolidated basis (other than relating to

transactions between two or more wholly-owned Subsidiaries of First Majestic or between a wholly-owned Subsidiary of First Majestic and First Majestic);

- (vii) not, except in the ordinary and regular course of business and consistent with past practice: (A) satisfy or settle any Claims or liabilities prior to the same being due, which are, individually or in the aggregate, material (B) grant any waiver, exercise any option or relinquish any contractual rights which are, individually or in the aggregate, material or (C) enter into any interest rate, currency or commodity swaps, hedges or other similar financial instruments;
- (viii) use its reasonable commercial efforts to cause its current insurance (or re-insurance) policies not to be cancelled or terminated or any of the coverage thereunder to lapse, and subject to the current state of the insurance markets, unless simultaneously with such termination, cancellation or lapse, replacement policies underwritten by insurance and re-insurance companies of nationally recognized standing providing coverage equal to or greater than the coverage under the cancelled, terminated or lapsed policies for substantially similar premiums are in full force and effect;
- (ix) except in the usual, ordinary and regular course of business and consistent with past practice or as required by applicable Law, not enter into or modify in any material respect any material contract, agreement, commitment or arrangement which new material contract or series of related new material contracts or modification to an existing material contract or series of related existing material contracts, would reasonably be expected to have a Material Adverse Effect on First Majestic;
- (x) promptly advise First Silver orally and, if then requested, in writing:
  - (A) of any event occurring subsequent to the date of this Agreement that would or could reasonably be expected to render any representation or warranty of First Majestic contained in this Agreement (except any such representation or warranty which speaks as of a date prior to the occurrence of such event), if made on or as of the date of such event or the Effective Date, untrue or inaccurate in any material respect;
  - (B) of any Material Adverse Change in respect of First Majestic; and
  - (C) of any material breach by First Majestic of any covenant or agreement contained in this Agreement.
- (b) First Majestic shall and shall cause its Subsidiaries during the Pre-Effective Date Period (or until the earlier termination of this Agreement in accordance with Section 6), to perform all obligations required or desirable to be performed by First Majestic or any of its Subsidiaries under this Agreement, co-operate with First Silver in connection therewith, and do all such other acts and things as may be necessary or desirable in order to consummate and make effective, as soon as reasonably practicable, the transactions contemplated by this Agreement and, without limiting the generality of the foregoing, First Majestic shall (and where appropriate shall cause its Subsidiaries to):

- (i) apply for and use all reasonable efforts to obtain all Appropriate Regulatory Approvals in each case relating to First Majestic or any of its Subsidiaries, and, in doing so, to keep First Silver reasonably informed as to the status of the proceedings related to obtaining the Appropriate Regulatory Approvals;
- (ii) carry out the terms of the Interim Order and the Final Order applicable to it and use its reasonable efforts to comply promptly with all requirements which applicable Law may impose on First Majestic or its Subsidiaries with respect to the transactions contemplated hereby and by the Arrangement;
- (iii) defend all lawsuits or other legal, regulatory or other proceedings to which it is a party challenging or affecting this Agreement or the consummation of the transactions contemplated hereby;
- (iv) use its reasonable efforts to have lifted or rescinded any injunction or restraining order or other order relating to First Majestic which may adversely affect the ability of the parties to consummate the transactions contemplated hereby;
- (v) effect all necessary registrations, filings and submissions of information required by Governmental Entities in Canada from First Majestic or its Subsidiaries;
- (vi) reserve a sufficient number of First Majestic Shares for issuance upon the completion of the Arrangement and upon the exercise of the First Silver Options following completion of the Arrangement;
- (vii) use its reasonable efforts to remain a reporting issuer (or subject to equivalent reporting requirements), not in default of its obligations, under Securities Legislation in the Provinces of British Columbia, Alberta and Ontario; and
- (viii) use its reasonable efforts to maintain the listing of the First Majestic Shares on the TSXV.

#### 4.4 **Covenants Regarding Non-Solicitation**

- (a) First Silver shall immediately notify First Majestic, at first orally and then in writing, of any Acquisition Proposal and any inquiry that could reasonably be expected to lead to an Acquisition Proposal, or any amendments to the foregoing, or any request for non-public information relating to First Silver or its Subsidiary in connection with an Acquisition Proposal or for access to the properties, books or records of First Silver or its Subsidiary by any Person in connection with an Acquisition Proposal. Such notice shall include a copy of the Acquisition Proposal, the identity of the Person making such proposal, inquiry or contact and provide such other details of the proposal, inquiry or contact as First Majestic may reasonably request. First Silver shall (i) keep First Majestic fully informed of the status including any change to the material terms of any such Acquisition Proposal or inquiry and (ii) provide to First Majestic as soon as practicable after receipt or delivery thereof copies of all correspondence and other written material sent or provided to First Silver or its Subsidiary by any Person in connection with any Acquisition Proposal or sent or provided by First Silver to any Person in connection with any Acquisition Proposal.

- (b) If First Silver receives a request for material non-public information from a Person who has made an unsolicited *bona fide* written Acquisition Proposal and First Silver is permitted, as contemplated under the second sentence of Section 4.4(a), to negotiate the terms of such Acquisition Proposal, then, and only in such case, the board of directors of First Silver may, subject to the execution by such Person of a confidentiality agreement, provide such Person with access to information regarding First Silver; provided, however, that the Person making the Acquisition Proposal shall not be precluded under such confidentiality agreement from making the Acquisition Proposal or any material amendment thereto and provided further that First Silver sends a copy of any such confidentiality agreement to First Majestic promptly upon its execution and First Majestic is provided with copies of the information provided to such Person and immediately provided with access to similar information to which such Person was provided.
- (c) First Silver shall ensure that its officers, directors and employees and its Subsidiary and its officers, directors and employees and any financial advisors or other advisors or representatives retained by it are aware of the provisions of this Section 4.4, and it shall be responsible for any breach of this Section 4.4, by its officers, directors, employees, financial advisors or other advisors or representatives.

#### 4.5 **Access to Information**

Subject to applicable Law, upon reasonable notice, First Silver shall (and shall cause its Subsidiary to) afford First Majestic's Representatives access, during normal business hours from the date hereof and until the earlier of the Effective Date or the termination of this Agreement, to its properties, books, contracts and records as well as to its management personnel, and, during such period, First Silver shall (and shall cause its Subsidiary to) furnish promptly to First Majestic all information concerning First Silver's and its Subsidiary's business, properties and personnel as First Majestic may reasonably request. Subject to applicable Law, upon reasonable notice, First Majestic shall (and shall cause each of its Subsidiaries to) afford First Silver's Representatives access, during normal business hours from the date hereof and until the earlier of the Effective Date or the termination of this Agreement, to its properties, books, contracts and records as well as to its management personnel, and, during such period, First Majestic shall (and shall cause its Subsidiary to) furnish promptly to First Silver all information concerning First Majestic's and its Subsidiaries' business, properties and personnel as First Silver may reasonably request.

#### 4.6 **Closing Matters**

Each of First Majestic and First Silver shall deliver, at the closing of the transactions contemplated hereby, such customary opinions of legal counsel, certificates, resolutions and other closing documents as may be required by the other parties hereto, acting reasonably. The closing of the transactions contemplated hereby shall occur on the fifth Business Day after the date of the First Silver Meeting, or on such earlier or later date as First Majestic and First Silver agree, at the offices of Axium Law Corporation at 10:00 am Pacific Standard Time.

## **5. CONDITIONS**

### **5.1 Mutual Conditions Precedent**

The respective obligations of each of First Silver and First Majestic to complete the transactions contemplated hereby and to file with the Registrar a copy of the Final Order and Articles of Arrangement to give effect to the Arrangement will be subject to the fulfillment, or mutual waiver in writing by each of First Silver and First Majestic, of each of the following conditions:

- (a) the Interim Order shall have been obtained in form and terms satisfactory to each of First Silver and First Majestic acting reasonably and shall not have been set aside or modified in a manner unacceptable to either of such parties (acting reasonably) on appeal or otherwise;
- (b) the Circular shall have been mailed to First Silver Shareholders by the Mailing Date and the First Silver Meeting shall have been held on or before the Meeting Date;
- (c) at the First Silver Meeting, the First Silver Resolution shall have been approved by the First Silver Shareholders in accordance with the requirements of the Act and the Interim Order;
- (d) at the First Silver Meeting, the First Silver Majority of the Minority Resolution shall have been approved by the First Silver Shareholders other than First Majestic unless an exemption order is obtained from the Ontario Securities Commission in respect of this requirement;
- (e) the Final Order shall have been obtained in form and terms satisfactory to each of First Silver and First Majestic acting reasonably and shall not have been set aside or modified in a manner unacceptable to either of such parties, acting reasonably, on appeal or otherwise;
- (f) on or before the Effective Date:
  - (i) the First Majestic Shares to be issued pursuant to the Arrangement and the First Majestic Shares issuable upon the exercise of the First Majestic Options issued in exchange for the First Silver Options after the Effective Time shall have been conditionally approved for listing on the TSXV, subject only to the filing of customary required documents; and
  - (ii) First Majestic shall have obtained any orders required from the applicable Canadian securities authorities to permit the issuance and first resale of the securities of First Majestic issued pursuant to the Arrangement and the First Majestic Shares issuable upon the exercise of the First Silver Options after the Effective Time without qualification with or approval of or the filing of any prospectus or similar document with, or the taking of any proceeding with, or the obtaining of any further order, ruling or consent from, any Governmental Entity or regulatory authority under any applicable Securities Legislation, or the fulfillment of any other legal requirement in any such jurisdiction;

- (g) there shall not be in force any order or decree restraining or enjoining the consummation of the transactions contemplated by this Agreement and there shall be no proceeding, of a judicial or administrative nature or otherwise, brought by a Governmental Entity in progress or threatened that relates to or results from the transactions contemplated by this Agreement that would, if successful, potentially result in an order or ruling that would preclude completion of the transactions contemplated by this Agreement in accordance with the terms hereof or would otherwise be inconsistent with the Appropriate Regulatory Approvals which have been obtained;
- (h) all consents, waivers, permits, orders and approvals of any Governmental Entity (including the Appropriate Regulatory Approvals) and the expiry of any waiting periods, in connection with, or required to permit, the consummation of the Arrangement, the failure of which to obtain or the non-expiry of which would constitute a criminal offence, or would have a Material Adverse Effect on First Majestic or First Silver, as the case may be, shall have been obtained or received on terms that will not have a Material Adverse Effect on either First Majestic or First Silver;
- (i) there shall not be pending or threatened any suit, action or proceeding by any Governmental Entity or other Person, in each case that has a reasonable likelihood of success, (i) seeking to prohibit or restrict the acquisition by First Majestic or any of its Subsidiaries of any First Silver Shares, seeking to restrain or prohibit the consummation of the Plan of Arrangement or seeking to obtain from First Silver or First Majestic any damages that are material in relation to First Silver and its Subsidiary taken as a whole, (ii) seeking to prohibit or materially limit the ownership or operation by First Majestic or any of its Subsidiaries of any material portion of the business or assets of First Silver or its Subsidiary or to compel First Majestic or any of its Subsidiaries to dispose of or hold separate any material portion of the business or assets of First Silver or its Subsidiary as a result of the Plan of Arrangement, (iii) seeking to impose limitations on the ability of First Majestic or any of its Subsidiaries to acquire or hold, or exercise full rights of ownership of, any First Silver Shares, including the right to vote the First Silver Shares purchased by it on all matters properly presented to the First Silver Shareholders, (iv) seeking to prohibit First Majestic or any of its Subsidiaries from effectively controlling in any material respect the business or operations of First Silver and its Subsidiary or (v) which otherwise is reasonably likely to have a Material Adverse Effect on First Silver or First Majestic ; and
- (j) this Agreement will not have been terminated pursuant to Section 6 or otherwise.

## 5.2 **Additional Conditions Precedent to the Obligations of First Majestic**

The obligations of First Majestic to complete the transactions contemplated by this Agreement shall also be subject to the satisfaction, on or before the Effective Date, of each of the following conditions precedent (each of which is for First Majestic's exclusive benefit and may be waived by First Majestic and any one or more of which, if not satisfied or waived, will relieve First Majestic of any obligation under this Agreement):

- (a) all covenants of First Silver under this Agreement to be performed on or before the Effective Date shall have been duly performed by First Silver in all material respects;

- (b) all representations and warranties of First Silver under this Agreement qualified as to materiality shall be true and correct and those not so qualified shall be true and correct in all material respects as of the Effective Date as if made on and as of such date (except to the extent such representations and warranties speak as of an earlier date, in which event such representations and warranties shall be true and correct in all material respects as of such earlier date, or except as affected by transactions contemplated or permitted by this Agreement) and First Majestic shall have received a certificate of First Silver addressed to First Majestic and dated the Effective Date, signed, without personal liability, on behalf of First Silver by two senior officers of First Silver, confirming the same as at the Effective Date;
- (c) the board of directors of First Silver shall have adopted all necessary resolutions, and all other necessary corporate action shall have been taken by First Silver and its Subsidiary, to permit the consummation of the Arrangement;
- (d) the board of directors of First Silver shall have made and shall not have modified or amended, in a manner adverse to First Majestic, prior to the First Silver Meeting its recommendation that First Silver Shareholders vote in favour of the First Silver Resolutions;
- (e) during the Pre-Effective Date Period, there shall not have occurred a Material Adverse Change to First Silver; and
- (f) there shall not have been exercised, pursuant to Section 3 of the Plan of Arrangement, Dissent Rights by First Silver Shareholders with respect to First Silver Shares aggregating to more than 5% of the outstanding First Silver Shares.

First Majestic may not rely on the failure to satisfy any of the above conditions precedent as a basis for non-compliance by First Majestic with its obligations under this Agreement if the condition precedent would have been satisfied but for a material default by First Majestic in complying with its obligations hereunder.

### 5.3 **Additional Conditions Precedent to the Obligations of First Silver**

The obligations of First Silver to complete the transactions contemplated by this Agreement shall also be subject to the satisfaction, on or before the Effective Date, of each of the following conditions precedent (each of which is for the exclusive benefit of First Silver and may be waived by First Silver and any one or more of which, if not satisfied or waived, will relieve First Silver of any obligation under this Agreement):

- (a) all covenants of First Majestic under this Agreement to be performed on or before the Effective Date shall have been duly performed by First Majestic in all material respects;
- (b) all representations and warranties of First Majestic under this Agreement qualified as to materiality shall be true and correct and those not so qualified shall be true and correct in all material respects as of the Effective Date as if made on and as of such date (except to the extent such representations and warranties speak as of an earlier date, in which event such representations and warranties shall be true and correct in all material respects as of such earlier date, or except as affected by transactions contemplated or permitted by this Agreement) and First Silver shall have received a certificate of First Majestic addressed to First Silver and dated the Effective Date, signed, without personal liability, on behalf

of First Majestic by two senior officers of First Majestic, confirming the same as at the Effective Date;

- (c) during the Pre-Effective Date Period, there shall not have occurred a Material Adverse Change to First Majestic;
- (d) there shall not be in force or threatened any order or decree of any Governmental Entity or other Person that has the effect of ceasing or restricting trading in the First Majestic Shares;
- (e) the board of directors of First Majestic shall have adopted all necessary resolutions, and all other necessary corporate action shall have been taken by First Majestic to permit the consummation of the Arrangement, including the issue of First Majestic Shares and First Majestic Options and payment of cash, if any, pursuant to the Arrangement.

First Silver may not rely on the failure to satisfy any of the above conditions precedent as a basis for non-compliance by First Silver with its obligations under this Agreement if the condition precedent would have been satisfied but for a material default by First Silver in complying with its obligations hereunder.

#### 5.4 Notice and Cure Provisions

First Majestic and First Silver will give prompt notice to the other of the occurrence, or failure to occur, at any time during the Pre-Effective Date Period, of any event or state of facts which occurrence or failure would, or would be likely to:

- (a) cause any of the representations or warranties of the other party contained herein to be untrue or inaccurate in any material respect on the date hereof or on the Effective Date; or
- (b) result in the failure in any material respect to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by the other hereunder prior to the Effective Date.

Neither First Majestic nor First Silver may elect not to complete the transactions contemplated hereby pursuant to the conditions precedent contained in Sections 5.1, 5.2 and 5.3, or exercise any termination right arising therefrom, unless forthwith and in any event prior to the filing of the Final Order and Articles of Arrangement for acceptance by the Registrar, First Majestic or First Silver, as the case may be, has delivered a written notice to the other specifying in reasonable detail all breaches of covenants, representations and warranties or other matters which First Majestic or First Silver, as the case may be, are asserting as the basis for the non-fulfillment of the applicable condition precedent or the exercise of the termination right, as the case may be. If any such notice is delivered, provided that First Majestic or First Silver, as the case may be, is proceeding diligently to cure such matter, if such matter is susceptible to being cured, the other may not terminate this Agreement as a result thereof until the later of the Termination Date and the expiration of a period of 30 days from such notice. If such notice has been delivered prior to the date of the First Silver Meeting, such meeting shall, unless otherwise agreed by the parties, be postponed until the expiry of such period. If such notice has been delivered prior to the making of the application for the Final Order or the filing of the Final Order and Articles of Arrangement with the Registrar, such application and such filing shall be postponed until the expiry of such period. For greater certainty, in the event that such matter is cured within the time period referred to herein, this Agreement may not be terminated as a result of such cured matter. In the event the Effective Date is delayed, postponed or enjoined as a result of a claim, action, proceeding or investigation arising from the failure or alleged failure to comply with Law in connection with the Arrangement, the Effective Date

shall be extended for such further reasonable period not to exceed 90 days as may be necessary to remedy such failure or alleged failure and the Parties shall use their best efforts to remedy such failure or alleged failure.

#### 5.5 **Satisfaction of Conditions**

The conditions precedent set out in Sections 5.1, 5.2 and 5.3 shall be conclusively deemed to have been satisfied, waived or released when, with the agreement of First Majestic and First Silver, a copy of the Final Order is filed with the registered office of First Silver.

### **6. AMENDMENT AND TERMINATION**

#### 6.1 **Amendment**

This Agreement may, at any time and from time to time before or after the holding of the First Silver Meeting but not later than the Effective Date, be amended by mutual written agreement of the parties hereto, and any such amendment may, without limitation:

- (a) change the time for performance of any of the obligations or acts of the parties;
- (b) waive any inaccuracies or modify any representation or warranty contained herein or in any document delivered pursuant hereto;
- (c) waive compliance with or modify any of the covenants herein contained and waive or modify performance of any of the obligations of the parties; and
- (d) waive compliance with or modify any conditions precedent herein contained,

provided that, notwithstanding the foregoing, the terms of this Agreement and the Plan of Arrangement shall not be amended in a manner materially prejudicial to the First Silver Shareholders without the approval of the First Silver Shareholders given in the same manner as required for the approval of the Arrangement.

#### 6.2 **Mutual Understanding Regarding Amendments**

- (a) During the Pre-Effective Date Period the parties will use their respective reasonable efforts to maximize present and future financial and tax planning opportunities for the First Silver Shareholders, and for First Majestic and for First Silver, as and to the extent that the same shall not prejudice any party or its security holders. The parties will ensure that such planning activities do not impede the progress of the Arrangement in any material way.
- (b) The parties agree that if First Majestic or First Silver, as the case may be, proposes any amendment or amendments to this Agreement or to the Plan of Arrangement, the other will act reasonably in considering such amendment and if the other and its shareholders are not prejudiced by reason of any such amendment the other will co-operate in a reasonable fashion with First Majestic or First Silver, as the case may be, so that such amendment can be effected subject to applicable Law and the rights of the security holders.

6.3

**Termination**

- (a) If any condition contained in Sections 5.1 or 5.2 is not satisfied at or before the Termination Date to the satisfaction of First Majestic, then First Majestic may, subject to Section 5.4, by notice to First Silver terminate this Agreement and the obligations of the parties hereunder (except as otherwise herein provided including Section 6.4) but without detracting from the rights of First Majestic arising from any breach by First Silver but for which the condition would have been satisfied.
- (b) If any condition contained in Sections 5.1 or 5.3 is not satisfied at or before the Termination Date to the satisfaction of First Silver, then First Silver may, subject to Section 5.4, by notice to First Majestic terminate this Agreement and the obligations of the parties hereunder (except as otherwise herein provided including Section 6.4) but without detracting from the rights of First Silver arising from any breach by First Majestic but for which the condition would have been satisfied.
- (c) This Agreement may:
  - (i) be terminated by the mutual agreement of First Silver and First Majestic (without any action on the part of the First Silver Shareholders or the First Majestic Shareholders);
  - (ii) be terminated by either First Silver or First Majestic, if there shall be passed any Law that makes consummation of the transactions contemplated by this Agreement illegal or otherwise prohibited;
  - (iii) be terminated by First Majestic if (A) the board of directors of First Silver shall have failed to recommend or withdrawn or modified or changed in a manner adverse to First Majestic its approval or recommendation of the Arrangement or the First Silver Special Resolution or (B) the board of directors of First Silver shall have approved or recommended an Acquisition Proposal;
  - (iv) be terminated by First Silver in order to enter into a definitive agreement with respect to a Superior Offer, subject to compliance with Sections 4.4 and the payment of any fee required to be paid pursuant to Section 6.4; or
  - (v) be terminated by First Silver or First Majestic if the approval of the First Silver Shareholders shall not have been obtained by reason of the failure to obtain the required vote on the First Silver Special Resolution or the First Silver Majority of the Minority Resolution (if required) at the First Silver Meeting;

in each case, prior to the Effective Date.

- (d) If the Effective Date does not occur on or prior to the Termination Date, then this Agreement shall terminate.
- (e) If this Agreement is terminated in accordance with the foregoing provisions of this Section 6.3, no party shall have any further liability to perform its obligations hereunder except as provided in Sections 6.4 and 7.9 and as otherwise contemplated hereby, and provided that, subject to Section 6.5, neither the termination of this Agreement nor anything contained in this Section 6.3(e) shall relieve any party from any liability for any

breach by it of this Agreement, including from any inaccuracy in its representations and warranties and any non-performance by it of its covenants made herein.

**6.4 Break Fee**

If:

- (a) First Majestic shall terminate this Agreement as a result of any action or inaction of the board of directors of First Silver pursuant to Section 6.3(iii), unless at the time of such failure to recommend, withdrawal or adverse modification or change, or recommendation of an Acquisition Proposal, a material adverse change with respect to First Majestic has occurred and is continuing or First Majestic has breached its representations, warranties or other obligations under this Agreement;
- (b) First Silver shall terminate this Agreement in order to enter into a definitive agreement with respect to a Superior Offer pursuant to Section 6.3(c)(iv);
- (c) either First Silver or First Majestic shall terminate this Agreement pursuant to Section 6.4(iv) in circumstances where the First Silver Resolution or the First Silver Majority of the Minority Resolution (if required) have not received the required shareholder approval at the First Silver Meeting and: (A) a *bona fide* Acquisition Proposal has been publicly announced or made by any Person other than First Majestic prior to the First Silver Meeting and not withdrawn more than three Business Days prior to the First Silver Meeting and (B) an Acquisition Proposal is consummated, after the date hereof and prior to the expiration of 12 months following the date of the First Silver Meeting; or
- (d) First Majestic shall terminate this Agreement pursuant to Section 6.3(a) as the result of a breach in any material respect by First Silver of any covenant in this Agreement that caused a condition precedent to not be satisfied, and subject to compliance with Section 5.4,

then in any such case First Silver shall pay to First Majestic \$500,000, and up to an additional \$100,000 for out-of-pocket costs incurred by First Majestic, in immediately available funds to an account designated by First Majestic. Such payment shall be due (A) in the case of a termination specified in clause (a) or (d) above, within five Business Days after written notice of termination by First Majestic or (B) in case of a termination specified in clause (b) above, on or prior to the termination of this Agreement or (C) in the case of a termination specified in clause (c) above, at or prior to the earlier of the entering into of the agreement and the consummation of the transaction referred to therein. First Silver shall not be obligated to make more than one payment pursuant to this Section 6.4.

If First Silver shall terminate this Agreement pursuant to Section 6.4(b) as the result of a breach in any material respect by First Majestic of any covenant in this Agreement that caused a condition precedent to not be satisfied, and subject to compliance with Section 5.4, First Majestic shall pay First Silver \$500,000, and up to an additional \$100,000 for out-of-pocket costs incurred by First Silver, in immediately available funds to an account specified by First Silver. Such payment shall be due within five Business Days of the written notice of termination by First Silver.

## **6.5 Effect of Break Fee Payment**

For greater certainty, the parties hereto agree that if First Silver pays to First Majestic, or First Majestic pays to First Silver, amounts required by Section 6.4 as a result of the occurrence of any of the events referenced in Section 6.4, First Majestic or First Silver, as the case may be, shall have no other remedy for any breach of this Agreement by First Silver or First Majestic, respectively provided however that nothing contained in this Section 6 (including this Section 6.5 and including the payment of an amount under Section 6) shall relieve or have the effect of relieving any party in any way from liability for damages incurred or suffered by a party as a result of a breach of this Agreement by a party acting in bad faith with a clear intent and design to prevent the conditions precedent to this Agreement's completion from being satisfied.

## **6.6 Remedies**

Subject to Section 6.5, the parties hereto acknowledge and agree that an award of money damages would be inadequate for any breach of this Agreement by any party or its representatives and any such breach would cause the non-breaching party irreparable harm. Accordingly, the parties hereto agree that, in the event of any breach or threatened breach of this Agreement by one of the parties, the non-breaching party will also be entitled, without the requirement of posting a bond or other security, to equitable relief, including injunctive relief and specific performance. Such remedies will not be the exclusive remedies for any breach of this Agreement but will be in addition to all other remedies available at law or equity to each of the parties.

## **7. GENERAL PROVISIONS**

### **7.1 Public Announcements**

First Majestic and First Silver agree to use their reasonable efforts to consult with each other as to the general nature of any news releases or public statements with respect to this Agreement or the Arrangement. Subject to applicable Law, each party shall use its reasonable efforts to enable the other parties to review and comment on all such news releases prior to the release thereof. The parties agree to issue jointly a news release with respect to this Arrangement as soon as practicable following the execution of this Agreement in an agreed form. First Majestic and First Silver also agree to consult with each other in preparing and making any filings and communications in connection with any Appropriate Regulatory Approvals.

### **7.2 Survival of Representations and Warranties**

The representations and warranties of each of First Silver and First Majestic contained herein will survive the execution and delivery of this Agreement and will terminate on the earlier of the termination of this Agreement in accordance with its terms and the Effective Time.

### **7.3 Notices**

All notices, requests, demands and other communications hereunder will be deemed to have been duly given and made, if in writing and if served by personal delivery upon the party for whom it is intended or delivered, or if sent by facsimile, upon receipt of confirmation that the transmission has been received, to the Person at the address set forth below, or any other address as may be designated in writing hereafter, in the same manner, by that Person:

(a) if to First Majestic :

First Majestic Resource Corp.  
1480 - 885 West Georgia Street  
Vancouver, British Columbia  
V6C 3E8

Attention: President and Chief Executive Officer

(b) if to First Silver:

First Silver Reserve Inc.  
1480 - 885 West Georgia Street  
Vancouver, British Columbia  
V6C 3E8

Attention: President and Chief Executive Officer

#### 7.4 **Severability**

If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement will remain in full force and effect and will in no way be affected, impaired or invalidated and the parties hereto will negotiate in good faith to modify the Agreement to preserve each party's anticipated benefits under the Agreement.

#### 7.5 **Assignment**

First Majestic may assign all or any part of its rights under this Combination Agreement to a direct or indirect wholly owned Subsidiary of First Majestic, provided that First Majestic shall remain liable for the fulfillment of its obligations hereunder. Except as aforesaid, neither party hereto may assign this Agreement or any of its rights hereunder or under the Arrangement without the prior written consent of the other party, which consent may be withheld without reason.

#### 7.6 **Governing Law**

This Agreement shall be governed by and construed in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein and shall be treated in all respects as a British Columbia contract. Each party hereby irrevocably attorns to the jurisdiction of the courts of the Province of British Columbia in respect of all matters arising under or in relation to this Agreement and agrees not to commence any action, suit or proceeding relating thereto except in such courts.

#### 7.7 **Binding Effect**

This Agreement and the Arrangement will be binding upon and will enure to the benefit of each of the parties hereto and their respective successors and permitted assigns.

#### 7.8 **Investigation by Parties**

No investigation pursuant to this Agreement or otherwise made by or on behalf of either party or any of their respective authorized agents at any time shall have the effect of waiving, diminishing the scope of or otherwise affecting any representation, warranty or covenant by the other party in or pursuant to this Agreement.

#### 7.9 **Expenses**

- (a) The parties agree that all out-of-pocket expenses of the parties relating to the Arrangement and the transactions contemplated hereby, including legal fees, accounting fees, financial advisory fees, regulatory filing fees, all disbursements of advisors and printing and mailing costs, shall be paid by the party incurring such expenses.
- (b) First Majestic represents and warrants to First Silver that no broker, finder or investment banker is or will be entitled to any brokerage, finder's or other fee or commission from First Majestic or any Subsidiary of First Majestic as a result of the completion of the transactions contemplated hereby or by the Arrangement.
- (c) First Silver represents and warrants to First Majestic that no broker, finder or investment banker is or will be entitled to any brokerage, finder's or other fee or commission from First Silver or any Subsidiary of First Silver as a result of the completion of the transactions contemplated hereby or by the Arrangement.

#### 7.10 **Amendments; Waivers**

This Agreement may not be modified, amended, altered or supplemented except in the manner contemplated herein and upon the execution and delivery of a written agreement executed by both parties. No waiver of any nature, in any one or more instances, will be deemed or construed as a further or continued waiver of any condition or breach of any other term, representation or warranty in this Agreement.

#### 7.11 **Mutual Intent**

Notwithstanding the fact that any part of this Agreement has been drafted or prepared by or on behalf of one of the parties hereto, both parties confirm that they and their respective counsel have reviewed and negotiated this Agreement and that the parties hereto have adopted this Agreement as the joint agreement and understanding of the parties hereto, and the language used in this Agreement will be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of construction providing that a provision is to be interpreted in favour of the Person who contracted the obligation and against the Person who stipulated it will be applied against any party hereto.

#### 7.12 **Further Assurances**

First Silver and First Majestic hereby agree that each will promptly furnish to the other any further documents and take or cause to be taken any further action as may reasonably be required in order to give effect to this Agreement and the Arrangement. The parties hereto each agree to execute and deliver any instruments and documents as the other party hereto may reasonably require in order to carry out the intent of this Agreement.

7.13 **Time of Essence**

Time is of the essence of this Agreement.

7.14 **Counterparts**

This Agreement may be executed in any number of counterparts, each of which will be deemed to be original and all of which taken together will be deemed to constitute one and the same instrument.

**IN WITNESS WHEREOF** the parties have executed this Combination Agreement effective as of the 9th day of August, 2006.

**FIRST MAJESTIC RESOURCE CORP.**

**FIRST SILVER RESERVE INC.**

By: “Keith Neumeier” (signed)

By: “Robert McCallum” (signed)

Keith Neumeier  
Chief Executive Officer

Robert McCallum  
Chairman

## **SCHEDULE A**

### **APPROPRIATE REGULATORY APPROVALS**

#### **1. Securities Regulatory Authorities**

Approval of applicable corporate and securities regulatory authorities (including the TSX and TSXV) to the acquisition of the First Silver Shares by First Majestic and the exchange of First Majestic Options for the First Silver Options and the issuance and first resale (if applicable) of the First Majestic Shares and options of First Majestic to be issued pursuant to the Plan of Arrangement to the former holders of securities of First Silver and pursuant to the exercise of the options of First Majestic issued pursuant to the Plan of Arrangement, after the Effective Time.

## **SCHEDULE B**

### **SPECIAL RESOLUTIONS OF THE SHAREHOLDERS OF FIRST SILVER RESERVE INC.**

BE IT RESOLVED THAT:

1. The combination agreement (the “Combination Agreement”) dated August 9, 2006 between First Majestic Resource Corp. (“First Majestic”) and First Silver Reserve Inc. (“First Silver”) with such amendments or variations thereto made in accordance with the terms of the Combination Agreement, is hereby ratified, authorized and approved.
2. The arrangement (“Arrangement”) under section 288 to 299 of the *Business Corporations Act* (British Columbia) substantially as set forth in the Plan of Arrangement attached as Schedule C to the Combination Agreement and all transactions contemplated thereby, be and are hereby ratified, authorized and approved.
3. Notwithstanding that this resolution has been duly passed and/or has received the approval of the Supreme Court of British Columbia, the board of directors of First Silver may, without further notice to or approval of the holders of First Silver securities or other interested or affected parties, subject to the terms of the Arrangement, amend or terminate the Combination Agreement or the Plan of Arrangement or revoke this resolution at any time prior to giving effect to the Arrangement.
4. Any director or officer of First Silver is hereby authorized, for and on behalf of First Silver, to execute, with or without the corporate seal, and, if, appropriate, deliver all other documents and instruments and to do all other things as in the opinion of such director or officer may be necessary or desirable to implement this resolution and the matters authorized hereby, such determination to be conclusively evidenced by the execution and delivery of any such document or instrument, and the taking of any such action.

## SCHEDULE C

### FIRST SILVER RESERVE INC.

#### PLAN OF ARRANGEMENT UNDER SECTIONS 288 to 299 OF THE BRITISH COLUMBIA BUSINESS CORPORATIONS ACT

#### 1. INTERPRETATION

1.1 In this Plan of Arrangement, unless there is something in the subject matter or context inconsistent therewith, the following terms will have the respective meanings set out below and grammatical variations of those terms will have corresponding meanings:

- (a) “**Act**” means the *Business Corporations Act* (British Columbia), including all regulations made thereunder, as amended;
- (b) “**Affiliate**” has the meaning attributed to that term in the Securities Act;
- (c) “**Arrangement**” means an arrangement under the provisions of Sections 288 to 299 of the Act, on the terms and conditions set forth in this Plan of Arrangement and any amendment, variation or supplement thereto made in accordance with the terms of this Arrangement Agreement;
- (d) “**Arrangement Resolution**” means the special resolution of the First Silver Shareholders approving the Arrangement in accordance with section 289 of the Act;
- (e) “**Business Day**” means a day which is not a Saturday, Sunday or statutory holiday in British Columbia;
- (f) “**Circular**” means the management information circular of First Silver to be prepared and sent to First Silver Shareholders in connection with the First Silver Meeting;
- (g) “**Combination Agreement**” means the agreement made August 9, 2006 between First Silver and First Majestic to which this Plan of Arrangement is attached as Schedule C, as the same may be supplemented or amended from time to time;
- (h) “**Court**” means the Supreme Court of the Province of British Columbia;
- (i) “**Depository**” means Pacific Corporate Trust Company or such other institution as First Silver may select;
- (j) “**Dissenting First Silver Shareholders**” means a First Silver Shareholder who duly exercises its Dissent Rights;
- (k) “**Dissent Rights**” means the Dissent Rights in respect of the Arrangement under the Act, as described in Section 3;
- (l) “**Effective Date**” means the date upon which a copy of the Final Order is filed with the registered office of First Silver;
- (m) “**Effective Time**” means 12:01 am. (Pacific Standard Time) on the Effective Date;

- (n) **“Final Order”** means the final order of the Court approving the Arrangement as such order may be amended by the Court (with the consent of First Majestic and First Silver, acting reasonably) at any time prior to the Effective Date or, if appealed, then, unless such appeal is withdrawn or denied, as affirmed or as amended (with the consent of First Majestic and First Silver, acting reasonably) on appeal;
- (o) **“First Majestic ”** means First Majestic Resource Corp., a corporation continued under the laws of the Province of British Columbia;
- (p) **“First Majestic Shares”** means the common shares in the capital of First Majestic as constituted on the date of the Combination Agreement;
- (q) **“First Majestic Stock Option Plan”** means the stock option plan of First Majestic approved by the shareholders of First Majestic on December 15, 2005, as may be amended from time to time;
- (r) **“First Silver”** means First Silver Reserve Inc., a corporation constituted under the laws of the Province of British Columbia;
- (s) **“First Silver Meeting”** means the meeting of the First Silver Shareholders held for the purpose of considering and approving the Arrangement and the transactions contemplated thereby by way of the Arrangement Resolution, and if required, the Majority of the Minority Resolution;
- (t) **“First Silver Options”** means the options (whether or not vested) to purchase First Silver Shares which are outstanding under the First Silver Stock Option Plan;
- (u) **“First Silver Stock Option Plan”** means the stock option plan dated June 22, 1998 as constituted as of the date hereof pursuant to which participants are granted First Silver Options;
- (v) **“First Silver Share holders”** means holders of First Silver Shares;
- (w) **“First Silver Shareholder”** means a holder of First Silver Shares;
- (x) **“First Silver Shares”** means the common shares in the capital of First Silver;
- (y) **“Holder”** means a registered holder of First Silver Shares or any person who surrenders to the Depositary certificates representing such First Silver Shares duly endorsed for transfer to such person in accordance with the Letter of Transmittal;
- (z) **“Interim Order”** means an order of the Court providing for, among other things, the calling and holding of the First Silver Meeting, as such order may be amended, supplemented or varied by the Court;
- (aa) **“Letter of Transmittal”** means the letter of transmittal forwarded by First Silver to First Silver Shareholders in connection with the Arrangement;
- (bb) **“Mailing Date”** means the date of the mailing of the Circular to the First Silver Shareholders;

- (cc) “**Majority of the Minority Resolution**” means the ordinary resolution of the First Silver Shareholders, other than First Majestic and any other First Silver Shareholder who is an “interested party” or “related party” (as defined in OSC Rule 61-501), approving the Arrangement by way of a majority of the First Silver Shares voted at the First Silver Meeting, such resolution to be substantially in the form and content as set out in Schedule B to the Combination Agreement;
- (dd) “**Notice of Dissent**” means a notice given in respect of the Dissent Rights as contemplated in the Interim Order and as described in Section 3;
- (ee) “**Plan of Arrangement**”, “hereof”, “herein”, “hereunder” and similar expressions means this plan of arrangement, including the appendices hereto, and any amendments, variations or supplements hereto made in accordance with the terms hereof, the Combination Agreement or made at the direction of the Court in the Final Order; and
- (ff) “**Registrar**” has the meaning attributed to that term under the Act.

## 1.2 **Interpretation Not Affected by Headings, etc.**

The division of this Plan of Arrangement into Sections and other portions and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation hereof. Unless otherwise indicated, all references to a “Section” followed by a number and/or a letter refer to the specified Section of this Plan of Arrangement.

## 1.3 **Number and Gender**

In this Agreement, unless the context otherwise requires, words used herein importing the singular include the plural and vice versa. Words importing gender include all genders.

## 1.4 **Date of Any Action**

In the event that any date on which any action is required to be taken hereunder by any of the parties hereto is not a Business Day, such action shall be required to be taken on the next succeeding day which is a Business Day.

## 1.5 **Time**

Time shall be of the essence in every matter or action contemplated hereunder. All times expressed herein or in the Letter of Transmittal are Pacific Standard Time unless otherwise stipulated herein or therein.

## 1.6 **Currency**

Unless otherwise stated, all references in this Plan of Arrangement to sums of money are expressed in lawful money of Canada.

## 2. **ARRANGEMENT**

### 2.1 **Binding Effect**

The Arrangement shall be effective as of, and be binding at and after, the Effective Time on First Silver and all holders and beneficial holders of First Silver Shares.

## 2.2 The Arrangement

At the Effective Time, the following shall occur and shall be deemed to have occurred in the following order without any further act or formality:

- (a) each First Silver Share, other than First Silver Shares held by First Majestic or held by holders who have validly exercised Dissent Rights (as contemplated in Section 3) shall be deemed to be transferred to First Majestic and, subject to Section 4.2, the holder thereof shall receive, at its election as set out in the Letter of Transmittal;
  - (A) One (1) First Majestic Share for every two (2) First Silver Shares held; or
  - (B) cash consideration for their First Silver Shares in the amount of \$2.165 per First Silver Share held, payable on the basis of 50% upon the Effective Date and the balance payable in two equal instalments on the first and second anniversary of the Effective Date, with interest payable quarterly at 6.0% per annum on the unpaid balance from the Effective Date provided that in the event that a holder of First Silver Shares submits a Letter of Transmittal 90 or more days following the Effective Date, such holder shall only be entitled to receive First Majestic Shares for the First Silver Shares held by them in accordance with Section 2.2(a)(A);
- (b) 12,324,600 First Silver Shares owned by First Majestic shall be and shall be deemed to be returned to treasury for cancellation by First Silver;
- (c) each First Silver Option, to the extent that it has not been exercised shall be transferred to First Majestic in exchange for a share purchase option of First Majestic to purchase that number of First Majestic Shares determined by dividing the number of First Silver Shares subject to each such First Silver Option by two (2) at an exercise price per First Majestic Share equal to the exercise price per First Silver Share of each such First Silver Option multiplied by two (2), with a term to expiry equivalent to the First Silver Option exercised. If the foregoing calculation results in the option being exercisable for a fraction of a First Majestic Share, then the number of First Majestic Shares subject to such option shall be rounded down to the nearest whole number of shares and the aggregate exercise price for the option will be reduced by the exercise price for one (1) First Majestic Share multiplied by the fractional entitlement. All options issued by First Majestic on such exchange shall be governed by the First Majestic Stock Option Plan; and
- (d) with respect to each First Silver Share and First Silver Option transferred to First Majestic pursuant to Sections 2.2(a) and 2.2(c) at the Effective Time, without any further act or formality:
  - (i) the Holder thereof shall cease to be the Holder of such security and the name of the Holder thereof shall be removed from the register of such securities of First Silver; and
  - (ii) the Holder thereof shall be deemed to have executed and delivered all consents, releases, assignments and waivers, statutory or otherwise, required to transfer such security in accordance with Sections 2.2(a) and 2.2(c).

## 2.3 **Letter of Transmittal**

- (a) First Silver shall cause the Letter of Transmittal to be sent to each Holder, together with the Circular, on the Mailing Date.
- (b) Any deposit of a Letter of Transmittal and accompanying certificates, or other documentation as provided in the Letter of Transmittal, may be made at any of the offices of the Depositary specified in the Letter of Transmittal.

## 3. **RIGHTS OF DISSENT**

3.1 First Silver Shareholders registered as such on the record date of the First Silver Meeting may exercise rights of dissent pursuant to and in the manner set forth subsection 238(d) of the Act, provided that the Notice of Dissent duly executed by such First Silver Shareholder is received by First Silver's registered and records office 48 hours in advance of the time of the First Silver Meeting. Dissenting First Silver Shareholders who are ultimately entitled to be paid fair value for their First Silver Shares shall be deemed to have transferred their First Silver Shares to First Silver for cancellation immediately prior to the Effective Time and in no case shall First Silver be required to recognize such Persons as holding First Silver Shares at and after the Effective Time, and the names of such First Silver Shareholders shall be removed from First Silver's register of shareholders as of the Effective Time.

3.2 First Silver Shareholders who do not duly exercise their Dissent Rights are not entitled to be paid fair value for their First Silver Shares, shall be deemed to have participated in the Arrangement on the same basis as a First Silver Shareholder who is not a Dissenting First Silver Shareholder, and shall be entitled to receive First Majestic Shares or cash consideration as provided in Section 2.2(a) of this Plan of Arrangement.

## 4. **FIRST MAJESTIC CONSIDERATION**

### 4.1 **Right to First Majestic Shares or Cash Consideration**

- (a) First Majestic shall, as soon as practicable following the later of the Effective Date and the date of deposit with the Depositary of a duly completed Letter of Transmittal and the certificates representing the First Silver Shares or other documentation as provided in the Letter of Transmittal, cause the Depositary to:
  - (i) forward or cause to be forwarded by first class mail (postage prepaid) to the Holder at the address specified in the Letter of Transmittal; or
  - (ii) if requested by the Holder in the Letter of Transmittal, to make available at the Depositary for pick-up by the Holder; or
  - (iii) if the Letter of Transmittal neither specifies an address nor contains a request as described in (ii), to forward or cause to be forwarded by first class mail (postage prepaid) to the Holder at the address of such holder as shown on the share register maintained by or on behalf of First Silver,

either at the election of First Silver Shareholders:

- (A) certificates representing the number of First Majestic Shares issuable to such First Silver Shareholder as determined in accordance with the

provisions in Section 2.2(a)(A) hereof, together with a cheque in the amount, if any, payable to such Holder pursuant to Section 4.2; or

- (B) a cheque in the amount of the cash consideration to such First Silver Shareholder as determined in accordance with Section 2.2(a)(B) hereof.
- (b) First Majestic shall have provided the Depositary with sufficient certificates representing First Majestic Shares and sufficient funds to satisfy its obligations pursuant to Section 4.1(a)(A) and (B).
- (c) Each Holder entitled in accordance with Section 2 to receive First Majestic Shares shall be deemed to be the registered holder for all purposes as of the Effective Time of the number of First Majestic Shares to which such Holder is entitled. All dividends paid or other distributions made on or after the Effective Time on or in respect of any First Majestic Shares which a Holder is entitled to receive pursuant to this Plan of Arrangement, but for which a certificate has not yet been delivered to such Holder in accordance with Section 4.1(a)(A), shall be paid or made to such Holder when such certificate is delivered to such Holder in accordance with Section 4.1(a)(A).
- (d) Subject to Section 3 and Section 2.2(a)(B), after the Effective Time, any certificate formerly representing First Silver Shares and First Silver Options (other than First Silver Shares held by First Majestic and its Affiliates) shall represent only the right to receive securities of First Majestic or cash pursuant to Sections 2.2 and 4.1(a) (and cash pursuant to Section 3.1 hereof, if applicable) and any dividends or other distributions to which the Holder is entitled under Section 4.1(b), and any such certificate formerly representing First Silver Shares not duly surrendered on or prior to the sixth anniversary of the Effective Date shall cease to represent a claim or interest of any kind or nature, including a claim for dividends or other distributions under Section 4.1(b), against First Majestic or First Silver by a former Holder. On such date, all First Majestic Shares and cash to which the former Holder of such certificates was entitled shall be deemed to have been surrendered to First Majestic.

#### 4.2 **Fractional Shares**

No fractional shares or cash compensation in lieu thereof will be issued or paid by First Majestic.

#### 4.3 **Illegality of Delivery of First Majestic Shares**

Notwithstanding the foregoing, if it appears to First Majestic that it would be contrary to applicable law to issue First Majestic Shares pursuant to the Arrangement to a person that is not a resident of Canada, the First Majestic Shares that otherwise would be issued or transferred, as the case may be, to that person will be issued or transferred, as the case may be, and delivered to the Depositary for sale of the First Majestic Shares by the Depositary on behalf of that person. The First Majestic Shares delivered to the Depositary will be pooled and sold as soon as practicable after the Effective Date, on such dates and at such prices as the Depositary determines in its sole discretion. The Depositary shall not be obligated to seek or obtain a minimum price for any of the First Majestic Shares sold by it. Each such person will receive a pro rata share of the cash proceeds from the sale of the First Majestic Shares sold by the Depositary (less commissions, other reasonable expenses incurred in connection with the sale of the First Majestic Shares and any amount withheld in respect of Canadian or other taxes) in lieu of the First Majestic Shares. The net proceeds will be remitted in the same manner as set forth in this Section 4. None of First Silver, First Majestic or the Depositary will be liable for any loss arising out of any such sales.

#### 4.4 **Lost Certificates**

If any certificate which prior to the Effective Time represented outstanding First Silver Shares which were exchanged pursuant to Section 2.2 has been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such certificate to be lost, stolen or destroyed, the Depositary will issue in exchange for such lost, stolen or destroyed certificate, certificates representing First Majestic Shares (together any cash in lieu of fractional First Majestic Shares pursuant to Section 4.2) deliverable in respect thereof as determined in accordance with Section 2.2. When seeking such certificate and payment in exchange for any lost, stolen or destroyed certificate, the person to whom certificates representing First Majestic Shares are to be issued shall, as a condition precedent to the issuance thereof, give a bond satisfactory to First Majestic and its transfer agent, in such sum as First Majestic may direct or otherwise indemnify First Majestic and its transfer agent in a manner satisfactory to First Majestic and its transfer agent against any claim that may be made against First Majestic or its transfer agent with respect to the certificate alleged to have been lost, stolen or destroyed.

### 5. **AMENDMENT**

#### 5.1 **Amendment of Plan of Arrangement**

- (a) First Silver and First Majestic reserve the right to amend, modify and/or supplement this Plan of Arrangement at any time and from time to time, provided that any amendment, modification or supplement must be contained in a written document which is filed with the Court and, if made following the First Silver Meeting, approved by the Court and communicated to Holders in the manner required by the Court (if so required).
- (b) Any amendment, modification or supplement to this Plan of Arrangement may be proposed by First Silver or First Majestic at any time prior to or at the First Silver Meeting with or without any other prior notice or communication and, if so proposed and accepted by the persons voting at the First Silver Meeting, will become part of this Plan of Arrangement for all purposes.
- (c) Any amendment, modification or supplement to this Plan of Arrangement which is approved or directed by the Court following the First Silver Meeting will be effective only if it is consented to by First Silver and First Majestic (acting reasonably).
- (d) This Plan of Arrangement may be withdrawn prior to the Effective Time in accordance with the terms of the Combination Agreement.
- (e) Notwithstanding the foregoing provisions of this Section 5.1, no amendment, modification or supplement to this Plan of Arrangement may be made prior to the Effective Time except in accordance with the terms of the Combination Agreement.

## SCHEDULE D

### REPRESENTATIONS AND WARRANTIES OF FIRST SILVER

First Silver represents and warrants to and in favour of First Majestic as follows and acknowledges that First Majestic is relying upon such representations and warranties in connection with the matters contemplated by this Agreement:

(a) *Organization*

First Silver is a corporation duly incorporated and organized, validly existing and in good standing under the laws of the Province of British Columbia, has all requisite corporate power and authority to own or lease and to operate its assets and conduct its business as now owned and conducted by it. First Silver is duly registered, licensed or qualified to carry on business, and is in good standing, in each jurisdiction in which the character of its properties and assets, owned or leased, or the nature of its activities makes a registration, license or qualification necessary, except where the failure to be so registered, licensed or qualified would not have a Material Adverse Effect on First Silver. First Silver is a reporting issuer, or its equivalent, for the purposes of Securities Legislation in each of the Provinces of British Columbia and Ontario.

(b) *Capitalization*

The authorized capital of First Silver consists of 100,000,000 common shares without par value ("First Silver Shares") of which 38,791,921 First Silver Shares are outstanding as of the date of this Agreement, all of which have been duly authorized, validly issued and are outstanding as fully paid and non-assessable shares, free of pre-emptive rights. Pursuant to the First Silver Stock Option Plan, up to 3,650,000 First Silver Shares may be issued, of which options to purchase a total of 1,125,000 First Silver Shares have been granted and are outstanding as of the date of this Agreement. The outstanding First Silver Shares are listed and posted for trading on the TSX. Except as otherwise provided in this paragraph (b), there are no options, warrants, conversion privileges or other rights, agreements, arrangements or commitments (pre-emptive, contingent or otherwise) obligating First Silver to issue or sell any shares of First Silver or any Subsidiary or securities or obligations of any kind convertible into or exchangeable for any shares of First Silver or any Subsidiary, nor are there outstanding any stock appreciation rights, phantom equity or similar rights, agreements, arrangements or commitments based upon the value or market price of the First Silver Shares or the book value, income or any other attribute of First Silver. Except as set forth in the First Silver Disclosure Documents and paragraph (n) of this Schedule D, there have been no First Silver Shares issued or purchased for cancellation since December 31, 2005. There are no outstanding preferred shares or bonds, debentures or other evidences of indebtedness of First Silver having the right to vote (or that are convertible for or exercisable into securities having the right to vote) with the holders of the First Silver Shares on any matter. Except as set forth in the First Silver Disclosure Documents, there are no outstanding contractual obligations of First Silver to repurchase, redeem or otherwise acquire any of its outstanding securities or with respect to the voting or disposition of any outstanding securities of any of First Silver's Subsidiaries.

(c) *Subsidiaries*

First Silver has one wholly-owned subsidiary, Minera El Pilon S.A. de C.V. (“Minera El Pilon”), a corporation incorporated under the laws of Mexico. First Silver owns 100% of the voting securities of Minera El Pilon. Minera El Pilon does not have a class of non-voting securities.

(d) *Compliance with Laws*

To First Silver’s knowledge, First Silver and Minera El Pilon, at the date hereof, are in compliance with all applicable Laws, including Securities Legislation, except where failure so to comply would not, individually or in the aggregate, have a Material Adverse Effect on First Silver. First Silver and Minera El Pilon own, possess, or have obtained and are in compliance with, all licences, permits, franchises, certificates, orders, grants, approvals and other authorizations of or from any Governmental Entity necessary to conduct their businesses as now conducted or as proposed to be conducted except for such failure as would individually or in the aggregate not have a Material Adverse Effect on First Silver.

(e) *Restrictions on Business Activities*

Except as disclosed in the First Silver Disclosure Documents, there is no agreement, judgment, injunction, order or decree binding upon First Silver or Minera El Pilon that has or could reasonably be expected to have the effect of prohibiting, restricting or materially impairing any business practice of First Silver or Minera El Pilon, any acquisition of property by First Silver or Minera El Pilon or the conduct of business by First Silver or Minera El Pilon as currently conducted other than such agreements, judgments, injunctions, orders or decrees which would not, individually or in the aggregate, have a Material Adverse Effect on First Silver or Minera El Pilon.

(f) *Employment Matters*

- (i) Except as set forth in the management information circular prepared in connection with the annual general meeting of First Silver Shareholders held on June 19, 2006, or as disclosed to First Majestic, First Silver is not a party to any written or oral policy, agreement, obligation or understanding providing for severance or termination payments to, or any employment agreement with, any director or officer.
- (ii) Other than the collective bargaining agreement associated with the San Martin Mine, First Silver is not a party to any collective bargaining agreement nor subject to any application for certification or, to the knowledge of First Silver or Minera El Pilon, threatened or apparent union-organizing campaigns for employees not covered under a collective bargaining agreement nor are there any current or, to the knowledge of First Silver or Minera El Pilon, pending or threatened strikes or lockouts at any of the operations of First Silver or Minera El Pilon that would, individually or in the aggregate, have a Material Adverse Effect on First Silver or Minera El Pilon.
- (iii) First Silver is not subject to any claim for wrongful dismissal, constructive dismissal or any tort claim, actual or, to the knowledge of First Silver, pending or

threatened, or any litigation, actual or, to the knowledge of First Silver, pending or threatened, relating to employment or termination of employment of employees or independent contractors, other than those claims or such litigation as would, individually or in the aggregate, not have a Material Adverse Effect on First Silver.

- (iv) First Silver or Minera El Pilon has operated in accordance with all applicable Law with respect to employment and labour, including, but not limited to, employment and labour standards, occupational health and safety, employment equity, pay equity, workers' compensation, human rights and labour relations and there are no current, or, to the knowledge of First Silver, pending or threatened proceedings before any board or tribunal with respect to any of the above areas, other than where the failure to so operate or such proceedings, individually or in the aggregate, would not have a Material Adverse Effect on First Silver or Minera El Pilon.
- (v) All accruals for premiums and assessments for unemployment insurance premiums, health premiums, Canada Pension Plan contributions, accrued wages, salaries and commissions and employee benefit plan payments have been reflected in the books and records of First Silver.

(g) *Authority Relative to this Agreement*

First Silver has the requisite corporate power and authority to enter into this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement by First Silver and the consummation by it of the transactions contemplated by this Agreement have been duly authorized by the board of directors of First Silver and no other corporate proceedings on the part of First Silver are necessary to authorize this Agreement and the transactions contemplated hereby other than: (i) the approval of the board of directors of First Silver with respect to the Circular, and (ii) shareholder approval of the Arrangement. This Agreement has been duly executed and delivered by First Silver and constitutes a valid and binding obligation of First Silver, enforceable against it in accordance with its terms, subject to bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium and other similar laws relating to or affecting creditors' rights generally and to general principles of equity. The execution and delivery by First Silver of this Agreement and the performance by it of its obligations hereunder including completion of the transactions contemplated by the Plan of Arrangement do not and will not:

- (i) result in a violation, breach or termination of any provision of:
  - (A) its Articles or Notice of Articles;
  - (B) any Law, subject to obtaining the Appropriate Regulatory Approvals and shareholder approval; or
  - (C) any Material Agreement by which it or Minera El Pilon is bound;
- (ii) (A) give rise to any right of termination of any Material Agreement to which First Silver or Minera El Pilon is a party, (B) accelerate the repayment of indebtedness, or cause any indebtedness to come due before its stated maturity,

(C) result in the cancellation, suspension or alteration in the terms of any material license, permit or authority held by First Silver or Minera El Pilon, (D) give rise to any rights of first refusal, or trigger any provision of any Material Agreement to which First Silver or Minera El Pilon is a party relating to either (x) a change in control or influence, or (y) any restriction or limitation under any Material Agreement to which First Silver or Minera El Pilon is a party, or (E) otherwise have a Material Adverse Effect on First Silver;

- (iii) result in the imposition of any Lien upon any of its assets or those of Minera El Pilon; or
- (iv) result in any payment (including severance, unemployment, compensation, golden parachute, bonus or otherwise) becoming due to any director or employee of First Silver or increase any benefits payable under any of First Silver's benefit plans or result in the acceleration of time of payment or vesting of any benefits, other than the time of exercise of stock options.

Other than the Appropriate Regulatory Approvals, and except for the filing of appropriate notices, applications and other documents with the TSX, or as required under Securities Legislation, First Silver is not under any obligation, contractual or otherwise, to request or obtain the consent of any Person, and no permits, licences, certifications, authorizations or approvals of, or notifications to, any Governmental Entity are required to be obtained by First Silver: (i) in connection with the execution or delivery by First Silver of this Agreement or the performance by it of its obligations hereunder or the completion of any of the transactions contemplated herein or contemplated in the Plan of Arrangement, (ii) to avoid the loss of any licence, permit, authority or other authorization or (iii) in order that the authority of First Silver to carry on its business in the ordinary course and in the same manner as presently conducted remains in good standing and in full force and effect as of and following the closing of the transactions contemplated herein and in the Plan of Arrangement.

(h) *No Defaults*

Subject to obtaining the Appropriate Regulatory Approvals relating to First Silver, neither First Silver nor Minera El Pilon is in default under, and there exists no event, condition or occurrence which, after notice or lapse of time or both, would constitute such a default under, any contract, agreement, license or franchise to which it is a party or by which it is bound which would, if terminated due to such default, cause a Material Adverse Effect on First Silver.

(i) *Board Matters and Fairness Opinion*

The board of directors of First Silver has:

- (i) determined unanimously that, as of the date of this Agreement, the Arrangement is fair to the First Silver Shareholders and is in the best interests of First Silver;
- (ii) received an opinion from Evans & Evans Inc. that, as of the date of this Agreement, the exchange ratio of the First Majestic Shares to be issued for the First Silver Shares pursuant to the Arrangement is fair, from a financial point of view, to the First Silver Shareholders; and

- (iii) determined unanimously, as of the date of this Agreement, to recommend that the First Silver Shareholders vote in favour of the First Silver Special Resolutions.

(j) *Disclosure Documents; Material Information*

Each of the First Silver Disclosure Documents was, as of the date of filing, in compliance in all material respects with all applicable requirements under Securities Legislation and none of the First Silver Disclosure Documents, as of their respective filing dates, contained any Misrepresentation. Since January 1, 2006, First Silver has filed all documents required to be filed by it pursuant to applicable Securities Legislation. First Silver has no knowledge of any material information, which has not been generally disclosed in accordance with its obligation to do so under the provisions of applicable Securities Legislation, other than disclosure relating to this Agreement and the Arrangement.

(k) *Financial Statements*

The First Silver Financial Statements and, subject to the absence of complete notes and to normal year-end adjustments that would be made in the ordinary course of an audit and that would not be material, the amended and restated interim unaudited financial statements of First Silver for the three month period ended March 31, 2006:

- (i) have been prepared in accordance with GAAP applied on a basis consistent with the preceding fiscal period;
- (ii) present fairly, in all material respects, the assets, liabilities and financial condition of First Silver as at the dates thereof and the results of its operations and the changes in its financial position for the periods then ended;
- (iii) are in accordance with the books and records of First Silver;
- (iv) contain and reflect all necessary adjustments for fair presentation of the results of operations and the financial condition of the business of First Silver for the periods covered thereby;
- (v) contain and reflect adequate provision or allowance for all reasonably anticipated liabilities, expenses and losses of First Silver; and
- (vi) have been prepared in accordance with applicable Securities Legislation.

Except as reflected in the First Silver Financial Statements and the First Silver Disclosure Documents, First Silver does not have any liabilities or obligations of any nature (absolute, accrued, unaccrued, contingent or otherwise) other than those incurred in the ordinary course of business or those which would not have a Material Adverse Effect on First Silver.

(l) *Books and Records*

The books, records and accounts of First Silver, in all material respects, (i) have been maintained in accordance with good business practices and on a basis consistent with prior years, (ii) are stated in reasonable detail and accurately and fairly reflect the

transactions and dispositions of the assets of First Silver and (iii) accurately and fairly reflect the basis for the First Silver Financial Statements. First Silver has devised and maintains a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization and (ii) transactions are recorded as necessary (A) to permit preparation of financial statements in conformity with GAAP and (B) to maintain accountability for assets.

(m) *Tax Matters*

Except as disclosed in the First Silver Disclosure Documents:

- (i) First Silver and Minera El Pilon have prepared in a true, correct and complete manner, and duly and timely filed or caused to be filed, all Tax Returns, required to be filed by it (except if not yet due), have paid or caused to be paid all material Taxes which are due and payable in all material respects and has made adequate provision in the First Silver Financial Statements for the payment of all material Taxes not due and payable on or prior to December 31, 2005. With respect to any period commencing after December 31, 2005, no liability for Taxes has arisen for First Silver and Minera El Pilon, except for Taxes arising in the ordinary course of its business;
- (ii) First Silver and Minera El Pilon have made adequate and timely instalments on account of material Taxes for each period ending on or prior to the date hereof to the extent required by applicable Law;
- (iii) First Silver and Minera El Pilon have in all material respects withheld from payments made to its past or present employees, officers and directors, and to non-residents, the required amount in respect of Taxes and other deductions to be withheld therefrom, and has remitted any material amounts so withheld to the applicable Governmental Entity within the required time periods under the applicable legislation;
- (iv) First Silver and Minera El Pilon have collected all material Taxes that it was required to collect and, as of the date hereof, all material Taxes (including in the nature of payroll or sales taxes) have been remitted to the applicable Governmental Entity within the required time period;
- (v) First Silver and Minera El Pilon have not received any material refund of Taxes or any material credit against Taxes from any relevant Governmental Entity to which it was not entitled and which has not been returned to any relevant Governmental Entity;
- (vi) all Tax Returns of First Silver and Minera El Pilon have been filed through and including the financial year ended December 31, 2005, and there are no outstanding waivers of any limitation periods or agreements providing for an extension of time for the filing of any Tax Return, election or designation or the payment of any Taxes in respect of any financial year for which an assessment has not been issued;

- (vii) there is not now any Claim concerning any material Tax liability of First Silver either: (i) claimed or raised by any Governmental Entity in writing; or (ii) as to which First Silver has knowledge;
- (viii) Neither First Silver nor Minera El Pilon has not entered into any Tax allocation, Tax indemnification or Tax sharing agreement in the past seven years;
- (ix) to First Silver's knowledge, neither First Silver nor Minera El Pilon does not have any liability for the Taxes of any other Person under any applicable Tax Law as a transferee or successor, by contract, operation of Law or otherwise; and
- (x) First Silver is a "Canadian corporation" and a "taxable Canadian corporation" as such terms are defined in subsection 89(1) of the *Tax Act*.

(n) *Absence of Changes*

Except for the transactions contemplated hereby or any change, condition, event or circumstance disclosed in the First Silver Disclosure Documents or, as reserved against in the First Silver Financial Statements or as otherwise disclosed to First Majestic : (A) First Silver has not been subject to any Material Adverse Change since December 31, 2005; and (B) since such date, First Silver has conducted its business only in the ordinary and regular course of its business consistent with past practice and there has not occurred:

- (i) any issuance or sale of any First Silver Shares or other shares, options, warrants or securities of any type other than the issuance of 1,125,000 First Silver Stock Options and the issuance of 1,125,000 First Silver Shares pursuant to the exercise of First Silver Stock Options;
- (ii) any amendment or proposal to amend its Articles or Notice of Articles;
- (iii) any subdivision, consolidation, redemption, purchase, offer to purchase or any other acquisition or reclassification of any of its outstanding shares, declaration of any dividends on or making of other distributions (whether in cash, shares or property, or any combination thereof) or reduction in the stated capital in respect of its shares;
- (iv) any acquisition or agreement to acquire by amalgamating, merging, consolidating or entering into a business combination with, purchasing substantially all the assets of or otherwise acquiring, any business or any corporation, partnership, association or other business organization or division thereof, which transaction would be material to First Silver;
- (v) any sale, lease, transfer, mortgage, hypothecation or other disposition of any of its assets or properties, real, personal or mixed, immovable or movable (including securities), that are material, individually or in the aggregate, to First Silver;
- (vi) any incurrence of indebtedness for money borrowed, or assumption, guarantee (other than indebtedness of First Silver or a wholly-owned Subsidiary of First Silver), endorsement or other liability or responsibility for the obligations of any other Person, or issuance or sale of any debt securities or securities convertible into or exchangeable for debt securities or any issuance or sale of options or other

rights to acquire debt securities or any securities convertible into or exchangeable for any debt securities (other than the drawing of funds for operating purposes consistent with past practice);

- (vii) any creation or assumption of any mortgage, pledge, hypothec, security interest or Lien or other encumbrance on any asset or property;
- (viii) any grant to any officer or director of First Silver, of any compensation or any increase in compensation or in severance or termination pay, or entry into new, or amendments of existing, agreements respecting employment (including bonuses, pensions, insurance, benefits, and the granting of stock options, restricted stock awards, or stock appreciation rights) with any officer or director of First Silver, except as required under employment or termination agreements in effect on the date hereof or as may be required by Law or in the ordinary course of its business, consistent with past practice;
- (ix) except as disclosed to First Majestic, in the case of employees who are not officers or directors, any taking of any action which is unreasonable or unusual with respect to the grant of any bonuses, salary increases, severance or termination pay or with respect to any increase of benefits payable;
- (x) any adoption of or amendment to any bonus, profit sharing, incentive, compensation, stock option, pension, retirement, deferred compensation, employment or other employee benefit plan, agreement, trust, fund or arrangement for the benefit or welfare of any employee;
- (xi) any making of any loan, advance or capital contribution to or investment in any Person, other than loans or advances made in the ordinary course of its business, consistent with past practice which do not exceed \$10,000 outstanding at any time;
- (xii) any entering into, amendment of, relinquishment, termination or non-renewal by it of any Material Agreement to which First Silver is a party, other than in the ordinary course of its business consistent with past practice;
- (xiii) any change in its accounting methods, principles or practices unless required by GAAP;
- (xiv) any revaluation by First Silver or Minera El Pilon of any material asset including any writing down of the value of intangible assets or inventory or writing off of notes or accounts receivable other than in the ordinary course of business consistent with past practice;
- (xv) any damage, destruction or loss, whether or not covered by insurance, that could reasonably be expected to have a Material Adverse Effect on First Silver; or
- (xvi) any agreement or arrangement to take any action which, if taken prior to the date hereof, would have made any representation or warranty set forth in this Agreement untrue or incorrect as of the date when made.

(o) *Contracts and Commitments*

Except as disclosed in this Agreement or, in the First Silver Disclosure Documents, all Material Agreements to which First Silver or Minera El Pilon is a party or by which it is bound: (i) are valid, binding, in full force and effect in all material respects and enforceable by First Silver in accordance with their respective terms, subject, however, to limitations with respect to enforcement imposed by Law in connection with bankruptcy or similar proceedings, the equitable power of the courts to stay proceedings before them and the execution of judgments and to the extent that equitable remedies such as specific performance and injunction are in the discretion of the courts from which they are sought and (ii) do not, by their terms, require the consent of any of the parties thereto to the Arrangement or any of the transactions contemplated thereby.

(p) *Compliance*

Except as disclosed in this Agreement or in the First Silver Disclosure Documents, First Silver or Minera El Pilon is not in conflict with, or in default (including cross-defaults) or violation of:

- (i) its Notice of Articles or Articles;
- (ii) to its knowledge, at the date hereof, any Law or permit applicable to it or by which its properties or leasehold interests are bound or affected, which conflict, default or violation, in any case, has or may have a Material Adverse Effect on First Silver or Minera El Pilon or could impede the completion of the Arrangement or the other transactions contemplated in this Agreement; or
- (iii) the provisions of any Material Agreement to which First Silver or Minera El Pilon is a party which conflict, default or violation, in any case, could have a Material Adverse Effect on First Silver or Minera El Pilon or could impede the completion of the Arrangement or the other transactions contemplated in this Agreement.

(q) *Claims*

Except as disclosed in the First Silver Disclosure Documents, there are no Claims existing, or, to the knowledge of First Silver, pending or threatened in writing against or involving First Silver or Minera El Pilon or its business, assets or properties which if adversely determined, would reasonably be expected to have a Material Adverse Effect on First Silver or Minera El Pilon, including any material liability or obligation relating to the condition of the past and current explorations, operations and physical works, mine reclamation, waste management, environmental impacts or other environmental, health or safety matters of First Silver or Minera El Pilon.

(r) *Property*

Each of First Silver or Minera El Pilon has legal and beneficial, good and marketable title, applying customary standards in the mining industry, to its properties (other than property as to which First Silver or Minera El Pilon is a lessee, in which case it has a valid leasehold interest), including all the properties and assets reflected in the balance sheets forming part of the First Silver Financial Statements, except as indicated in the

notes thereto, together with all additions thereto and less all dispositions thereof in the ordinary course of its business, in each case subject to no Lien except:

- (i) Permitted Liens; or
- (ii) as is disclosed in the First Silver Disclosure Documents.

Such properties and assets constitute all the material properties and assets necessary to permit the operation of the business of First Silver as presently conducted.

(s) *Title to Assets*

To First Silver's knowledge,

- (i) neither First Silver or Minera El Pilon, nor any of its predecessors in interest, has done or failed to do any act or thing whereby any of the First Silver Assets are or will be liable or subject to termination, surrender, forfeiture, cancellation, alienation, reduction, or penalty;
- (ii) except for Permitted Liens, at the Effective Date the First Silver Assets will be free and clear of any encumbrance of any kind or character whatsoever created by, through or under First Silver or any of its predecessors in interest.

(t) *No Default Notices*

As of the date hereof, First Silver has not received or delivered any written notices of default or any notice alleging any default of any applicable regulations or any agreement to which First Silver or Minera El Pilon is a party, which could reasonably be expected to have Material Adverse Effect on First Silver.

(u) *Mining Practices*

To First Silver's knowledge :

- (i) all operations in respect of its mineral properties have been conducted in all material respects in accordance with all applicable regulations; and
- (ii) First Silver has not received any written notice which remains in effect that any of the operations on any of its properties have not been conducted in material compliance with all applicable laws and good mining industry practices,

except for such matters that would not reasonably be expected to have a Material Adverse Effect on First Silver.

(v) *Environmental Compliance*

Except as disclosed in this Agreement or in the First Silver Disclosure Documents:

- (i) First Silver and Minera El Pilon are in substantial compliance with all applicable Environmental Laws;

- (ii) in connection with Environmental Activities, there is no notice of infraction, action, suit or proceeding or, to the knowledge of First Silver, pending or threatened against, or in any other manner relating adversely to, First Silver or Minera El Pilon or its properties in any court or before any arbitrator of any kind or before or by any Governmental Entity, which, if adversely determined, would, singly or in the aggregate, have a Material Adverse Effect on First Silver;
  - (iii) First Silver or Minera El Pilon has not and is not, and to the knowledge of First Silver, no past or present lessee, owner, occupant, or licensee or other Person other than First Silver or Minera El Pilon has or is, engaged in any Environmental Activity at, upon, under, over, within or with respect to the real property owned or used by First Silver or Minera El Pilon in violation of any applicable Environmental Law which would lead to the imposition of liability on, or a remediation order against, First Silver and which would have a Material Adverse Effect on First Silver or Minera El Pilon;
  - (iv) no activities or operations of First Silver or Minera El Pilon are or have been subject to any judicial, administrative or other proceedings alleging a violation of any applicable Environmental Law which, if adversely determined, would have a Material Adverse Effect on First Silver or Minera El Pilon;
  - (v) to the knowledge of First Silver, no activities or operations of First Silver in respect of real property owned or used by First Silver are the subject of investigation or written notice from any Governmental Entity requiring remedial action to respond to a Release of any Contaminant;
  - (vi) to the knowledge of First Silver, neither First Silver or Minera El Pilon has not been or is involved in any operations or Environmental Activity in violation of any applicable Environmental Law which activities would lead to the imposition of liability on, or a remediation order against, First Silver or Minera El Pilon which would have a Material Adverse Effect on First Silver;
  - (vii) Neither First Silver or Minera El Pilon has filed any written notice or report of a Release of a Contaminant with any Governmental Entity in respect of the real property owned or used by First Silver or any part thereof, the consequence of which Release would have a Material Adverse Effect on First Silver; and
  - (viii) to the knowledge of First Silver, no order, instruction or direction of any Governmental Entity has been issued which required First Silver or Minera El Pilon to carry out any material environmental remediation of the real property owned or used by First Silver or Minera El Pilon under any applicable Environmental Law and First Silver or Minera El Pilon is not subject to any material reclamation obligation or other site restoration obligation under any Environmental Law.
- (w) *Benefit Plans*

Except as disclosed in the First Silver Disclosure Documents, First Silver has no material benefit plans other than a medical/dental benefit plan for First Silver employees.

(x) *Registration Rights*

No holder of securities issued by First Silver has any contractual right to compel First Silver to register or otherwise qualify such securities for public offering in Canada or the United States.

(y) *Disclosure*

There is no fact known to First Silver which it has not disclosed to First Majestic in writing or made available for review by First Majestic as part of its due diligence investigations conducted from time to time which has had or would reasonably be expected to have a Material Adverse Effect on First Silver or would reasonably be expected to materially impede the completion of the Arrangement or the other transactions contemplated in this Agreement.

## **SCHEDULE E**

### **REPRESENTATIONS AND WARRANTIES OF FIRST MAJESTIC**

First Majestic represents and warrants to and in favour of First Silver as follows and acknowledges that First Silver is relying upon such representations and warranties in connection with the matters contemplated by this Agreement:

(a) *Organization*

First Majestic is a corporation duly continued, validly existing and in good standing under the laws of the Province of British Columbia, has all requisite corporate power and authority to own or lease and to operate its assets and conduct its business as now owned and conducted by it. First Majestic is duly registered, licensed or qualified to carry on business, and is in good standing, in each jurisdiction in which the character of its properties and assets, owned or leased, or the nature of its activities makes a registration, license or qualification necessary, except where the failure to be so registered, licensed or qualified would not have a Material Adverse Effect on First Majestic. First Majestic is a reporting issuer, or its equivalent, for the purposes of Securities Legislation in the Provinces of British Columbia, Alberta and Ontario.

(b) *Capitalization*

- (i) The authorized capital of First Majestic consists of an unlimited number of common shares without par value ("First Majestic Shares") of which 42,040,657 First Majestic Shares are issued and outstanding as of the date of this Agreement, all of which have been duly authorized, validly issued and are outstanding as fully paid and non-assessable shares, free of pre-emptive rights.
- (ii) Pursuant to the First Majestic Stock Option Plan, a maximum of 3,475,761 First Majestic Shares may be issued, of which options to purchase a total of 3,474,600 First Majestic Shares have been granted and are outstanding as of April 30, 2006. On July 6 2006, First Majestic's board of directors adopted a new 10% rolling stock option plan (the "New First Majestic Stock Option Plan") which is subject to TSXV and shareholder approvals and will replace and supersede the First Majestic Stock Option Plan. As of the date of this Agreement, 25,000 additional stock options have been granted under the New First Majestic Stock Option Plan.
- (iii) As of the date of this Agreement, there are 420,000 First Majestic Underwriter Compensation Options outstanding. Each First Majestic Underwriter Compensation Option is exercisable into one First Majestic Broker Warrant. Each First Majestic Broker Warrant is exercisable into one First Majestic Share.
- (iv) As of the date of this Agreement, a maximum of 6,193,139 First Majestic Shares may be issued upon the exercise of outstanding warrants to acquire First Majestic Shares.

The outstanding First Majestic Shares are listed and posted for trading on the TSXV. Except as described in the preceding sentences, there are no options, warrants, conversion privileges or other rights, agreements, arrangements or commitments (pre-emptive,

contingent or otherwise) obligating First Majestic or its Subsidiary to issue or sell any shares of First Majestic or any of its Subsidiaries or any other Person or securities or obligations of any kind convertible into or exchangeable for any shares of First Majestic, or its Subsidiary or any other Person, nor is there outstanding any stock appreciation rights, phantom equity or similar rights, agreements, arrangements or commitments based upon the value or market price of the First Majestic Shares or the book value, income or any other attribute of First Majestic or any of its Subsidiaries. Except as set forth in the First Majestic Disclosure Documents and paragraph (m) of this Schedule E, there have been no First Majestic Shares issued or purchased for cancellation since June 30, 2005. There are no outstanding bonds, debentures or other evidences of indebtedness of First Majestic or any of its Subsidiaries having the right to vote (or that are convertible for or exercisable into securities having the right to vote) with the holders of the First Majestic Shares on any matter. Except as set forth in the First Majestic Disclosure Documents, there are no outstanding contractual obligations of First Majestic or its Subsidiary to repurchase, redeem or otherwise acquire any of its outstanding securities or with respect to the voting or disposition of any outstanding securities of any of First Majestic's Subsidiary.

(c) *Subsidiaries*

First Majestic has one wholly owned subsidiary, First Majestic Resources Mexico, S.A. de C.V. All of the outstanding shares and other ownership interests in such material Subsidiary has been duly authorized, validly issued and are fully paid and non-assessable and all such shares and other ownership interests are owned directly or indirectly by First Majestic, free and clear of all material Liens other than Permitted Liens and restrictions on transfers contained in constating documents; except as aforesaid there are no outstanding options, rights, entitlements, understandings or commitments (contingent or otherwise) regarding the right to acquire any shares or other ownership interests in any of such material Subsidiaries. Except for First Majestic's 63.75% interest in First Silver, neither First Majestic nor its Subsidiary has any material interest, direct or indirect, in any other material Person.

(d) *Compliance with Laws*

To First Majestic's knowledge, First Majestic and its Subsidiary is at the date hereof, in compliance with all applicable Laws, including Securities Legislation, except where failure so to comply would not, individually or in the aggregate, have a Material Adverse Effect on First Majestic. First Majestic and its Subsidiary own, possess, or have obtained and is in compliance with, all licences, permits, franchises, certificates, orders, grants, approvals and other authorizations of or from any Governmental Entity necessary to conduct their businesses as now conducted or as proposed to be conducted except for such failure as would individually or in the aggregate not have a Material Adverse Effect on First Majestic.

(e) *Restrictions on Business Activities*

Except as disclosed in the First Majestic Disclosure Documents, there is no agreement, judgment, injunction, order or decree binding upon First Majestic or its Subsidiary that has or could reasonably be expected to have the effect of prohibiting, restricting or materially impairing any business practice of First Majestic or its Subsidiary, any acquisition of property by First Majestic or its Subsidiary or the conduct of business by

First Majestic or its Subsidiary as currently conducted other than such agreements, judgments, injunctions, orders or decrees which would not, individually or in the aggregate, have a Material Adverse Effect on First Majestic .

(f) *Employment Matters*

- (i) Neither First Majestic nor its Subsidiary is subject to any claim for wrongful dismissal, constructive dismissal or any tort claim, actual or, to the knowledge of First Majestic , pending or threatened, or any litigation, actual or, to the knowledge of First Majestic , pending or threatened, relating to employment or termination of employment of employees or independent contractors, other than those claims or such litigation as would, individually or in the aggregate, not have a Material Adverse Effect on First Majestic .
- (ii) First Majestic is not a party to any collective bargaining agreement nor subject to any application for certification or, to the knowledge of First Majestic or its Subsidiary, threatened or apparent union-organizing campaigns for employees not covered under a collective bargaining agreement nor are there any current or, to the knowledge of First Majestic or its Subsidiary, pending or threatened strikes or lockouts at any of the operations of First Majestic or its Subsidiaries that would, individually or in the aggregate, have a Material Adverse Effect on First Majestic or its Subsidiary.
- (iii) First Majestic and its Subsidiary have operated in accordance with all applicable Law with respect to employment and labour, including, but not limited to, employment and labour standards, occupational health and safety, employment equity, pay equity, workers' compensation, human rights and labour relations and there are no current or, to the knowledge of First Majestic , pending or threatened proceedings before any board or tribunal with respect to any of the above areas, other than where the failure to so operate or such proceedings, individually or in the aggregate, would not have a Material Adverse Effect on First Majestic .
- (iv) Except as disclosed to First Silver, First Majestic is not a party to any written or oral policy, agreement, obligation or understanding providing for severance or termination payments to, or any employment agreement with, any director or officer.
- (v) All accruals for premiums and assessments for unemployment insurance premiums, health premiums, Canada Pension Plan contributions, accrued wages, salaries and commissions and employee benefit plan payments have been reflected in the books and records of First Majestic .

(g) *Authority Relative to this Agreement*

First Majestic has the requisite corporate power and authority to enter into this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement by First Majestic and the consummation by it of the transactions contemplated by this Agreement have been duly authorized by the board of directors of First Majestic and no other corporate proceedings on the part of First Majestic are necessary to authorize this Agreement and the transactions contemplated hereby. This Agreement has been duly executed and delivered by First Majestic and constitutes a valid

and binding obligation of First Majestic, enforceable against it in accordance with its terms, subject to bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium and other similar laws relating to or affecting creditors' rights generally and to general principles of equity. The execution and delivery by First Majestic of this Agreement and the performance by it of its obligations hereunder including completion of the transactions contemplated by the Plan of Arrangement, do not and will not:

- (i) result in a violation, breach or termination of any provision of:
  - (A) its Articles or Notice of Articles;
  - (B) any Law, subject to obtaining the Appropriate Regulatory Approvals; or
  - (C) any Material Agreement by which it or any of its Subsidiaries is bound;
- (ii) (A) give rise to any right of termination of any Material Agreement to which First Majestic or any of its Subsidiaries is a party, (B) accelerate the repayment of indebtedness, or cause any indebtedness to come due before its stated maturity, (C) result in the cancellation, suspension or alteration in the terms of any material license, permit or authority held by First Majestic or any of its Subsidiaries, (D) give rise to any rights of first refusal, or trigger any provision of any Material Agreement to which First Majestic or any of its Subsidiaries is a party relating to either (x) a change in control or influence or (y) any restriction or limitation under any Material Agreement to which First Majestic or any of its Subsidiaries is a party, or (E) otherwise have a Material Adverse Effect on First Majestic or any of its Subsidiaries;
- (iii) result in the imposition of any Lien upon any of its assets or those of its Subsidiaries; or
- (iv) result in any payment (including severance, unemployment, compensation, golden parachute, bonus or otherwise) becoming due to any director or employee of First Majestic or increase any benefits payable under any of First Majestic's benefit plans or result in the acceleration of time of payment or vesting of any benefits, other than the time of exercise of stock options.

Other than the Appropriate Regulatory Approvals, and except for the filing of appropriate notices, applications and other documents with the TSXV, or as required under Securities Legislation, First Majestic is not under any obligation, contractual or otherwise, to request or obtain the consent of any Person, and no permits, licences, certifications, authorizations or approvals of, or notifications to, any Governmental Entity are required to be obtained by First Majestic: (i) in connection with the execution or delivery by First Majestic of this Agreement or the performance by it of its obligations hereunder or the completion of any of the transactions contemplated herein or contemplated in the Plan of Arrangement, (ii) to avoid the loss of any licence, permit, authority or other authorization or (iii) in order that the authority of First Majestic to carry on its business in the ordinary course and in the same manner as presently conducted remains in good standing and in full force and effect as of and following the closing of the transactions contemplated herein and in the Plan of Arrangement.

- (h) *No Defaults*

Subject to obtaining the Appropriate Regulatory Approvals relating to First Majestic, neither First Majestic nor its Subsidiary are in default under, and there exists no event, condition or occurrence which, after notice or lapse of time or both, would constitute such a default under, any contract, agreement, license or franchise to which it or its Subsidiary are a party or by which they are bound which would, if terminated due to such default, cause a Material Adverse Effect on First Majestic.

(i) *Disclosure Documents; Material Information*

Each of the First Majestic Disclosure Documents was, as of the date of filing, in compliance in all material respects with all applicable requirements under Securities Legislation and none of the First Majestic Disclosure Documents, as of their respective filing dates, contained any Misrepresentation. Since July 1, 2005, First Majestic has filed all documents required to be filed by it pursuant to applicable Securities Legislation. First Majestic has no knowledge of any material information which has not been generally disclosed in accordance with its obligation to do so under the provisions of applicable Securities Legislation, other than disclosure relating to this Agreement and the Arrangement.

(j) *Financial Statements*

The First Majestic Financial Statements and, subject to the absence of complete notes and to normal year-end adjustments that would be made in the ordinary course of an audit and that would not be material, the amended and restated interim unaudited financial statements of First Majestic for the nine month period ended March 31, 2006 and the six month period ended December 31, 2005:

- (i) have been prepared in accordance with GAAP applied on a basis consistent with the preceding fiscal period;
- (ii) present fairly, in all material respects, the assets, liabilities and financial condition of First Majestic as at the dates thereof and the results of its operations and the changes in its financial position for the periods then ended;
- (iii) are in accordance with the books and records of First Majestic ;
- (iv) contain and reflect all necessary adjustments for fair presentation of the results of operations and the financial condition of the business of First Majestic for the periods covered thereby;
- (v) contain and reflect adequate provision or allowance for all reasonably anticipated liabilities, expenses and losses of First Majestic ; and
- (vi) have been prepared in accordance with applicable Securities Legislation.

Except as reflected in the First Majestic Financial Statements and the First Majestic Disclosure Documents, First Majestic does not have any liabilities or obligations of any nature (absolute, accrued, unaccrued, contingent or otherwise) other than those incurred in the ordinary course of business or those which would not have a Material Adverse Effect on First Majestic.

(k) *Books and Records*

The books, records and accounts of First Majestic and its Subsidiary, in all material respects, (i) have been maintained in accordance with good business practices on a basis consistent with prior years, (ii) are stated in reasonable detail and accurately and fairly reflect the transactions and dispositions of the assets of First Majestic and its Subsidiaries and (iii) accurately and fairly reflect the basis for the First Majestic Financial Statements. First Majestic has devised and maintains a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization and (ii) transactions are recorded as necessary (A) to permit preparation of financial statements in conformity with GAAP and (B) to maintain accountability for assets.

(l) *Tax Matters*

Except as disclosed in the First Majestic Disclosure Documents:

- (i) First Majestic and its Subsidiary has prepared in a true, correct and complete manner, and duly and timely filed or caused to be filed, all Tax Returns required to be filed by it (except if not yet due), have paid or caused to be paid, all material Taxes which are due and payable in all material respects, and have made adequate provision in the First Majestic Financial Statements for the payment of all material Taxes not due and payable on or prior to June 30, 2005. With respect to any period commencing after June 30, 2005, no liability for Taxes has arisen for First Majestic or its Subsidiary, except for Taxes arising in the ordinary course of its business;
- (ii) First Majestic and its Subsidiary have made adequate and timely instalments on account of material Taxes for each period ending on or prior to the date hereof to the extent required by applicable Law;
- (iii) First Majestic and its Subsidiary have in all material respects withheld from payments made to its past or present employees, officers and directors, and to non-residents, the required amount in respect of Taxes and other deductions to be withheld therefrom, and has remitted any material amounts so withheld to the applicable Governmental Entity within the required time periods under the applicable legislation;
- (iv) First Majestic and its Subsidiary have collected all material Taxes that it was required to collect and, as of the date hereof, all material Taxes (including in the nature of payroll or sales taxes) have been remitted to the applicable Governmental Entity within the required time period;
- (v) neither First Majestic nor its Subsidiary has received any material refund of Taxes or any material credit against Taxes from any relevant Governmental Entity to which it was not entitled and which has not been returned to any relevant Governmental Entity;
- (vi) all Tax Returns of First Majestic and its Subsidiary have been filed through and including the financial year ended June 30, 2005, and there are no outstanding waivers of any limitation periods or agreements providing for an extension of

time for the filing of any Tax Return, election or designation or the payment of any Taxes in respect of any financial year for which an assessment has not been issued;

- (vii) there is not now any Claim concerning any material Tax liability of First Majestic or any of its Subsidiaries either: (i) claimed or raised by any Governmental Entity in writing or (ii) as to which First Majestic has knowledge;
- (viii) neither First Majestic nor its Subsidiary has entered into any Tax allocation, Tax indemnification or Tax sharing agreement in the past seven years;
- (ix) to First Majestic's knowledge, neither First Majestic nor its Subsidiary has any liability for the Taxes of any other Person under any applicable Tax Law as a transferee or successor, by contract, operation of Law or otherwise; and
- (x) First Majestic is a "Canadian corporation" and a "taxable Canadian corporation" as such terms are defined in subsection 89(1) of the *Tax Act*.

(m) *Absence of Changes*

Except for the transactions contemplated hereby or any change, condition, event or circumstance disclosed in the First Majestic Disclosure Documents or, as reserved against in the First Majestic Financial Statements or as otherwise disclosed to First Silver: (A) First Majestic has not been subject to any Material Adverse Change since June 30, 2005; and (B) since such date, First Majestic and its Subsidiary has conducted its business only in the ordinary and regular course of its business consistent with past practice and there has not occurred:

- (i) any issuance or sale of any First Majestic Shares or other shares, options, warrants or securities of any type other than the issuance of:
  - (A) up to 420,000 First Majestic Shares issuable upon the exercise of the 420,000 Broker Warrants which are issuable upon the exercise of the 420,000 Underwriter Compensation Options outstanding;
  - (B) 3,499,600 First Majestic Stock Options and the issuance of 3,499,600 First Majestic Shares pursuant to the exercise of First Majestic Stock Options;
  - (C) up to 6,193,139 First Majestic Shares issuable upon the exercise of the 6,193,139 First Majestic Warrants outstanding;
- (ii) any amendment or proposal to amend its Notice of Articles or Articles;
- (iii) any subdivision, consolidation, redemption, purchase, offer to purchase or any other acquisition or reclassification of any of its outstanding shares, declaration of any dividends on or making of other distributions (whether in cash, shares or property, or any combination thereof) or reduction in the stated capital in respect of its shares;

- (iv) any acquisition or agreement to acquire by amalgamating, merging, consolidating or entering into a business combination with, purchasing substantially all the assets of or otherwise acquiring, any business or any corporation, partnership, association or other business organization or division thereof, which transaction would be material to First Majestic ;
- (v) any sale, lease, transfer, mortgage, hypothecation or other disposition of any of its assets or properties, real, personal or mixed, immovable or movable (including securities), that are material, individually or in the aggregate, to First Majestic ;
- (vi) any incurrence of indebtedness for money borrowed, or assumption, guarantee (other than indebtedness of First Majestic or a wholly-owned Subsidiary of First Majestic), endorsement or other liability or responsibility for the obligations of any other Person, or issuance or sale of any debt securities or securities convertible into or exchangeable for debt securities or any issuance or sale of options or other rights to acquire debt securities or any securities convertible into or exchangeable for any debt securities (other than the drawing of funds for operating purposes consistent with past practice);
- (vii) any creation or assumption of any mortgage, pledge, hypothec, security interest or Lien or other encumbrance on any asset or property;
- (viii) any grant to any officer or director of First Majestic or its Subsidiary, of any compensation or any increase in compensation or in severance or termination pay, or entry into new, or amendments of existing, agreements respecting employment (including bonuses, pensions, insurance, benefits, and the granting of stock options, restricted stock awards, or stock appreciation rights) with any officer or director of First Majestic or its Subsidiary, except as required under employment or termination agreements in effect on the date hereof or as may be required by Law or in the ordinary course of its business, consistent with past practice;
- (ix) in the case of employees who are not officers or directors, any taking of any action which is unreasonable or unusual with respect to the grant of any bonuses, salary increases, severance or termination pay or with respect to any increase of benefits payable;
- (x) any adoption of or amendment to any bonus, profit sharing, incentive, compensation, stock option, pension, retirement, deferred compensation, employment or other employee benefit plan, agreement, trust, fund or arrangement for the benefit or welfare of any employee;
- (xi) any making of any loan, advance or capital contribution to or investment in any Person, other than: (i) loans or advances made in the ordinary course of its business, consistent with past practice and (ii) other loans and advances in an aggregate amount which does not exceed \$500,000 outstanding at any time;
- (xii) any entering into, amendment of, relinquishment, termination or non-renewal by it of any Material Agreement to which First Majestic or any of its Subsidiaries is a party, other than in the ordinary course of its business consistent with past practice;

- (xiii) any change in its accounting methods, principles or practices unless required by GAAP;
- (xiv) any revaluation by First Majestic or its Subsidiary of any material asset including any writing down of the value of intangible assets or inventory or writing off of notes or accounts receivable other than in the ordinary course of business consistent with past practice;
- (xv) any damage, destruction or loss whether or not covered by insurance, that could reasonably be expected to have a Material Adverse Effect on First Majestic ; or
- (xvi) any agreement or arrangement to take any action which, if taken prior to the date hereof, would have made any representation or warranty set forth in this Agreement untrue or incorrect as of the date when made.

(n) *Contracts and Commitments*

Except as disclosed in this Agreement or in the First Majestic Disclosure Documents, all Material Agreements to which First Majestic or its Subsidiary is a party or by which any of them are bound (i) are valid, binding, in full force and effect in all material respects and enforceable by First Majestic or its Subsidiary in accordance with their respective terms, subject, however, to limitations with respect to enforcement imposed by Law in connection with bankruptcy or similar proceedings, the equitable power of the courts to stay proceedings before them and the execution of judgments and to the extent that equitable remedies such as specific performance and injunction are in the discretion of the courts from which they are sought and (ii) do not, by their terms, require the consent of any of the parties thereto to the Arrangement or any of the transactions contemplated thereby.

(o) *Compliance*

Except as disclosed in this Agreement or in the First Majestic Disclosure Documents, First Majestic is not in conflict with, or in default (including cross-defaults) or violation of:

- (i) its Notice of Articles or Articles;
- (ii) to its knowledge at the date hereof, any Law or permit applicable to it or its Subsidiary or by which their properties or leasehold interests are bound or affected, which conflict, default or violation, in any case, has or may have a Material Adverse Effect on First Majestic or its Subsidiary or could impede the completion of the Arrangement or the other transactions contemplated in this Agreement; or
- (iii) the provisions of any Material Agreement to which First Majestic or its Subsidiary is a party which conflict, default or violation, in any case, could have a Material Adverse Effect on First Majestic or its Subsidiary or could impede the completion of the Arrangement or the other transactions contemplated in this Agreement.

(p) *Claims*

Except as disclosed in the First Majestic Disclosure Documents, there are no Claims existing, or, to the knowledge of First Majestic, pending or threatened in writing against or involving First Majestic, its Subsidiary or their respective businesses, assets or properties which if adversely determined, would reasonably be expected to have a Material Adverse Effect on First Majestic, including any material liability or obligation relating to the condition of the past and current explorations, operations and physical works, mine reclamation, waste management, environmental impacts or other environmental, health or safety matters of First Majestic or its Subsidiary.

(q) *Property*

Each of First Majestic and its Subsidiary, as the case may be, has legal and beneficial, good and marketable title, applying customary standards in the mining industry, to its properties (other than property as to which First Majestic or its Subsidiary is a lessee, in which case it has a valid leasehold interest), including all the properties and assets reflected in the balance sheets forming part of the First Majestic Financial Statements, except as indicated in the notes thereto, together with all additions thereto and less all dispositions thereof in the ordinary course of its business, in each case subject to no Lien except:

- (i) Permitted Liens; or
- (ii) as is disclosed in the First Majestic Disclosure Documents.

Such properties and assets constitute all the material properties and assets necessary to permit the operation of the businesses of First Majestic and its Subsidiary as presently conducted.

(r) *Title to Assets*

To First Majestic's knowledge, none of First Majestic or its Subsidiary, nor any of their predecessors in interest, has done or failed to do any act or thing whereby any of the First Majestic Assets are or will be liable or subject to termination, surrender, forfeiture, cancellation, alienation, reduction or penalty.

(s) *No Default Notices*

As of the date hereof, First Majestic has not received or delivered any written notices of default or any notice alleging any default of any applicable regulations or any agreement to which First Majestic or any of its Subsidiaries is a party, which could reasonably be expected to have Material Adverse Effect on First Majestic.

(t) *Mining Practices*

To First Majestic's knowledge:

- (i) all operations in respect of its properties have been conducted in all material respects in accordance with all applicable regulations; and

- (ii) First Majestic has not received any written notice which remains in effect that any of the operations on any of its properties have not been constructed in material compliance with all applicable laws and good mining industry practices, except for such matters that would not reasonably be expected to have a Material Adverse Effect on First Majestic.

(u) *Environmental Compliance*

Except as disclosed in this Agreement or in the First Majestic Disclosure Documents:

- (i) First Majestic and its Subsidiary is in substantial compliance with all applicable Environmental Laws;
- (ii) in connection with Environmental Activities, there is no notice of infraction, action, suit or proceeding, to the knowledge of First Majestic, pending or threatened against, or in any other manner relating adversely to, First Majestic or its Subsidiary or their respective properties in any court or before any arbitrator of any kind or before or by any Governmental Entity, which, if adversely determined, would, singly or in the aggregate, have a Material Adverse Effect on First Majestic ;
- (iii) all material Environmental Permits which are necessary under any applicable Environmental Law for the ownership and operation by First Majestic and its Subsidiary of the real property, assets, mines and other facilities owned or used by First Majestic and its Subsidiary and all of the properties related thereto have been duly obtained, made or taken and are in full force and effect, are not subject to further Environmental Permits or appeal, or to the knowledge of First Majestic, any pending or threatened legal or administrative proceedings, and there are to the knowledge of First Majestic, no proposals to amend, revoke or replace such material Environmental Permits;
- (iv) First Majestic and its Subsidiary has not and is not, and to the knowledge of First Majestic, no past or present lessee, owner, occupant, or licensee or other Person other than First Majestic or its Subsidiary has or is, engaged in any Environmental Activity at, upon, under, over, within or with respect to the real property owned or used by First Majestic or its Subsidiary in violation of any applicable Environmental Law which would lend to the imposition of liability on, or a remediation order against, First Majestic or its Subsidiary and which would have a Material Adverse Effect on First Majestic and its Subsidiary;
- (v) no activities or operations of First Majestic or its Subsidiary are or have been subject to any judicial, administrative or other proceedings alleging a violation of any applicable Environmental Law which, if adversely determined, would have a Material Adverse Effect on First Majestic or its Subsidiary;
- (vi) to the knowledge of First Majestic, no activities or operations of First Majestic or its Subsidiary in respect of real property owned or used by First Majestic or its Subsidiary are the subject of investigation or written notice from any Governmental Entity requiring remedial action to respond to a Release of any Contaminant;

- (vii) to the knowledge of First Majestic, neither First Majestic nor its Subsidiary has been or is involved in any operations or Environmental Activity in violation of any applicable Environmental Law which activities would lead to the imposition of liability on, or a remediation order against, First Majestic or its Subsidiary which would have a Material Adverse Effect on First Majestic;
- (viii) neither First Majestic nor its Subsidiary has filed any written notice or report of a Release of a Contaminant with any Governmental Entity in respect of the real property owned or used by First Majestic or any part thereof, the consequence of which Release would have a Material Adverse Effect on First Majestic; and
- (ix) to the knowledge of First Majestic, no order, instruction or direction of any Governmental Entity has been issued which required First Majestic or a Subsidiary of First Majestic to carry out any material environmental remediation of the real property owned or used by First Majestic under any applicable Environmental Law and neither First Majestic nor its Subsidiary is subject to any material reclamation obligation or other site restoration obligation under any Environmental Law.

(v) *Benefit Plans*

Except as disclosed in the First Majestic Disclosure Documents, First Majestic has no material benefit plans other than a medical/dental benefit plan for First Majestic employees.

(w) *Issuance of First Majestic Shares*

The First Majestic Shares to be issued pursuant to the Arrangement, including the First Majestic Shares to be issued on the valid exercise of First Silver Options following the Effective Time, will be duly and validly issued by First Majestic on the date on which such shares are to be issued, and will, upon such issuance, be issued as fully paid and non-assessable shares.

(x) *Disclosure*

There is no fact known to First Majestic which First Majestic has not disclosed to First Silver in writing or made available for review by First Majestic as part of its due diligence investigations from time to time which has had or would reasonably be expected to have a Material Adverse Effect on First Majestic or would reasonably be expected to materially impede the completion of the Arrangement or the other transactions contemplated in this Agreement.