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EDV.TO - Q3 2019 Endeavour Mining Corp Earnings Call

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PRESENTATION

Operator

Hello, ladies and gentlemen, and welcome to Endeavour Mining Third Quarter 2019 Results Conference Call and Webcast, which is being recorded. A copy of the presentation is available on Endeavour's website. (Operator Instructions) I will now hand over to your host, Sebastien de Montessus, CEO of Endeavour Mining. Please go ahead.

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

Thank you, operator. Hello, everyone, and thank you for joining our Q3 2019 results presentation. My name is Sebastien de Montessus. I'm the CEO of Endeavour Mining, and it's a pleasure to be talking to you once again. This time from our operational hub in Abidjan, where we are hosting our board for their second annual site visit, I'm delighted to say also that our new independent Non-executive Director Sofia Bianchi is with us on this trip and in on the call.

Please note today's call is covered by a disclaimer and notice on forward-looking statements.

The format for today's call will be our usual quarterly formats. I will provide an overview of the results. Then Louis will review our financial performance, followed by Mark who will discuss the operations, and I will conclude before opening up for Q&A. Our Head of Exploration Patrick is also with us here today and available to answer any exploration questions you may have.

So now onto the first slide of the presentation, and I can -- and I'm excited to announce that our net, net, net free cash flow is finally positive. This marks the transition from our high capital intensive investment phase to a cash flow generation phase. If you remember, I told you back in 2016 that the turnaround would be completed after our 3-year strategic plan. And I'm pleased to confirm that this quarter, we have generated our first net cash flow positive quarter.

Before we dive into the presentation, I'd like to thank the team for their tremendous efforts over the past 3 years, which have ultimately resulted in this quarter. Thank you as well to our shareholders. This achievement could not have been done without their support and we expect that they will now start seeing their patience rewarded.



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On this page, we have laid out the key takeaways for the quarter. I think it is safe to say that it has been a strong quarter, despite the challenges brought by the severe rainy season. The strong operating results and a higher gold price led to our operating cash flow doubling. And most importantly, the business reduced its net debt by \$52 million, as we have completed our investments during the previous quarter.

Looking ahead, our objective is to generate strong cash flow so we can continue to deleverage the business and demonstrate robust return on capital employed. In addition, I believe that the business is very well positioned to continue to grow in the short term with very low CapEx requirements. In Q4, we expect Ity's ramp up to 5 million tonnes per annum to be complete. This means that 2020 will benefit from a full-year production at Ity at an increased plan size. We also expect the exploration success to generate further growth. And this is not arm-waving wishful thinking.

As you know from our announcements, we have found deposits which are at least 1 gram per tonne richer at both on flagships Ity and Hounde. We are, therefore, moving quickly to get permits so that we can start mining them in late '20, early '21. As you can imagine, we are delighted because it's rare to be able to have both debt reduction and growth at the same time. And finally, based on the exploration success we have had, it is now part of our DNA to have a strong exploration focus. This will allow us to continue to build low cost optionality within our portfolio.

Turning now to the next page, safety. Safety continues to be our top priority. We were disappointed to record one lost time injury during the quarter at our Ity mine, the first in over 23 months across the group. Also our safety record remains well below the industry average at 0.06. It is a reminder to all of us that we must continue to be vigilant about our safety. The safety teams at all our mines are redoubling their efforts to ensure all our workers take the necessary safety precautions at all time.

Moving to the next one. As I mentioned, we have had a strong quarter despite the rainy season, as production increased by 6% over Q2, and all-in sustaining cost remained low at \$800 per ounce. On this page, you can see that in fact this has been our second best historical quarter after the record set in Q4 last year.

Turning to Slide 7, you will see that we were up against this quarter in Burkina Faso. The left hand side of the page illustrates the average rainfalls during Q3 over the past 4 years, up 4x versus when we first started operating in that country. The rain undoubtedly impacts production costs, if we assume all other factors are constant. However, it is not the only factor to consider. By incorporating the lessons we have learned, we are able to better plan for the rainy season with the goal of maintaining a production profile that is as flat as possible.

Every rainy season has its challenges and this year was no different. The main challenge this year was starting a high-grade Bouere deposit at Hounde during the rainy season. And also at the same time, ramping up our Ity mine in soft material, quite a challenge. As I like to tell the team, our job is to be problem solvers and make sure we have backup solutions in place.

As such, we have been able to mitigate the impact by mine scheduling and building up stock piles in the dry season. Cost tends to increase during the rainy season because more water pumping is needed, mining efficiency is lower, and we use stockpile low grade -- lower-grade ore to maintain plant's throughput, which is why we place a greater emphasis on maintaining production levels to net this out. And in the current gold price environment, this is even more beneficial.

Moving to the next one. As I mentioned earlier, the Ity CIL project has been the big driver for Endeavour's performance this year. As you know, it was completed 4 months ahead of schedule, \$10 million below budget and without a single LTI. The ramp up has also been quick lasting only at 3 weeks. Since then, the CIL plant has been performing extremely well. Production continued to increase in Q3 and we now expect the mine to achieve the top end of the 2019 annual production guidance range.

Just a reminder, we deliberately gave a wide guidance range at the beginning of the year as the lower end was based on the nameplate capacity and the top end already included upside, such as the plant running above its nameplate. During the ramp up, we identified the ability to further increase the mill's throughput by 25% to 5 million tonnes per annum for minimal CapEx. Those upgrades are progressing well and on track for completion before the end of the year.



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Moving to Slide 9. Now that we are 3 quarters of the way through the year, we are adjusting our 2019 full-year guidance for production and all-in sustaining cost. To walk you through our thinking, let's look at production first. We've already produced 473,000 ounces. And as I just mentioned, we expect Ity to meet the upper end of its guidance. So the lower end of the group's guidance has been increased slightly by 35,000 ounces. Concerning the other mines, we expect Agbaou to perform well in the final quarter too, offsetting Hounde where the severe rain slowed the development of the high-grade Bouere pit.

The group all-in sustaining cost guidance has also been adjusted upwards slightly by 4% to reflect the higher royalties associated with the stronger gold price environment, which equates to around \$15 an ounce. In addition, the adjusted estimate also takes into account the Ity's all-in sustaining cost, which is expected to be near the top end of its guided range as mentioned during our Q2 call, driven by the increased production at a lower average grade. Overall, we expect Agbaou to offset Hounde and Karma.

Now I'd like to give an overview of our financial performance. Focusing on what I consider are the 3 important metrics for the business; operating cash flow, net debt reduction and return on capital employed. This quarter, we doubled operating cash flow compared to Q2 as we benefited from both an increase in production, thanks to Ity, and the strong gold price. Again, this is why it's important that we hit our production targets, whatever the weather.

Turning to Slide 11. This graph makes me very happy. Thanks to both our operational performance and our financial discipline, we can now boast strong per share metrics. This is the reward of managing to fund our growth without diluting our shareholders. As we have now transitioned to being a cash-flowing business, it is interesting to see that our annualized cash flow yield is in the double digits, which is high for any industry and particularly for the gold industry. In the context, where we are competing for capital across industries, I believe that this is important for the gold industry to show it can be benchmarked across industries on all relevant metrics.

As you see on this next slide, the growth capital spend since 2016 has been significant amounting to over \$800 million. This represents almost half of our market cap. With only the Ity upside remaining, CapEx decreased to \$6 million in Q3. Delivering our projects on time and on budget is great, but ultimately the most important is to show a return on capital employed. As you see on Slide 13, this metric has improved substantially this quarter to 15% on an annualized basis.

Moving to Slide 14. With the high capital investment phase now behind us, we have pivoted to reach the cash flow inflection point in the business. It was announced it is finally there. We will now accelerate our deleveraging. I think this graph sums it up nicely and you can see the different elements on the bottom side in particular.

And now as you can see for this quarter with the CapEx spend pretty well finished, we can stop focusing on debt reduction. This quarter, we decreased net debt by \$52 million compared to Q2. As you can see from the orange line, the net debt to EBITDA ratio decreased from 2.75x at the end of June to 1.94x at the end of September, which represent a 30% decrease in just one quarter, which is very pleasing to see. And we expect this ratio to keep decreasing quickly over the next quarters.

Turning to exploration now. As part of our strategic plan, we did invest a lot during the last 3 years in exploration in the same spirit as for the project. We are also now starting to benefit from the exploration successes we have had and converting progressively our discoveries into reserves. As you may recall, the main goal set 3 years ago were two-fold. First, to extend mine lives to more than 10 years. And second, to advance greenfield discoveries to build optionality within the portfolio.

Over the first 2 years, we focused mainly on near-mine exploration. This year, we started to ramp up greenfield efforts, which now represent nearly 20% of the spend. We are very pleased with the results, as both Ity and Hounde now have demonstrated potential to have 10-year mine lives, and we have started to see delineation of new greenfield discoveries. The icing on the cake is that our discovery cost stands at less than \$15 per an ounce.

Let's look at a Hounde quickly in some more detail. Our target is to have at least a 10-year mine life at an average 250,000 ounce per annum. The graph on the right hand side shows the production gaps in grey that we need to fill to achieve this, and this is how we calculated our target on needing an additional 1.1 million ounces of reserves.



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While this sounds a big number, we have already discovered 710,000 ounces, which we published as a maiden reserve for Kari Pump back in June. And not only did we add reserve ounces, it will also add considerably higher grade of just over 3 grams per tonne. During the quarter, we have been finalizing the resource calculation for the Kari Center and Kari West discoveries, and expect to announce a maiden resource and reserve estimate in the coming weeks, and demonstrate once more that we'll be reaching the target we had set for Hounde.

Moving now onto Ity, the same principle applies. We want a 10-year mine life at an average 250,000 ounce annual production. To achieve this, we only need to add 500,000 ounce of reserves. We have already discovered 500,000 ounce of indicated resources, so we are confident we can meet this target as the discovery keeps growing. Similar to the Kari areas for Hounde, we are also seeing about 3 grams per tonne at Le Plaque. We expect to announce again a maiden reserve for Le Plaque based on the current resource in Q1 2020.

Now I'm turning to our greenfield exploration efforts in Cote d'Ivoire. We are very excited about the Fetekro deposit. In September, we increased indicated resource to 1.1 million ounces at a good grade of 2.54 grams per tonne, and we will be commencing an 10,000 meter extension drilling program shortly, which we expect will increase the projects resource base further. Solid, Patrick. Thanks.

That concludes my quarterly overview and I will now hand over to Louis for a detailed review of our financial performance.

Louis Irvine - Endeavour Mining Corporation - Executive VP & CFO

Hello, everyone, and thank you, Sebastien, for the introduction. From my side, I'm very pleased to be joining in at this important juncture as the business matures into a cash-generating gold company. With the current strong gold price environment, I think I might have timed it perfectly to join the sector at this point in time.

On my first slide, Slide 20 in the presentation, I thought it would be interesting to provide you with a snapshot of how the business has performed both on a year-to-date basis and comparing the current quarter versus the previous one. So starting on the year-to-date results, the company's financial performance has improved across all key metrics. On the financial side, adjusted EBITDA and EBIT margins are up 24% and 35% respectively with operating cash flow up by 52%.

As Sebastien has mentioned, the key driver has been our increased production for continuing operations and the stronger gold price, which more than compensated for the slightly higher all-in sustaining costs year-on-year. Considering the significant change to our asset base over the past 9 months, with the CIL plant coming on stream at Ity and the growth CapEx phase now essentially over, I will focus on our quarter-on-quarter performance with the balance of the presentation and we'll be happy to address any further questions you may have later.

So let's turn to Slide 21 where we have provided a breakdown of the major elements used to derive our all-in margin. In the tables, we have shown both the nominal amount, as well as the dollars per ounce impact. The all-in sustaining margin came in at 44%, up from 38% reported in the previous quarter. Low end non-sustaining capital for both mining and exploration resulted in a \$305 per ounce improvement in the all-in margin of the company. This is due to significantly less non-sustaining capital required by the business during the third quarter.

And to explain that point, on the mining side, we did the pre-stripping at our new deposits at Hounde and Karma earlier in the year. And on exploration, most of the drilling was done ahead of the rainy season. Unit cash cost decreased over the previous quarter, which was however offset by higher royalties and sustaining capital spend. For reference, we have provided additional insight on each of the mainline items on the slide.

On the next slide, we start from the all-in margin and work our way to the net cash inflow for the group. As Sebastien mentioned, the bottom line shows a positive inflow for the quarter, which is a turning point for the company.

Diving into a bit more detail, I'd like to anticipate any questions you might have on the larger quarter-over-quarter variances. So starting with working capital. It has swung to an outlet during the quarter mainly due to payables related to the construction of the Ity CIL plant winding down, which was somewhat offset by a very large VAT recovery during the third quarter. Approximately \$15 million of VAT has been recovered in the quarter.

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Taxes came down slightly as the second quarter also included a provisional tax payment of \$6 million at Hounde for the 2019 financial year and growth project capital decreased significantly as you would expect to see now that the Ity plant, Ity CIL plant is commissioned. Again, we have provided more insights on the page, and I'll be happy to address questions during the Q&A session.

Moving on to the next slide where we show the drivers for our opening and closing cash position. You can see that we started the year with a \$124 million of cash to which operating activities have added another \$178 million year-to-date. Since the beginning of the year, we have invested \$211 million into the business for growth projects and sustaining and non-sustaining expenditures.

As you see with the inset, this represents a 60% decrease over the previous year. These activities were bridged by an inflow of financing activities, notably the drawdown of the RCF earlier this year, which was partially offset by interest payments and finance lease obligation repayments as well. No further drawdowns are currently expected, given our strong cash on hand position.

To the next slide. The company's liquidity remains strong and we are in a healthy financial position. We have available funding of \$240 million at the reporting date. Our current net debt to adjusted EBITDA ratio stands at 1.94x, Sebastien referred to earlier. And this is calculated on a trailing last 12-month adjusted EBITDA basis, which is a sharp decrease over the 2.7x at the end of June.

What we have included in the slide is a calculation where you -- where we've annualized the quarter 3 adjusted EBITDA. And arguably, this is most probably a more relevant metric in this higher gold price environment and with Ity now ramped up. And on that basis, the leverage ratio should be around 1.24x. Looking ahead, we expect net debt to EBITDA, the ratio to continue declining on the back of reduced growth capital expenditure requirements.

Turning to my final slide. You can see that on a quarterly basis, adjusted net earnings per share increased considerably in quarter 3 to \$0.30 per share. This being the benefit of funding our growth in a manner that has avoided equity dilution for the shareholders.

That concludes my review. I'll be happy to answer any questions at the end, and will now hand over to Mark.

Mark Morcombe

Thanks, Louis. It's great to have you in the team. I'd like to start my operational review with the Ity mine. Commissioning of the new processing plant in the late up to the wet season has gone pretty well. As you can see from the graph on the right hand side, the difference in production between the old Heap Leach and the new CIL operation is considerable, essentially 3x the production at a lower all-in sustaining costs and good validation to support the capital investment made.

Production for the quarter continued to increase despite the heavier than normal rainy season. On the mining front, we continue to open up the Daapleu and Ity flat pits, which extended down into the transitional and fresh stock in places which, as most of you know, for Ity is a benefit as we can use the larger mining fleet with more solid underfloor conditions rather than the smaller articulated dump trucks. Additional ore sources came from the spend Heap Ledge near the CIL plant and a low grade dump which is being mined to make way for plant TSF lifts.

The production rate has continued to ramp up based on the debottlenecking work being conducted and we expect to be in a position to process at an annualized 5 million tonnes per annum during the fourth quarter. The mine's all-in sustaining costs decreased during quarter 3, mostly due to a lower strip ratio, greater production volumes and lower G&A costs. These factors helped to more than offset higher mining related costs due to the rainy season and increased royalty costs.

Patrick and his team have done a great job discovering and modeling the high grade Le Plaque deposit. Though there is still more resource to be drilled, we are in the process of converting the initial resources into reserves and incorporating this into a [lots of] Mont plant. Due to the great profile of Le Plaque, our goal is to work for the permitting and planning process and bring this into the Mont plant as early as possible.



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Looking ahead to the final quarter of the year, Ity is on track to achieve the upper end of 2019 production guidance. For the all-in sustaining cost as guided during the second quarter results, we expect the mine to finish near the top end of guidance to account for the lower average grade mined and processed in taking the plant beyond nameplate capacity.

Turning to Hounde on the next slide. The mine delivered a good performance for quarter 3 despite the severe rainy season with only a slight decrease in production. We started to mine the high grade Bouere deposit during the second quarter. This continued at a higher rate in the third quarter, which helped maintain the processed grade profile as we also blended this Vindaloo -- with Vindaloo ore and lower grade stockpiles. Ramping up of production of Bouere was slowed due to the more severe rainy season, which is the main reason we now expect to be at the lower end of 2019 production guidance and above the all-in sustaining cost guidance.

As you may have seen, the guided \$25 million of sustaining capital for the second quarter or second half of the year is considerable compared to the \$10 million in the first half. Of this amount, \$15 million is planned for the fourth quarter. The strip ratio was well above the loss of mine ratio at roughly 15 to 1 and is expected to remain high in quarter 4. Looking at the big picture, the company pushed Hounde very hard in its first 2 years of production in order to support the funding of the Ity CIL project. With Ity now in production and operating well, we plan to complete the guided capital stripping during this second half of the year to place us in a good position for next year.

Similar to Ity, the exploration team have done a great job discovering and extending our knowledge of the high grade Kari Pump deposit, which is also expected to make a contribution to Hounde's loss of mine production profile. We are, therefore, looking forward to incorporating this into the mine plan as soon as possible.

Moving on to Slide 29 to Agbaou mine in Cote d'Ivoire. The maturity of this operation was highlighted by the smooth transition from our expat GM to the new Ivorian general manager. The team has embraced the change and neither the production nor performance has missed a beat. Mining operations continued in the north and west pits during the quarter as the primary ore sources. Towards the end of the period, waste mining recommenced in the South Satellite pit.

Processing throughput was supplemented with some low grade stockpiles and production was steady quarter-on-quarter through the rainy season. All-in sustaining cost decreased as a result of a reduction in both processing and G&A unit costs, as well as an increase in gold sold. The higher gold sales help to offset higher unit mining costs and royalties. Looking ahead to the final quarter, Agbaou is on track to meet the higher end of full production guidance and expected to come slightly below the all-in sustaining cost guidance for the year.

And lastly to Slide 34 (sic) [30], our Karma asset in Burkina Faso. Production increased as forecast despite the effects of the rainy season.

Mining activities focused almost solely on the newly commissioned Kao North pit as we finished mined in the Kao Main pit in early quarter 3. The higher grade Kao North oxide ore contributed to the significantly higher-stack grade, which more than compensated for lower stack tonnage. All-in sustaining cost decreased mainly due to increased gold sales, which more than offset higher unit mining and stacking costs, and higher royalties.

Looking ahead to quarter 4, we expect Karma to meet the lower end of 2019 production guidance and finish slightly about all-in sustaining cost guidance. This is mainly due to higher royalties as guidance was based on a lower gold price of \$1,250 per ounce.

That concludes my operational review and I'll be happy to address questions after Sebastien's concluding remarks.

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

Thanks, Mark. So in conclusion, ladies and gentlemen, I think this quarter demonstrate the successful execution of our strategy. We have completed the growth investments required to build a strong diversified portfolio. With this project now in production, we have de-risked the business and can now focus on harvesting the cash generated by these investments.



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Just to remind you of our 4 upcoming near-term catalyst. First, we expect to publish maiden resources at the new Hounde discoveries in the coming weeks. Second, we are looking forward to completing the Ity CIL upside before year-end. Third, we are looking forward to publishing maiden reserves for the new Hounde and Ity discoveries early next year. This will be followed by a updated technical reports where we aim to demonstrate 10 robust years of production across both the assets. And last and most important, continuing to generate cash flow.

As Thomas Edison taught me 100 years ago, having a vision is not enough. Vision without proper execution is hallucination. Well, I'm pleased to say that after 3 years of discipline in executing our plan, near \$50 million of net-net cash flow after everything, this quarter is not hallucination, but just the beginning of a new chapter.

Thank you very much for your time and we are now happy to answer any questions you may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question comes from the line of Michael Stoner from Berenberg.

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

So on the Ity growth CapEx, in the announcement you reflect you spent \$4 million of the \$10 million to \$15 million budget and the bulk of the work left is on the tailings. Can we assume the CapEx is tracking kind of towards the low end of the range or better than that range? Or is there a big ramp up in spend through Q4?

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

Thanks, Michael. Yes, I confirm. I mean the objective is tracking towards the lower end of that guidance.

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

And then onto Hounde, that's on Bouere. Forgive me if I missed it in the call, but do you expect to have that fully ramped up in Q4 or is that more of a Q1 event?

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

Sorry, say that again, Michael?

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

Sorry. As for Hounde in the ramp up of high-grade feed from Bouere, is that expected in Q4 to kind of a full production rate or is that going to be happening early next year?

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

It's going to start at the end of the quarter and mainly in Q1.

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

And on Agbaou, the better-than-expected mining unit costs, are those now anticipated to sustain or were there kind of a few one-off beats there?

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

I'm always cautious when we have better-than-expected results, so it would be probably brave to think that's the standard. But yes, I mean we hope that the performance of the team and following the change of the GM has laid out strong foundation for the future, so we have to continue in the same territories. Yes.

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

Okay, but that's knocked down to a change of contract, so anything that you could illustrate performance based?

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

No, absolutely not. Yes, it's performance based, exactly.

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

And the final one from me is on the working capital outflow. We flagged that it's payables washing through lty. Is that much of that to expect for Q4? Or is that effect largely done now?

Louis Irvine - *Endeavour Mining Corporation - Executive VP & CFO*

Michael, thank you for the question. That effect is basically done now. So it was lty CIL accruals at the end of the year that have now are winding down.

Operator

And the next question comes from the line of Ovais Habib from Scotiabank.

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

Firstly, Sebastien and team, congrats on a strong quarter and achieving free cash flow, despite the rainy season, was worried there for the quarter. So just on that, Sebastien, obviously you guys got hit with rain in Q3, but how is that looking going into November and looking in going into Q4? Was November still weak in terms of or in terms of rain? Or are we seeing a relief there?

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

Thanks, Ovais. Well, surprisingly this year, the rain has been quite late. And October has still been a rainy month. So that again, we hope that November and December should now start to be the dry season. And if you recall, we tend to have record Q4 each year as we enter into those dry season. So I mean, yes, we are confident going forward for Q4.



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

And then just moving a little bit on to exploration. In terms of just want to know where Patrick is focusing his efforts now. And is it Fetekro? Is it still at Hounde? Or can you give us a little bit color on that?

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

Yes, Patrick, you want to answer the question?

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

Right now, the main point for us is to concentrate on the Fetekro first because we started the study for PEA to be possibly stood at the end of the first quarter. So we want to involve as many answers as possible on this Lafique deposit. So this is my first priority right now. And we are still working a little bit now as the rainy season has finished on Le Plaque extending the Le Plaque sources. But that basically is a priority we have now. Until the end of the year, that will be the priority.

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

Are there any other targets or kind of greenfields that you're working on right now or I mean this is just the target for right now?

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

Now we -- now from right now in the next coming 2 months is going this. That being said, for next year we are preparing additional another greenfield target well, let's say, in different country on our portfolio.

Operator

And the next question comes from the line of Justin Chan from Numis Securities.

Justin Chan - Numis Securities Limited, Research Division - Analyst

Congrats on a strong quarter and the first majorly positive free cash flow quarter as well. My first one is just on, in terms of now that your balance sheet is deleveraging, you have a lot more sort of strategic options. How do you evaluate, I guess if you could give us an update on Kalana, on Fetekro? And just how you evaluate projects going forward? And I guess what if any criteria and cut-offs do you have for what makes an Endeavour project? And perhaps at what gold price do you evaluate for that?

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

Thanks, Justin. I think with back in Denver during my presentation, we said that the key objectives through the next 2 years, so 2021, is really to focus on deleveraging and generating strong cash flow. So that's really the priority, which give us time I mean to continue to grow the optionality into the portfolio for our next mine, whether it's Kalana or whether it's Fetekro. So we have this optionality in the portfolio. Obviously, if the gold price continues to be strong, we should be deleveraging faster than expected, which will give us even more flexibility on the next options. But really I want to insist on the fact that the next 2 years, '20, '21, are really focused on generating as much as we can cash flow in the portfolio.



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Justin Chan - Numis Securities Limited, Research Division - Analyst

I see. And then in terms of cash flow and how you view balance sheet management, that's arguably already at a healthy level relative to what your EBITDA will be going forward. I guess, when thinking about a dividend or a capital return or simply just getting debt to zero, could you just run through those options and how they're viewed by your team right now?

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

Yes. Well, I think that, we'll have -- I don't want to precipitate discussions with our board on those subject. We're just completing the first quarter of net cash positive. I think we'll have, as we move forward and accelerate this deleveraging. And we always said that our target was to be below 0.5x net debt to EBITDA. So depending on the gold price, that's something that we will reach quite rapidly. And we always said that as soon as we are ready, our objective is to be in a position to move to giving back some of this cash flow to shareholders. So and this is clearly a subject that we intend to address with the board in 2020.

Justin Chan - Numis Securities Limited, Research Division - Analyst

And just my last one. On Q4, this is a bit more of an operational cash and cost question. Are there any accruals that we should be aware of that tend to occur in Q4 and will that be a sort of a one-off effect on cost?

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

Say that again? Sorry, Justin.

Justin Chan - Numis Securities Limited, Research Division - Analyst

Yes, I was just wondering if there are any year-end accruals that we should be aware of in terms of how they may impact cash costs or just ore costs in general for Q4?

Louis Irvine - Endeavour Mining Corporation - Executive VP & CFO

Justin, I don't believe there should be any. And if there are, we will let you know, but I don't think that's the case here.

Operator

And the next question comes from the line of James Bell from RBC Capital Market.

James Bell

Just firstly, on the permitting for the Kari targets and Le Plaque. You talk about needing those sort of late '20 or early 2021. Do you see any risks around that process? Or do you think that these are going to be relatively straightforward to secure?

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

Thanks, James. I think the good thing is we're talking about permits of new pits. It's not permitting for a new mine. So this tends in our experience to go quite fast. There is still a process to be followed. But on this week with the board and for example, we met the Minister of Mine yesterday, and he'll confirm that he was supporting to get us as quickly as possible the Le Plaque permitting. And about 2 weeks ago, I was with the Minister



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of Mine in Burkina Faso who is also committed to help us get the permit for Kari Pump as early as possible. So we're quite confident that end of the year is the latest date we are expecting those.

James Bell

And then on the cost side, I think it's pretty clear what was happened in Q3. But when we start thinking about looking into 2020, are you seeing any headwinds in the underlying business or any inflation coming through that you think could impact your cost base as you start to look into next year?

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

Well, obviously, we'll be going through the budget process in the next 2, 3 weeks, so I have a better understanding of 2020. But based on the robust, I would say, life of mine plants in particular at our 2 flagships [on the NET], pretty confident on the outlook for '20 and '21. In terms of supply chain, we haven't seen yet any significant increase in supplies. And even more, as we said now that we having a much more global approach to our procurement in our supply chain, we will see in 2020 some improvement on the inventories and consumables as we are moving towards better control, in particular having stock containment with a lot of our suppliers to continue to improve our working capital and therefore our return on capital employed.

James Bell

And then one just final one. When you look at your return on capital employed, it screens pretty impressively on an annualized basis. Do you have an internal target for where you would like that figure to be on a go-forward basis? And does that feed into your kind of view on projects or potential asset purchases in the future?

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

Well, I think that as a group in terms of philosophy, we always said that we wanted to be as close as possible to a 20% return on capital employed. So 15% is the first step. We hope that we'll be able to continue to improve this number. But again, I don't want to pre-empt the short-term future given that this is our first quarter of net cash positive. And I think that based on the full-year 2019 and the budget 2020, we'll be able to give some even better guidance to the market.

Operator

And the next question comes from the line of Chris Thompson from PI Financial.

Chris Thompson - PI Financial Corp., Research Division - Head of Mining Research

Very, very nice to see the free cash flow there. Just a couple of quick questions. I think a lot of my questions have already been answered. But just moving to Hounde right now with Bouere, what sort of mill grade here are you anticipating when you do bring that pit fully on?

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

Mark, you want to?



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Mark Morcombe

Yes. So the Bouere pit should get better in grade as we go. By the end of the year, we'll be sort of just under 3 grams average for the year. And then we expect it to improve in 2020 by another gram.

Chris Thompson - PI Financial Corp., Research Division - Head of Mining Research

as far as the blender grades of the mill, what should we be anticipating?

Mark Morcombe

We're talking for this year or for next year?

Chris Thompson - PI Financial Corp., Research Division - Head of Mining Research

Just generally - the sort of steady state run rate, I guess in the near to medium term with Bouere on.

Mark Morcombe

Sort of in the low 2s.

Chris Thompson - PI Financial Corp., Research Division - Head of Mining Research

Just moving on quick, great performance from Agbaou. But just focusing and I'll get on [AISC] here. Nice to see that you guys are on track for the -- for meeting the 5 million tonne per year. Do you anticipate an improvement in grade? Or are you pushing and you continue to push on the tonnes rather than the grade there? Can we anticipate a plus 2 gram sort of mill grade there?

Mark Morcombe

No, with the increased throughput, that will keep the grade lower.

Chris Thompson - PI Financial Corp., Research Division - Head of Mining Research

And then finally at Karma, again nice to see the good grade coming in there from Kao North. When can we anticipate an uptick in those tonnes?

Mark Morcombe

Yes, we are doing some work on the stacker right now, and we are expecting that to be finished in this quarter. So that come 2020, we'll be improving our throughput.

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

Yes. And as you might remember, Chris, for us 2020 is a turning point for Karma in terms of cash flow as we'll be finishing the last CapEx with the stacker, which is about \$24 million this year. And next year is the end of the first high level of Franco-Nevada stream that will allow us to start working on Karma for us rather than just for Franco-Nevada.

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Operator

And the next question comes from the line of Geordie Mark from Haywood Securities.

Geordie Mark - Haywood Securities Inc., Research Division - Co-Head Mining Research

Just a follow on from other questions there. Focusing firstly at Ity, very nicely done through the west. Just trying to get an idea of how you're looking through sort of mining fleet capacity. Now that you coming out of the wet season, you sort of rotating out of ADTs and into other equipment, how that's going to affect ultimately the balance of your mining fleet? And hopefully that should have some reflection on unit costs as well.

Mark Morcombe

Yes. At this point in time, we are still using quite a number of ATDs, and that's also just looking at the kind of activity that we've got on. We've got TSF construction underway and sourcing adequate fresh rock for that. So certainly Q4-Q1, we'll still have quite a number of the ADTs. And obviously, as we get into any fresh rock our ability to use the dump trucks, we'll certainly take that opportunity.

Geordie Mark - Haywood Securities Inc., Research Division - Co-Head Mining Research

In seeing, I mean in terms of broader scale of reconciliation, are those numbers sort of coming in line at the moment? Or is it too early to tell?

Mark Morcombe

It's probably a little bit early to tell, ramping up and also going through wet seasons because the mining is not always as easy in the wet season. So probably, we wait another quarter or so on that.

Geordie Mark - Haywood Securities Inc., Research Division - Co-Head Mining Research

And probably this question to Sebastien, and for the time is there -- obviously, the ramp up through nominal nameplate capacity to 5 million, you're kind of close to there already on an average in Q3. What are you thinking the ability to be able to exceed that going next year? Or should we just say 5 million to be conservative on that basis?

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

I think we should be conservative for the time being. In our ability, I mean to above nameplate capacity. That has just settled, I mean, 1 or 2 quarters, and then it would be able to draw lines on where the effective capacity.

Geordie Mark - Haywood Securities Inc., Research Division - Co-Head Mining Research

And while we're on exceeding capacity design, let's go over to Hounde. It's running at full or well and truly above that, I guess. And that's well above the initial nameplate. With the guidance of obviously 250,000 ounces a year, sort of that's what you want to try and achieve, I mean, are you looking at moderating grade on that? Or are you looking at a combination of invested capital and look at plant expansions to achieve that sort of 10-year objective?



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Mark Morcombe

One of the things with Hounde is we can get the 4 million tonnes when we got a nice blend of oxide and hard rock. And at times, the profile will change and we'll just have hard rock. And when we're in hard, we are sort of down at that 3.6 range. So the 4 is not a given over the life of mine profile.

Mark Morcombe

Yes. And obviously, if we continue to discover high grade deposits like, Kari Pump, which are mainly oxide and it helps to improve the blend, both in terms of throughput and in terms of average grade. So this is where we're expecting to maintain this type of profile over the next 10 years.

Geordie Mark - Haywood Securities Inc., Research Division - Co-Head Mining Research

And in terms of -- maybe adding to the question earlier, in terms of -- and as you've shown, in terms of showing a rotate around assets or organic growth and allocation of capital within your portfolio, obviously you got some assets that are at the start of their lives or rejuvenated and others that are nearing -- the number of years at the end of their mine life is sort of decreasing there. Just thinking about how you go about looking at those assets with few years on their lives, with a few assets there in the portfolio. And what you sort of -- what you do with those? Sell those or close the mine? Just trying to get an idea of asset allocation within their portfolio?

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

I think that's the beauty of mining. It's a never ending story. You need to move from one asset to the next one. And we always said that we have no emotions and string attached to any assets. What we want is those assets to generate the level of cash and returns that we expect. If at some point they're not generating those returns, then it's probably that they are not asset for us to be owned. And we've demonstrated over the last 3 years that ability to sell noncore assets and either acquire, build new assets.

The pleasing thing is to see that our exploration strategy to prepare for the next project is getting traction with now in the portfolio 2 optionalities that we are building with Kalana and Fetekro. This gives us confidence that there is still ways to continue to improve and maintain a quality portfolio for Endeavour going forward. And again, looking at the mine life of Karma and Agbaou, when you look at the Agbaou performance in particular this year, we're very happy to have this asset and very happy with the team over there. And if at some point, someone shows up with the right price, we have a disciplined approach to capital employed. So we'll just look as long as it's the right thing for the company.

Geordie Mark - Haywood Securities Inc., Research Division - Co-Head Mining Research

And maybe just some housekeeping last question on Ity there. In terms of looking at 2020, what do you think the balance of feed is looking to be there or feed supply?

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

Sorry, you meaning for Agbaou?

Geordie Mark - Haywood Securities Inc., Research Division - Co-Head Mining Research

No, no, for Ity. What sources there, just to try and get an idea of where the blend coming from?



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Unidentified Company Representative

So Daapleu is a fairly main contributor to Ity over its life of mine. Bakatouo is going to be there. Ity Flat will have some contribution and then there will be some contribution from low-grade stockpiles.

Unidentified Company Representative

Thanks, Geordie. And just to avoid receiving 25 fun cores about whether we are sellers of Agbaou, the answer is no. Today we are not sellers of Agbaou. In particular, as we see a natural extension for Agbaou with this Fetekro new projects, where there might be a lot of synergies between the end of Agbaou later on and the beginning of Fetekro.

Operator

(Operator Instructions) And the next question comes from the line of Mark Bentley from ShareSoc.

Mark Bentley

Just one quick question relating to Slide 15 of the presentation. You mentioned in there Guinea greenfield exploration. I don't recollect licenses that you have in Guinea. Could you clarify that, please?

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

Sure. Yes, we did announce last year taking some licenses, about 4 licenses, in Guinea. That's in the Siguiri area, not far from the Anglo asset in that region. Last year was more a theoretical analysis on the ground and the prospectively of this area, which I think Pat taken the team were excited about. And, therefore, they are this year starting some preliminary drillings.

Operator

And the next question comes from the line of Justin Chan from Numis Securities.

Justin Chan - Numis Securities Limited, Research Division - Analyst

Just for the aggregator, that's Numis Securities. Just one, it's been sort of a theme this year, especially in the security situation, especially in Burkina, continuing headlines there. Are you noticing any sort of increased difficulties in the operating environment? I know that you've got very good protocols in country and people aren't generally on the roads from your company. But I was just wondering from a directionality perceptive and from a difficulty or ease of operating perspective, is there any trend that we should be aware of and anything you can share on that?

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

Well, thanks I mean for the question. Obviously, it's something that we are monitoring, I would say, nearly on the daily basis for the team here and on the security side. We haven't seen any today to whether at Karma or at Hounde, any implications of those security issues in our ways to operate. And at least nothing has changed or affected because of security our ways to operate at both Karma and Hounde. But on a regular basis, we do reassess. And in particular, we increase from time to time the security protocols around some of our mines and in particular Karma, which is in the north spot of the country that so far we haven't been in a position where we had to take radical decisions. We still feel and I do feel taking that responsibility that our employees are operating in safe area and that we have the right protocol in place to maintain those operations.



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Justin Chan - Numis Securities Limited, Research Division - Analyst

And just or may be a bit of color on that. Is -- and has there been a ramp up in sort of government involvement in some of the outlying areas? And is that responsible for the increase in incidents or I guess is there anymore you can share on that?

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

Well, I think that what is evident is that there has been an increased level of attacks, in particular in the north and the east part of Burkina. Overall, I mean if you look and take a step back on the region, you see that there has been some movements from north of Mali to south of Mali at the border of the 3 countries Mali, Niger and Burkina Faso. But what we see also is an increasing presence which probably explains those different attacks, increasing presence from the G5 Sahel, so the 5 countries from the Sahel, which are within joint forces to tackle the subject. And also increased forces from both the U.S. and France.

Operator

Thank you and there are no further questions at the moment. So please go ahead.

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

Great. Well, thank you very much, operator. And thank you, ladies and gentlemen, again for attending this quarterly results. And I'll meet you again for our next year-end results. Thank you very much and have a good day.

Operator

Thank you so much. That does conclude our conference for today. Thank you for participating. You may all disconnect. Speakers, please continue to standby.

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