

THE National Investor



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Special Report...March, 2016

ECUADOR TRIP REPORT:

**A Transforming "Frontier Market" Nation . . .
. . . and Opportunity in a Resurgent Mining Industry**



In the above photo, Yours truly (left) confers with Ecuador's Minister of Mining, Javier Cordova (center) and Cornerstone Ecuador S.A.'s Yvan Crepeau (right) in Minister Cordova's Quito office back in late January.

About the Editor -- Chris Temple



First, I would like to thank you for your interest in this Special Issue of *The National Investor*.

Before I give you my review of my recent trip to Ecuador, what I learned from my visits with both public and private sector people there and give a few highlights of one particular company already on my recommended list--Cornerstone Capital Resources-- I want to tell you a little about myself...what makes me "tick"...and what else you can expect from our web site and service.

By the time I was a mere 20 years old, I was establishing myself as a financial planner, having already started working with a local firm in my home town of Binghamton, New York. Among other things, I became licensed as a General Securities Principal of our firm's brokerage arm, supervising operational activities.

Already becoming successful as both a manager and financial advisor, I was nevertheless quite unprepared for some of the massive market shifts of the early 1980's.

Successful strategies that had helped our clients reap huge rewards during the inflationary times of the late 1970's

Yours truly, at a recent investor conference

particularly were turned upside down as interest rates skyrocketed and many previously-hot assets CRASHED.

What STUNNED me was the fact that -- though we can look back now at that change in Federal Reserve policy under then-Chairman Paul Volcker as one of the most abrupt in the central bank's century in existence -- NOBODY saw fit to do anything but continue to sell the same investment products. *As with virtually everyone in the financial industry, you see, I had been trained in selling financial products and generating commissions; not on truly understanding the economy and markets.*

This experience first taught me that I needed to understand what I have since come to call "The Game" of our fractional reserve banking system and how it and related factors create *often-foreseeable swings in markets and asset classes.* And it is this knowledge, together with specific, actionable strategies and investment recommendations, that I make available to my Members on an ongoing basis. (NOTE: An archived version of my signature essay on all this, entitled *Understanding the Game*, can be accessed on my web site, at <http://nationalinvestor.com/>)

With this foundation, I am happy to tell you that *The National Investor* has become recognized as a leading source of credible, understandable information, commentary and investment strategies for individual investors. Often times, our performance has had us at the very top of the rankings put out by the well-known *Hulbert Financial Digest*, which has covered us since 2000.

In addition to spending some time at *The National Investor* web site, you can follow me:

* On Twitter, at <https://twitter.com/NatInvestor>

* On Facebook at <https://www.facebook.com/TheNationalInvestor>

* On my You Tube channel, at https://www.youtube.com/channel/UCdGx9NPLTogMj4_4Ye_HLLA

BACKGROUND

On the surface, looking at the beautiful country of Ecuador when it comes to evaluating (or trying to evaluate) investment opportunities in metals exploration/development can leave one puzzled. The country has among the most modern infrastructure--transportation and otherwise--in all of South America. In my recent trip to the country I frankly saw better highways than in many places here in the U.S.! Ecuador is also blessed with *abundant* fresh water supplies. In part due to that abundant resource, the country's several new hydroelectric projects are soon slated to contribute some 90% of all domestic energy needs; and this, among other things, means that industries operating in Ecuador--including mining--will pay utility rates a fraction of what it would cost in other South American countries.

Yet for all these advantages, the overwhelming majority of Ecuador is largely untouched when it comes to what are believed to be vast, untapped mineral resources.

The country *has* managed to make itself a desired destination for Western "expats." *Forbes* magazine recently rated the country as Number One for that desirability; and it's no wonder. Near-perfect weather on the equator virtually year-round in much of the country, wonderful and diverse food (which has not been destroyed yet by modern agribusiness and government as here in the U.S.) and the incredible beauty of one of the smallest nations of South America has citizens and visitors alike "loving life" in Ecuador. I certainly fell in love with the country; and I saw relatively little of it.



Yet where somewhat of a shell of a mining sector is concerned, there hasn't been an awful lot of recent love for Ecuador. Indeed, as recently as in its 2014 survey, the annual Fraser Institute Annual Survey of Mining Companies had Ecuador rated in the bottom 10 countries in the world as far as the least attractive jurisdictions in which to operate. That was chiefly due to a moratorium imposed back in 2008 on pretty much all exploration and development activity

where mining was concerned, the bad blood from which *still* resonates with many investors and even some analysts who have not kept up with the more recent, *positive* changes in the country.

In its latest installment through 2015, the Fraser Institute moved Ecuador up out of the bottom 10 "basement." (You can find this specific annual survey and more at the Fraser Institute's web site, at <http://www.fraserinstitute.org/>.) *Ecuador in fact experienced the largest improvement of any nation's score in Latin America and the Caribbean in the last year.* Several factors were cited; most of all the impressive infrastructure I cited above, but importantly also a somewhat better level of confidence in the stability of the country when it comes to investing in its mineral prospects.

The story of Ecuador is one which I feel arguably represents *today* the best risk-reward and business opportunity for the mining industry of any country in South America. That goes for informed investors as well; another big part of MY job for Members and my broader audience. *Yet it is a story that still is fighting to gain traction, due to so many investors and others continuing to judge Ecuador on decisions and events going on a decade old who at the same time have not paid attention to recent news.*

A NEW PRESIDENT. . .AND MINING MORATORIUM

Taking office in 2007, President Rafael Correa was resolved to see that the Ecuadoran *people* benefit from the country's growth; something that had generally not been happening previously. As was long the case in many economically weaker and less powerful developing nations, foreign business entities in particular would join forces with those in government they could find who could be bought; and the business that resulted benefitted *those* folks, and few others.

The motivation of President Correa and the country's legislature was legitimate in attempting to correct this graft and other issues. Ecuador, which had up until then been a recently "hot" destination for exploration (anchored by the discovery of the world class Fruta del Norte gold project by the former junior miner Aurelian Resources, which led to a staggering *hundredfold increase* in that company's share price at one point) was in some eyes being abused. By one account, foreign companies and even some local geologists were getting concessions from the previous government on the cheap (sometimes "bidding" for them), spending little money locally for exploration and attempting to "flip" them--cash out quickly--without ever having engaged in much legitimate work that would eventually lead to development, or benefit Ecuador and its people. Fair enough to try to solve this problem.

But in retrospect, the government initially used a sledge hammer where a scalpel might have been more appropriate: chiefly, the enacting of a "Mining Mandate" in 2008 which for a time brought activity in this sector pretty much to a halt and in some cases canceled out rights to and money spent on legitimate projects. To their credit, Correa and his administration quickly realized that Ecuador needed to craft new, fair laws and regulations which would correct the past problems while at the same time making it conducive for foreign companies to want to invest in the country. This process began with new legislation in 2009; by 2011, the moratorium had been lifted.



But this all added to criticism of President Correa as a "communist" in the mold of a Hugo Chavez or Fidel Castro; and based on the 2008 Moratorium, to Ecuador as a country where investor money simply wasn't safe from nationalization. *It has long been my observation that both those criticisms are wrong.*

Indeed, those who have followed me for some time know that I have rather been a fan of President Correa for being the one leader in the recent past in South America to properly 1. understand and 2. honestly try to balance the interests of both business and his people. This was best represented in *this* country's media a couple

years ago when Charlie Rose interviewed Correa, who gave an eloquent, impassioned and sensible portrayal of HIS views (not those attributed to him by others) and his vision to grow Ecuador's economy in a way which does not neatly fit into the "capitalism vs. communism" straw-man debate. I encourage you to watch the archived version of this interview at <http://www.businessweek.com/videos/2014-04-15/ecuador-pres-dot-rafael-correa-charlie-rose-04-15>

NEW PROGRESS; AND A FRUTA DEL NORTE DEAL

One of the more impressive things I have seen in the recent past is that Ecuador is very serious about doing whatever it *reasonably* can to earn back the good will--*and investment*--of the international mining industry. Indeed, a common attitude among all of the various government and government connected officials I visited with while in the country recently is that they WANT additionally advice and guidance; especially from first-world mining jurisdictions.

Most important, the government over two years ago hired the international consulting firm Wood Mackenzie to help it craft streamlined, fair and understandable regulations that would resurrect Ecuador once and for all as a reliable, stable and even favored destination for foreign mining companies. "Wood Mac" has had an integral role in developing today's mining law and some associated regulations which have made Ecuador *more than competitive* when it comes to tax, royalty and related financial aspects; while inviting outside miners to a country which--as I mentioned earlier--has in many cases a fraction of the cost for water and power compared to other key mining jurisdictions in South America.

As Ecuador's Minister of Mining Javier Cordova was quick--and proud--to point out when I visited with him, Wood Mac recently renewed its contract with the government. *Further, one of its top people just moved his family from Houston and now lives full-time in Quito to help oversee the legal/economic work there.* At this point, it certainly looks to me as if this process is on the "downhill side." And it is universally expected among all those, public and private sector alike, that I visited with in country that--following the 2017 elections in Ecuador--the new government will most likely wrap all this up and take the existing mining law and somewhat of a patchwork of regulations and put it all into one cohesive package.

Recently, the government reached a formal agreement with Lundin Gold (TSX-LUG; OTC-FTMNF) over the future development of the Fruta del Norte deposit. More than anything, this deal (expected to be formalized by midyear, contingent on Lundin arranging the financing) marks the unequivocal return of Ecuador as both a viable and favored destination for mining investment *and as a fair and reliable long-term partner.*



Mining Minister Cordova (far left) President Correa (center) with others at the Fruta del Norte site recently.

One of the many press reports of this agreement between Ecuador's government and Lundin can be read at <http://www.canadianminingjournal.com/news/gold-lundin-secures-mining-licence-for-fruta-del-norte/>. And in short, the terms on royalties, tax structure and more were *very* favorable; better than those of us who have followed the country's overall evolving regimen had expected. President Correa, praising the deal with Lundin in one of his weekly addresses to the nation, reiterated his support for the responsible and *soon* further development of his country's resources. You can read of that at

[http://www.ecuadorinmediato.com/index.php?module=Noticias&func=news_user_view&id=2818794762&umt=presidente correa considera a mineria como una claves para superar pobreza en ecuador.](http://www.ecuadorinmediato.com/index.php?module=Noticias&func=news_user_view&id=2818794762&umt=presidente%20correa%20considera%20a%20miner%C3%ADa%20como%20una%20clave%20para%20superar%20pobreza%20en%20ecuador)

(You can click on the "translate" function if necessary as the story is, of course, in Spanish.)



Above, Yours truly visits with Daniela Tobar (far left) and Isabel Puente in the offices of the Ministry of Strategic Sectors

Following my visit with Mining Minister Cordova in Quito, I was able to spend some time in the offices of the *Ministerio Coordinador de Sectores Estrategicos*, or the Coordinating Minister for Strategic Sectors. He is Rafael Poveda, and is third in "seniority" behind President Correa and Vice President Javier Glas. I had originally hoped to visit with Minister Poveda himself; but at the time of our visit, he was involved with President Correa in a big meeting of CELAC--the Community of Latin American and Caribbean States--going on right there in Quito.

I was able to visit, however, with the Director of International Relations, Daniela Tobar (whom I had already been put in touch with by Ecuador's Canadian embassy) and Isabel Puente. We discussed the mining resurgence and a great deal more; this particular ministry oversees the Ministry of Mining, and deals with pretty much *every* major component of Ecuador's national economy. Simply put, this office is taking the "sales" lead for lack of better terms in informing the global investment community about the attractiveness of Ecuador.

One of the more interesting themes to Yours truly that we discussed was a different "strategic agency" set up at President Correa's behest. **This office oversees the requirement that 60% of all royalty income to the federal government as a result of any resource exploitation goes to the local area in which the activity is taking place.** Frankly, as I expressed to these ladies and others there, I'm not altogether sure they fully realize the strength of this part of their "sales pitch." The world over, an increasing theme among investors is to ensure that the companies they invest in 1. do not benefit from slave labor, 2. do not receive their metals from conflict or other illicit sources, 3. *local/indigenous people in energy/mining areas benefit from the investment there, etc.*

Ecuador is already *far* ahead of many other nations in the *specific* framework it has set up to show quantifiable results--and the necessary public support--for present and future development projects.

The country's various ministers and regulatory agencies have been very proactive, in fact, in bringing "the locals" on board. Especially now when Ecuador, like other oil exporters, is facing a rather acute drop in revenue, it's that much more important not only that the government aggressively promotes its mineral assets but that it properly informs and gets the population on board. This is not always been easy; Ecuador has had a history of being fertile ground for some of the more extreme environmental-related NGO's and similar groups. But happily, I heard several different examples of how projects now in development in the country (or advancing exploration) have been doing well because the local people *already* see new roads, libraries, hospitals, schools and a boost in employment. (Below is an example of this pro-active effort to engage local communities where the Cascabel project in Northwestern Ecuador--which I will discuss shortly--is concerned.)



Here, Miguel Aleman, General Manager of the environmental consulting firm Cardno-Entrix, leads a community meeting in Ibarra (Imbabura province's capital city), to inform local and regional authorities about environmental and social base line studies, various project management plans and potential economic benefits, of the Cascabel project. This work--along with the development of strong local community relations--has allowed Cornerstone and its Cascabel majority partner SolGold plc to be granted very solid environmental and social licenses.

ENAMI, EP AND CORNERSTONE SLATED TO LEAD NEXT EXPLORATION SURGE

In addition to Fruta del Norte, there are a handful of presently-operating mines in Ecuador (primarily, copper) as well as a few about to the development stage. But the most excitement is being generated among those who follow the country closely by the prospect of a near-term new wave of grassroots exploration, as a nationally-mandated framework for the granting of new mineral concessions takes hold.

Laying the groundwork to take advantage of this, it was announced last April by **Cornerstone Capital Resources (TSXV-CGP; OTC-CTNXF)** that the company had signed a "Strategic Alliance Letter of Intent" with Ecuador's state mining corporation, ENAMI, EP, to take the lead in exploring up to 60,000 hectares of already-identified prospective mineral areas. ENAMI, which was set up under national law in the wake of the 2008 moratorium and new 2009 Mining Law, is charged with following certain parameters and national priorities in, in some cases, acting as a partner with private sector companies as they explore for and eventual development mineral/metal assets. (NOTE: You can read the press release from Cornerstone laying out the news and terms of the Letter of Intent from last April 14, 2015 at http://www.cornerstoneresources.com/s/NewsReleases.asp?ReportID=703772&_Type=News&_Title=15-08-Cornerstone-signs-Strategic-Alliance-Letter-of-Intent-with-Ecuador-s-...)



As ENAMI's President Stevie Gamboa (left in the nearby photo from his office) reiterated for me when I had a chance to visit with him, Cornerstone was being given the opportunity to be the first such company to have an arrangement like this due to its having since 2005 spent some \$25 million on grassroots exploration in Ecuador and, as a consequence, compiling perhaps the best information and technical data base of any private company.

Once the agreement is formally signed (which Gamboa confidently told me at the end of January would be in the very near future, prior to the upcoming P.D.A.C. gathering in Toronto) a new company created will be owned 84% by Cornerstone and 16% by ENAMI. A "project generator" already by its business model, Cornerstone will be responsible for acquiring farm-in / joint venture partners who will either wholly or in part finance the exploration of already-vetted concessions that will be granted by the government. *Cornerstone and the other companies will bear all the financial risk during exploration; however, once the decision is made to go to development, ENAMI will fund its 16% share of the project.*

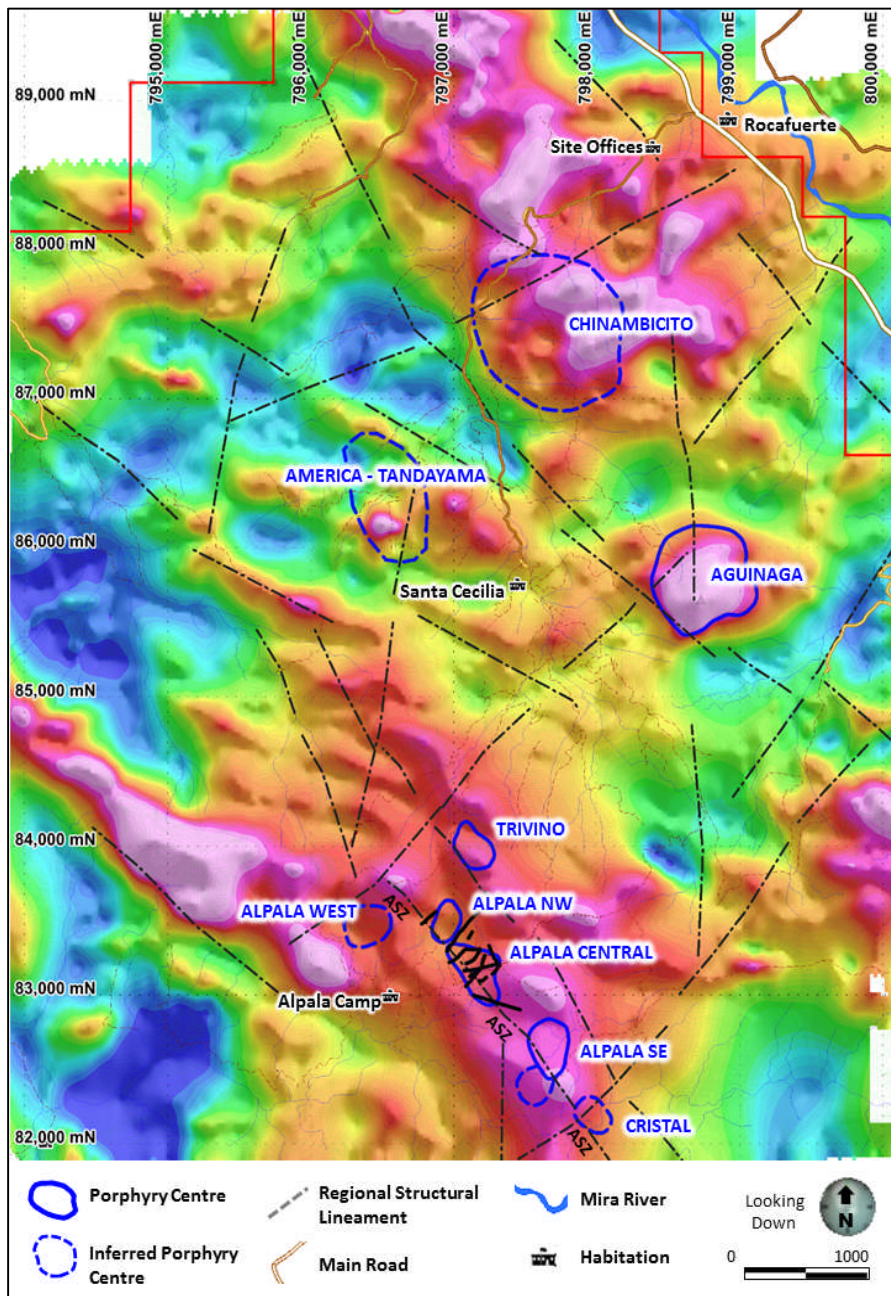
Slowly but surely, Ecuador is getting back into the mining business. A visit I had with Rodrigo Izurieta (left in the nearby photo, with Yours truly and Cornerstone's Crepeau) was indicative of how even fully private sector players see the glass as half-full once more. Mr. Izurieta is the President of Ecuador's Chamber of Mines; he's the biggest private-sector spokesman for all



the various players in the mining sector in Ecuador (both foreign and domestic miners, drilling contractors, and a host of other types of vendors dependent in whole or in part on mining dollars.)

During our discussion, he made no bones about his disappointment that past mistakes on the part of the government caused his industry to take so long to get to its present promising position. Yet at the same time, he was happy to see that past wrongs have been rights for everyone's sake. **Further--and in comments echoed to me by more than one other official in the private sector--he is 100% convinced that things from here will only get better.**

CASCABEL: ANOTHER WORLD-CLASS DEPOSIT?



Indicative of how the environment for exploration since the lifting of the moratorium in January, 2011 has been MUCH better than advertised, we have the example of the Cascabel concession in the northwest part of the country. This concession cost Cornerstone in 2011 the princely sum of about C\$80,000; C\$20,000 to buy the shares of the local company which held it and another C\$60,000 to do the legal and environmental due diligence necessary. In *under two years*, Cornerstone took these concessions, which had until then only exhibited some stream sediment anomalies, to a *fully permitted and drill-ready advanced exploration project*. And this, mind you, was while many were *still* insisting that the mining industry in Ecuador was pretty much non-existent!

The excitement over Cascabel (you see nearby a map which lists the various targets identified within its boundaries) was on pretty much EVERYONE'S mind I spoke with; government ministers and private sector folks alike. Drilling to date suggests that the Alpala targets *alone* could contain one of the biggest discoveries in years

where copper/gold porphyries are concerned; and in the end one of the world's all-time largest.

It has long been believed that such a property(ies) may well exist in Ecuador's portion of the Andes Mountains. Through most of South America, years past have seen some of the biggest such mines developed on and along the "rib" of the Andes in Peru and Chile. I won't bore or confuse you (or me!) with explaining how volcanic and other geologic activity caused such areas of concentrated copper (usually the primary metal) and gold (usually secondary, but not in every case) porphyries to occur. For those interested, however, Australia's SolGold, plc (AIM-SOLG) has a "primer" of sorts at http://www.solgold.com.au/userfiles/201207_Characteristics%20of%20Porphyry%20Copper%20Deposits.pdf. A map on the first page will tell you much of what you need to know as to the why's and where's of the locations of these types of bodies the world over.

SolGold joined Cornerstone as a senior earn-in partner (with now an 85% interest in the project; Cornerstone's 15% remains a carried interest through to the completion of a feasibility study) and has further advanced but one (Alpala) of *nearly a dozen* potential targets at Cascabel to a point where 2016 will likely see an initial inferred resource estimate for the Alpala target there. To get to that point, SolGold since last year has accelerated the drilling at the Alpala targets; **and as I am writing this, Hole 16 has not only arguably made an already-enormous copper/gold body that much larger, but has intercepted the highest grades yet.** On March 4, the companies announced initial assays of a 1.73% copper equivalent over more than 200 meters, **but some 60 meters of those which contained a copper-equivalent grade of a STAGGERING 4.06%** (comprised of a 2.01% actual copper content and the presence of 3.41 grams/tonne gold content.)

Beyond the fairly widely-held belief of both government and private sector people I spoke with that Cascabel may well prove to contain the next world-class, development-ready metals deposit in Ecuador (following up Fruta del Norte), **Cascabel is a microcosm of the broader story that Ecuador is re-telling the global mining and investment community.**

At right, Cornerstone's Crepeau (left) and Your Editor (right) visit with Arsecio Tobar (center), the President of the local community of Santa Cecilia, located within the Cascabel concession area.



Already, there are quantifiable benefits for the local people due to the exploration activities and expenditures thus far by Cornerstone and SolGold. The quaint hillside village of Santa Cecilia, located within the concession area, has had a boost in employment. The companies have funded new buildings,

repairs, a community greenhouse and nursery, and much more. The government has been very eager to cooperate and further things along; while I was there, construction was being completed on a newer road that will join the community directly to the most active drill sites on the concession. When I had the opportunity to visit with the village's "president," Arsecio Tobar, I found a local leader beyond excited at the *further* benefits expected to come, which will help his economy and people. Nobody has to sell the "locals" here on the merits of this project!

I strongly encourage you to check out a great video overview put out by SolGold of the Cascabel project; you can view it at <http://www.brrmedia.com/event/141121/solgold-team?platform=hootsuite>. During this video you will hear from Dr. Steve Garwin was brought in to conduct an independent review of the Alpala prospect a while back. Dr. Garwin's mining industry and technical expertise *specifically on porphyry-style mineralization* the world over are well known. A U.S. national (among other gigs he worked for Newmont Mining for several years, part of that time in Nevada) he is based these days in Australia. *Remember Garwin's comments as you look at the possibility of taking part in the investment opportunities surrounding the Cascabel deposit.* (NOTE: At this same link you can peruse several videos of SolGold folks, most of them apparently concerning exploration at Cascabel and directly related issues.)

In summary--and contrary to some lingering, misinformed reports--Ecuador seems to be putting the finishing touches on crafting what I believe to be an effective and wise balance that recognizes each necessary component of mineral development; one that is sufficiently inviting and rewarding to foreign investors while at the same time making sure an equitable portion of the eventual rewards and income devolve to people in local communities.

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