

Ecuador Gives Mining Industry a Big Wet Kiss

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TORONTO, June 16, 2014 (GLOBE NEWSWIRE) -- On June 5, 2014 Ecuador announced plans to modernize its mining laws and offer tax incentives designed to attract foreign investors. This may be the biggest resource policy shift in modern history not triggered by an election.

"Our mining laws have been a total disaster," admitted Ecuadorian President Rafael Correa on national radio, "It has been a failure on the part of the government. We have made mistakes due to our lack of experience. We can't be infantile. I'm not disposed to wait any longer."

The government is planning to abolish the windfall tax (which torpedoed Kinross Gold's investment in the massive *Fruta del Norte* gold) mine and make other improvements to attract mining investments.

"These new incentives will help us attract investment in all different steps of the process," stated strategic Sectors Minister Rafael Poveda.

One of the country's most active explorers - Ecuador Gold and Copper (TSX-V:EGX) controls five deposits within the Condor Complex in southeast Ecuador: 1) Santa Barbara 2) Los Cuyes 3) Soledad 4) El Hito and 5) Chinapintza (Joint Venture with China) and has spent the last two years conducting an extensive 22,500 meter drill program.

On March 24, 2014, after the completion of Phase II drilling, EGX announced a significantly expanded resource estimate for the Santa Barbara South and North Zones. The company's indicated and inferred gold resources in Ecuador increased 26% to 8 million gold ounces indicated; 2.6 million gold ounces inferred with a cost of discovery of US\$2 per ounce.

The economics of the EGX deposit could look very different in this new taxation world. With a current valuation of \$2 per indicated ounce-in-the ground vs. a global average of about \$30 – the stock has a lot of room to run.

"President Rafael Correa has realised that if you don't have an attractive investment regime, the mining industry cannot survive," states EGX CEO Glenn Laing in an exclusive interview with [Financial Press](#). "Up to this point, the only large major investor in Ecuador has been the Chinese."

Ecuador is one of the last largely unexplored mining frontiers. With Colombia to the north, Peru to the south, the minerals-rich Andes Mountains straddles all three countries.

"When you attract only a handful of juniors, it's an indication that investors are reluctant to put money in at a highly speculative stage," states Laing, "The junior mining business model is to find a good asset, drill it, and sell it. But you hit a stumbling block in the selling phase if the taxation regime is punitive. The good news for EGX is that the penny has dropped. Correa knew he had to make some changes."

Laing gives Correa credit for commissioning a study from the internationally-recognized consulting company Wood Mackenzie, who looked at the numbers and realised there was a problem.

"Under existing tax regimes if you added up all the taxes on a mining investment in Ecuador, about 52% of the profits went to the government – and 48% to the mining company," states Laing, "And then the 'windfall' tax could ramp the taxation level to 70%."

Money goes where it grows and the old Ecuadorian profit-sharing scheme did not incentivise international

investors.

"When Kinross was negotiating their fiscal deal with the government, gold was on a rampage and heading towards \$1,900," states Laing, "President Correa looks out for his people, which is great, but if you take too much of the cherry, the investors go away. At the EGX Condor Complex we already have the large resource base, and now we have a fiscal regime that will incentivise investors."

President Correa has a reputation for decisiveness. Because he controls the vast majority of the seats in the assembly, it is anticipated that Correa will push the new mining laws through quickly. This will radically change the economics of EGX's 8 million indicated ounce Santa Barbara deposit.

"Ecuador Copper and Gold has a bulk, low-grade deposit so it is important to achieve maximum metals extraction," stated Laing, "The first phase of the metallurgical test work for the Preliminary Economic Assessment for Santa Barbara gave us 86% gold recovery and 64% copper recovery. We believe we can improve on that, so now we are doing additional metallurgical test work to get better metal recovery rates, particularly with the saleable copper concentrates."

Increased recovery rates mean more revenue per ton, which improves the economics of the mine, as the operating costs remain the same. Laing believes the best thing that EGX can do with its time and money is to improve the metallurgy and optimize its mining plans.

"Every deposit presents unique metallurgical challenges. This deposit necessitates grinding the ore very fine."

"With the new more favourable mining laws and the large size of our deposit, EGX is close to a tipping point," states Laing, "Following the completion of the metallurgical work and the release of a Preliminary Economic Assessment (PEA), we anticipate intensified interest from international miners and financiers to take EGX to the next stage."

"People say mining is ugly," stated President Correa, who has a PhD in Economics from the University of Illinois, "It's not ugly, it's the opposite of ugly. Misery is ugly."

Ecuador Copper and Gold is trading at .07 with a market cap of \$16.5 million.

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Contact

[Ecuador Gold and Copper Corp.](http://EcuadorGoldandCopperCorp.com)

5000 Yonge St. Suite 1901

Toronto, Ontario

M2N 7E9

Phone: 1-416-227-3402

Fax: 1-416-628-3801

info@ecuadorgoldandcopper.com

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