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July 1, 2005

## First Majestic

(V.FR, [www.firstmajestic.com](http://www.firstmajestic.com))

BUY— First Majestic is an (almost) pure silver play, an important holding, simply because silver's movements often outpace gold's. However, unlike a large and stable producer, such as Silver Wheaton (T.SLW), FR has a lot of blue sky potential from exploration activity.

FIRST MAJESTIC			
V.FR, <a href="http://www.firstmajestic.com">www.firstmajestic.com</a>			
Price	Share: C\$1.80	MCap: C\$39.8M	On: 6/30/05
Shares	SO: 23.4mm	FD: 29.78mm	As of: 6/07/05
Warrants	UnEx: +/-5mm	C\$0.35-C\$1.85/2.05	Exp: 10/05&5/05-06
Options	Open: +/-1.4mm	C\$0.60-C\$2.41	Exp: 11/24/05-3/22/08
Cash	C\$4	Burn: C\$300,000/mo	As of: 6/29/05

FR owns the La Parilla silver mine, just outside of the city of Durango, Mexico. Production began in October of 2004 and is running at 180 tonnes per day. Improvements are underway to ramp up to 400 tpd, giving the company a first-year production in the area of 1 million ounces. The ore currently being extracted grades about 300 g/t of silver, 1.5% lead and 1.5% zinc, with the two main mineralized zones open at depth. Right "behind" these two zones is a third zone that has barely been touched and remains open. This summer's drilling by the company is focused on proving up this third zone, right on site with their producing mine, with the objective of a new 43-101-compliant reserve of 100 million ounces of silver.

First Majestic also owns the Dios Padre Silver Mine, which contains about 57 million ounces of silver, grading on average 456 gpt. Importantly, the deposit appears amenable to open-pit mining. A third project is the Candamena Mining District, with an estimated resource of 1 million ounces of gold and 20 million ounces of silver (80 million equivalent oz. silver), also amenable to open-pit mining. The company's fourth project is the Chalchihuites group of properties, where there is a possibility of continuity at depth between 5 old mines in the area. (Chalchihuites is within hauling distance from the mill at La Parilla, greatly reducing the cost and hassle of production.)

The company's goal had been to prove up 220mm oz of silver reserves by Q106. Unfortunately, the major financing FR announced just before the recent retreat among almost all junior mining stocks had to be cancelled when FR's shares pulled back from nearly C\$3 down to about C\$2. As you can see from the stats above, the company still has plenty of cash, so they decided to focus on La Parilla and wait until market conditions improve before trying to finance the rest of their exploration. A sign of smart and patient management.

If FR can prove up their 100 million ounces, at current prices, the market would be giving the company about 42 cents per ounce of silver—not inferred, nor even indicated, but in reserves under a producing mine. If the market were valuing FR as it does Silver Standard (which is not a producer), FR's share price would almost have to double. We also like the fact that as a producer with revenue, FR can fund exploration with less shareholder dilution than the average junior explorer. And that's not to mention what a significant increase in the price of silver could do to the stock. Bottom line is that there is no need to chase this one, but we consider it one of our more leveraged silver plays. It's a definite BUY during this current dip in price.

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