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EDV.TO - Q4 2018 Endeavour Mining Corp Earnings Call

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PRESENTATION

Operator

Greetings, and welcome to Endeavour Mining's Full Year and Fourth Quarter 2018 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, good afternoon, everyone. Thank you for joining Endeavour Mining's Full Year 2018 Results Presentation. I'm Sébastien de Montessus, CEO of Endeavour Mining, and it's a pleasure to be talking to you once again. I encourage you to note the disclaimer and notice about forward-looking statements. We will be adopting today the usual format. And here with me are Vincent and Patrick. I will start by talking you through some of the highlights from Q4 as well as the whole year before the team goes into the financials and operations in greater detail. We will then open the call for questions. Here you can see our 4 strategic pillars, and how the company tracked against them over 2018. It has once again been a successful year for Endeavour. As you would have seen from our release, we beat our full year guidance for both production and cost, following a very strong fourth quarter. You will have noted that construction at Ity CIL development is continuing to track 2 months ahead of schedule while remaining on budget. We are in the wet commissioning phase, and we expect to pour first gold in the coming weeks. Our exploration program has also continued to enjoy success. The maiden resource at Houndé's Kari Pump discovery was our most notable exploration achievement in 2018.

In 2019, we look forward to converting this discovery into reserves. In 2018, we continued to actively manage our portfolio, closing the sale of our noncore Tabakoto mine in December. Despite the significant investments made over the past years, our balance sheet remained strong, as we remained well positioned to fund the remaining spend on the Ity CIL project in 2019.

Let me now go through each of our pillars in more detail, starting with the first and operational excellence. I have said before that safety is our first priority, and we continue to have a good safety record on the construction side, which is always a challenge. The team is proud to show that progress at Ity continues with not a single LTI, extending our team's perfect safety track record, following the Agbaou and Houndé builds. While I'm pleased with our record as a group, especially against the industry average, and the LTI is one too many, and so we must and we will continue to treat this as a priority.



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Now turning to our key performance metric. On this graph, you can see that we shaded in our discontinued operation. The team is very proud to have achieved production guidance for the sixth year in a row. Total production increased by 64,000 ounces, due to the benefit of a full year production at Houndé.

Looking ahead at 2019, production from continuing operation is set to increase due to the startup of the Ity CIL project early in the second quarter, with additional growth expected next year due to its full year of production.

As you can see on this one, 2018 also marked the sixth consecutive year of meeting the all-in sustaining cost guidance. All-in sustaining cost continued to trend lower, achieving \$843 per ounce for the year, including Tabakoto and \$744 per ounce for the continued operations. And we expect it will decrease further in 2019 to between \$760 and \$810 per ounce. For me, this trend is a very important metric to measure the success of our strategy laid out in 2016.

By increasing the quality of our portfolio, notably with the addition of our Houndé and Ity CIL flagship assets, we have been able to significantly lower our all-in sustaining cost across the organization as we now produce below \$800 per ounce in line with our objective.

On this next page, we look a bit more closely into the results by mine. You will notice that all of our mines achieved their production targets, with both Houndé and Ity significantly outperforming their guidance.

On the cost side, Houndé, Ity and Agbaou significantly outperformed our guidance, while Karma finished within its guidance, resulting in a strong overall beat for the group.

We will dive into a greater detail by mine later in the presentation. As you can see on this next page, all-in margins from continuing operations have significantly increased, up \$82 million. This is mostly due to the inclusion of Houndé for the full year, higher realized gold price and an increase in gold sold at Ity, which offset the decrease in revenue generated by Agbaou. With Ity coming onboard in the coming weeks, we expect a further significant increase in 2019 and '20. Due to the quick payback periods of both Houndé and Ity, which are around 2 years, at current gold price, we expect to see a significant improvement in our financial flexibility in the short term.

As previously mentioned, project development remained a key focus in 2019, thanks to a great asset by the team, in particular, under Peder Olsen and Shane Budd leadership. We continue to make great progress and are tracking 2 months ahead of schedule at the Ity CIL project.

We are immensely proud of how this project has progressed. Let me briefly highlight a few project milestones now. Over 8 million man-hours have been carried out on the project without an LTI. The overall project completion stands at more than 98%, and we still expect the first gold pour to occur in the coming weeks. We have completed the commissioning of the ball and SAG mill, and in preparation for production, ore was introduced into the process plant with all our tanks filled. On the CapEx side, last year was very capital-intensive, as there is just \$50 million to \$60 million remaining to be spent in 2019.

On this next page, you will see a few pictures. Starting with the top left, you will notice the ball and SAG mills, and below that, an aerial view of the plant. At the top right, you see the power station. We are connected to the grid, but have this backup station as well. The 11kV switch room and 11kV overhead power line have been commissioned, while the 90kV transmission line construction is nearly complete, and the backup power station has been commissioned.

At the bottom right, you'll see the primary crusher with ore feed available on the home pad. Exploration, of course, continues to also be one of our key pillars, and our efforts are paying off. Since our exploration strategy was announced at the end of '16, we have had well-defined priorities for each year, thanks to Patrick, a 5-year strategic plan.

The 2018 exploration program mainly focused on dominating the potential at Endeavour's 2 flagship mines, Houndé and Ity, and on developing Endeavour's organic growth potential at Kalana, Fetekro and other greenfield properties. In 2018, we have committed, in total, \$53.1 million to exploration, and you can see from the chart how the capital has been allocated to various properties.



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As you recall, we presented this slide 3 years ago, laying out our discovery target, both for the group and by asset. Since then, we have been tracking our progress. In gray, you see what has been discovered so far, clearly demonstrating our strong progress towards this objective. In more detail, here, you can see that we are on track to achieving our 5-year target, with 4.2 million ounces already discovered from mid-2016 to 2018. In addition to the discoveries made, the team, in particular, is pleased to -- with the quality of the ounces found. Because our 5-year exploration strategy has been done based on the screening and ranking methodology, we are focused on utilizing our exploration dollars to fund resources that can meet the group's goal of producing below \$800 per ounce. As such, most of our discoveries are above 2 grams per tonne, with half of them being oxide material, the rest fresh material and no sulfide. We are proud to report that our discovery costs remained low at an average of \$13 per ounce. As you can see from this slide, this is 6x lower than the discovery cost incurred by our West African peers, and it supports our view that one of the most effective ways to grow and sustain our business is for the drill bit.

Overall, net of depletion, our M&I resources increased by 0.9 million ounces, thanks to the discoveries made. Due to the time lag between discovery and reserve conversion, our reserve decreased by 0.6 million ounces. However, we expect to add reserves in 2019, as the ounces found are converted to reserves, notably with the Kari Pump discovery at Houndé.

So you've all seen now this magic box graph before, and it continues to remain integral to our business strategy for Endeavour. As a reminder, I want to focus management attention to high-quality assets that have low-cost, long-mine life and generate cash. The bubbles in white represent the noncore discontinued assets. As you can see, we have successfully strengthened the quality of our portfolios through the construction of Houndé and Ity CIL.

I will now pass on to Vincent, who will go through the financials, cash flow and balance sheet.

Vincent Benoit - Endeavour Mining Corporation - Executive VP of Corporate Development & CFO

Thank you, Sébastien. So let me begin on Slide 20 with a breakdown of our production and cost profile over the past year and by individual mine.

As Sébastien mentioned, the fourth quarter was strong compared to the previous quarter, with 174,000 ounces produced versus 139,000 in Q3. Otherwise, Q4 coincides with the end of the rainy season, so this has naturally a positive impact. As it has been explained, company-wide production increased in '18, as we benefited from a full year of output at Houndé, which has produced 277,000 ounces in '18. Ity pit has also significantly contributed to the production increase, with an historical production of 85,000 ounces, thanks to the access to Bakatouou high-grade pit.

At Karma production, it increased as guided despite a lower processed grade, as the plant optimization work done in '17 increased stacking capacity ahead 4 million tonnes. Production at Agbaou has declined as expected, but it has also been constrained by lower grade areas due to a change in the mining sequence.

On Slide 21, I will walk you through the main line items from revenue to all-in margin. Those numbers are only reflecting continuing operation and therefore exclude for both '18 and '17 Tabakoto and Nzema numbers. The top line increased, as I just explained, and I want to note just a couple of other points. The gold price average, as usual, is taken into account the streaming financing for Karma. Without Karma, the gold price average was \$1,268 per ounce. Royalty increased due to the higher realized gold price, representing approximately \$67 per ounce sold for '18 compared to \$59 per ounce in '17. Nonsustaining capital spend increased by \$26 million due to the addition of Houndé and an increase at Agbaou for the waste capitalization of the West pit. Nonsustaining exploration spend increased in line with our exploration strategy. Overall, our all-in margin from continuing operations increased by 80% over the last year.

On Slide 22, you can see the cash flow of the period compared to last year, starting from \$184 million, all-in margin, as I mentioned earlier. As expected, there was working capital cash inflow in Q4, amounting \$79 million, reducing the total outflow to \$10 million for the year. The main components for the full year outflow were: the receivable for the full year '18 is an outflow of \$4.7 million. This '18 outflow primarily related to an increase in VAT receivable at Houndé in line with its ramp up for \$5 million and the recognition for \$9 million of the current portion of the Tabakoto sales receivable.



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Inventories were for the full year an outflow of \$17 million, relating primarily to a build-up of stockpile at Houndé, which totaled \$29 million at year-end. This was offset by a decrease at Ity, where mining operation is winding down as well as Karma where inventory levels are being reduced to optimized level. Prepayments as well for the full year, issuing a \$5 million inflow due to the decrease of prepayments at Houndé and at Ity CIL. Trade and other payables are \$6.5 million inflow for the full year '18. At year-end, there was a \$12 million outflow at Karma due to a change in supplier terms from last year and \$12 million outflow in payable at Agbaou, which was the result of the site having a logistical issue in paying 1 key supplier last year. This was offset against an inflow in trade payable of \$22 million across Ity and Houndé. The changes in long-term inventories relates to a new policy that was adopted by the group and is consistent with IAS 1, whereby strategic spare parts and stockpile material that will not be used or processed within 12 months is treated as noncurrent asset. The outflow in the year represent the build-up of this newly classified item and relates mainly to Houndé but also Ity and Karma stockpiles.

At Note 3, it corresponds mainly to first the interest paid for \$24 million as a result of the debt increase to finance the construction of Ity CIL plant but also to the lease repayment for \$21 million for the year. The \$267 million project capital at Note 4 is comprised mostly of the Ity CIL, as you would expect. And you can see the impact of our convertible issue and debt management in Notes 5 and 6, leaving us with neutral cash inflow for the period.

On Slide 23, the improvement in our overall portfolio quality with Houndé, now on stream, has led to a significant improvement in cash flow from operations from \$1.45 per share this time last year to \$2.43 per share at the end of '18. That represents an improvement of 63% on a year-over-year basis.

Slide 24. You see the change in cash based on more operational cash flow metrics. We started the year with \$123 million of cash, to which operating activities added a further \$251 million. We have invested significantly during the period, amounting to \$453 million, particularly on growth capital, where we have spent \$266 million, but also \$86 million of capital expenditure in ongoing operations and \$49 million in exploration. As you can see, the amount invested into our businesses to improve the portfolio's quality are quite important. These investment efforts would not have been possible without the balance sheet management effort done over the past 2 years.

While our debt position has increased as a result of the CIL project advancing much quicker than forecasted, our balance sheet remains strong and we expect to generate significant free cash flow in '19.

Due to the quick payback period for both Houndé and Ity, we expect to rapidly deleverage ourselves with Ity CIL coming onboard. Our net debt to EBITDA ratio amounts to 2x, which is quite high level for us, but it compares to an EBITDA calculated over the last 12 months, which means without Ity CIL. So as the group EBITDA is going to increase very significantly in '19, with the Ity CIL, the ratio should mathematically decrease by almost 0.5x and the '19 cash flow generation should enable the group to significantly deleverage at the end of '19.

On Page 26, you see again that we are well funded to pursue our additional growth activity. We have \$124 million undrawn with our RCF and \$120 million in cash, amounting to \$244 million in equity resources. In addition, we have our expected inflows from the sale of Tabakoto and Nzema, and of course, cash flow being generated from our operations.

On Slide 27, I give here the net earnings breakdown. So this P&L leads to net earnings from operation of \$70 million for the full year and a loss for discontinued operation of \$155 million, which is a mix between the loss on disposal for \$69 million and the loss, operating loss, in '18 for \$86 million for Tabakoto.

One part important is to notice -- one important thing is to notice that the current income tax expenses have significantly increased from \$10 million in '17 to \$67 million in '18. This important increase is due to the first full year of commercial production for Houndé, which totaled \$4 million for the period. This is also due to an increase of the taxable income at Ity as well as the provision for tax adjustment audit at Ity also. For the one interested, we have given a detailed analysis per mine in the MD&A for the current tax variation. The adjusted net earnings showed profit of \$75 million for '18 compared to \$68 million a year ago. This is \$0.49 per share for the full year '18, and it has reached \$0.15 per share for the fourth quarter '18.

And that's it for me. So now I hand back to Sébastien, who is going to present the performance per mine.



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

Thanks, Vincent. I'm going to take us through quickly our individual mine operations.

Turning to Houndé first. We remain delighted about how the mine is performing. The mine experienced a record quarter in Q4, mainly due to significantly higher grade following the end of the rainy season. We ended the year significantly exceeding full year guidance in terms of production due mainly to both the mining activities and the process plant performing above their nameplate capacities. In terms of all-in sustaining cost, this amounted to \$564 per ounce, well below the guided range of \$580 to \$630 per ounce, due to the outperformance of the operation.

Looking forward, Houndé is expected to produce between 230,000 to 250,000 ounces in 2019, continuing to outperform its feasibility study estimates at an all-in sustaining cost of between \$720 to \$790 per ounce. As you know, we expect to mine the Bouéré deposit in late -- in the second half of 2019. And while throughput is expected to remain above nameplate capacity, the mix will change to mostly fresh ore by the end of the year. Also, in line with our focus on reducing working capital, the grade will decline slightly as we process more ore from lower-grade stockpiles.

Looking ahead, we are excited about the future of Houndé, based on bringing Kari Pump into the mine plant. Reserves are expected to increase in midyear, as the Kari Pump resource is expected to be converted to reserves, following the completion of the ongoing metallurgical tests. By the way, the preliminary results are indicating very good gold recovery rates, similar or better to the Vindaloo deposit currently being mined.

And now I'll hand it to Patrick to walk you through the Houndé exploration.

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

Hi, everybody. So in 2018, our exploration program in Burkina Faso and mostly on Houndé amounted to \$14 million, totaling approximately over 165,000 meter of drilling, and it was indeed the strongest exploration focus for us in 2018. And as you may have noticed and as Sébastien reminded, we had tremendous success, notably in the Kari area, with already 1 million ounces of indicated resources demonstrated on Kari Pump, and this was done from scratch in only 1 year. And also we announced discoveries in Kari West and Kari Center.

So looking ahead to 2019, Houndé will continue to be the priority exploration focus for us, with the total budget that we expect to be up to \$17 million, and we target to drill even more than in 2018 in 2019 because we are targeting around 195,000 meters of drilling. The priority will be to pursue the aggressive exploration of the very larger Kari area anomaly and also to address some other target, like Vindaloo underground, Vindaloo South and also large-scale target at the Grand Espoir.

Séb, back to you.

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

Agbaou. Q4 was a good quarter for Agbaou. Production increased as expected, mainly due to a significant increase in mill grade, following the West extraction efforts over the course of the year, which gave access to higher-grade areas. All-in sustaining cost decreased, mainly due to increased gold sales, which were offset slightly by higher sustaining cost, driven by increased waste capitalization activity. Looking at the full year, as you can see on the waterfall chart on the right, production decreased mainly due to the lower-grade process as the low-grade stockpile feed supplemented the mine feed to allow West cap activity to progress quicker. In addition, mining was constrained to lower-grade areas. All-in sustaining cost amounted to below the guided range, as a portion of the planned waste capitalization was shifted to 2019 and more oxide material was processed compared to the initial plan.

Turning to the 2019 outlook. Agbaou's production is expected to decrease, as the plant's throughput is expected to decline with the oxide ore blend goes from approximately 80% in 2018 to 60%, with the reminder of the feed comprised of fresh and transitional ore. Despite plans to mine higher-grade ore, the average processed grade is expected to remain fairly flat over in 2019, due to the use of lower-grade stockpiles.



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On to you, Patrick, for exploration.

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

In 2018, we spent approximately around \$4 million in exploration in Agbaou area, for a total of exceeding 27,000 meters of drilling. The focus of this exploration was twofold, going on doing some exploration on a few parallel trends to the Agbaou structure, and also concentrating part of the effort on the extension of the existing pit, the North Pit, the West Pit and so on.

In 2019, we plan to go on -- in exploration, with a slightly lower exploration budget, up to \$2 million. We plan also to get along the extension of the targets in the prolongation of the existing pit, which is going to be the main target for 2019.

Séb?

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

Thanks, Patrick. On the Ity Heap Leach side, 2018 was guided to be a transition year for the Heap Leach operation, with greater priority given to the CIL construction activities, particularly in the second half of the year, as the main goal was to stack ore from lower-grade stockpiles. However, Ity's Heap Leach operation performed above expectation, particularly in Q4, as mining was opportunistically conducted based on equipment availability and the good progress made on Ity CIL construction.

As you can see on the next slide, Ity's Heap Leach mine production significantly exceeded the full year guidance, mainly due to the opportunistic mining that was carried out in the second half of the year. The waterfall chart demonstrates the main driver for the increase in production over last year, which was the higher-grade ore which came from the Bakatouo deposit. Before starting the CIL production, mining and stacking activities for the Heap Leach operation ceased in mid-December. Residual gold from the heaps of up to 5,000 ounces is expected to be recovered in Q1 this year.

Patrick?

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

Again, Ity was also just after Houndé, our main exploration focus in 2018, where we spent close to \$9 million for totaling drilling meter, very close from 50,000 meters. The main focus of our exploration was indeed the Le Plaque discovery that was announced earlier on, and for which very little resource was announced, let's say, at the end of the first quarter of 2018, with around 130,000 ounces, both indicated and inferred at a quite significant grade in the range of 2.3 grams per tonne. Actually, we have been working most -- a lot on this area, which is an exploration license contiguous to Ity exploration license that belongs 100% to Endeavour.

Today, the exploration effort is going on. We are quite excited with the result we have. Overall, on the Ity area, today, we have 7 rigs working. Out of them, 4 -- 5 in the Le Plaque area, 4 on the Le Plaque deposit itself and 3 other looking at addressing other target on Le Plaque. We expect to announce an update resource on Le Plaque, let's say, by somewhere sometime end of second quarter 2019.

Séb?

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

Karma now. As guided, production at Karma continued to increase in Q4. Mining activities ramped up following the end of the rainy season, which focused exclusively on mining oxide ore from the Kao pit. In addition, the mill throughput increased as operating conditions improved, with



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increased stacker utilization. Overall, costs have trended lower in 2018. The waterfall chart shows that production increased, thanks to the higher tonnage stacks, which was possible due to the optimization work carried out last year. This more than compensated for the lower-grade stack.

For 2019, Karma production is expected to remain fairly flat, while costs are expected to slightly increase due to the mining transitional ore from the Kao pit.

Patrick, on exploration?

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

On exploration on Karma in 2018, for Q4, it's mostly for -- based on Yabonsgo discovery that was made sometime end of 2018 -- 2017, and we have been delineating this discovery, and we saw 120,000 ounces added to the resource base. We have been also conducting in 2018 some exploration in Rouna target, which proved to be positive and both targets are going to be also pursued in 2019. For 2019, we have an exploration program of up to \$2 million, totaling approximately 27,000 meters. And we aim also to delineate other near-mill oxide targets, mainly focused on testing, the extension of Kao North which still remain open and also along the strike and northern plunge extension of the Yabonsgo I was talking before.

Séb?

Sorry, I go on, on Kalana. Basically, as you may know, I would like to give you some more detail on the Kalana project. Actually, we completed an extensive exploration program in 2018, which has allowed us to rebuild the geological model for the Kalana Main deposit and by using a more conservative approach to incorporate tighter geological control, especially in terms of grade analysis and continuity of mineralization for the high-grade nugget effect, the stacked vein set and the dilution. We believe now that this geological model is much more obvious and accurate than the previous one. This was achieved by drilling additionally, 30,000 meters inside the Kalana deposit, where we were able to confirm and to modify slightly the previous geological model, which now we believe is much more strong and consistent.

A total of 135 veins within 61 vein packages were individually modeled as opposed to the previous approach of applying geostatistics to only 56 grouped vein packages, and thereby provided an upgraded confidence in the vein package/domain boundaries. Mineralized intersection outside of the defined frame -- wireframes, where continuity was not proven, were excluded. So it's more -- much more conservative approach that was applied.

Also, you will note that cut-off grade used was lower from 0.9 grams per tonne in the previous evaluation to 0.5 gram per tonne, which is off-standard in Endeavour and we consider this is more conservative, as it may better represent the mining part of this deposit.

You can see the impact of the grade to right of Slide 41. It decreased actually from 4.14 to 3.7 grams per tonne gold. If we take the equivalent 0.9 gram per tonne cutoff that was used before and according to the standard we use, we then further decrease the grade to 2.69 on the 0.5 cutoff.

On the exploration side, the next step for us while we are much more confident on the Kalana resource and quantity of gold and grade and repartition within the high number of quartz vein is to increase resource

(technical difficulty)

by addressing in 2019 through a total budget of \$4 million, other target located in the vicinity, let's say, less than 6 to 7 kilometers around Kalana and also addressing the first step of exploration of the Fougadian license that is located just immediately to the south of Kalana and that has been granted to us in 2018.



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

Thank you, Patrick. Just coming back on Kalana, I think strategically in terms of next step, we aim to have a feasibility study completed by year-end or Q1 2020. We are lucky enough to now have various projects, both greenfield and existing mine optimizations to compete for capital. Once the study is complete, we will do a capital allocation tradeoff to wait this project versus our other internal projects. We are particularly pleased to achieve this stage, as it demonstrates the maturity that our business has gained over the past 2.5, 3 years. And now talking about other options available to us in the future, Patrick, will you comment on Fetekro?

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

Yes, thank you, Séb. Okay. As you know, we have said before that one of our priorities defined in our strategic plan is to identify areas where we feel the exploration can produce new deposit, that would be possibly a standalone new project. You will hopefully have seen the maiden resource recently announced at Fetekro property in Côte d'Ivoire, which is looking very promising.

This property used to belong to La Mancha and was injected into the Endeavour portfolio in late 2015, along with Ity mine. While we knew that Lafigué target was prospective and before embarking on the larger exploration campaign, we analyzed again all the geology, which highlighted additional nearby target. That's why we focused in 2018 strongly on the Fetekro license and the potential of the Lafigué target along with nearby ones. This gives us the comfort that Fetekro has the potential to become, indeed, possibly a standalone project. So maybe, if possible, we will keep it operation. As such, Fetekro was ranked as a top priority over all our greenfield targets to produce possible standalone operation. And actually, with -- since late 2016, we have been reading over 32,000 meters, mostly focused on the highly prospective Lafigué target.

As you have seen, the Lafigué maiden resource stands today at over 700,000 ounces at a grade of 225. These are indicated 500 plus 220 inferred, including some very high-grade pockets located within the Lafigué deposit.

Endeavour has spent roughly \$6 million on Fetekro since owning it, and this represents a discovery cost of \$12 per ounce, based on all the indicated resource to date or \$8 per ounce, based on indicated plus inferred resource. This discovery cost is in line with our 5 years exploration target of finding at least 10 million ounces of indicated resource at a global cost of less than \$15 per ounce. The initial characteristic of its ore deposit or characteristic and ore body shape shows that it could be amenable to open-pit mining as mineralization starts at surface, while preliminary metallurgical tests work done suggests clearly the potential for high gold recovery rates. And on top of that, there is additional potential upside as delineated resource is based on only 2/3 of the total mineralized area in Lafigué. And today, we are still drilling aggressively the Fetekro target in -- starting late 2018 until end of 2019, we plan to drill approximately 45,000 meters. Today, all the results we have are extremely comforting. We are very excited about the potential of Fetekro, which confirmed that some very high rich pockets and part of the deposit have been confirmed. Today, we are working around-the-clock so to be in a position to update the new resource base on Lafigué deposit, let's say, by same end of Q2 2019.

So I will now hand back to Sébastien.

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

Thank you, Patrick. So to conclude, we've had a strong 2018 performance that we can all be proud of. And I hope we've given you the flavor of the continued success as we hope to enjoy in 2019. Our existing operations performed well and in line with the guidance that we gave you at the start of last year, with production exceeding the top end of fiscal year 2018 guidance and even further growth expected in 2019.

This placed us on solid financial foundation. The CIL project at Ity continues on track and on budget, and we look forward to the first gold pour early in Q2 of next year, while early in Q2, and that's in the coming weeks.

Longer term, our ambitions remain unchanged, and we will press ahead with the delivery of our 5-year exploration strategy. Additional drill results are expected at Houndé and our greenfield at Fetekro, and we look forward to providing you with them.



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Before we take questions, I would like to briefly touch upon our assets to create a sustainable business. You can see here in the slide, the metrics we started within 2015 compared to the goals that we set. On the next slide, we're showing you where we started from. And we're very happy to show you this slide, which demonstrates where we are now and where we can ultimately go over the next 2, 3 years. Overall, we are on track to achieve a strategic objective, based on our project development, exploration and portfolio management efforts that we made.

To conclude, we have invested over \$1 billion into this company, which, in turn, has given us 2 flagship mines, optionality in our project pipeline and demonstrated exploration potential, while maintaining a healthy balance sheet.

Looking ahead, we will soon enter our strong cash flow generation phase with a focus on demonstrating the return on capital employed and looking at capital allocation tradeoffs.

In closing, I would like to thank you all for your time today and specifically also my team for the strong results in 2018. If you have any questions, we would be happy to answer them now.

Operator, over to you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question comes from the line of Dan Rollins.

Dan Rollins - RBC Capital Markets, LLC, Research Division - Head of Global Mining Research and Analyst

Just wondered if you could touch base on just some of the reserve changes that we saw, specifically at Agbaou and Karma. And with Agbaou, we basically see a slight drop in total tonnes, but the grade definitely drops off quite a bit. Could you give a little bit more color what's driving that from a Agbaou effect?

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

Yes, sure, Dan. Peder, you want to comment on this?

Peder Olsen - Endeavour Mining Corporation - Head of Projects

Yes. Agbaou at the moment. The fresh ore depth selectivity is not 100% on what was expected, Dan. So that's probably the leading to loss in dilution at depth. The (inaudible) is also showing greater tonnes at slightly lower grade.

Dan Rollins - RBC Capital Markets, LLC, Research Division - Head of Global Mining Research and Analyst

Okay. And then just at Karma, you see a similar grade, but a decent dropoff in tonne, some of that, obviously, depletion, but anything else going on there?

Peder Olsen - Endeavour Mining Corporation - Head of Projects

Yes, Karma's grades at present are hanging in there. I think the reduction there is just on account of the OpEx having a variance in the original DFS input numbers. So it's primarily attributable to the operations cost.



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Dan Rollins - RBC Capital Markets, LLC, Research Division - Head of Global Mining Research and Analyst

Okay, perfect. And then maybe Sébastien, I was wondering, if you go back to your -- look at your magic box that you put out -- magic box graph you put in this presentation, you basically have Agbaou stagnant. If we go back to the November '18 Investor Day, you had Agbaou basically moving up in mine life with a little bit of higher cost. It now sort of sits right on the threshold of divestment, obviously, you have a couple of good years of free cash flow left in the asset. When do you start to think about potentially divesting of that, as it starts to move outside of the -- sort of those key KPIs that you've put out there for your assets going forward?

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

Good question, Dan. And this is why I like the slides because it allows us to have -- to keep the right view on our different assets and the way our portfolio should evolve. I think that we see good cash flow coming from Agbaou for the next few years. I think we, on our side, with Patrick waiting for some complementary results on the exploration potential, in particular on the parallel trends to see what will be the future of Agbaou. What is clear is that if at some point the mine life continues to reduce and cost continues to go up then there will be a question of divesting or not Agbaou, which is not the case today. And I think that today, we still have some good cash flow expected for the next 2, 3 years and still some interesting drillings to be done on the parallel trend.

Dan Rollins - RBC Capital Markets, LLC, Research Division - Head of Global Mining Research and Analyst

Okay. Perfect. And then again, early stages, but Kari Pump, obviously, some nice grades there, especially in the South rock. How do you start to look about incorporating this into the mine plan? Is this potentially increased throughput or more basically it's the backfill that sort of dropoff in production in a couple of years?

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

A good point, Dan. I think the objective for us would be to bring Kari Pump into reserves by the end of Q2. As I was mentioning, we got the preliminary results on the metallurgical tests, which are very encouraging at similar recoveries than what we have at Vindaloo or even higher. And given that we have higher grade at Kari Pump, the sooner we can put it in the mine plan the better. I think that I did hint on the fact that the prospectivity around Kari Pump is also pushing us to try to understand what could be the throughput for Houndé going forward. And there might be a call at some point if Patrick's team continues to have success there. There might be a call for a potential increase in capacity at Houndé without having to compromise on the mine life. So I think that 2019 for this is going to be very interesting. We're thinking about doing a feasibility study for potentially an expansion of the plant, but more importantly, waiting with a lot of impatience, Patrick's results -- for the results on Kari Pump. You saw that Houndé in the Kari Pump area, in particular, is our biggest exploration budget again this year. I think overall, we did, in less than 18 months, 360,000 meters drilling there between end of '17 and 2018. And this year, we are going to be, again, in the range of 160,000 to 170,000 meters on that area. So depending on the results, we might have a very interesting case for a potential expansion. And this would, as I was mentioning at the end of my presentation, compete potentially with other projects, such as developing Kalana in the short term, given the return on capital employed that we would get on an expansion project.

Dan Rollins - RBC Capital Markets, LLC, Research Division - Head of Global Mining Research and Analyst

Okay, perfect. And then, obviously, just one -- last one for me. On Fetekro, you got a decent start there on the resource. This is being your first greenfield asset, potentially within the company beyond, I guess, the Ity CIL. What type of resource size or endowment tonnes -- sorry, ounces and grade would you be looking forward to say this is a standalone project that could be in Karma mine assuming the economics are there. But just roughly, ballpark, what type of targets are you looking at, at an ounce and grade range for Fetekro here or for new assets going forward?



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

It's a good point and a good question. And I think that's an evolving metrics given that the company is targeting more and more now on bigger assets and better assets. I think that when Endeavour launched Agbaou, it was a bit less than 1 million ounce of reserves at that time. And when you see at what Agbaou has been delivering for the last 4, 5 years, it's impressive. In the case of Fetekro, we said with Patrick the fact that we ideally would like to see above 1 million ounce of indicated resources by year-end to starting there some gram for potential projects going forward. But key metrics will be closer to 2 million ounce and above and above 2 grams per tonne to start to be in the ballpark of the type of projects that we would be looking for and considering.

Dan Rollins - RBC Capital Markets, LLC, Research Division - Head of Global Mining Research and Analyst

Perfect. And good luck on Ity CIL, and appreciate you and your management team sticking to the strategy you laid out. It's nice to see your consistent strategy in the industry.

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

Thank you very much, Dan.

Operator

Your next question comes from the line of Michael Stoner.

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

I've just got a couple of questions, if I may. Just picking up on the discussion on Agbaou. Obviously, you've reduced the spend, exploration spend, for 2019 there. Are you -- is that because the bulk of the work has already been done and some of that work is rolling over into 2019 and still to deliver results? Or is that driven by a kind of cost of discovery decision?

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

I think it's a bit of a mix of both, Michael. And I'm trying to push hard Patrick to spend a bit more on the Agbaou, but at the same time, we have to be also realistic on the exceptional results we are getting at Kari Pump. And given the challenge that we see of a potential expansion at Houndé, this has been a priority. The other one has been the focus on Le Plaque and now Fetekro, which is growing and growing. So I think it's more the fact that Agbaou, in terms of priorities, has been decreasing compared to others -- other targets. I do keep in mind how important the mine life and bringing new resources to Agbaou is important. At the same time, I mean, we have another stronger 4 to 5 years and good visibility for the next 4 years there. So I'm not completely desperate on getting good results with some of those parallel trend targets coming in 2018.

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

Okay. And the on the potential to expand Houndé. Would you only do it if kind of post-expansion, you could still show a plus 10-year mine life? Or would you maybe make that decision kind of ahead of exploration success improving up reserves?

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

I think it's a -- clearly, the objective is if we were doing an expansion is to be able to keep a 10-year-plus mine life. Now between the decision and the commissioning of that expansion, there might be depending on where Patrick stands in terms of final results. There might be anticipation if



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we believe that we are going to be there, but we would do it only if we have strong conviction that we would end up at the end with above 10 years mine life.

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

Okay, perfect. And then one on the financials. There has been some recently lumpy quarterly working capital moves. Other than -- I mean how are you guys thinking about moves through 2019? How much of the working capital for Ity CIL has already been kind of built up in terms of spares and inventory, et cetera? Are you expecting any further major inflows or outflows short term?

Vincent Benoit - *Endeavour Mining Corporation - Executive VP of Corporate Development & CFO*

Yes, Michael, Vincent speaking. Yes, we are expecting to build up the working capital of Ity. There is, in fact, some inventories that have been done for Ity CIL, but it's quite minimal compared to what we are expecting. So you have to keep that in mind that typically we have an outflow of working capital mainly linked with Ity CIL stock. For the rest, we are mainly expecting that Houndé or even Karma will continue and even also Agbaou will continue to use their inventories and stockpile, so that should generate an inflow, so a positive variation of the working capital. So all in all, I can tell you that we are expecting negative outflow. I cannot give you a number, that said, because now we're not giving guidance, but yes, you have to forecast negative working capital also.

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

Okay, perfect. And then just on kind of the change of COO, and kind of strategy around growth. One of the things I wanted to check was, is it just Jeremy departing? Or are kind of -- is the rest of the construction team remaining with the business? And then could we take this as -- I mean you mentioned that you are going to be focusing on free cash flow and returns on capital, et cetera. But could we assume the focus now is going to be on expanding your existing producing assets? And if you were to do M&A more likely to be a producing mine rather than a development project? Is that a fair kind of summary?

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

That's a fair assumption. I think that we've got Peder on the line. I mean, Peder, are you thinking to leave?

Peder Olsen - *Endeavour Mining Corporation - Head of Projects*

No. We have already gone through this.

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

No. So we commented the fact that Jeremy wanted and we had a discussion that as we were approaching the commissioning of Ity, it was the right time for Jeremy to move on and for us to bring a COO that will be highly focused on the operations, as we're moving out from a major phase of construction with Agbaou, Houndé and then Ity, 3 mines in a row. But we've got a great construction team, thanks to Jeremy also, who has trained and grown a very strong team, which is now for the whole Ity construction has been under the leadership of Peder. And I think Peder will be very pleased to demonstrate to the market the quality of what he has just built with Ity with few weeks from pouring the first gold. And as we touch based earlier, there are several projects in the pipeline, including a potential expansion at Houndé or some projects like Kalana, which are still in the pipeline. So we still have a lot for our construction team to be busy for over the next 12, 18 months, while they will be also busy in ensuring that we have a smooth and successful ramp-up at Ity. So still a lot of projects for all of us, but it's fair that the focus going forward, in particular for the next 2 years, is going to demonstrate our ability to generate strong cash flow and really focus on return on capital employed, now that we have those 2 flagships in the portfolio.



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Operator

Your next question comes from the line of Georgie Mark.

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

Great. Just a couple of long questions, I guess, maybe more on a holistic sense, talking on the future of capital allocation growth. Maybe more holistically, what your sort of capital allocation strategy is when you're looking at those 2 principal assets in the portfolio now, given the resource growth that's been enabled by Patrick's team? What are you thinking there in terms of -- what are the interplays that you consider trying to tease more value out of the resources, at Houndé and Ity, plant upgrades versus resource base? Obviously, Ity is your longer operating life, so does that go first versus Houndé? Just trying to get a sense as what you're thinking there and any threshold for investment returns?

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

Thanks, Georgie. I think that on the exploration side, we are committed towards this 5-year strategic plan at \$40 million, \$45 million. And given the recent success, last year was even slightly above \$50 million, and this year, it's going to be again around \$50 million. I think when -- as long as the team is going to discover good ounces at 2 grams per tonne type of grade oxide and for less than \$12, \$13 per tonne per ounce, we will continue, for sure, to invest in this exploration portfolio. I think the big shift in 2019 is the fact that we are going to try to focus on more highly -- high return on capital employed projects. And it's clear that if we continue to have good success at Kari Pump then -- and Houndé expansion would be a very attractive return on capital employed project compared to launching a brand-new construction of a new mine like Kalana. And I think that we want to demonstrate that given the level of net debt we currently have for building those 2 mines, it's important for us to be able now to generate as much cash flows as we can to deleverage the balance sheet and continue to prepare the portfolio for the future.

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

Okay. Great answer. That's a great answer. And maybe moving on to -- for Patrick, perhaps some monisher on the Le Plaque exploration success ongoing, I guess, at Ity. Just trying to get an idea of what deposit style Le Plaque is, in turn what's your evolving interpretation there? And how that relates to Samuel and Daapleu looking at that, and particularly how that affects the metal balance in those deposits because, obviously, it's a bit of an interesting metallurgical recovery characteristics portfolio across those -- that asset base. So?

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

Okay. As far as Le Plaque is concerned, slightly, I would say, it's different from what Ity-type deposit is and Daapleu-type deposit is. As far as we know, we don't have any kind of, let's say, arsenopyrite stuff whatsoever in Le Plaque area. So there is nothing to see -- to compare with Daapleu. Actually, we have 2 types of -- 2 main types of mineralization in Le Plaque. The main one, which carries heavy load of mineralization, is the compact of 2 intrusives: first one being diorite and the second one granodiorite. The mineralization is being proved to follow completely and regionally this compact. So all the system remains open towards Ity and also towards Southwest. What we have seen and we have -- it's too early to mention, but we are very, very excited by -- very, sometime very, very high grade and significant thickness. What we can say is that we are working around-the-clock to try to book as many resources as possible by end of second quarter and also at the same time trying to develop additional target that we discover, let's say, to the southeast of Le Plaque, which are much more like shale zone within the granodiorite, parallel one. And also in this area, we have been working a lot to build new platform for drilling in the flat area, close by (inaudible). So you know in the -- overall, big, larger Le Plaque area is just a beginning. So first, we are very excited, and secondly, hopefully, you will see some good numbers, let's say, in a few months from now.

Operator

(Operator Instructions) And your final question at the moment comes from the line of Mark Bentley.

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Michael Bentley

I have some observations and question. So the observations are, I observed that some of the exploration results are indicating that your targets may have resources at debt. The company has so far performed well with open-pit mining, but the only underground mining you've conducted was at Tabakoto and financially, that wasn't very successful. This makes me wonder whether the company requires more expertise in underground mining. My question is, is that something the board is considering? And what is the board's view on that issue?

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

Thanks. A very fair question. And I think the board has insisted rightly that we should more often do some in-depth drilling, more depth drilling, to see the type of resource that we have on the current deposits which we are starting to do. And Patrick in particular, has been looking at Daapleu at Ity and looking also at Agbaou deep. So there are a few areas that we are investigating. In terms of competences, I'm proud to say that that's part also the reasons why we -- I decided to bring on board Mark Morcombe, who has also a strong experience in underground mine operations. As you might recall, he was -- before being at Gold Fields, he was also the CEO of Acacia, who had big underground mines. And just previously, he's just ending his COO role at Centamin, which has also large open-pit and high-grade underground operations. So fair question, and this is why the profile of Mark Morcombe was also picked up for heading our operations going forward.

Operator

Thank you. There are no further questions at this time. Please continue. We still have no Q&A anymore. Please continue, gentlemen, with your call.

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

Thank you very much. Well, on that basis, I'd like to thank you all for attending this year-end results. 2019 is definitely going to be an exciting year, both for the industry, given what's happening but also for Endeavour with the commissioning of Ity and also with the anticipated results of further drillings of Kari Pump and Fetekro.

So on that note, please have all our thanks for supporting our company. Thanks to our management team for all the efforts in 2018, and wishing you all a very good day. Thank you very much.

Operator

Thank you, ladies and gentlemen. That does conclude our conference for today. Thank you for participating. You may all disconnect. Speakers, please standby.

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