

## Highlights Q2/2011

- Revenues Q2 KSEK 39 188 (-) and H1 KSEK 64 909 (-)
- Operating result Q2 KSEK -11 509 (-50 624) and H1 KSEK -15 684 (-55 687)
- Profits after tax Q2 KSEK -6 200 (-53 114) and H1 KSEK -11 675 (-61 687)
- Earnings per share Q2 SEK -0.08 (-0.72) and H1 SEK -0.07 (-0.84)
- First loan repayment, MSEK 7.6, made on the bank loan financing the Pampalo Gold Mine.
- Production progressed according to schedule during the quarter, and the plant is now operating at its planned capacity.

## Subsequent events

- A cave-in occurred on July 28<sup>th</sup> in the high-grade southern ore body. This will have a limited effect on short-term production tonnage as production will be increased in other areas of the mine.
- Endomines maintains its gold production target of 550-600 kg (17 700–19 300 oz) for 2011.
- A recent revision of the Karelian Gold Line production plan resulted in a lowering of the production target of 900-1000 kg gold per annum by approximately 10%, to 800-900 kg gold per annum.
- The Board of Endomines has taken the decision to carry out a feasibility study on increasing processing capacity at Pampalo in order to achieve higher gold production levels

## Key financial figures

Results Q2 vs Q1 2011	Q2	Q1	H1
KSEK	2 011	2 011	2 011
Revenues	39 188	25 721	64 909
EBITDA	-4 214	-1 727	-5 941
EBIT	-11 509	-4 175	-15 684
Profit before tax	-8 753	-6 414	-15 167
Net result	-6 200	-5 475	-11 675
Earnings per share	-0,08	-0,07	-0,15
Cash flow before financing	14 729	-31 283	-16 554

Results 2011 vs 2010	Q2	Q2	H1	H1
KSEK	2 011	2 010	2 011	2 010
Revenues	39 188	–	64 909	–
Operating cost	-50 697	-50 624	-80 593	-55 987
<b>EBIT</b>	<b>-11 509</b>	<b>-50 624</b>	<b>-15 684</b>	<b>-55 987</b>
Net finance cost	2 756	-3 465	517	-7 152
<b>Profit before tax</b>	<b>-8 753</b>	<b>-54 089</b>	<b>-15 167</b>	<b>-63 139</b>
<b>Total cash flow for the period</b>	<b>14 729</b>	<b>-52 995</b>	<b>-16 554</b>	<b>-96 006</b>

Cash at end of June 2011 and end of December 2010

41 594 65 733

## Business Area Pampalo Gold Mine

Pampalo Gold Mine	Q2	Q2	H1	H1
KSEK	2 011	2 010	2 011	2 010
Revenues	39 464	–	65 307	–
Operating Result	6 010	–	6 215	–
Investments	291	–	1 595	–

### Key production indicators<sup>1</sup>:

	Q1/2011	Q2/2011	Jan-Jun 2011
Tonnes mined	25 382	<b>44 050</b>	69 432
Tonned processed	35 797	<b>53 169</b>	88 966
Head grade (Au g/t)	3.5	<b>3.1</b>	3.3
Hourly utilization	63.4	<b>90.5</b>	88.2
Recovery (%)	83.8	<b>87.0</b>	85.2
Gold produced (kg)	105.4	<b>144.7</b>	250.1
Gold produced (oz)	3 390	<b>4 651</b>	8 040
LTIFR (12 month rolling)	39.7	<b>50.0</b>	50.0

Production progressed according to schedule during the quarter, and the plant is now operating at its planned capacity.

There was one Lost Time Injury during the quarter, resulting in one day of sick leave. The number of personnel at the Pampalo Gold Mine at the end of the reporting period was 55 own, 25 contractor employees and 10 short-term seasonal substitutes.

The Cash cost<sup>2</sup> for the period Q2 was 919 USD/oz and for H1 2011, 1 006 USD/oz. For Q1, the cash cost was 1 136 USD/oz. During the ramp-up period, the cash cost for the Pampalo Gold Mine will remain over the planned long-term cash cost level.

Underground mine production suffered from a lower than expected gold grade due to excess waste rock dilution in late May-June. The excess waste rock dilution, combined with a necessary guarantee repair on the 45-kV power line, scheduled for August, resulted in Endomines lowering its gold production guidance for 2011 to 550-600 kg (17 700-19 300 oz) on July 6<sup>th</sup>.

<sup>1</sup>Production figures are final and based on the assay exchange procedure between Boliden Harjavalta Oy and Endomines Oy, Pampalo Gold Mine.

<sup>2</sup>Endomines calculates "Cash cost" per ounce figures using the guidance issued by The Gold Institute Production Cost Standard. Direct mining, ore processing and site administration, and off-site smelting and refining costs are included in the "Cash cost" calculation, but amortization, stock change, reclamation, capital and exploration costs are excluded. The "Cash cost" is calculated per payable ounces. The "Cash cost" figure is given to provide additional information and is a non-IFRS measure. Conversion from EUR to USD is made by using the average exchange rate for the period, of 1.44, and 1.40 for H1 2011.

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Following the Q2 reporting period, a cave-in occurred on July 28<sup>th</sup> in the high-grade southern ore body. This stope was scheduled to be in production in late September. The incident incurred no injuries to personnel, but destroyed a recently acquired cable bolt rig. The rig is fully insured and will be replaced. Pending delivery of the replacement rig, Endomines will be using outside contractors.

The cave-in incident will have a limited effect on production tonnage during 2011, as the ore planned to be mined from the cave-in area will be replaced by increased production from other areas of the mine and the ore stock pile. Endomines maintains its gold production target for 2011 as per the press release issued on July 6<sup>th</sup>, 2011, of 550-600 kg (17 700-19 300 oz).

The company has engaged leading independent mining consultants, Golder Associates (UK) Ltd, to conduct a full review of the incident and current mining principles in the affected area and on how best to secure safe and feasible mining of this ore body going forward.

The planned power line repair took seven days in August, and included changes of approximately 20 power line crossbars and a few pylons which had been deemed to be too weak for long-time usage in the line corners. This was a guarantee repair for which the suppliers carry the full cost.

## Business Area Gold Exploration

Gold Exploration	<u>Q2</u>	<u>Q2</u>	<u>H1</u>	<u>H1</u>
KSEK	2 011	2 010	2 011	2 010
Revenues	–	–	–	–
Operating Result	-592	–	-619	–
Investments	2 669	–	3 238	–

Airborne low-altitude geophysical survey and exploration drilling commenced in May-June, as scheduled. During the period, exploration drilling has concentrated on areas in the vicinity of the Pampalo Gold Mine. A total of some 1 405 meters of the planned 9 000 meter campaign for the year 2011 have been drilled. A surface diamond drilling campaign was carried out north of the northern ore body in June. A total of 9 holes were drilled to investigate the continuation of a mineralized zone (9.5 m along the core grading 4.6 g/t gold) intersected by a hole drilled in the 1990's. Some visible gold was observed in the drill-cores from holes underneath the old intersection, but assay results are pending.

Endomines initiated a regional Environmental Impact Assessment process over the Karelian Gold Line deposits. The work was contracted out to Linnunmaa Oy. The program is a preparatory step prior to seeking environmental permits for the Karelian Gold Line satellite deposits.

In addition, Endomines submitted 53 new claim applications on the Karelian Gold Line and 9 claim applications at Kivimaa during June, prior to the new mining legislation in Finland becoming effective as of July 1<sup>st</sup>.

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## Business Area Industrial Minerals

Industrial Minerals	<u>Q2</u>	<u>Q2</u>	<u>H1</u>	<u>H1</u>
KSEK	2 011	2 010	2 011	2 010
Revenues	–	–	–	–
Operating Result	-103	–	-185	–
Investments	–	–	–	–

Endomines continued to work on strategic alternatives for its Industrial Minerals assets.

## Corporate

Cash flow	<u>Q2</u>	<u>Q2</u>	<u>H1</u>	<u>H1</u>
KSEK	2 011	2 010	2 011	2 010
Cash flow before change in net working capital	4 231	-5 764	1 408	-14 496
Change in net working capital	13 456	-1 356	-13 131	864
Cash flow from operations	17 687	-7 120	-11 723	-13 632
Investments and other	-2 958	-45 875	-4 831	-82 374
<b>Cash flow before financing</b>	<b>14 729</b>	<b>-52 995</b>	<b>-16 554</b>	<b>-96 006</b>
Cash flow from financing	-7 636	38 973	-7 955	38 973
<b>Total cash flow</b>	<b>7 093</b>	<b>-14 022</b>	<b>-24 509</b>	<b>-57 033</b>
<b>Cash at end of period</b>			<b>41 594</b>	<b>80 068</b>

### Cash flow

Total cash flow for Q2 2011 was 7093 KSEK. During this quarter, Endomines made a first scheduled loan repayment amounting to total 7636 KSEK. In addition the company received 4466 KSEK as final payment for the government investment grant.

Total cash flow for H1 2011 was -24509 KSEK mainly due to working capital increase. Gold sales are paid in average 60 days after month of delivery. Total cash at end of June 2011 amounted to 41594 KSEK compared to 65733 KSEK at the beginning of the year.

### Gold price hedge

Endomines has hedged the gold price for 84400 troy oz of its deliveries starting from Q3 2011 until end 2015, or 4½ years forward, as from July 2011. The hedged price is 843 EUR per troy oz. The hedged volume represents approximately 50% of the planned production for the five year period 2011-2015. The first two quarters in 2011 were unhedged.

Due to the increasing gold price since the inception of the hedge (Dec 2009) combined with the change in the EUR/USD rate, the market value of the hedge has deteriorated, and amounted at the end of June 2011, to approximately -188.3 MSEK. The market value at the beginning of the year was approximately -195.2 MSEK, giving a positive total effect of 7.0 MSEK, of which 9.0 MSEK was charged to operating result, 18.9 as income from cash flow hedges and -2.9 MSEK as translation differences reported under "other comprehensive income".

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During the second half of 2011, the hedge will decrease reported revenues by the price difference between the average market price (in EUR) and the hedge price. The hedged volume for H2 2011 is 9 000 troy oz, or 4 500 troy oz per quarter. Sales above this volume are at market price.

The whole hedge program is described under note 7 in the full Interim report, in Swedish.

## General corporate

Work continued with a view to preparing Endomines' application to list on the main market of NASDAQ OMX Nordic Stockholm. The application is now expected to be submitted during Q4/2011.

## Outlook

Despite the disturbances to production described above, Endomines maintains its production target for gold for 2011, of 550-600kg.

The previously reported long-term production target of 900-1000 kg gold per annum was based on an earlier ore reserve estimate which was revised in September 2010. This new estimate, which was prepared using a lower "cut off" grade, resulted in a longer life of mine, a significantly higher ore reserve and higher gold content, but also a lower gold grade. A recent revision of the Karelian Gold Line production plan resulted in a lowering of this production target by approximately 10%, to 800-900 kg gold per annum.

The Board of Endomines has taken the decision to carry out a feasibility study on increasing processing capacity at Pampalo in order to achieve higher gold production levels.

Negotiations with gravimetric concentrate end-user refineries are ongoing. All produced gold so far has reported to the flotation concentrate and has been sold to the Boliden Harjavalta Smelter.

## CEO statement

Despite the recent cave-in incident at the Pampalo mine, we can be satisfied with the progress of the Pampalo production ramp-up phase, which has been mainly completed during H1/2011 as originally planned.

Ground conditions in the upper part of the mine, and especially in the southern ore body, are more challenging than what was anticipated by the company and external specialists when finalizing the study for the project. This area was subject to test mining in the 1990's, and over the 10-year period, the rock mass below the old test mining area has deteriorated more than expected.

Immediately following the cave-in, Endomines hired leading independent mining consultants, Golder Associates (UK) Ltd, to conduct a full review of the incident and its impact on mining principles, especially in the upper part of the mine, where we have faced difficulties with rock mechanics.

We are now opening a new mining panel starting from the level +375 upwards, and this will be in production after a few months. As ground conditions appear to be better as one goes deeper into the mine, we do not expect rock mechanical difficulties to prevail.

We are satisfied with the Pampalo processing plant ramp-up. During the reporting period, the plant processed 53 000 tonnes of ore and has now achieved its planned annual capacity of 230 000 tonnes. The hourly feed has remained at 28-30 tonnes of ore per hour (versus a planned 32 t/hour), but this has been



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compensated by a good plant utilization rate. During the scheduled maintenance shutdown in August, grinding mill pump motors will be replaced by larger ones, with a view to increasing hourly capacity to at least 32 tonnes/hour, or above.

Overall, despite the initial problems described in one specific area of the underground mine, I am confident that Pampalo is now on the way to be a mine with a long life-time and a prosperous future.

A full interim report (in Swedish) is available on the Company's website.

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Or visit the Company's website at [www.endomines.com](http://www.endomines.com)

#### **About Endomines AB**

*Endomines AB is a Nordic mining and exploration company with its first operating gold mine in production since February 2011. The mine is located in Eastern Finland, on the Karelian Gold Line, a 40 km long gold critical belt, where Endomines controls all currently known gold deposits*

*The company has several other gold and industrial mineral properties at various stages of development. All Endomines' mineral assets are located in Finland, which is politically stable, has a highly developed infrastructure and is ranked as one of the most favorable jurisdictions for the mining industry.*

*Endomines aims to increase shareholder value by developing its strong portfolio of assets, as well as exploring new deposits on the Karelian Gold Line and in Finnish Lapland. The company will also consider new opportunities and acquisitions for further growth.*

*The company's business practices and mining operations are based on sustainable principles and on minimizing the impact on the environment.*

*Endomines applies SveMin's & FinnMin's respective rules for reporting (public mining & exploration companies). It has also chosen to report mineral resources and ore reserves according to the JORC-code, which is the internationally accepted Australasian code for reporting ore reserves and mineral resources.*

*Endomines applies International Financial Reporting Standards (IFRS) as approved by the European Union.*

*The shares of Endomines AB are quoted on the First North Premier segment in Stockholm under ticker ENDO.ST. Erik Penser Bankaktiebolag acts as Certified Adviser and Liquidity Provider.*

Read more about Endomines on [www.endomines.com](http://www.endomines.com)

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*Forward-looking statements are based on the expectations and opinions of the Company's management on the date the statements are made. The assumptions used in the preparation of such statements, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements*