

# Growth Stocks Weekly

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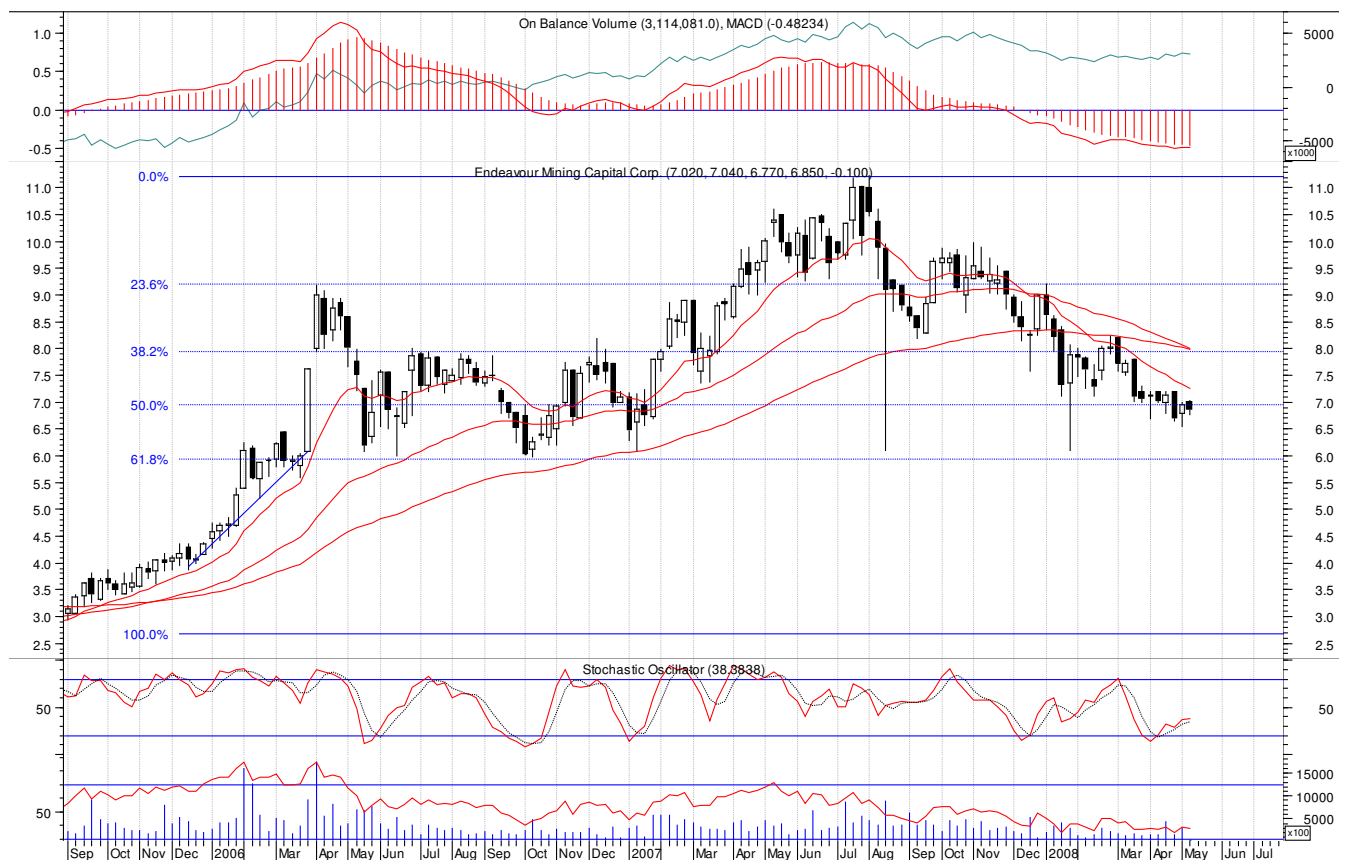
**Performance:** 1996 116.9%; 1997 28.1%; 1998 36.4%; 1999 39.4%; 2000 180.9%; 2001 -50.5%; 2002 18.7%; 2003 28.8%; 2004 166.7%; 2005 28.2%; 2006 153.3%; 2007 8.8%; 2008 -25.2%

## Junior Gold and Natural Resource Sector Report May 8, 2008

### The Smart Money

#### UPDATE

#### Endeavour Mining Capital (EDV-TSX)



**Weekly chart, Semi-log Scale, High C\$11.24, Low \$2.93, Last Trade \$6.85**

We view Endeavour Mining Capital as a core asset for diversified exposure to the ongoing secular bull market in commodities. Most retail investors don't have the time, desire or expertise to select and follow a portfolio of small-cap resource stocks. Endeavour finances many companies at their initial formative and pre-growth stages, and has a compelling record of shepherding them to ultimate success – often by way of takeover or merger.

Endeavour's publicly traded shares offer investors de facto access to these ground-floor junior mining companies without their need to be accredited investors, or making the connections necessary to access such timely opportunities. The corporation's board maintains a monthly dividend policy.

Last summer Endeavour Mining Corporation acquired 100% of sister company Endeavour Financial Corporation, a privately-held investment banking firm. The two businesses had already operated successfully in parallel for many years, but this merger simplifies the Endeavour brand, and provides the resource sector with one-stop integrated merchant banking services. It also ensures that the entire Endeavour team is committed to maximizing value for shareholders through their ownership of approximately 23% of the combined company (at least 31% and as high as 35% fully diluted).

### **Company Review**

We have owned our share position in Endeavour Mining since May 2004, at an average price of \$2.40 per share. Our initial report on Endeavour was issued May 8, 2004 just as the price of gold re-tested the US\$378 technical support area. Endeavour had suffered a dramatic sell-off as many junior-sector resource stocks experienced lower liquidity, sporadic panic selling and apparent capitulation of latecomer investors suffering rapid and severe losses – not dissimilar to the current environment except that commodity prices are now significantly higher.

Despite the volatile nature of the sector, Endeavour has generated a 58-per-cent annualized return since its inception in 2002 through to the merger date. This largely reflects its early call on the resource secular bull market and pinpoint accuracy in the timing of its exposure to multiple specific-resource-focused vehicles.

The Endeavour team has been associated with some big success stories over the years, including Bema Gold, Bolivar Gold, Northern Orion, Oriel Resources, Peak Gold, Silver Wheaton, UrAsia Energy, Wheaton River Minerals, and of course Endeavour Mining itself. Endeavour Mining's reliance on Endeavour Financial's advisory services steadily increased as the resource market's growth accelerated.

### **Stronger Together**

Last summer's acquisition of Endeavour Financial integrates the merchant banking capital investment business with Endeavour Financial's advisory services business. By fully integrating their capabilities within one publicly-listed entity, the new Endeavour has a strengthened operating platform for continued growth with a talented management team focused on creating value for shareholders, themselves included.

We originally invested in Endeavour Mining because it provides exposure to participate alongside the industry's most successful and well-connected institutional investors. That advantage is now leveraged post-merger into an integrated operation with excellent potential to generate long-term shareholder value.

Endeavour Financial generates its revenue primarily from monthly retainers and transaction-oriented success fees. The acquisition provides further lift and greater predictability for Endeavour Mining's revenues, which are largely influenced by their mark-to-market portfolio revaluations and realized capital gains. This new revenue also enjoys decent margins, since expenses are primarily salaries and performance-related bonuses.

Endeavour has an aggressive business strategy which, combined with the nature of the mining and energy equity market, does result in short-term earnings volatility. Because of the diversified nature of its portfolio of merchant banking investments, which includes a mix of resource commodities and a combination of debt and equity instruments, it provides a useful proxy for the junior resource market.

### **Proven leadership, market savvy**

Endeavour benefits from having two Advisors – Frank Holmes' US Global Investors and Frank Giustra's Fiore Capital – to identify, develop and implement investment opportunities. Endeavour's Chairman, Frank Holmes, heads up the top performing **US Global Investors (GROW- Q)**, website: <http://www.usfunds.com>

Former Endeavour chairman Frank Giustra continues to apply his golden touch to Endeavour's deal-making through his Fiore Capital advisory services. Last June Mr. Giustra announced he's giving away \$100 million and one-half of his future mining earnings to the Clinton Giustra Sustainable Growth Initiative, earmarked to fight third world poverty through sustainable development. This venture bodes well for both the mining industry and the countries in which they'll do business, and it should also benefit Endeavour's shareholders. While Frank Giustra and his team have never needed any help putting together some of the industry's biggest and most successful deals, it doesn't hurt that countries targeted for resource acquisitions and concessions realize such deals come complete with potentially millions of dollars in development aid.

Endeavour's investment strategy is focused on high quality assets with strong management teams, and with clear potential for high returns through their structured investments. When Endeavour finances mining companies to fund their project development, strategic initiatives and growth, we benefit from a management

team that has done their homework for us and structured its investment exposure appropriately. This generally means a compelling and timely entry price (downside protection), and better than average upside potential.

Endeavour offers us the built-in advantages of diversification, cream-of-the-crop selection, sophisticated professional management, exceptional deal-flow and access to global institutional and industry contacts. Given this premise, we only need concern ourselves with the timeliness of such specific exposure to the resource and precious metals sectors to determine the appropriateness of owning Endeavour shares. It would be hard for investors to consistently match Endeavour's ability to select winners and realize on their potential.

### **Latest Financial Results**

Endeavour announced net income of \$2.1 million for Q3 to March 31, and \$3.4 million for the 9 months then ended, compared to \$24.5 million and \$41.0 million respectively in 2007. This performance requires some comment, as it was apparently a tough three quarters. In our view the numbers are actually pretty good considering the sub-debt freeze up and resulting crisis in confidence for both the resource sector and the junior markets, so let's drill down to what the numbers say.

Endeavour's quarterly results are largely influenced by the mark-to-market change in the value of its investment portfolio, a virtual stroke of the accounting pen. While Endeavour recorded \$41.4 million investment value depreciation for the last 9 months, they had booked a \$41.2 million appreciation over the same period in 2007. This is largely a timing issue, correlates fairly well with TSX Venture Index, and has actually out-performed the market significantly all things considered.

When we look through such mark-to-market peaks and values what becomes clear is that Endeavour's performance has been stellar over the long term but has high volatility, similar to the venture capital markets it has exposure to. However, since the merger Endeavour's business model has changed. It now benefits from a steady stream of financial advisory fees, over \$28 million in the 9 months to March 31. With such relatively independent revenue (from the inventory of its investments), these peaks and valleys in net earnings may be somewhat tamed going forward. And with the monthly dividend payout to shareholders, at least some of the share price volatility may also smooth out.

The bottom line is that Endeavour continues to offer significant leverage to the resource sector's bull market, now barely in year 8 of the historically 18 to 23 year cycle. Endeavour's overhead is well-covered and relatively fixed, and its investments have a record of significant appreciation over time, notwithstanding that market sentiment can and will affect their day-to-day market price until disposed of. Endeavour has only 32 million shares outstanding and management has a large stake in the company, so everyone's on the same page with respect to their investment.

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Current Price: C\$6.85

52 Week Range: C\$6.00 - C\$10.60

Shares O/S: 30.95 million basic

Shares O/S: 37.55 million fully diluted (excluding out-of-the-money options representing 2.76 million shares)

Market Cap: C\$212 million

Cash on hand: C\$49.1 million (Mar 31, 2008)  
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### **Conclusion**

By integrating these two entities, Endeavour becomes better structured to efficiently provide continuing and increasing investment opportunities, and is better able to attract, retain and motivate key members of their team through public-market equity ownership. The Endeavour team includes mining legends Frank Giustra and Neil Woodyer. Combined with Frank Holmes as the visionary front man of Endeavour Mining, the company will go forward as a powerhouse in the mining finance sector – an excellent proxy for investment exposure to the continuing secular bull market in commodities.

We believe that this merger will result in a gradual positive revaluation of Endeavour's share price. The Endeavour team owns a significant percentage of the combined company and operations will be streamlined, with fees to Endeavour Financial eliminated. Endeavour Mining has always traded at a significant discount to its Net Asset Value (NAV) because it is viewed as a holding company. With revenues and fees from all its different business activities going to the one public entity, it should eventually command a higher multiple from the market.

Comparable companies on the TSX like Quest Capital (QC-TSX) or Pinetree Capital (PNP-TSX) trade at 1.5x book and 2x book respectively. If Endeavour trades like its peers at 1.5 - 2 times book, the stock would be trading significantly higher. In the U.S. merchant banking companies have recently traded up to 12 times book.

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