

September 27, 2010

## Endeavour Silver Corp. (EDR—T, \$4.16)

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**Rating: SECTOR PERFORM; 12-Month Target: \$4.30; Risk: SPECULATIVE**

### Event: Endeavour Announces Cash Offer to Acquire Cream Minerals for \$13.6 M

**Impact – Positive – Neutral to our valuation**

- **Cream Minerals Ltd. (CMA-V; NOT RATED)** – Cream Minerals Ltd.'s primary asset is its wholly-owned Nuevo Milenio Silver-Gold Project located in Nayarit State, Mexico – host to a NI 43-101 Inferred Resource of 52.2 million ounces of silver and 375 thousand ounces of gold (see Figure 2). Cream also holds a portfolio of exploration-stage projects throughout Canada: the Wine nickel-copper property in Manitoba and the Kaslo silver and Goldsmith gold properties in British Columbia.
- **Endeavour's Offer** – Endeavour is offering Cream shareholders \$0.12 cash per share, representing a 60% premium to the company's \$0.075 pre-halt share price. The value of the transaction is estimated at \$13.6 million (based on outstanding shares and in-the-money options and warrants as of August 27, 2010) exclusive of approximately \$2.0 million in outstanding debts. Endeavour will be hosting a conference call on Tuesday, September 28<sup>th</sup>, 2010 to discuss the details of the offer at (604) 638-5340 (toll-free 1-800-319-4610). Complete details of the offer will be mailed to Cream shareholders and posted on SEDAR next week.
- **Debt Free with \$21 million in Cash** – Endeavour recently announced the conversion of all outstanding convertible debt (see [September 16<sup>th</sup>, 2010 Radar Flash](#)), of approximately \$7.9 million, leaving the Company debt-free and with US\$21.4 million in cash and equivalents as of June 30<sup>th</sup>. The Company also recently acquired three new mining properties in the San Pedro area of the Guanacevi silver district in Durango State, Mexico.
- **On track for +3Moz silver for 2010** – The Company anticipates total production of 3.1 million ounces of silver and 15,000 ounces of gold at an average cash cost of US\$5.50 per ounce for 2010. This compares with Haywood's estimate of 3.3 million ounces of silver and 15,500 ounces of gold at cash costs of US\$6.47 per ounce – higher than guidance but consistent with operating performance delivered year-to-date. In 2009, Endeavour produced 2.6 million ounces of silver and 13,298 ounces of gold at a cash cost of US\$6.04.

**Implications:** While the details of the offer are preliminary, the offer is hostile and has not received CMA board approval. A first glance assessment of the Nuevo Milenio exploration project looks promising for EDR shareholders at \$0.26 per silver-equivalent ounce (based on 58.5 Moz Ag-Eq – see table). More details are to follow with the scheduled conference call tomorrow and the filing of a bid circular next week.

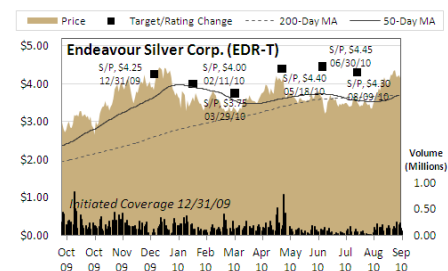
**Valuation:** Our target price is derived from an 8.5x multiple of average 2011/12 CF of US\$0.49. The Company currently trades at an 8.5x average 2011/2012 OCF. Peers currently between 6.4x to 22.0x (12.1x average) average 2011/2012 OCF.

**Target Price** **\$4.30**  
**Current Price** **\$4.16**  
**Return (incl. dist'n)** **3%**  
**YTD Performance** **9%**  
**Dividend / Yield** **N/A**

**Risk Profile:**  
**Forecast Risk** **High**  
**Financial Risk** **Low-Moderate**  
**Valuation Risk** **Low-Moderate**  
**Political Risk** **Moderate**

**52-Week High / Low** **\$4.57 / \$2.62**  
**Shares O/S** **64.1 million (basic)**  
**81.0 million (F/D)**  
**Market Capitalization** **\$267 million**  
**Cash** **\$21.9 million**  
**Debt** **\$0 million**  
**Working Capital** **\$52.2 million**  
**Enterprise Value** **\$244.9 million**  
**Daily Volume**  
**(3 mo avg)** **100,570**  
**Currency** **C\$ unless noted**  
**Company Web Site** **[www.edrsilver.com](http://www.edrsilver.com)**  
**CEO** **Bradford Cooke**

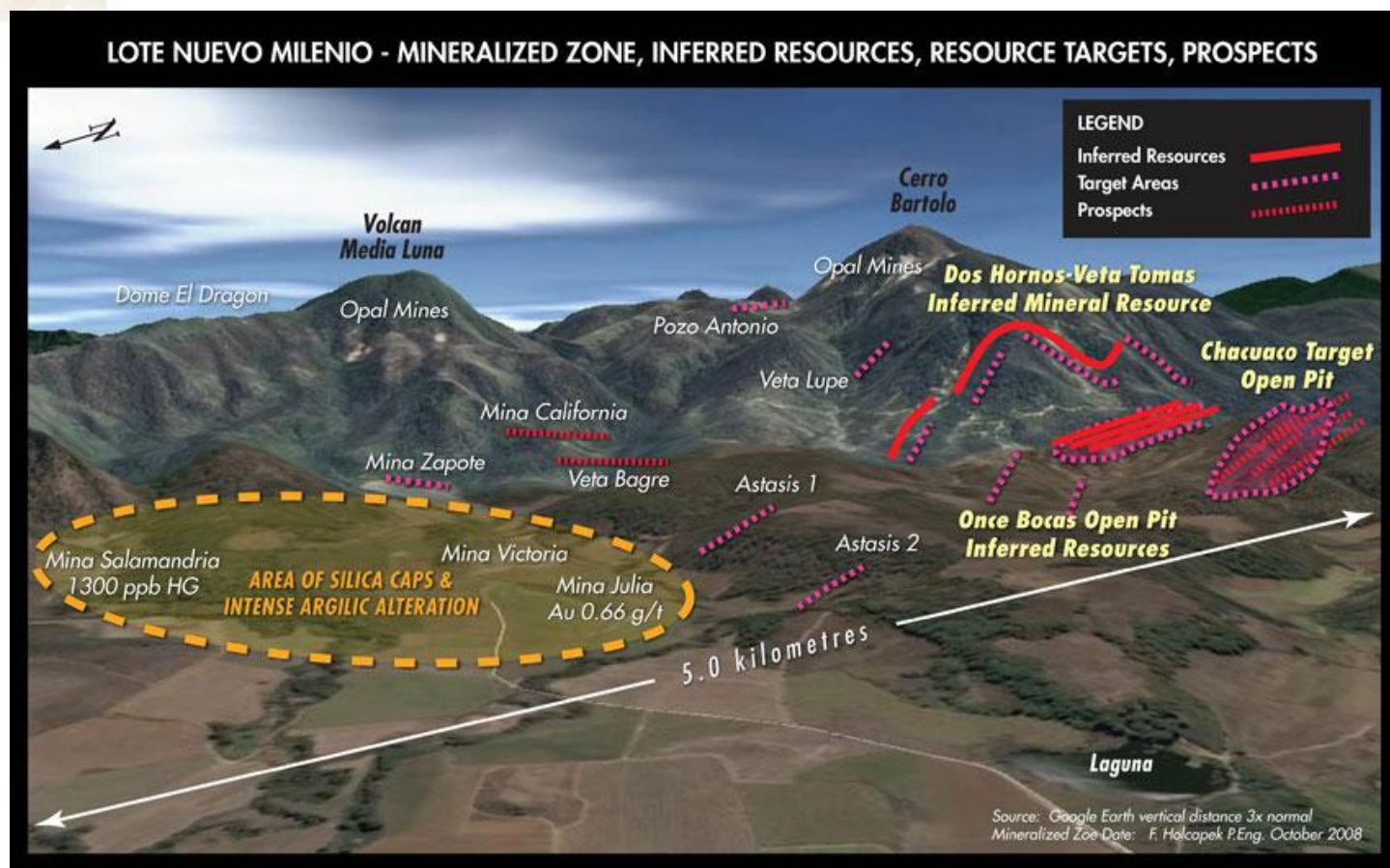
#### Price Performance



Source: Capital IQ & Haywood Securities


Last Research: August 9<sup>th</sup>, 2010

Nuevo Milenio Project, Nayarit State, Mexico



Source: Cream Minerals Ltd

### Nuevo Milenio Project Resources

Zone	Width m	Tonnes	Au g/t	Ag g/t	Au oz	Ag oz	Ag-Eq oz
Dos Hornos (U/G)							
Dos Hornos Segment 1	4.7	1,173,902	1.57	174	59,400	6,552,239	10,370,810
Dos Hornos Segment 2	4.06	746,528	1.77	202	42,390	4,847,216	7,572,303
Veta Tomas	5.09	1,246,163	1.28	351	51,344	14,070,467	17,371,164
Once Bocas	2.42	1,921,163	1.92	253	118,348	15,602,013	23,210,085
<b>Total</b>		<b>5,087,755</b>	<b>1.92</b>	<b>253</b>	<b>271,482</b>	<b>41,071,935</b>	<b>58,524,363</b>

\* December 2008 estimate based on 120 g/t to 150 g/t silver cut-off

\*\* Ag-Eq grade based on Haywood's LT prices of US\$14/oz Ag and US\$900/oz Au

Source: Cream Minerals Ltd

# Endeavour Silver Corp.

TSX:EDR

Shares O/S (M) 64.1

Price \$4.16

MCap (C\$) (M) \$267

Rating: SECTOR PERFORM

Target: \$4.30 Return: 3%

Endeavour Silver is an emerging silver/gold miner with two producing assets—the Guanacavi and Guanajuato mines in Mexico, and a prospective Mexican exploration portfolio. Production growth is anticipated through operational upgrades at both mines – longevity is dependant on exploration and resource growth in Mexico.

## Investment Highlights

- Turnaround expertise. Demonstrates ability to acquire under-capitalized & under-explored Mexican silver assets, improve operating efficiencies and mine lives.
- A high Beta (β) and leverage to silver & gold.
- US\$21.4 M in cash, unhedged and effectively debt free. 100% unhedged and practically debt free (US\$7.9M convertible and redeemable debt).
- Fully funded silver/gold production growth potential. 3.3 M oz Ag production plus gold in 2010 (at a cash cost of US\$6.48 / oz after gold credits) to 4.0 M oz Ag plus gold in 2011 (at a cash cost of US\$6.61 / oz after gold credits).
- Under explored and untapped silver/gold production potential. Two mines starved by limited exploration - organic growth potential through aggressive exploration programs (CAPEX + Explr budget: US\$29.6 million in 2010 alone).
- Recently announced an offer to acquire Cream Minerals Ltd (CMA-V) for its Nuevo Milenio exploration property in Nayarit State, Mexico.

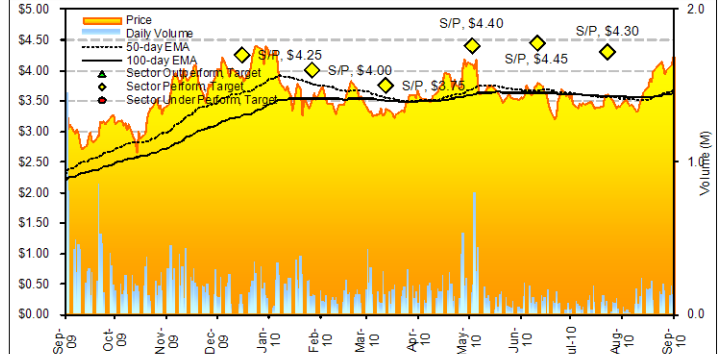
## Operations:

- Guanacavi: Upgrading capacity to a 1,200 tpd ext rate in 2011. Ore supplied from the Poverin North and Poverin Dos mine, with Santa Cruz supplementing production in H2/10.
- Guanajuato: Mining from the Cebada (Cebada vein) and Bolañitos mines (Lucero & Bolañitos veins).

## Catalysts:

- (1) Strong cash flow,
- (2) expansion at Guanacavi - Santa Cruz & Poverin Cuatro mines,
- (3) Resource growth at Guanacavi & Guanajuato growth through strategic acquisitions & exploration programs.

## Endeavour Silver Corp. Chart



## Financials

	2009	2010E	2011E	2012E	2013E	2014E
<b>Commodity &amp; Exchange Rate Forecasts</b>						
Forecast Gold Price, US\$/oz		\$1,200	\$1,250	\$1,150	\$1,050	\$900
Forecast Silver Price, US\$/oz		\$18.50	\$19.25	\$17.75	\$16.15	\$14.00
Forecast Lead Price, US\$/lb		\$0.90	\$1.00	\$1.10	\$1.00	\$0.95
Forecast Zinc Price, US\$/lb		\$0.95	\$1.05	\$1.10	\$1.05	\$1.00
Forecast Nickel Price, US\$/lb		\$10.00	\$12.00	\$10.00	\$9.00	\$8.50
C\$/US\$ FX Rate		1.03	1.03	1.06	1.08	1.06

## Income Statement

Net Revenue, \$M	50.8	78.0	95.9	98.3	88.6	76.7
Cost of Sales, \$M	(29.5)	(37.9)	(42.3)	(47.5)	(46.6)	(46.5)
Depreciation, \$M	(11.3)	(13.6)	(15.7)	(15.5)	(15.9)	(18.1)
Exploration, \$M	(2.4)	(5.6)	(1.0)	(1.0)	(1.0)	(1.0)
G&A, \$M	(4.4)	(5.0)	(5.2)	(5.2)	(5.2)	(5.2)
Interest, \$M	0.5	0.1	(0.0)	-	-	-
Stock Based Comp, \$M	(1.8)	(4.6)	(4.5)	(4.5)	(4.5)	(4.5)
Tax, \$M	(4.1)	(8.0)	(11.7)	(11.0)	(8.1)	(3.8)
Net Income, \$M	(1.9)	2.3	15.4	13.7	7.3	(2.3)

## Balance Sheet

Cash \$M	26.7	14.7	39.5	62.8	80.8	95.8
Long-term Debt, \$M	10.3	0.2	-	-	-	-

## Cash Flow

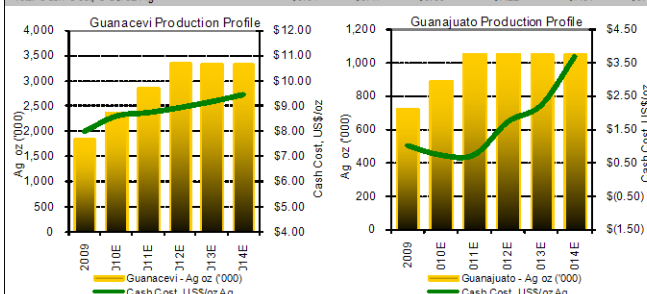
Op. CF (before W/C), \$M	15.3	24.5	35.6	33.7	27.7	20.3
Financing CF, \$M	30.0	1.2	(0.0)	-	-	-
Investing CF, \$M	(19.1)	(29.7)	(10.6)	(10.4)	(9.8)	(5.3)
Free CF, \$M	(4.8)	(13.3)	25.0	23.3	18.0	15.0
Free CF per share	(0.11)	(0.21)	0.36	0.32	0.24	0.18
EPS	(0.04)	0.03	0.21	0.19	0.10	(0.03)
P/E	NMF	123.1x	19.5x	22.5x	43.6x	NMF
Target Price/EPS	NMF	127.3x	20.2x	23.2x	45.1x	NMF
CF/FFOPS	\$0.27	\$0.38	\$0.51	\$0.46	\$0.37	\$0.25
P/CF/FFOPS	15.4x	10.9x	8.1x	9.1x	11.3x	16.9x
Target Price/CF/FFOPS	15.9x	11.3x	8.4x	9.4x	11.7x	17.5x

\* All figures presented in US dollars unless noted

Spot Exchange Rate (C\$/US\$): 1.03

## Production Profile

	2009	2010E	2011E	2012E	2013E	2014E
Guanacavi - Au oz ('000)	4.9	5.3	5.7	6.7	6.2	6.2
Guanacavi - Ag oz ('000)	1,870	2,396	2,872	3,371	3,346	3,345
Guanacavi - Ag-Eq oz ('000)	-	2,737	3,242	3,804	3,749	3,744
Cash Cost, US\$/oz Ag	\$7.99	\$8.61	\$8.74	\$8.94	\$9.18	\$9.46
Guanajuato - Au oz ('000)	8.4	10.2	10.5	10.5	10.5	10.5
Guanajuato - Ag oz ('000)	728	890	1,058	1,058	1,058	1,059
Guanajuato - Ag-Eq oz ('000)	-	1,554	1,738	1,736	1,738	1,734
Cash Cost, US\$/oz Ag	\$1.01	\$0.73	\$0.74	\$1.73	\$2.22	\$3.68
Company Total - Au oz ('000)	13.3	15.5	16.2	17.2	16.7	16.7
Company Total - Ag oz ('000)	2,599	3,286	3,931	4,429	4,404	4,405
Company Total - Ag-Eq oz ('000)	-	4,291	4,980	5,540	5,488	5,477
Total Cash Cost, US\$/oz Ag	\$6.04	\$6.47	\$6.99	\$7.22	\$7.51	\$8.07



## Trading Statistics (C\$); Capital Structure

52 Week High/Low	\$4.57 / \$2.62	Average Daily Vol (M)	0.18	
<b>Ownership (M)</b>				
Shares O/S, M	% O/S	Major Shareholder (%)		
Institutional	11.58	18%	Royce & Associates, LLC 3%	
Management & Insiders	1.53	2%	Van Eck Associates Corporation 2%	
			AGF Management Ltd. 2%	
<b>Last Financing</b>				
26-Oct-09	\$3.9 million	Private placement	1.3M units @ \$3 incl. 0.5 warr @ \$3.60	
Shares O/S - Basic, F.D.	64.1		81.0	
<b>(C\$) (M)</b>				
	Av Strike	Basic	ITM	Proceeds
Cash & Equiv				\$22
Options	\$1.84 - \$4.89	5.94	5.90	\$16
Warrants	\$1.51 - \$3.6	10.88	10.88	\$27
Total Cash & ITM		16.82	16.78	\$65
Market Cap				\$267

## Corporate NAV Summary

Per Share	Interest	NAV10% CSM	C\$/share	NAV8% CSM	C\$/share	NAV6% CSM	C\$/share
<b>Project NAV</b>							
Guanajuato	100%	41	\$0.52	43	\$0.54	45	\$0.56
Guanacavi	100%	81	\$0.97	87	\$1.04	94	\$1.12
Project NAV		122	\$1.49	130	\$1.58	139	\$1.68
Corporate Adjustments		(29)	(\$0.36)	(31)	(\$0.39)	(33)	(\$0.42)
Cash and equivalents *		15	\$0.22	15	\$0.22	15	\$0.22
ITM Cash *		45	\$0.22	45	\$0.22	45	\$0.22
Debt *		0	\$0.00	0	\$0.00	0	\$0.00
Corporate NAV (excl ITM Cash)		(14)	(\$0.15)	(16)	(\$0.17)	(18)	(\$0.20)
Corp + Proj NAV	1.00x	109	\$1.35	115	\$1.41	121	\$1.48

\* Based on 2010 exit shares outstanding 68 M

## Peer Group Comparables (Haywood Securities estimates)

Company	Ticker	Close	Project	Corp. Adj.	Total	P/PNAV	Discount
Alamos Gold Inc.	TSX:AGI	C\$16.91	C\$10.96	C\$1.10	C\$12.06	1.5x	3%
Senab, Inc.	TSX:SMF	C\$9.28	C\$3.00	C\$0.30	C\$3.30	3.1x	3% - 15%
CGA Mining Limited	TSX:CGA	C\$2.83	C\$2.25	C\$0.00	C\$2.25	1.3x	3%
Andean Resources Ltd.	TSX:AND	C\$6.31	C\$3.36	C\$0.14	C\$3.50	1.9x	3%
Detour Gold Corporation	TSX:DGC	C\$29.13	C\$16.41	C\$3.55	C\$19.97	1.8x	5%
Endeavour Silver Corp.	TSX:EDR	C\$4.16	C\$1.58	(C\$0.17)	C\$1.41	2.6x	8%

## Metal Inventory - Model Mineable, Reserve, and Resource

Modelled Reserves & Resources	Ownership	Tonnes (M)	Au (g/t)	Ag (g/t)	Au (Moz)	Ag (Moz)	
Guanajuato	100%	1.07	2.03	207	0.07	7.1	
Guanacavi	100%	3.51	0.59	346	0.07	39.1	
Total		4.58	0.93	314	0.14	46.2	
Reserve & Resource Inventory	Ownership	Tonnes (M)	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)	Cu (%)
Guanajuato	100%	2.03	1.99	209	0.09%	0.09%	
Guanacavi	100%	4.92	0.48	275	0.36%	0.36%	
El Cometa (Paral)	100%	1.46	1.46	54	3.11%	3.11%	0.22%
Total		8.40					

## Corporate Contact

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Source: Haywood Securities, Bloomberg, Capital IQ, Company Reports





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	TSX:AND	Andean Resources Limited			X	X		X		
	TSX:CGA	CGA Mining Ltd.			X	X				
	TSX:DGC	Detour Gold Corporation			X	X				
	TSX:EDR	Endeavour Silver Corp.			X		X			
	TSX:SMF	SEMAFO Inc.			X	X				
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## Risk Profile Parameters – Mining and Minerals Sector

**Forecast Risk:** High – Haywood forecasts are below guidance. The Company has a history of missing targets and/or Haywood expects guidance to be lowered. Limited hedging increases commodity leverage. Forecasts reflect higher commodity prices or production relative to guidance. Moderate – Haywood forecasts are generally in line with guidance. The Company has a history of meeting or exceeding guidance. Forecasts are consistent with current commodity pricing and production guidance. Hedging is in line with peers. Low – Haywood forecasts exceed guidance. The Company has a history of meeting or exceeding guidance. Forecasts allow for modestly lower commodity pricing or production levels. Commodity hedging lowers volatility relative to peers.

**Financial Risk:** High – The business plan is not fully funded, but requires debt and/or equity financing. The exploration program is funded for two years or less. This categorization does not predict whether the additional funds will be raised. Moderate – The development plan is fully funded, with the exploration program funded for three years or more. The Company's debt is rated below investment grade. Low – The Company is fully funded. Its debt is rated investment grade and/or the Company has a history of profitability or dividend payments in each of the last three years.

**Valuation Risk:** High – The current valuation is at the high end of historic levels and/or at a premium to peers. The valuation reflects considerable exploration success and/or commodity appreciation. Where applicable, the current capitalization exceeds the DCF evaluation by more than 50%. Moderate – The current valuation is within historic ranges and generally consistent with peers. The valuation reflects reasonable exploration success and/or commodity appreciation. Where applicable, the current capitalization exceeds the DCF valuation by 15% to 50%. Low – The current valuation is at the low end of historic ranges and at a discount to peer valuations. The valuation reflects limited new exploration success and no



commodity appreciation. Where applicable, the current capitalization exceeds the DCF valuation by less than 15% or falls below the current market value.

**Political Risk:** High – Currently no industry activity or infrastructure exists. Government opposition is significant. Obtaining permits is challenging. Moderate – Industry activity or infrastructure is minimal. Government at national, regional, and local levels is indifferent. Obtaining permits is relatively straightforward. Low – Industry activity and infrastructure exist. Government is supportive. Obtaining permits is facilitated.

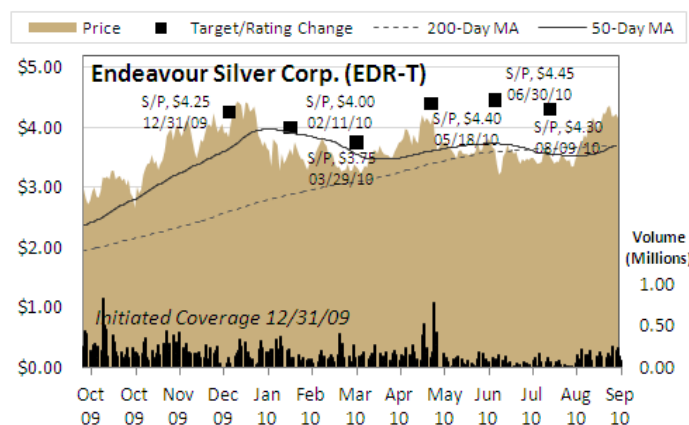
## Distribution of Ratings (as of September 27, 2010)

Haywood's current rating structure (outlined above) does not correlate to the 3-tiered BUY, HOLD, SELL structure required by the FINRA. Our ratings of Sector Outperform, Sector Perform and Sector Underperform most closely correspond to Buy, Hold/Neutral and Sell respectively however, as described above, our assigned ratings take into account the relevant sector.

	Distribution of Ratings		IB Clients (TTM)
	%	#	
<b>S/O</b>	53.0%	80	76.9%
<b>S/P</b>	4.0%	6	11.5%
<b>S/U</b>	1.3%	2	0.0%
<b>T</b>	2.6%	4	3.8%
<b>UR (S/O)</b>	6.0%	9	3.8%
<b>UR (S/P)</b>	3.3%	5	0.0%
<b>UR (S/U)</b>	0.7%	1	0.0%
<b>dropped (TTM)</b>	29.1%	44	3.8%

## Price Chart, Rating and Price Target History (as of September 27, 2010)

Haywood's current rating structure (outlined above) does not correlate to the 3-tiered BUY, HOLD, SELL structure required by the FINRA. Our ratings of Sector Outperform, Sector Perform and Sector Underperform most closely correspond to Buy, Hold/Neutral and Sell respectively however, as described above, our assigned ratings take into account the relevant sector.



S/O: Sector Outperform; S/P: Sector Perform; S/U: Sector Underperform; T: Tender; U/R: Under Review  
Source: Capital IQ and Haywood Securities