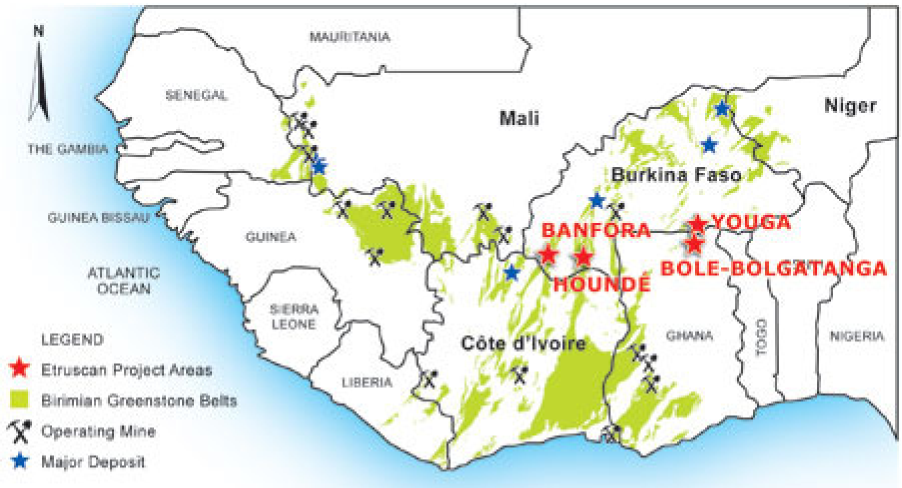
July 27, 2010

O B Research

New Endeavour -

A Growing Gold Company



July 27, 2010

Endeavour Financial Corp

(TSX:EDV) Price: C$2.12

Recommendation: Buy

12 month target: C$ 4.40

A new West African gold producer

We live in a world that constantly changes and to us at O B Research it is very clear that the market often is slow to react to these changes, during the summer months this being especially true. Endeavour is a former merchant bank rapidly transforming into a mid tier gold producer in West Africa. They are in the making of absorbing Etruscan, a West African gold producer, and formally joining the ranks of gold producers. It is however viewed and priced by the market today, as a merchant bank without a clear focus. This view is to us no longer valid and we believe the market will come to the same conclusion after the quiet summer months are over.

This takeover bid also provides the conservative investor with an attractive opportunity to take a position in EDV. By buying shares in Etruscan and getting paid in cash and Endeavour shares, it provide us with a 5-8% discount compared to buying EDV directly.

Valuation and financial statistics of Endeavour:

Mcap: C$240 million at share price C$2.12
Basic Shares (after acquisition of Etruscan): 113.2 million
Warrants/options: 46.3 million
Fully diluted shares: 159.5 million
Comment: The warrants & options are mostly priced between 1.94 and 2.5 C$ and has several years until expiry.

The new Endeavour Gold

Etruscan as a subsidiary is producing about 80,000 ounces of gold annually in Burkina Faso. They have finished a feasibility study to put its Ivory Coast assets into production, adding a further 80,000 ounces annually with a CAPEX of 100 Musd.

We believe Endeavour will now fast track that expansion towards 160,000 ounces of annual gold production, and we are therefore of the view that the Etruscan assets alone justify most of the current Mcap of 240 Mcad.

However, the Etruscan assets are not the main assets of Endeavour, as the company have a large ownership in Crew Gold (43.2% of T.CRU and in itself a very interesting turn around gold producer that has an attractive valuation). At the moment these 924.1 million shares are worth at least 250 Mcad (T.CRU C$0.27) or more than the entire Endeavour market capitalization.

We say at least, because our view is that they can very soon be worth 370 Mcad or more in cash. Crew has another large owner, the Russian company Severstal, who have clearly stated that they want all of Crew Gold and they are backing that up with buying all the shares they can get their hands on, now owning more shares than EDV does (50.2% of Crew). Severstal's purchase of Crew shares a week ago, was executed at a clear premium to the market price (C$0.337) and today they announced another purchase of >200 million shares at C$0.351, which would value Endeavour´s Crew holding to 323 MCAD.

Our guess is that Endeavour will eventually loose the fight over Crew, as Severstal clearly indicates they will not fold and that they are prepared to pay a premium. Our guess is that Endeavour will therefore sell their Crew position for at least C$0.40/share, ending up with 370 Mcad or more in cash. This money should in our view be used to put the Ivory Coast property in production (100 Musd) and to buy a company like Avion Gold (perhaps 200 - 250 MUSD price tag) to create a rapidly growing Mali, Burkina Faso and Ivory Coast producer. This would move Endeavour towards 400,000 ounces/year and a Mcap closer to Semafo or Redback Mining, companies that produces 250,000 – 450,000 ounces/year and have market capitalizations in the billions.

Management
Endeavour is a company that has a somewhat unorthodox solution when it comes to management. We recommend that you Google on Frank Giustra who is the driving force behind Endeavour's move into the gold sector. You will quickly discover that the man is basically a legend and exactly the kind of person you want to entrust with your investments. Especially when you instead of having to pay a heavy premium on NAV, get 50% discount on the same when buying Endeavour. The timing is the key reason that you are holding a shorter alert and not a full company report, including a biography of Mr Giustra.

Conclusion and recommendation
We recommend that you view Endeavour as an undervalued gold producer with the cash to rapidly expand the company. The market currently views them as a merchant bank and therefore gives them a discount on NAV that it is basically off the radar. O B Research wanted to make our subscribers aware of the opportunity as soon as we could, hence the alert.

If the company can hold on to Crew Gold, that is great, but if Endeavour decides to fold and sell the shares to Severstal, it will most likely be at a great premium and even better for us shareholders.
A true win-win situation.

To make things even more attractive, the conservative investor can buy T.EDV at a discount by buying T.EET. The bid is at 26 cent cash and 0.0932 EDV share for at total of 45.8 cent (EDV C$2.12) compared to the current market price of 43 cent.

The disadvantage compared to buying EDV directly is of course that only 47% of your money gets invested with EDV while the rest + the discount gets returned as cash to you in a month or two, and at that time EDV might of course be considerably more expensive.

Well these are attractive dilemmas and we view both ways to enter EDV as extremely attractive at the moment. Formally we recommend buy of T.EDV at C$2.12.

Above: Crew Gold's Lefa Mill at night

Links:
http://www.endeavourfinancial.com/s/Home.asp
http://www.etruscan.com/s/Home.asp
http://www.crewdev.com/
http://www.mineweb.com/mineweb/view/mineweb/en/page504?oid=108730&sn=Detail

Please read the disclaimer below.

About O B Research:
We are a group of medium size private investors that are specialized in the resource sector, especially companies trading on the Canadian TSX exchange.

We publish independent research on an irregular basis when we see exceptional value. If you are interested in receiving future research from us, please visit our website to register for our newsletter: http://www.ob-research.com/

Disclaimer:
This research report is provided for informational purposes only and on the condition that it will not form the sole basis for any investment decision. The writer of this letter usually owns and trades the stock we write about. We do however never accept financial compensation from the companies we write about and choose them solely on the basis of fundamental valuation compared to their peer groups.

All facts and calculations in this research has been done with the help of public material on company websites, SEDAR and calculated to the best of our ability and knowledge. At a minimum we also contact the company by telephone to get further updates.

Factual errors might still occur however, and it is every reader´s obligation to do their own research and not to solely rely on information given in this publication.
This research material is our view about the stock and do not constitute advice to buy or sell shares in this or any other company.

Even though the writers of these reports get no payment from the companies we write about, we might occasionally be reimbursed for costs while visiting production sites or arranging investor presentations.