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EDV.TO - Q2 2019 Endeavour Mining Corp Earnings Call

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PRESENTATION

Operator

Greetings and welcome to the Endeavour Mining Second Quarter 2019 Webcast. (Operator Instructions) As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Mr. Sébastien de Montessus, CEO of Endeavour Mining Corporation. Thank you. Mr. de Montessus, you may begin.

Sébastien de Montessus - *Endeavour Mining Corporation - CEO, President & Director*

Thank you, operator. Good morning, and afternoon, all. Thank you for joining our Q2 2019 results presentation. My name is Sébastien de Montessus, I'm the CEO of Endeavour Mining, and it's a pleasure to be talking to you once again.

Before we kick off, I would encourage you to note the disclaimer and notice about forward-looking statements here. We are following the usual format today. And here with me are Vincent and Patrick as well as Mark Morcombe, our new COO; and Louis Irvine, our new CFO.

I'm delighted to welcome them both to their first Endeavour Mining results call. As you know, Mark joined Endeavour a few months ago as COO. And since then, he has been very busy and has spent a lot of time at our various sites.

Additionally, Vincent will walk you through the financial and answer your questions today. Before he hands over the CFO role to Louis later today.

Before we begin, I'd like to thank Vincent on behalf of Endeavour Mining and its Board for his dedication and contribution to the company since 2016, and I wish him every success in the new role at La Mancha, which, as most of you know, is our main shareholder.

Before diving into the results, I'd like to say that the team is very proud of what we have achieved so far. We have now completed the first part of our strategy, which was based on portfolio turnaround and asset construction. We were very much in a start-up mode, but now that we have completed our Ity CIL build, our focus has shifted to the next stage of our journey, which put simply, is to generate cash and demonstrate strong shareholder returns.

Given the high-quality of our portfolio and the exciting future this brings, we have been also able to attract experienced executives and key managers with a strong focus on operating and financial efficiency, which provides me great comfort in our ability to deliver our strategy.

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But let's now begin the formal part of the presentation by turning to Slide 4. We have successfully delivered across all 4 strategic pillars during this half-year period, and we remain on track to meet our 2019 guidance for both group production and costs.

Project development remains central to our strategy and continued to be the main catalyst during the half-year period. Most importantly, commercial production at Ity CIL began ahead of schedule, with strong operating results in Q2 and 58,000 ounces produced at the very low all-in sustaining cost of \$585 per ounce.

Additionally, we continue to work on increasing the Ity CIL plant capacity by 1 million tonnes to 5 million tonnes by Q4. Our exploration program has been successful so far this year and remains one of our key priorities for the rest of the year with over 307,000 meters drilled across the group in H1.

This year is an exciting one for us on the exploration front, as we see our efforts over the past 3 years translate into mine life expansions with reserve additions, particularly, at our flagships Ity and Houndé.

Finally, our balance sheet remains strong with financing and liquidity sources of \$198 million at the end of Q2 and many of our capital requirements outstanding.

Turning to the next slide, you can see that, as I just mentioned, we are on track to meet our 2019 guidance. We have experienced no lost time injuries this year, allowing us to maintain our position as one of the safest operators in the industry.

Moving to group production. We remained on target to meet our full year guidance as we begin to benefit from production at Ity CIL in H2 as well as higher grades across the rest of our mines. The same is true for our cost. At Ity CIL, we continue delivering low-cost ounces, which we will benefit from fully in H2.

Safety remains the top priority, and we continue to reinforce our strong safety record in H1, which remains well below the industry average. We are particularly proud that Q2 saw a group loss frequency rate of 0. On top of this, we experienced 600 days without any LTI on Houndé, Ity, Agbaou, Karma and all our projects.

Turning to the next slide. I'd like to showcase our increasing efforts to grow local talent.

In light with this -- in line with this strategy, we have steadily increased locally sourced employees across our workforce as shown in the pie charts. Our key focus, however, remains the promotion of locals to Head of Department and General Manager position.

As such, I'm pleased to announce we recently promoted the group's second West African General Manager, Casumo Motaha, now both at Agbaou and Ity as West African General Managers, and I'm very proud of that.

Turning now to a highlight of 2019 so far, the Ity CIL project. It was completed 4 months ahead of schedule, \$10 million below budget and with 0 LTI in the 8.5 million man-hours worked, and the plant is now operating at full nameplate capacity.

Most importantly, the operation is running well, achieving all-in sustaining cost below \$600 per ounce and on annualized run rate of roughly 250,000 ounces. We are now in a good position to say that we have derisked Ity start-up, our #1 priority of 2019.

Looking ahead, there is a lot to be excited about as the plant up size to 5 million tonnes per annum is completed in the first quarter, and exploration success continues to add significant high-grade ounces.

Turning to the next page. We see our quarter-on-quarter production and all-in sustaining cost variation. The gray-shaded area relates to the Ity Heap Leach operation, which ceased in the fourth quarter. Overall, in Q2 2019, production increased by 50,000 ounce, nearing our record production level of Q4 2018 as a result of Ity CIL commissioning. Production costs decreased alongside this by \$87 an ounce to \$790 an ounce overall.



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We look forward to a stronger second half of the year as we continue to benefit from production at Ity CIL and also higher grades at Houndé as we will be processing the wellhead deposits.

Moving to the next slide, we see the resulting impact on our all-in sustaining margin, which is up 87% over Q1, as shown in the top graph, while the all-in sustaining margin increased by 109%, as shown in the bottom graph.

We are close to our record highs and believe we should break our record in the second half of the year.

On Slide 11, we see that exploration -- sorry, exploration continued to be our top focus, and rightly so, as we continue to see strong exploration success across the group.

And importantly, we are on track to achieving our 5-year discovery target of 10 million to 15 million ounce at a cost of below \$15 per ounce.

For the first half of the year, the assets have been huge with over 300,000 meters drilled across the group, mainly on our flagships, Ity and Houndé.

You will note that we have already spent nearly 80% of the full year budget. This was expected, as we normally drill intensively during the first 6 months of the year prior to the rainy season. It also places us in a good position to continue the drilling in H2 and make the required analysis to publish maiden resources and reserves.

In the third section of this presentation, Patrick will go into more depth on the exploration activities by mine.

Before he does, I'd like to explain what all this exploration success means for us.

So turning to the next slide. We look at the current mine plans as per the last published studies and the exploration success, which is expected to ultimately result in mine life expansion.

To make it simple, our goal with exploration is for both our flagship assets to have at least 10 years of production.

By this, I mean, robust, flat production, not low tail end production. We want 10 years of at least 250,000 ounces per year at both assets. I'm pleased to say that following the exploration results published over the past few weeks, we are very confident in our ability to achieve this.

Let's take a closer look at the charts quickly. Starting with Ity in the top right. In white, you can see the feasibility study production profile, which is based on 4 million tonnes per annum, while we are upsizing to 5 million tonnes per annum.

In gray, are the ounces required to lock in 10 years of flat production at 250,000.

This shaded area represents 0.5 million ounces of reserves.

Now looking at the first column on the table to the right, you see that we have already discovered 0.5 million ounces of indicated resources with Le Plaque, and we expect this area to continue to grow. This is why I'm confident we can achieve the targeted mine plan at Ity and lock in at least 10 years of flat production at 250,000 ounce per year before year end.

It's the same at Houndé, the gray area shows that we need at least 1.1 million ounces of additional reserves. While this number seems high, exploration success has already converted 720,000 ounces with the Kari Pump Discovery, as shown in the third column of the table, with a maiden resource and reserve expected to be published for the new Kari West, Kari Center discoveries. I'm equally highly confident that we can achieve the targeted mine plan at Houndé before year end.

And to top it all, the low discovery cost are below \$15 an ounce and Bouéré discovery are of much better grades compared to the reserve grade.



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So I think it's a good use of our capital allocation to continue to invest in our exploration ground. I will, therefore, congratulate Patrick and the entire exploration team, they have done a tremendous job so far, helping us provide a strong future for the company.

As we've seen on this next slide, as a result of our exploration efforts, we have generated strong organic growth opportunities.

For example, next year, the group will benefit from a full year production at Ity and its plant upsize.

At the same time, both Ity and Houndé are expected to see the newly discovered higher grade deposits commissioned. This represents a very low capital-intensive growth opportunity as these new deposits are at least granted some higher in grade than the current reserves.

Exploration has also generated optionality on projects, while 18 months ago, we only had Kalana as an option. Today, Kalana is competing against other organic growth opportunities, which we will consider pursuing once we deleverage our balance sheet.

In addition, our organic growth pipeline now includes Fétékro, a greenfield discovery made in Côte d'Ivoire last year. We expect Fétékro to quickly grow to over 1 million ounces over the next weeks at good grades, and we have the option to further optimizing our flagship assets based on continued exploration success.

Overall, we are happy to have generated such strong optionality within the portfolio, and it supports our belief that one of the most effective and efficient means of adding production ounces is through the drill bit.

I will now turn over to Vincent, who will take us through the financial summary. Vincent?

Vincent Benoit

Yes. Thank you, Sébastien, and good morning, good afternoon to all. I would like to start by taking a closer look at our production metrics. Production increased in Q2 roughly 40% from Q1, following the successful commissioning of Ity CIL. Production from continuing operation decreased only slightly by 2%, mainly due to Ity Heap Leach operations ending in Q4 '18, and our decision to use lower-grade stockpiles at Houndé and Karma, in addition.

In addition, we will need to keep in mind that Houndé had very low all-in sustaining costs and high production in H1 '18, as it was running on main high-grade oxide ore.

On Page 16, I will walk you through the main line items from revenue to all-in margin. Overall, the all-in margin decreased due to lower gold sales, increased production costs, higher sustained costs and higher non-sustaining exploration.

Looking into some of the details. At point 1, you can see that the sale decrease. It is mainly due to the transition period in Q1 '19 between the Ity CIL and the Heap Leach combined with declines across the other mines, mainly due to the use of low grade stockpile as well as the strong Houndé performance in H1 last year.

On point #2, the realized gold price includes the impact of the Karma stream, the realized gold price, excluding the gold stream was \$1,311 per ounce for H1 '19, and \$1,316 per ounce for H1 '18.

On point #3, the sustaining CapEx was higher, again, due to an increase of both -- at both Agbaou and Houndé. Also, it was also partially offset by a decrease at Ity.

On point #4, the non-sustaining capital increased mainly due to an increase at Houndé for Bouere pre-strip and Karma for the pre-stripping activities.

Finally, on point 5, the non-sustaining exploration remained high due to our strong exploration focus. As Sébastien mentioned, exploration expenditure is higher weighted in the first half of the year.



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Page 17, here you can see the company's cash flow over the H1 '19 period compared to the same period last year, starting from the \$16 million all-in margin which we discussed.

Focusing on a few key points, Q2 '19 expense, a positive working capital of \$6 million, thereby reducing the overall working capital outflow to \$20 million. We have inserted the main components on the slides for reference. And we expect in H2, working capital to be an inflow again.

Moving to the second point. Tax paid increased mainly due to Houndé as the amount paid in Q2 '19 was for the full year '18, whereas the amount paid for Q2 '18 was only for 2 months of '17 production as commercial production began 1 November '17.

We look at paying those taxes in quarterly installments in the future to avoid one-off payments, but it was difficult to set up quarterly installment before we have the full year of production at Houndé.

On point number 3, you will see that the increase is mainly attributed to the increased level of group debt and leasing pertaining to a change in accounting standards.

Point 4 shows how the gross project capital was comprised mainly of \$79 million for the Ity CIL project and \$7 million for Kalana.

Finally, on point 5, we drew down on the RCF over the higher share payer to fund the Ity CIL project.

Moving on the change in cash based on more traditional cash flow metrics, you can see that we started the year with \$124 million of cash to which operating activities have added another \$85 million for H1 '19.

Since the beginning of the year, we have invested \$178 million into the business for growth projects and sustaining and unsustaining expenditures. These activities were bridged by an inflow of financing activities with notably the drawdown of the RCF, which was partially offset by interest payments and finance lease obligation repayments.

On the next slide, you will see that our net debt has increased by \$25 million from its Q1 level to \$660 million, and this is after investing \$69 million in the business.

Our current net debt to adjusted EBITDA ratio stands at 2.75x based on trailing last 12 months adjusted EBITDA. However, it is 1.76x based on annualizing Q2 '19, which is due to the recent addition of Ity may be considered as more real level metrics.

We expect net debt level to quickly decline over the rest of the year as we begin to benefit from increased cash flow from Ity and are targeting to be at a net debt to adjusted EBITDA ratio below 1.5x by year end, assuming still \$12.50 per ounce gold price.

It is worth noting that by prudently using and managing debt to grow the business, we have protected the equity and avoided significant dilution, while achieving meaningful organic growth, as seen with the chart on the right. The main dilution of 2% relates to the process of 5% interest in the Ity mine.

On Slide #20, the company's liquidity remains strong, and we are in a healthy financial position with available funding of \$198 million. We were prudent early in the quarter. We increased our total commitment capacity on the RCF by EUR 80 million to EUR 430 million, a healthy -- to provide increased financial flexibility.

We don't, however, expect to draw more on it as we now expect to generate a healthy cash flow and significant decrease of the debt in the second part of the year.

Page 21. On this slide, you will see our revenue production program. And as you know, we have used short-term collar strategies to protect our cash flow generation during our construction phase.



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We believe this is a sound business practice with a minimal cost to mitigate the risk, the collar put in place during the Houndé construction cost us \$8.5 million, while the one used for the Ity collar represented a net gain of \$5.1 million.

As our priority is to reimburse the debt in the short term, we entered into another short-term program starting July 1 and ending June 2020, to maximize cash flow certainty.

The program covers 360,000 ounces, which represents less than half of our expected production. The floor is \$1,358 per ounce and the ceiling is \$1,500 per ounce. Once the programs end we will return to a position where our gold production is fully exposed to spot gold prices.

Next slide. Finally, on this slide, it gives you the net earnings breakdown. A few point to note on the slides are the loss of financial instruments on point 1, this includes a \$12 million loss on the gold revenue protection program, of which 9.4% relates to the new collar as the premium is expensed up front. On point 2, the increase is mainly due to the no longer capitalized -- capitalizing the finance cost in Q2 '19 as construction on the Ity CIL project has been completed.

As you see here, the adjusted net earnings per share for H1 amounted to \$0.03 with adjustment relating mainly to noncash and other adjustments, other expense, deferred income tax recovery, stock-based expenses and loss on financial instruments.

Before I hand back to Sebastian and Mark to run you through the operations. I would like to take this moment to thank the Endeavour management team for the shared experience since '16 and during our turnaround of the company. As you can see from the result, Endeavour is in a very strong position to generate a lot of cash in the near future, and I'm very proud to have participated in this success.

I wish a lot of success as well to my successor, Louis Irvine. I want also to thank each of you for the support and for the quality of the relationship we had, and I hope to meet you again in my new role. I will, of course, continue to be watching from close, as I move to La Mancha, which is, of course, a strong long-term supporter of Endeavour.

Thank you. And I hand over to Sébastien.

Sébastien de Montessus - Endeavour Mining Corporation - CEO, President & Director

Thank you very much, Vincent, both for the financial review and your kind words. I would now like to hand over to Mark Marcon, our new COO, who will take us through our individual mine operations and the main takeaways. Mark?

Mark Morcombe - Endeavour Mining Corporation - COO

Thanks very much, Sébastien. It's been a very busy month -- 3 months, during which time I've been to each mine at least twice and to Ity four times given that it is ramping up operations. I thoroughly enjoyed my time so far, and spent quality time with many of our key staff in the corporate and regional offices and at each of our operations. Going through 3 months in reviews and the half yearly results and forecast processes has given me the opportunity to understand their businesses better, including risks and opportunities.

My first impressions count and the high-quality of the construction at each of the operations that the Endeavor team built from scratch is immediately evident. Equally as impressive is the high level of dedication and enthusiasm in our workforce at every level of the organization. Our safety record is excellent, and we will continue to improve our safety and training systems and managerial and supervisory approaches to ensure that we never become complacent. We have some amazing assets and growth projects, and I look forward to understanding how we can best develop to -- them to their true potential.

So starting with Houndé, the Houndé operation is very well laid out. The processing plant is probably the neatest I have seen, which is a credit to the team, given that it's just running at 1 million tonnes per annum above nameplate. The undermining operations are performing well, and the team are improving equipment productivities in the fresh rock through improved drill and blast practices.



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The establishment of mining activities and ramp-up of production at Bouéré has been smooth. Production increased this quarter compared to the last due to the planned higher average grades milled on account of both increased high-grade contribution from the Vindaloo North pit and increased total ore mined, requiring a lower contribution from stockpiles.

Mining was accelerated in this small high-grade Vindaloo North pit in order to complete this ahead of the wet season.

Pre-stripping of the Bouéré pit commenced in March and remains steady through quarter 2, with some high-grade ore mined and stockpiled. The newly contracted haulage traverses through the new Kari project area and both haulage and processing of the Bouéré commenced in early quarter 3. The all-in sustaining cost increased mainly due to the planned higher capitalized waste stripping and the TSF ore raise, coupled with increased drilling blast activity in the Vindaloo pit and higher processing costs due to increased fresh rock, which impacts on both reagent usage and electrical consumption. Looking ahead, we expect strong production in the second half of the year as the mine benefits from high-grade ore from the Bouéré deposit, which began processing in early quarter 3.

And now I'll hand over to Patrick to talk about the exciting Houndé exploration.

Patrick Bouisset - Endeavour Mining Corporation - EVP of Exploration & Growth

Thank you, Mark. Hi, everybody. Turning now to focus on our exploration effort at Houndé. After publishing a Kari Pump 1 million ounces made an indicated resource late last year, we were indeed very pleased to publish the maiden reserve in June. This reserve increase demonstrated the value creation done through exploration. We are very proud of the stack placed on this slide.

Firstly, in terms of efficiency, over 98% of the maiden resource were in the indicated category. As you -- some of you know, I don't really care about much of our infilled resource at that stage. Then based on a \$12.50 per ounce gold price, we converted 89% of the indicated resource to reserve. The reserve grade is overall 50% better than the current Vindaloo guide and of this oxide, we assess only 10% for Vindaloo. We are very proud of our discovery cost, which is very low. We are only talking about \$13.5 per ounce of reserve, which is, in our view, really outstanding.

And lastly, while the strip ratio is higher. The grade largely makes up for it as its production costs are expected to be \$700 per ounce are implied by our exploration strategic plan. The long year environment study on Kari Pump should be finished later this year, and an application for a mining license is scheduled to be submitted later in 2019 with the goal of initiating mining activity as quick as possible in late 2020 or early 2021.

Following on the next slide, following our last year's success. Houndé remains this year the largest exploration focus for us with already -- with a tentative 195,000 meter to be drilled in 2019. We expect to see further exploration success in the Kari area.

Indeed, since the beginning of the year, mineralization has been significantly extended at all, the 3 discovery made in this Kari area. Kari Pump near-surface mineralization has been extended, some 700 meters to the Northeast and 900 meters towards Kari West. We still need to expand it to infill drilling this area in the next coming months. Kari Center was significantly extended and is now composed of 2 mineralized zone and the south zone a new one exceed 2-kilometer long, and we are excited to start delineation later on this year and to prolongate that next year.

Looking ahead, we target at least 90,000 meter additional drilling to be performed, the drilling is going on with the aim of delineating a maiden resource and reserve for the Kari West and Kari Center discovery in Q4 2019.

Mark, back to you.

Mark Morcombe - Endeavour Mining Corporation - COO

So turning to Agbaou mine and to prove that miners do have a soft side. When you driving into Agbaou, you just get a good feeling. The mine is set in a very petrous location and being longer established, the vegetation has recovered well where there is no activity. It's a very special mine



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with the dedicated team who are really working well together and with the local community and broader stakeholders, and this is evident in the fact that there's no fence around the property.

There is a great working relationship with all contractors, which is a big contributor to their consistent good results over the last few years.

Production increased from quarter 1 due to the planned increase in average grade milled, which helped offset the lower mill throughput. This was due to substantially more higher-grade ore being mined from the West pit as new ore blocks were accessed. The all-in sustaining cost also increased, though it remained below the guided range, mainly due to an increase in drilling blast costs and impact on reagents and electricity consumption as more fresh rock was mined and milled.

The TSF ore raise was also commenced in the period.

Looking ahead, we expect to increase the hard ore blend and expect all-in sustaining cost to increase with the completion of the TSF ore raise and associated changes to parking and pumping.

Moving now to Ity, it was an outstanding achievement by the projects and operations team to balance the Heap Leach production in parallel with the construction of the new CIL and associated infrastructure, both of which are in and around the same footprint.

I attended the official opening of the CIL, just 2 days after starting with Endeavour and over that and 3 subsequent visits of seeing the operations start to settle down into a good operating rhythm. They've quickly overcome a number of small commissioning challenges, whilst consistently improving throughput and reagent consumption as they come to terms with the various ore blends. The team have utilized smaller articulated dump trucks in a number of the shallow oxide pits during the start of the wet season and until it is possible to transition to the rigid body trucks.

The Daapleu pit, which is the main deposit at Ity, is opening up nicely and mining of the old area's Heap Leach has been a priority in order to establish a larger ramp pad for the project design. Credit goes to the team for transitioning a large number of the former Heap Leach personnel into this new operating environment, while maintaining good safety performance.

Looking at the CapEx spend, the main takeaway is that the plant has been built for \$402 million, as shown on the top right graph. This means that the CapEx amount incurred for the year is \$54 million, which matches closely with the guided number. The remaining spend of \$10 million to \$15 million is for the planned upgrade, which is well underway and planned for completion during the fourth quarter. The ramp-up phase was very quick, as the plant achieved nameplate throughput in less than 1 month. And now for the first time, looking at the Ity CIL on the operational front. The team achieved a very good first quarter of production, where mill availability, throughput and recovery rates were better than planned.

Unit costs are within 10% of the study estimates and are expected to come down over the remainder of the year. Processing costs were higher due to increased reagent consumption to maintain higher recovery rates. So some ore sources containing higher cyanide soluble copper. This has decreased as the blend has stabilized. Mining costs were higher due to the [recurrent trend] articulated dump trucks in 2 of the pits as we mined through oxides during the rainy season. As already mentioned, this is expected to improve as we access the fresh ore and as we establish boreholes and improve water management around the water peak perimeters.

Our processing rates will increase over the remainder of the year as the various tie-ins are completed with the upgrade project, enabling us to achieve the top half of our guidance production.

I'll hand over to Patrick to talk about the progress with exploration.

Patrick Bouisset - Endeavour Mining Corporation - EVP of Exploration & Growth

Thanks, Mark. As you know, exploration efforts at Ity have also been very strong and will continue to be strong with Le Plaque maiden indicated resource increasing from 85,000 ounces to 476,000 ounces that were quite high grade.



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After intensive drilling, the Le Plaque deposit is now composed of 3 main zone, all of which are open at depth and in multiple directions. We do believe Le Plaque is a high-quality deposit, and you may find additional detail in the recent press release, we published about it. Furthermore, drilling ounce countered a number of very high-grade intercept of 10 gram per tonne over at least 5 to 10 meters, including, for us, a company-wide record intercept of 11.7 meters at 106 gram per tonne, including 2 meters at 620 gram per ton. The drilling campaign at Le Plaque is going on with at least 20,000 meter planned for the rest of the year, where the aim is to delineate further resources and reach reserve status by year end. Now turning back to Mark.

Mark Morcombe - Endeavour Mining Corporation - COO

So looking at Karma. As you all know, the initial Karma project was not built by the Endeavour team, but they've completed numerous improvement projects, which are evident. The second agglomerator upgrades are well underway and are due to be completed in stages in quarter 4, 2019 and quarter 1, 2020, respectively, which is expected to increase stacking capacity.

Endeavour Mining team are achieving very good productivities and high-quality of mining, processing team are working well to improve throughput and to reduce reagent consumption and unit costs. Production decreased slightly despite higher stacking grades and better recovery rate due to temporary buildup of gold in circuit ounces due to an issue with the elution column, which is being addressed. The previous quarter also benefited from the release of gold-in-circuit ounces.

Otherwise, all key indicators were up with better grades and recovery rates. Mining of the Kao main pit was largely completed in the quarter, ahead of the wet season, and the mining of the Kao North pit has progressed steadily. This pit will be the main site of production for the remainder of the year, and we expect to see production increase with increased mining and stacking grades. Over to Patrick now.

Patrick Bouisset - Endeavour Mining Corporation - EVP of Exploration & Growth

Thanks, Mark. Now let us take a closer look at our Kalana project in Mali, where we have been focusing on increasing the resource base for the project. To date, in 2019, a total of 20,500 meter was drilled on nearby target. And we start -- we just receiving the first result and most results are still pending. Further exploration is underway here with a group goal to -- of delineating additional satellite deposit and updating the feasibility study to give us -- to give the project the required scale to fit in the whole investment criteria. Once complete, the Kalana project investment case will then be reviewed against other internal growth opportunity and compete with them for capital.

Now turning to Slide 33. About our greenfield Fetekro property in Côte d'Ivoire. We have been very active on this property since announcing the discovery last year on some initial resource number also at the end of last year.

Actually, this year, we plan to spend \$5 million exploration campaign, totaling 43,000 meters in 2019, with the aim of delineating additional indicator resource of Lafigue deposit and also to test other nearby targets.

To date, a total of over 37,000 meter was drilled the over the Le Plaque deposit in the close vicinity in the first half of the year. And as said by Sebastien, we expect an updated resource to be published in Q3. Indeed, we are very excited with this discovery as it fills the objective we set as part of our exploration strategy defined late in 2016.

The first was to extend mine life to over 10 years and Sebastien commented on that. And the second one for us was to bring to the company, a new project to develop through exploration. So Fetekro is on a good way to it, and I look forward to advance this project also.

I now hand back, well to Sebastien, who will wrap up the presentation.

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Sébastien de Montessus - Endeavour Mining Corporation - CEO, President & Director

Thank you, Mark and Patrick. To sum up where we expect to be at year end. We are on track to meet our production, cost and safety guidance and due to better grades at Houndé and the Ity CIL startup, we expect a strong second half of the year.

Although, it is of minimal CapEx, our construction team remains busy with the upsize of Ity, which is expected to be completed in Q4. And as mentioned earlier, we are excited about our exploration prospects and look forward to increased resources and reserves at both Ity and Houndé and also increased resources at Fetekro that Patrick just went through.

As you have seen in this presentation, we have made significant progress over the past 3 years, and we are now turning the corner. Our priorities for the next 6 months are very simple, as shown on the right. Now that our capital intensity phase is over, our priorities are to generate strong cash flow to accelerate deleveraging and to increase the reserve mine life at Houndé and Ity to lock in 10-year-plus of robust mine life at 250,000 ounce for each of those assets. That's it for our formal remarks, and we would now like to open the floor up to any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is coming from the line of Ovais Habib from Scotiabank.

Ovais Habib - Scotiabank Global Banking and Markets, Research Division - Research Analyst, Mining

I just want to say congratulations on the ramp-up of Ity. Just a couple of questions for me in regards to how the rains have or the rainy season has come in, in the early part of Q3. Just want to know how that's going to affect Q3. And specifically at Ity, is that going to hamper any sort of production that you're looking at, specifically mining fresh rock or even getting to the fresh rock?

Sébastien de Montessus - Endeavour Mining Corporation - CEO, President & Director

Thank you for your question. Martino has a gun on me, and he doesn't want me to comment on July. So I won't give too much of headlines on July. But despite, I would say, a normal plus rainy season, we're very happy so far with how all our mines are behaving, and in particular, Ity, which is still building every month on all fronts. So I think the team, and as the Mark mentioned, and he went there probably four times over the last 6 weeks or 8 weeks. There has been some very good progress. I don't know, Mark, if you want to comment more on the ground, what's happening there?

Mark Morcombe - Endeavour Mining Corporation - COO

Yes, I guess, the good thing with Ity is, we do have flexibility. So we've got 3 pits and the Heap Leach, the old Heap Leach that we're mining, so we can balance our production through that.

And we actually do have a forecast that's based around that.

Ovais Habib - Scotiabank Global Banking and Markets, Research Division - Research Analyst, Mining

Okay. So in terms of -- just in terms of mining-wise, is that going according to your expectations? Is that kind of holding in well?



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Sébastien de Montessus - Endeavour Mining Corporation - CEO, President & Director

Definitely.

Ovais Habib - Scotiabank Global Banking and Markets, Research Division - Research Analyst, Mining

Okay. Good to hear. And just moving to Houndé, in terms of Kari West and Kari Pump. Obviously, we are expecting reserve updates, but are we also looking at getting some new mine plans there as well in terms of incorporating Kari West and Kari Pump with the Vindaloo by the end of the year? Or is just something of a moving target?

Sébastien de Montessus - Endeavour Mining Corporation - CEO, President & Director

No, no, no. I think it's clear, we expect, in fact, Kari West and Kari Center, I know, indicated resources and reserves by year end. And the objective will be to have beginning of next year in Q1. Hopefully, technical reports for both Houndé and Ity that will include those new reserves, and therefore, will bring the new life of mine plan. And as I mentioned earlier, the objective is to demonstrate that now those 2 flagship assets have their 10-year plus 250,000 ounces coming up.

Ovais Habib - Scotiabank Global Banking and Markets, Research Division - Research Analyst, Mining

Perfect. And just last one for me, just this for Patrick. I missed the part in terms of -- Patrick was talking about a little bit more upside coming from additional drilling around the Kari West and Kari Pump. Can Patrick give us a little bit more color on those 2 aspects, please?

Sébastien de Montessus - Endeavour Mining Corporation - CEO, President & Director

Sure. Patrick?

Patrick Bouisset - Endeavour Mining Corporation - EVP of Exploration & Growth

Okay. Yes, indeed, as you may have seen in the press release, we published for the updated status of exploration. We have been extending a little bit to the Northeast and Northwest of Kari Pump deposit, though today is still quite wide drilling. So we need to infill it to understand exactly what could be the extension and the additional resources we could bring to Kari Pump.

We have been actually extremely happy with the results we found on Kari West. Because according to what we did, we extend significantly the footprint of Kari West compared to it was last year. And on top of that, Kari West remain open. So we plan to do drill some extension on that. And more especially, I'm quite happy with the new extension we found on Kari Center, which we call internally Kari Center South. This is quite a new area and more or less on the prolongation of Kari Center, but not exactly with the same direction. This is a switch hard plan that has almost a direction of Vindaloo, so we are quite happy with that. This is quite significant in terms of the footprint, we are talking about 2 kilometers or at least extension of that.

So our goal is simply to book as much as possible at the end of the year, resource and new reserves to build a new plant. But we are confident that next year, we'll be adding also other stuff. On top of that, we plan to start some drilling nearby Vindaloo itself. Targeting the Vindaloo deep section, where we have been building a new structural model, and we are hoping to have good results there and also to target the Vindaloo itself. Overall, what we want to do is to achieve the best vision that can -- we can have at the end of the year to better plan, what we are going to do in the future as far as the Houndé project is concerned.



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Ovais Habib - Scotiabank Global Banking and Markets, Research Division - Research Analyst, Mining

That's great.

Sébastien de Montessus - Endeavour Mining Corporation - CEO, President & Director

And Ovais, I'll just probably to come back on your earlier question, it's probably fair to say that depending on the reserve announcement that we'll be doing on both Houndé and Kari West, Kari Center, Le Plaque and dated on Fetekro, the objective will be to have year end, beginning of next year, technical reports on Ity and Houndé, outlining the new life of mine plan, the study updated on Kalana. But also depending on the results at Fetekro, we might be even with the PA on Fetekro, which will show all the optionalities that we have in our portfolio once the deleveraging is done.

Operator

Your next question is coming from the line of Michael Stoner from Berenberg.

Michael Stoner - Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

Just to follow on, on some of the kind of reserve and resource expansion fee. Can you -- do you have any kind of notional targets on where you would need to get reserves or resources to consider an expansion of Houndé?

Sébastien de Montessus - Endeavour Mining Corporation - CEO, President & Director

No, I think it's a bit too early for different reasons. Why? I think that on Houndé, first of all, as you probably saw through our comments, we believe that we should be able by year-end, with the addition of Kari West and Kari Center, to add this 300,000, 400,000, 500,000 ounce of new reserves, to get to this 1.1 million ounces of additional reserve required to show a 250,000 ounce steady mine life at Houndé from year end.

Then to go above. I think it will depend on the exploration potential that we see beyond Kari West and Kari Center. And also, we've asked Mark, who just joined. So first of all, his sense is that there is still a lot of debottlenecking that can be done easily at both plants, both Ity and Houndé, to increase the capacity on both plants in terms of throughput without any significant CapEx. So we need to go through this exercise, first, while in parallel, Patrick will continue to grow his number on the exploration side, so that we can probably come up with better views, I'll say, in Q1, beginning of next year when we come up with the new technical reports.

Michael Stoner - Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

Okay. That sounds quite exciting on the potential kind of debottlenecking. If I -- actually, while -- probably one for Mark. Since you've joined, and you've kind of bedded in, do you see any potential for shifts in the strategy around how the operations are run? Or kind of, do you think you've inherited a business in, obviously, quite good shape and growing. But do you see any opportunities to make some tweaks or improvements?

And -- or is it too early to share anything with us?

Mark Morcombe - Endeavour Mining Corporation - COO

If you're talking about -- you're talking about mining, particularly, or just?



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Michael Stoner - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Well, no, kind of mining procurement, kind of ways to maximize synergies between the operations. I mean it could be kind of anything in that much of a sense for change, or do you think it is all in very good shape?

Mark Morcombe - *Endeavour Mining Corporation - COO*

Look, it's all in pretty good shape. And I think it's more about just tweaking or enhancing the strategy rather than changing it.

Michael Stoner - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Okay. Yes. No. Understood. And then on the financial side, you've increased the size of the RCF, given that CapEx is now rolling away free cash flow coming through. Is that just because you've got capacity to have a larger facility, given lty being ramped up and due to the financial flexibility? Or is there kind of any kind of financial policy or strategy around that otherwise?

Sébastien de Montessus - *Endeavour Mining Corporation - CEO, President & Director*

No, I think it's exactly the case, Michael. The objective was -- our banks are getting more and more confident on our business, in particular, with the end of the construction phase at lty, so they were very open in supporting this incremental \$80 million, which is not required when you look at our cash flow as it is coming and starting to increase significantly, but it's always good to have. So they offered, and we took it.

Michael Stoner - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Yes. No. Makes a lot of sense. And is there kind of an undrawn cost on that facility?

Sébastien de Montessus - *Endeavour Mining Corporation - CEO, President & Director*

Vincent?

Vincent Benoit

Yes, there is a cost for the undrawn portion of the RCF. I will -- that is minimal, it's 0.5%, I guess.

Michael Stoner - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Okay. Perfect. And then Kalana, kind of even long before you guys acquired the asset, there were issues with the elution column. Is there anything you can do to kind of finally address those issues? Because it sounded like it kind of they recurred a bit this quarter.

Mark Morcombe - *Endeavour Mining Corporation - COO*

You mean Karma, not Kalana.

Michael Stoner - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

I'm sorry. Yes, sorry, Karma, yes.



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Sébastien de Montessus - Endeavour Mining Corporation - CEO, President & Director

Yes. Okay. Mark, do you want to comment on the elation column?

Mark Morcombe - Endeavour Mining Corporation - COO

Yes, it's a different column to the senate one that was there previously. It's the same as what we've got at the other mines. It was just something that was picked up, just in terms of a faulty valve that we hadn't realized the issue that it was causing. So we're getting that sorted, this -- in the next few months, and then we should be right. We'll just make sure we've added it to our maintenance practices, so that we don't have it re-occurring.

Michael Stoner - Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

Okay, perfect. So I was on the wrong track there. It's kind of no recurrence of previous issues, it's kind of entirely separate. It sounds like?

Sébastien de Montessus - Endeavour Mining Corporation - CEO, President & Director

Yes, it is one of the new ones but again, the -- this is being fixed. The only impact was a short-term impact, where there were about 1,500 ounces that we were expecting to produce in Q2 has been deferred. So we'll recover that in Q3, Q4.

Michael Stoner - Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

Okay. But all of that should wash through this year?

Sébastien de Montessus - Endeavour Mining Corporation - CEO, President & Director

Yes. Yes, completely.

Michael Stoner - Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

Okay. Perfect. And then final one for me, you talked about transitioning from, kind of, that one-off tax payment to quarterly payments. I missed whether you said when that transition might take effect.

Sébastien de Montessus - Endeavour Mining Corporation - CEO, President & Director

It's just that you can discuss with government, I mean, to do provisional upfront payments, which I think is -- make it, I mean, smoother in our overall cash flow quarter-per-quarter because having this \$25 million tax paid one-off on 1 quarter is not necessarily the best way, I mean, to manage that. So we just want to try, probably starting next year to engage with the government in order to pay that on a quarterly basis rather than on a one-off in 1 quarter.

Michael Stoner - Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

Yes, makes sense. So we're probably looking at kind of that change happening in 2020?



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Sébastien de Montessus - Endeavour Mining Corporation - CEO, President & Director

Yes, exactly.

Operator

Your next question is coming from the line of Justin Chan from Numis Securities.

Justin Chan - Numis Securities Limited, Research Division - Analyst

And congratulations, Vincent, on your new role, and welcome, Louis and Mark. My first question is just in terms of capital allocation and looking forward at your balance sheet and how you plan it. I guess, what if any growth projects can you kind of share with us? What are your forecasts in terms of growth CapEx over the next couple of years? And perhaps, if you could just give us any color on what you've set aside for Kalana, Fetekro, potential Houndé, or should we just look at it as no growth projects budgeted for now, all cash flow pays down debt and/or could be eligible for a dividend?

Sébastien de Montessus - Endeavour Mining Corporation - CEO, President & Director

Exactly. I think that's -- the latter is the right answer at this stage. I think what we want is to be in a position in 2020 based on thorough analysis on expansion, for example, if any, for Houndé, Fetekro and also Kalana, to see what is the best in terms of capital allocation and return on capital. So nothing will be planned in terms of gross CapEx for 2020, and we'll keep the options ready depending on where we are in terms of deleveraging.

Justin Chan - Numis Securities Limited, Research Division - Analyst

Okay. That's quite helpful. And I realize it's preliminary as the deleveraging stage has already begun. But I guess, what can you share with us in terms of your thoughts on a formal dividend policy and when we might -- when that might be announced? Or when that might be clarified to the market?

Sébastien de Montessus - Endeavour Mining Corporation - CEO, President & Director

I think that Q3 and Q4 will start showing the type of -- level of cash flow that we can expect for this business based on those 4 assets going forward. So I would say that Q1, Q2 being able to try and refine our strategy on capital allocation, in particular, a potential dividend policy will be a good timing. And obviously, if gold price continues to stay where it is, it's basically going to even accelerate this deleveraging. So we're very pleased with the current environment to be in the position we are today in this current market.

Justin Chan - Numis Securities Limited, Research Division - Analyst

Okay, perfect. Just 2 more for me. One is at Karma, just an operational question. In the second half, do you expect the gold ounces tied up in the column to wash through, are you going to catch up there? And then just a question on inflation in West Africa, what you're seeing right now? How does that track versus your budget? And are you seeing higher fuel costs flow through?

Sébastien de Montessus - Endeavour Mining Corporation - CEO, President & Director

Yes. I think on the Kalana side, as mentioned with Michael, just before, there was about 1,500 ounces that were stuck there and that we will see in Q3, Q4. So we don't see any further impact from this Kalana issue in H2 and recover those 1,500 ounces, that's one. On the second question, which was -- sorry, I just got lost on the second question, Justin.



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Justin Chan - Numis Securities Limited, Research Division - Analyst

It was just on -- in terms of inflation in West Africa, what are you see right now? And how is that impact?

Sébastien de Montessus - Endeavour Mining Corporation - CEO, President & Director

Yes. We haven't seen major inflation so far. To be frank, we are in a good position because as Mark hinted a bit, we have now a new supply chain group that has been working on over the last 12 months on retendering all our major suppliers across the group, so that it's a group approach rather than a site approach. And therefore, through them, we've been able to either freeze or decrease the prices that we were getting so far. So we haven't seen any significant inflation so far.

Justin Chan - Numis Securities Limited, Research Division - Analyst

Okay. And with regards to fuel, are you seeing much of a flow-through in terms of higher fuel prices? And also, how well protected are you in the case of future increases?

Sébastien de Montessus - Endeavour Mining Corporation - CEO, President & Director

So you know that in most of our sites, I mean, we connected on the grid. So the electricity price is the biggest driver and the electricity price doesn't vary that much. We -- I think last year, we were quite heavily exposed to fuel because of Tabakoto, which was a big fuel consumption on-site over there, which we don't have any more this year. So yes, I think we have a pretty good control on our electricity cost.

On the fuel side, for the mining fleet and for the redundancy of the fuel plants in Bakat. I think that given that they are quite high regulatories in both -- in Côte d'Ivoire and Burkina Faso with a big part of taxes, which are, in fact, local taxes, an increase of 10% or 15% of fuel -- of the oil price, sorry, doesn't get 10%, 15% increase right away in the fuel price in country. It's much lower because a big part of it is absorbed through the tax, which varies.

But otherwise, we don't have any hedging policies currently on oil and fuel.

Operator

Our next question is coming from the line of James Bell from RBC.

James Andrew Keith Bell - RBC Capital Markets, LLC, Research Division - Analyst

Just one around the portfolio. So I mean, if we look at the numbers, it looks like you are going to delever pretty rapidly, particularly if spot gold persists. I mean when you're at a lower gearing level, lower leverage. Does that change your views on the portfolio in terms of assets that may not be sort of core to you? And then secondly, I just wondered if you could give us a quick update on your feelings on the security situation in Burkina Faso, particularly around Karma.

Sébastien de Montessus - Endeavour Mining Corporation - CEO, President & Director

Sure. Thank you. Well, on capital allocation, yes, I think it's fair to say that based on what we've been doing over the last 3 years. We continue to have a very thorough approach to the quality of the portfolio that we have. We've been insisting on the fact that we today have 2 main flagships, Ity and Houndé. Which means that, as we go towards better return and also a return on capital employed, we might consider divesting at some point other assets, which we believe are non-core. I think what would be fair is to be able to compensate any divestment by bringing a new asset,



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and we count on the project pipeline that we have to help us get to a point where if we have a better assets in construction in our portfolio, it will help us to probably divest one which is less attractive in the current portfolio. So that's something that we will continue to, obviously, do over the next months and years.

On the security side, I think that we are confident so far in the Burkina Faso environment. There has been some significant changes made by the government of Burkina Faso beginning of the year with the new Prime Minister, in particular, the new Minister of Defense who was appointed. Since then, there was a major proactive, I would say, operations, led by the Burkina, the army and government on one side, on the East side, which was mainly during Q1. And since the beginning of Q2, they are having a big operations also in the north, alongside with the French Army.

So our current assessment is, despite the news flow, things are improving in terms of security.

And more importantly, the Burkina Faso government tends to have a much better controlled environment. In order to react, I would say, to those strong push that the Burkina, their army are making in both the East and the north, you will see from time to time, I would say, spot attacks from terrorist groups elsewhere in the country in order to try to make a diversion from the Burkina Army to try to make less pressure on the North and the East.

But I think, overall, it's really going into the right direction, thanks to the supporters of the French and the U.S.

Operator

I have no further questions at this time. Sébastien over to you.

Sébastien de Montessus - Endeavour Mining Corporation - CEO, President & Director

Thank you, operator. And thank you all for attending this quarterly results and the first half. I'm very excited about the second half, now that we have Ity CIL up and running. And I think that you should see over the next few quarters some strong cash flow allowing to demonstrate that the strategy that we've put in place 3 years ago is now paying off. Thank you very much for attending this call, and looking forward to the next quarter.

Thank you very much.

Operator

That does conclude our conference for today. Thank you for participating. You may all disconnect.

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