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First Majestic Resource Corp. (V.FR)

(C\$1.85, 21.3mm SO, 28.4mm FD, C\$39,445,210 MCap, www.firstmajestic.com)

A Mexico Growth Story

While most juniors spend their time exploring for the next big find, *First Majestic* is aggressively trying to become a mid-tier silver producer by following the same model for silver that the same team used for copper when with *First Quantum Minerals* (T.FM, C\$19): picking up underappreciated assets and turning them into producers.

Under the direction of Keith Neumeyer, the company is essentially bypassing the exploration stage by cranking up production at its Le Parrilla mine near Mexico's Durango City, which it acquired in May 2004. After spending about US\$1 million revamping an existing mill—a pittance as these things go—FM began operations in July. By October, the operation was treating 180 tonnes of oxide ore a day, and in December 30,000 ounces of silver were poured. The company is currently putting in a flotation circuit that should allow it to double production to 360 tpd on the way to eventually hitting a target of 500 tpd. Overall, First Majestic aims to see output of 1 million ounces of silver this year, 2 million ounces by 2006, and 10 million ounces per year in the not too distant future.

People

Those may seem like overly aggressive goals for a new company, but the management team is following a proven model, one they are familiar with: Keith Neumeyer was the founding president of First Quantum, and was responsible for setting the strategic direction that allowed that company to become a mid-tier copper producer. For those who don't know the story, *First Quantum* picked up a copper property in Zambia and over about 2 years spent \$32 million to bring it into production. The revenue in the first year of operations back in 1998 totaled \$18 million and then jumped to over \$30 million in the second year. By 2000, *First Quantum* had \$135 million in sales and its stock price had increased from around C\$2 per share in the early days to its current level of over C\$19.00 per share.

In *First Majestic*, we clearly see an analogy to First Quantum, which built its revenue through good management and operational competence. As President, Keith provides the “vision thing” for FM, and Ramon Davila, the company's Chief Operating Officer, provides the technical skills. Davila, who has worked with Mexico's largest silver producer, *Industries Penoles*, as well as *Luismin*, came over to FM from *Plata Panamericana* (a wholly owned subsidiary of *Pan American Silver*). He is highly respected in the industry and certainly one of the most knowledgeable silver miners working in Mexico today. Beefing up the board on the management side, the company recently added David Shaw to its team. David was a senior Mining Analyst with *Yorkton Securities* and most recently an important member of the group that built junior explorer

Cardero Resources (V.CDU, C\$3.34). So, they have the market side covered as well.

Property

Shortly after the Le Parrilla acquisition, *First Majestic* picked up the titles to four adjacent claim groups, collectively called the Chalchihutes. These claims host exceptionally high grades with samples from the Perseverance mine yielding 15% lead, 6% zinc and 607 g/t silver. Of course, because *First Majestic* has an operating mill in the neighborhood, any exploration success can be quickly monetized. Exploration drilling is expected to get underway any day now.

Following Chalchihutes, the company picked up the Dios Padre property, where they aim to confirm earlier work outlining a reported 57 million ounces of near-surface silver at a grade of 456 g/t silver (and still open to expansion). The company is looking to have a 2,000-tonne-per-day operation up and running on Dios Padre by 2006. Capital costs are expected to come in at a low US\$20 million for the proposed open-pit operation and output could reach 5 million ounces per year as early as 2006.

Nearby in the eastern Sierra Madre Mountains, midway between Hermosillo and Chihuahua, *First Majestic's* latest deal involved the acquisition of a flotation mill, the equipment and all mining concessions at *Candamina*. The total price tag is US\$7.6 million, payable over a three-year period. *Candamina* was previously worked by *Manhattan Minerals* (T.MAN, C\$0.06) and is known to host a historic resource of 6.1 million tonnes grading 0.9 g/t gold. They also reported a potential for resources in this deposit of 20 million ounces of silver. One of the main targets for the company is the La Blanca area that hosts the old La Verde mine, which has historic underground mined resources grading 466 g/t silver, 0.13 g/t gold, 4.33% lead and 3% zinc, and the La Prieta mine that is reported to have similar grades.

Paper and Phinancing

The company is well funded with C\$7 million in the bank. With a ramping up of production, however, a new financing is likely in the first half of 2005. The company has 21,321,735 shares outstanding, 28,426,735 fully diluted. There are 1.23 million options at a weighted average price of C\$1.28 expiring June 2007. There are also 1.8 million warrants priced at C\$0.30 until Oct. 1, 2005 and 4 million priced at C\$1.85 in the first year and C\$2.05 until May 6, 2006.

Price

It is still early days for this start-up producer, but with an aggressive growth strategy and an experienced management team following a model they understand, *First Majestic* offers leverage to rising silver prices. Will it become the silver equivalent of *First Quantum*? Only time will tell, but it looks like the company is off to a strong start and you'll want to get positioned sooner rather than later, especially with silver in a temporary retreat.

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