

ECU Silver Mining - An Extraordinary Junior Mining Company – JULY 2008 UPDATE

By Adrian Douglas

Deep Encounters of the First Kind!

In October 2006 I wrote an extensive article on ECU Silver Mining which discussed at length the geological setting and the exploration potential of the company (ECU Silver Mining – An Extraordinary Junior Mining Company. <http://www.lemetropolecafe.com/pfv.cfm?pfvID=5676>). I am now writing an update to that article because the company is on the verge of what could be an event of epic proportions in the company's evolution. In that article I said:

“The geological phenomenon associated with intrusives suggests there could be a real bonanza as the exploration goes deeper in Velardeña. Already more numerous veins have been encountered with increasing depth, including the discovery of new stockwork zones, and the vein width and grades are increasing with depth. As the skarns are explored further, there is also the possibility of encountering massive sulfide lenses which are typically found near the intrusive/skarn contact”

That was written almost two years ago so I was very excited to read the press release made by ECU on July 2, 2008.

“ECU Silver Deep Drilling Encounters Mineralization at Depth at Santa Juana”
<http://www.ecu.ca/s/NewsReleases.asp?ReportID=309848& Type=News-Releases& Title=Ecu-Silver-Deep-Drilling-Encounters-Mineralization-At-Depth-At-Santa-Juana>

Investors will very shortly find out if the company has indeed hit the “mother lode” of its exploration potential that I postulated could be the real “bonanza” of the Velardeña property if the geological model is correct.

Judging by the recent stock performance investors are not paying attention to this potentially game-changing exploration activity. I would like to point out why this deserves serious consideration by the investment community.

To understand the significance of the latest deep exploration drilling let's make a recap on the geological environment with some excerpts taken from my 2006 article.

Talking Geology – “Intrusions” are welcome! – Especially the Second Time Around!

The geological environment of the Velardeña region is very complicated. The source of the silver, gold and base metal deposits is from magma intrusions that thrust their way into the overlying limestone formations to create what is known as a “skarn”. Understanding the geological model, even at a rudimentary level, is absolutely essential to understanding the vast potential that ECU has to add resources and reserves, and why it is an extraordinary situation.

During the Cretaceous age (between 135 million years ago to 65 million years ago), in what was then a marine environment, calcareous sedimentary deposits (limestone) were laid down which over time and with burial formed massive limestone layers.

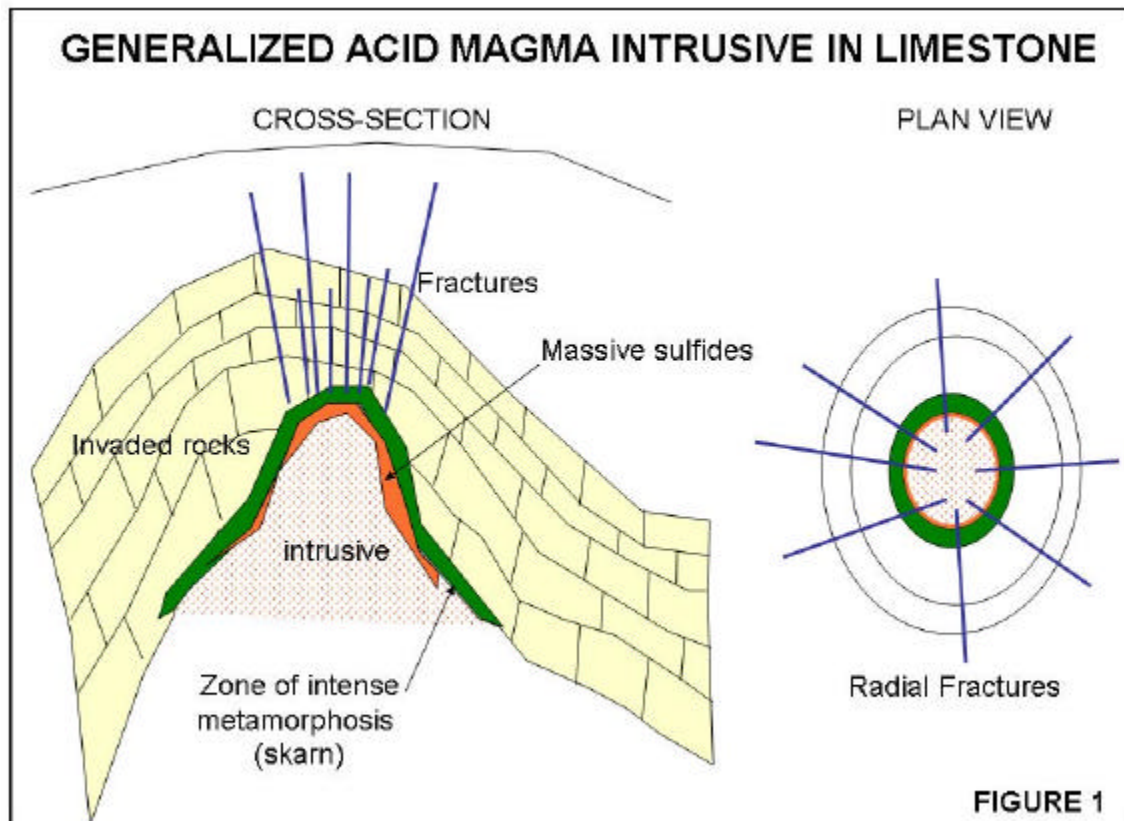
In the Central Mexico region where Velardeña is located, toward the end of the Cretaceous geological age, in a period known as the Laramide Orogeny, tectonic activity caused the limestone layers to be buckled into mountains and valleys and also caused extensive faulting and fracturing. This was a very high energy geological event which gave rise to the Rocky Mountains and the Sierra Madre mountain ranges, which can be seen to have been folded in a NW-SE alignment. This immense disturbance of the earth’s crust gave rise to a period of magmatism and volcanic activity. The liquid magma was squeezed through cracks and faults in the overlying rocks. When the magma escapes to surface it is “extrusive”, which we know as a volcano, while if the magma is contained within the rock it is “intrusive”.

A generalized schematic of an acid magma intrusive is shown in Figure 1.

The magma intrusive is acidic in nature and extremely high temperature (300 to 500 degrees Celsius). The hot, acidic intrusive reacts with the overlying limestone in a complex geochemical reaction. The contact zone between the magma and the limestone is a zone of intense metamorphism and the chemically altered rock is called “skarn”. As the intrusive magma continues to force its way into the limestone, it causes uplifting which leads to radial cracks or fractures as shown in Figure 1 in the plan view. There may also be other cracks or faults in the rock that were pre-existing before the magma intrusive event.

At this stage hydrothermal alteration may occur. Superheated aqueous fluids are created by the heat of the intrusive magma and underground water and volatile fluids that come from the magma. These fluids dissolve metals and minerals and concentrate them. These hot fluids percolate through the fractured limestone rock depositing the minerals and creating the mineralized veins by filling the fractures. This percolation may continue for hundreds of thousands of years.

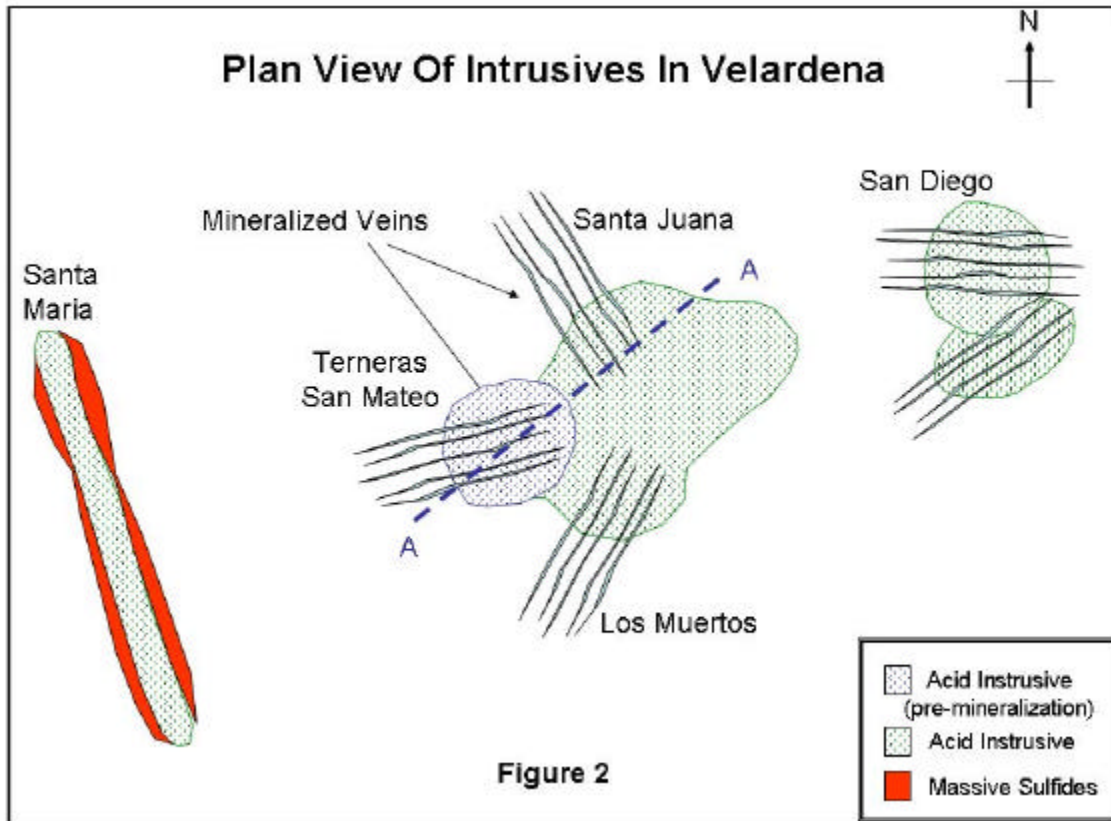
The crystallization of minerals occurs in the fractures at shallower depth first as this is the coolest environment. The dissolution of the limestone wall of the fractures in the hydrothermal alteration process is most aggressive near the intrusive because the circulating fluids attain their highest temperature there and as a result the pressure and velocity of flow are highest. This explains why the mineralized veins typically have an increasing aperture with depth. The fact that the deposition of minerals occurs last of all close to the intrusive means that the mineral content can be expected to be higher close to the skarn. The residual fluids after the fractures are mineralized are cooked over time and may result in the formation of massive mineral sulfide lenses.



In Velardeña there were several magma intrusives that were forced up from below the earth's crust. The first was in the San Mateo area and was not associated with any mineralization. A plan view of these intrusives is shown in Figure 2. The first intrusive is shown in blue shading.

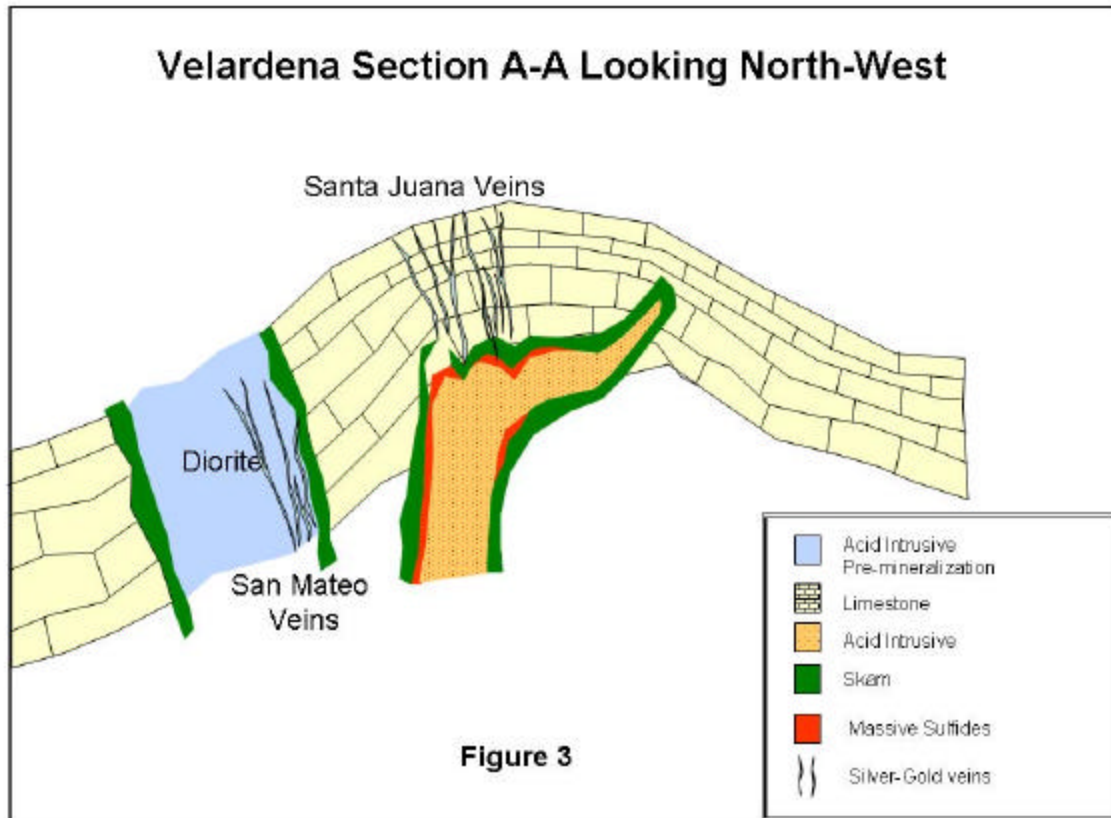
The magma intrusive created fractures in the limestone and the contact zone was cooked into metamorphic skarn rock but there were no dissolved metals in the hydrothermal fluids at that time and so no mineralization occurred. The intrusive is mainly diorite, a material similar to granite but with less quartz content.

At a later stage there was a second phase of magmatic intrusion. These are shown in green shading in Figure 2. Figure 3 shows a simplified representation of the intrusives in the Santa Juana/ San Mateo area in a cross-section looking NW (the section A-A indicated in Figure 2).



The second intrusive in the Santa Juana/ San Mateo area intruded through the same weakness of the limestone formation as the first intrusive. This caused not only fracturing of the intruded limestone, but also of the first intrusive thereby creating conduits through which later mineralizing hydrothermal fluids could circulate.

The second intrusive event was accompanied by mineralization. The circulation of superheated aqueous, mineral rich, volatile fluids led to the transport and deposition of minerals that can be seen in the Velardeña vein systems.



The geological phenomenon associated with intrusives suggests that if the source of the mineralizing event can be located where the veins meet then there is not only the possibility of very densely spaced veins of wide aperture and rich grades but also the possibility of very mineral rich massive sulfide lenses. Such a discovery would, by its nature, be a candidate for underground bulk mining.

Over the last two years ECU has done an outstanding job of extending its mineral inventory to 217 million silver equivalent ozs and up to 960 million silver equivalent ozs of potential mineral have been identified. It should be noted that ECU has been very conservative on their resource estimates and a large portion of their “potential” category could be reclassified as “inferred” with very little extra sampling. The impressive increase in mineral inventory and potential minerals has, however, only been achieved by way of extensive exploration and delineation of the vein system and only includes mineral inventory up to 450m below level 18. The latest deep drilling extends 900m below level 18, twice as deep as the current limit of resource estimates, so the discovery of massive sulfides would dramatically INCREASE the current NI-43-101 resource estimate. The new drill results down to 900m below level 18 should also allow a significant amount of “potential minerals” of the current NI-43-101, (the portion located between 450m and 950m below level 18), to be re-classified as “inferred mineral inventory”.

Looking to Make Contact!

Let's examine the latest press release of July 2, 2008.

ECU stated:

QUOTE

The high number of mineralized veins encountered are consistent with the geological model as they are within the marble/skarn alteration zone that envelopes the intrusive event, which in turn sourced the vein mineralization of the Santa Juana veins system. We believe the Calcite Veins are within an alteration zone that surrounds a potential deep seated massive sulphide replacement (Mantos-type) body. This is further supported by the presence of the M-S Veins 48 metres (160 feet) below the Calcite Veins. Confirmation of assay results for M-S Veins is pending.

END

As one approaches the contact of the intrusive one would expect three types of mineralization created through metamorphic alteration. First there are densely spaced calcitic veins that are consistent with the limestone being cracked by the intrusive and the cracks being filled with metal rich minerals. Second there are cracks in the alteration zone filled with massive sulfides, and then thirdly there are the massive sulfides formed at the intrusive contact. From the press release we can see that the depth capability of the drilling equipment was reached (900m) before reaching the contact of the intrusive. What ECU is referring to as "Massive Sulfide Veins" could already be the start of a massive sulfide lens because the first "vein" is almost 4m thick and drilling ceased while in the second "vein". This massive sulfide lens could easily be tens of meters thick, and judging by the size of the intrusive could have lateral extent in the hundreds of meter range.

What is extremely intriguing is that ECU released the assays for the calcitic veins but did not release the results from the Massive Sulfide veins. They said "*confirmation of assay results for M-S Veins is pending*". Note it is not the assays that are pending but confirmation of them. I can think of only one viable reason why assays would have to be "confirmed" and that is because they are extraordinarily good! I titled my 2006 article "ECU Silver Mining - An Extraordinary Junior Mining Company" and my interpretation of this press release is that they may well live up to that billing by announcing some extraordinary results. We will know very shortly.

When I wrote my article in October 2006 the silver price was \$11/oz and ECU had only 98 million ozs of silver equivalent of NI-43-101 compliant mineral inventory comprised of:

- 17.4 million Indicated silver equivalent ozs.
- 81 million Inferred silver equivalent ozs.

The stock was trading at CDN\$2.50. The company has now booked 217 million silver equivalent ozs of NI-43-101 compliant of mineral inventory comprised of:

- 37.6 million Measured & Indicated silver equivalent ozs.
- 179.0 million Inferred silver equivalent ozs.

The Company has also identified an additional mineral potential range of 549 million to 960 million silver equivalent ozs yet the stock is trading at \$1.68! Furthermore, the silver price is \$18/oz. ECU stock is probably at least a factor of 10x undervalued and should be trading at closer to \$16 than \$1.68. The fact that ECU has been categorized as a thin vein mining play has unjustifiably held down its valuation. The current deep drilling results could dramatically change ECU's prospects. The discovery of massive sulfides in a large lens with extraordinarily rich grades could transform the company's fortunes and the true valuation of the company could be recognized by the market in explosive fashion.

Michel Roy, CEO and Chairman of ECU, is an extremely talented and experienced exploration geologist. The geological model he defined has been proved correct in press release after press release and by the astonishing growth of NI-43-101 compliant resources. The geological prowess of the ECU team is exemplified by an outstanding discovery. In August last year the company announced they had located the western extension of the Terneras Vein which had eluded all previous exploratory efforts for over 100 years! Michel Roy's team located it!

The ECU team has demonstrated they are world class explorationists and now they have drilled a deep hole that has intercepted mineralization near the intrusive that has long been postulated to be the biggest exploration jewel of the Velardeña property. The assays of the calcitic veins show good grades and increasing gold and silver content with depth. In respect of the Massive Sulfide veins ECU is apparently needing to "confirm" the results. The track record of ECU can only lead me to believe that this could be the most exciting news out of the company yet.

Watch this company closely. It could, yet again, turn out to be "extraordinary"!

ECU Silver Mining trades on the Toronto exchange under the symbol ECU.TO and on the NASDAQ Pink Sheets as ECUXF.PK

Adrian Douglas

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adouglas@marketforceanalysis.com

For full disclosure I am pleased to say that I am a long standing share holder of ECU. This article has not been commissioned by ECU and I have not, nor will I, receive any compensation for writing it. Mineral exploration is a tough business with many risks involved; please factor your own risk tolerance into any investment decisions.