

Growth Stocks Weekly

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Performance: YE 31Apr: 1996 116.9%; 1997 28.1%; 1998 36.4%; 1999 39.4%; 2000 180.9%; 2001 -50.5%; 2002 18.7%; 2003 28.8%; 2004 166.7%; 2005 28.2%; 2006 153.3%; 2007 8.8%; 2008 -25.2%; 2009 -50.3%

Junior Gold and Natural Resource Sector Report

January 29, 2010

From the Ground Up

Endeavour Financial Corporation (EDV-TSX)



“Entrepreneurship is the ability to create and build something where others fail to see the opportunity to do so. It is the willingness to take calculated risks ... and to move in a direction in pursuit of one’s objective.”

Endeavour, as a fully integrated merchant banking company, knows all about risk/reward. Since 2002 it has advised on US\$27 billion in M&A, arranged US\$3.5 billion of equity finance, and US\$2.2 billion of debt finance in the resource sector. It has an enviable track record creating and launching growth companies as both an advisor and investor, and generates significant advisory cash flow from project, corporate and debt capital consulting.

Demonstrating its entrepreneurial willingness to constantly re-evaluate and re-position for future growth within the dynamic global environment it operates, Endeavour announced a more gold-focused investment strategy last year. The vision is to build an intermediate sized gold company, and to realize upon the market's historic willingness to revalue such assets at a higher multiple than its smaller peers, and to benefit from the rising price of gold.

To further sweeten the return, Endeavour uses its strategic and technical advantage to acquire, maybe even steal in relative terms, distressed assets in the gold sector. This then allows them to apply their capital, management and political connections to leverage or accelerate a revaluation. The underlying premise is that high global debt levels, ongoing currency debasement and competitive devaluation will continue to propel gold's bull market upwards for the foreseeable future. It's a vision we believe has considerable historical precedence.

Endeavour's capital base has been deployed in a series of merchant banking transactions over the years, most of which are sourced through the extensive industry relationships of the management team, directors and its exclusive financial advisor, Fiore Financial Corporation, led by mining industry legend Frank Giustra.

Giustra is the founder and former Chairman of Endeavour, and has a history of entrepreneurship and company building success, and brings invaluable global investment experience and relationships to Endeavour.

The value of Frank Giustra cannot be underestimated. Mr. Giustra has an ability to uncover and capitalize on opportunities by bringing together large pools of speculative investment capital and top-tier managerial talent – the essence of entrepreneurial success. This in turn, maybe even just the fact that he's involved, attracts a retail audience and institutional interest, and ultimately a suitor may be found, willing to pay a big premium for the asset. Of course sometimes things don't work out, but often enough it does and occasionally it does in record time and with massive life-changing gains for early shareholders.

Key industry relationships generate opportunities for Endeavour. In fact, the severe market downturn that started in 2008 created a unique opportunity for which Frank Giustra is very well positioned to take advantage of, and potentially set Endeavour up for significant future growth.

The only real question concerns the end game - is it a strategy designed with a built-in exit strategy, revaluation as an intermediate gold producer and a sell-off to a favourable bid? Or, is this the beginning of a long term building process *a la* Peter Munk's Barrick Gold, where divestiture would be an exception to the rule? Time will tell, but there should be significant wealth creation to be enjoyed along the way in either case.

Executing the New Business Model – the First Acquisition

Last fall we highlighted Endeavour's acquisition of junior gold producer Etruscan Resources through a US\$43 million financing at a price of \$0.30 per share. Through this financing, and by acquiring another ~20% of Etruscan's fully diluted shares outstanding in a private transaction, Endeavour acquired control of 180 million shares, owning 54% of the company. They effectively paid \$107 for each of Etruscan's proven and probable gold ounces, and \$53 for the measured & indicated resources – a steal.

Etruscan's share of gold production from its 90%-owned Youga in Burkina Faso is currently about 80,000 ounces of gold per year, with a 6.6 year mine life, producing at a cash cost of US\$550-600 per ounce.

Etruscan's 85%-owned Agbaou in Cote D'Ivoire is expected to produce 77,000 ounces per year starting in 2012, at a cash cost of US\$520 per ounce, over an estimated 9.1 year mine life.

One Bay Street analyst noted that even though this was largely dilutional for Etruscan with only a \$62.1 million market cap, it is a positive development that responds directly to criticism that had left Etruscan orphaned. Its hedge book, its poor balance sheet, its failure to deliver at Youga (Burkina Faso) and management's failure to focus on one core group of assets to drive value will all be addressed through this deal with Endeavour.

Endeavour is obviously very bullish on gold. So by reducing the hedge book, Endeavour's investment in Etruscan achieves significantly greater exposure to a rising gold price environment. After the restructuring, around 80% of the life of mine production from the Youga mine is leveraged to spot gold. The restructuring also significantly reduces the obligations associated with financial derivatives (those gold hedges), reduces the outstanding convertible debentures by US\$8.5 million and boosts working capital by US\$11 million, so the balance sheet is

vastly improved. As part of the restructuring, US\$5 million of long-term debt from two lenders converted into equity participation, also at a price of \$0.30 per share.

The deal brings Endeavour management onto the Board with four nominees: Frank Giustra, Gordon Keep, David Street and Neil Woodyer. Given Endeavour's control position, they can divest certain non-core Etruscan assets to further improve the balance sheet and better position the company for growth.

New management will need to demonstrate that Youga can perform to expectations, and Etruscan's balance sheet may still be less than pristine after the financing, but this transaction puts the company in a much better position going forward, with an experienced Board of Directors and access to additional resources.

The Second Acquisition

Late last week Endeavour announced the acquisition of 810,083,211 common shares of Crew Gold Corporation in a market transaction, which represents 37.88% of Crew's issued common shares, for a total value of approximately US\$92 million. Adjusting for Crew's debt and cash, Endeavour is paying about US\$1,500 per ounce of annual production, at the very low end of fair value, setting the stage for a significant revaluation.

Crew's 100%-owned LEFA Gold Mine, in the Republic of Guinea, has been in commercial production since mid-2008 and is expected to produce 240,000 to 300,000 ounces of gold per year at a cash cost of US\$517 per ounce over an estimated mine life of 11 years. Now that the debt restructuring process is complete, Crew is well positioned to focus on optimizing its operations and building shareholder value.

Both Neil Woodyer and Frank Giustra joined the board of Crew Gold, and have the right to fill one more position, emphasizing by their personal involvement the importance of this strategic initiative to the future of Endeavour.

Now that they've acquired significant equity positions in two West African gold producers, Etruscan Resources (EET-TSX) and Crew Gold (CRU-TSX; CRU-OSE), as part of the new gold-focused strategy, and brokerage analysts are starting to take notice.

By restructuring and positioning the company to benefit from a strong gold price going forward, Endeavour is well on course towards its objective – to assemble a platform that has the ability to produce about one million ounces of gold annually, thereby creating an intermediate-sized gold producer.

Financial Position & Market Capitalization

As at September 30, 2009 Endeavour reported a book value per share of US\$2.96 (C\$3.17), had cash and cash equivalents of US\$132.8 million, investments marked-to-market of US\$101.0 million, and working capital of US\$235.9 million. There are approximately 96.7 million shares outstanding following last February's C\$115 million equity financing, priced at C\$1.77 per unit. Each unit included one-half of a warrant, with each whole warrant exercisable into one share at C\$2.50 until February 4, 2014.

Conclusion

Endeavour's gold-focused investment strategy is to create value through timely strategic investments in gold producers, to ultimately create an intermediate sized gold company. Neil Woodyer, Endeavour's CEO, has often spoken of the gold sector as being dysfunctional – that junior companies in particular are not getting valued the way he thinks they could be. This is where management is focusing Endeavour's talents and capital.

Management believes in long-term rising gold prices and is executing its strategy with companies like Etruscan and Crew Gold, which have quality underlying resource assets, but which face short-term operational or financial challenges due to challenged credit and equity market conditions and/or mismanagement.

In last fall's update we pointed out that Endeavour was seeking to complete a large \$400 million financing with Middle Eastern money, but this did not take place – possibly in light of the Dubai debt problems that came to light shortly after our October update.

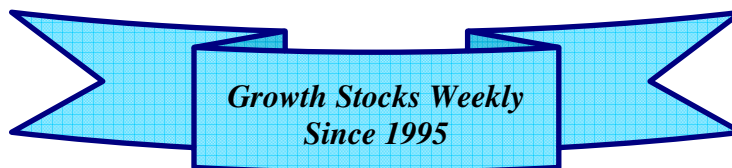
Management indicates that Etruscan and Crew are only the first of several identified investment opportunities, and that co-investment partners may be invited in on a deal-by-deal basis. Without a partner, Endeavour would likely need to go back to the market to raise additional capital, and with this second accretive acquisition behind them certainly deserves a bump up in its valuation, so timing may be good. Endeavour is scheduled to come out with its Q2/10 results on February 10.

We have long stated that Endeavour has the ability to position in deals early, and at prices mostly inaccessible to the public. We took advantage of the post crash environment, adding 25,000 shares of Endeavour to the GSW Model Portfolio at \$1.60 back on May 12, 2009 and another 15,000 shares on October 2, 2009 at \$1.64, to hold 50,000 shares at an average cost of \$1.70 per share. With delivery of this report we will add a further 50,000 shares at market prices to hold 100,000 shares.

It would be difficult if not impossible for investors to consistently match Endeavour's ability to select winners and realize on their potential. Its shares continue to be an excellent proxy for investment exposure to a secular bull market in commodities, which we believe will continue for many more years. The share price today is trading at a significant discount to the last reported net asset value.

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