

# THE BLACK SWAN CONNECTION

August 2016



## Company Profile

**Subject Issuer:**  
**Endurance Exploration Group, Inc.**  
**Date: 07/26/16**



**Stock Symbol: EXPL**  
**Last Trade Price: \$.43**  
**Approximate Shares Outstanding: 43 million**  
**Approximate Market Cap: \$19 million**

Prepared By:  
David L. Lavigne  
Senior Analyst, Managing Partner  
Touch 4 Partners, LLC

## Company Profile

Endurance Exploration Group, Inc. (“EXPL”) was incorporated in Nevada in 2006 as Tecton Corporation. In late December 2013, the Company wholly acquired Endurance Exploration Group, LLC and changed the name of the Company to **Endurance Exploration Group, Inc.** Endurance Exploration Group, LLC was formed in 2009 to research and develop feasibility methodologies to identify, acquire clear title to and ultimately salvage the cargos of shipwrecks.

Since the formation of their “salvage” business in 2009, the Company has achieved a number of the milestones they established at the time of that formation. For example, from the 10,000-foot view, estimates suggest that the world’s oceans hold the remains of over 3 million shipwrecks. Information regarding these disasters is housed in various databases around the world. Since its inception, the Company has identified and vetted approximately 125,000 wrecks from a number of these databases that it deems viable for further research. They have in turn narrowed that group to roughly 400 “high interest” targets. From their list of 400, the Company is currently focused on two primary targets and two additional secondary targets, all of which have been extensively researched by EXPL in terms of identification, title salvage economics.

The Company’s most imminent project previously nicknamed “Sailfish” is (was) a side-wheeled steamship called the “Connaught”. The Connaught, which EXPL located in 2014, was lost in 1860 after encountering rough waters and catching fire en route from Great Britain to the United States.

EXPL’s second target is called the Black Marlin, which was a late 1600’s merchant ship that sail trade routes though the Indian Ocean. The ship sank when its English captain set it on fire rather than surrender it to other European enemies that attempted to commandeer the vessel

The Company has identified additional targets beyond Connaught and Black Marlin.

## Industry Overview

According to the United Nations Educational, Scientific and Cultural Organization (“UNESCO”), *“It is estimated that over 3 million undiscovered shipwrecks are spread across ocean floors around the planet. The Dictionary of Disasters at Sea lists for instance 12,542 sailing ships and war vessels lost at sea between 1824 and 1962 alone.”* To be sure, the pursuit of history and riches accumulated at the bottom of the ocean’s floors has created both opportunity as well as marked controversy amongst various entities seeking to identify and raise those treasures, and in many instances, those treasures hold potentially immense monetary riches as well as immeasurable cultural significance. For the sake of color, UNESCO provides the following: *“Many famous vessels have perished, inspiring books and films, including the Armada of Philip II of Spain, the Titanic, the fleet of Kublai Khan, the ships of Christopher Columbus, and the Spanish galleons that plied the seas between the Americas and Spain. Ruins Similarly, the remains of countless ancient buildings are now submerged underwater. While legends tell of the mysterious Atlantis, a genuine “Pompeii” has been discovered in the bay of Alexandria with the ruins of the famous Alexandria lighthouse known as the Pharos (the reputed Seventh Wonder of the World), as well as Cleopatra’s palace and numerous temples. Underwater relics also include numerous Neolithic villages found at the bottom of the Black Sea; part of ancient Carthage; Hindu temples of breathtaking*

*beauty complementing the World Heritage site in Mahabalipuram, India; and Jamaica's Port Royal, lost to the waves during an earthquake in 1692".*

From a business perspective, the allure of searching out one of these sites and potentially discovering something is easy to understand. While nobody can peg the monetary value of the world's sunken treasures with any reasonable degree of certainty, it's probably safe to say that the tally is likely many billions of dollars. On the other hand, success involve a host of challenges and those challenges go well beyond those that are apparent on the face. As an example, if one spends any time looking over UNESCO's site, it will become abundantly clear that their interests with respect to these discoveries lies in stark contrast to those of people seeking monetary profit from the gold, silver and other values hidden in the sea. To summarize, the ultimate disposition of the artifacts found in any successful recovery venture will include challenges from any number of interested parties, many with vastly different views as to how that "disposition" should occur. The narrative below attempts to illustrate some of those challenges as well as addressing the most obvious, which is identifying, discovering and raising a particular wreck in the first place.

#### - **The Business**

Finding a specific shipwreck is no easy or inexpensive task. To reiterate, the ages have likely produced literally millions of shipwrecks, but the identification and salvage of specifically sought vessels are rare. While perhaps a bit anecdotal, that alone implies the difficulties involved in locating a particular wreck. The process generally begins with research, which often entails scouring any available archives that might include things like manifests that might describe cargos as well s other historic records which may provide clues about specific routes or common trade lanes. Once a target is identified, the physical search of trying to pinpoint the site of a wreck begins, which as one could imagine is tantamount to finding the proverbial "needle in the haystack". That search includes divers, underwater vehicles, cameras and other applicable equipment, and in many instances limited search seasons dictated by weather.

The business side also includes a host of legal considerations. We will discuss that notion more fully below, but from the 10,000-foot view, international laws concerning the ownership/title of shipwreck cargo are complex. Many shipwrecks involve claims by other "interested parties, including the surviving lineage of previous owners, insurance companies who may have insured (and paid out claims) against that cargo, sovereign entities with claims to items found within their own territorial waters and a host of others. As if researching and discovering a wreck isn't difficult, time consuming and expensive enough, insuring good title to the property before it is even discovered may be the single most important step in any salvage venture.

Once a wreck is discovered and verified the process of getting it to the surface becomes the next hurdle. Here again, this process often requires specific recovery technology especially in sights found in deeper waters. In many instances the technology and expertise involved requires the use of third party contractors, who are equipped to complete these type of projects. The process is often time consuming (imagine trying to recover single silver coins with a mechanical arm attached to an underwater recovery vehicle). Like discovery, salvage efforts are often also complicated by seasonal and other general weather conditions. However, like most technology, underwater discovery and salvage equipment is becoming more sophisticated making recovery efforts more and more efficient.

Lastly, once the "booty" is brought to the surface, the process of restoring, cataloging and ultimately selling/monetizing the recovery commences. That too is often also expensive and time consuming and

may be complicated by the agreements reached with a fore mentioned interested parties. While we have seen instances where for example a single recovered coin has sold for well into six figures, liquidating recovered treasure is no simple task.

#### - **The Claim**

To reiterate, procuring clear or at least defined title to any wreck may be the single most important (and perhaps most overlooked) step in any salvage operation. Perhaps the most infamous illustration of this notion is the case of U.S. based and publically traded Odyssey Marine Exploration (“OMEX”).

In 2007 OMEX discovered the wreck of the Nuestra Señora de las Mercedes a Spanish warship which sank off the coast of Portugal in 1804. Among other artifacts, the company recovered over 500,000 coins (largely silver) from the galleon valued at over \$500,000, but in 2012 was required to turn the entire cache over to the Spanish government after a litany of court battles. While the entire ordeal was rife with discussion of government dealings and tilted decisions, including a last minute effort by the government of Portugal to assert its own claim, the retrospective consensus was that OMEX did not protect itself enough prior to the recovery to ultimately assert its claim(s). That may or may not have included efforts to negotiate a split of the recovery with the Spanish government prior to the excavation, but in any event, the outcome of the discovery of the Mercedes serves as a stark reminder to the salvage industry (and its investors) of the risks associated with not properly cementing its rights prior to spending millions of dollars getting to the end game. For a variety of reasons, sovereign governments represent formidable foes with deep pockets and considerable influence in fighting over these types of discoveries, and a failure to negotiate outcomes prior creates marked risks for companies seeking to profit from their efforts. As a result, one of the first considerations of any investor looking at a salvage investment should be the target investment’s efforts with respect to their ultimate rights to whatever they might find.

#### - **The Culture**

As we alluded to above with respect to UNESCO, there is considerable conflict between many salvage enterprises and archeology and other historic preservation organizations like UNESCO. In short, the latter tend to view these discoveries as invaluable historical links between past civilizations and cultures, which provide invaluable insights into the same. As a result, they tend to view these discoveries as treasures of the world community that should not be allowed to be exploited for profit.

Our sense is that the public perception of the view that these recoveries hold cultural and historic values that transcend the profit motive is considerable. For example, the Spanish government has argued that it has no position on the value of the items recovered from the Mercedes because it considers the finds as *invaluable* from a historic perspective. We are not sure we buy into that purely altruistic response largely because (hypothetically) we don’t think the Spaniards would have exerted the same efforts to recover 500,000 broken rum bottles, but we do think that governments in general respond to the line. For governments that view is, to use an overused term, “politically correct”. We also believe that those on the history and cultural value side of the argument attempt to insert legislative pressure and other means to insure that recoveries end up on their side of the ledger. As an example, (again according to UNESCO) *“Between 1993 and 1995, Portuguese legislation allowed the sale of artefacts from underwater archaeological excavations. At least six international treasure salvaging companies set up operations in Portugal to exploit the rich underwater cultural heritage along its coasts. The relevant Portuguese*

legislation was frozen in 1995 and repealed in 1997, bringing about a revival of scientific underwater archaeology. In 2006, Portugal ratified UNESCO's 2001 Convention to strengthen the protection of its underwater cultural heritage and cooperate effectively with other States in the region". Again, these represent challenges to the industry that impact both the process as well as the outcomes of its endeavors.

Of course, the salvage industry would argue that without their efforts (and capital) many of the wrecks would simply never be discovered and recovered at all. While we would submit that there are certainly notable efforts to discover and raise many of these wrecks through not-for-profit endeavors, we think it is a defensible position that the for-profit salvage industry has indeed played a marked role in shipwreck recovery. Frankly, if all parties are being honest, we think they would probably all agree with that, albeit to varying degrees.

To summarize, reiterating what we noted above, the risks of the salvage business go beyond those that are apparent on the face; find a wreck, recover the wreck sell what gets to the surface. The issues surrounding ownership are at least as important as the ability to find it in the first place. We believe that Endurance is abundantly aware of these risks and has adopted procedures to mitigate them.

### **Project Overview**

The Company's most imminent project previously nicknamed "Sailfish" is (was) a side-wheeled steamship called the "Connaught". The Connaught, which EXPL located in 2014, was lost in 1860 after encountering rough waters and catching fire en route from Great Britain to the United States. The Connaught was a passenger ship with a considerable gold cargo amongst other assumed valuables. In July 2015, US Federal Courts granted EXPL exclusive salvage rights to the Connaught but by that time the salvage season/window was well under way.

*A recent company update by the company provides some additional color: "In August and September of 2015, EXPL conducted offshore inspection and preliminary salvage operations on the "Connaught" wreck site, recovering various artifacts positively identifying the site as that of the Connaught. During the 2015 expedition, EXPL encountered significant obstacles to completing the Connaught salvage, including significant amounts of industrial fishing netting and gear entangled in the wreck site, preventing further salvage operations with the equipment available to EXPL at the time.*

*In April, after determining a realistic budget for the continuation of the Connaught salvage, EXPL filed a registration statement with the SEC to publicly sell up to \$2,500,000 of securities to fund its operations. The Company is currently pursuing the effectiveness of the above mentioned registration statement with the SEC and expects its effectiveness in the coming weeks. Upon the successful completion of the above mentioned funding raising, the Company expects to continue operations on the salvage of the Connaught, as well as beginning the survey phase of additional projects".*

The Company believes that Connaught's recovery value could range between \$10-\$15 million. Obviously, a successful recovery of that magnitude would represent a watershed event for the Company. In addition to validating the business plan, it would provide them the capital to pursue other identified (and potentially larger) projects

EXPL's second target is called the Black Marlin. The late 1600's, was a period of robust shipping activity between the Silver mines of South America, to Europe, Asia and points in between. Silver was a relatively common part of the cargo on these vessels because it was the preferred medium of exchange

for Asian traders who provided a myriad of goods to European markets. As one might imagine, the Indian Ocean was rife with “enterprises” trying to steal these cargos. While the Black Marlin was an *“English East Indiaman, more than 700 tons, three decks high and armed with many cannons,* it was attacked and disabled by European assailants and the Marlins captain chose to burn and sink the ship rather than turn it over to the attackers. It is believed to have carried a large silver cargo of Spanish as silver was the primary medium of exchange between European and Asian merchants at that time. The Company has negotiated title and sharing arrangements with applicable governments, as the wreckage is only 12 nautical miles from land. As they stand today, those arrangements call for a 75% split to Endurance after applicable post recovery expenses. The Company believes that the recovery value of the Black Marlin could be in the \$50 million range.

With two additional projects identified beyond Connaught and Black Marlin, Endurance is positioned to begin monetizing the work it has done over the past 6 or 7 years. With salvage efforts on the Connaught set to commence in the current year (pending financing) it could be a busy and newsy summer for EXPL.

### **Risk and Caveats**

We have provided microcap analysis for over two decades, and sometimes the risks associated with particular stories are more obvious than with others. In the case of Endurance, some of the risks associated with trying to find sunken treasure are likely clear to most reasonably astute investors. To reiterate a point made above, there are thousands of shipwrecks out there but only a small portion have been located which we think tends to support the notion that they are not particularly easy to find. Moreover, simply locating a wreck is only part of the battle. Sometimes cargos are too deep to salvage with any measurable success, sometimes the ship breaks apart and is strewn for miles across the ocean floor...the challenges can be endless, but again, these are risks that most investors can recognize on the face. On the other hand, the industry faces a number of additional challenges that might actually raise the risk profile more than the obvious pitfalls.

As we discussed, there are many individuals and organizations who are directly at odds with the salvage industry, and many of those have the attention of governments and other jurisdictions with respect to limiting the for-profit salvage of shipwrecks. However, inasmuch as these risks are clearly topical, they can be mitigated by identifying any potential claimants to the discoveries and negotiating well defined splits of whatever is salvaged prior to spending time, money and other resources raising the asset. That is not to say that these risks can be eliminated entirely, but they can be mitigated. In our view, investors considering salvage investments should pay particular attention to this issue.

Endurance is a small company with limited resources. Finding shipwrecks and getting their cargos to the surface are generally very expensive propositions. We submit, those two notions don’t bode particularly well for Endurance. With that said, we also think the industry as a whole has experienced a bit of a learning curve and is also benefitting from advances in technology that make at least some portions of the process more efficient and cost effective. Moreover, because of increased activity in the industry in general, some specialization has occurred along the way which is helpful to players with limited resources. That is, if a small player can hire a salvage contractor to complete that leg of the process rather than having to put up capex to buy and operate their own salvage equipment, they may be able to complete a successful operation in spite of limited resources. We are not suggesting that Endurance’s lack of capital is not a significant risk, but it may not be the deal killer that some might otherwise suggest. The company just recently filed a registration statement for the sale of 15 million

common shares at \$.25, which would provide them the capital to recover the Connaught. Their success with respect to that offering will be paramount to those recovery efforts.

Like many microcap stocks, Endurance is not particularly liquid and that might be an issue well into the foreseeable future.

Also like many small companies, Endurance is a small operation that depends on the efforts and expertise of a handful of people. Among other things, the success of the company may be dependent on its ability to keep these individuals on the team. The departure of key players is a marked risk in the story.

These are just a few of the more topical risks in the story. There are likely a number of others that we have wither missed or will evolve as the story moves forward.

### **Summary and Conclusion**

We have to confess; we love shipwreck deals. There is something about the industry that goes beyond the investment thesis. That is, they are fun to own regardless of how much investment sense they make. On the other hand, Odyssey Marine made a number of investors a lot of money until their unfortunate run with the Spanish government. They also proved the business model (at least part of it) in that they did in fact successfully identify, develop and recover a high value shipwreck target.

We actually followed (and owned) Odyssey through a good portion of its search and discovery of the Mercedes. Early on, the stock was quite attractive, however, as the stock began to attract momentum around the prospects of success (they actually had a successful project prior to the Mercedes) the market cap expanded markedly and the value began to become more and more speculative. Endurance reminds us a bit of the Odyssey story before anyone had really “discovered” it. Put another way, Endurance’s modest market cap (\$19 million based on the current trading price but about \$15 million based on the post money raise valuation) relative to the potential value they might derive from success in one or both the current projects leaves a considerable amount of room for potential upside. Clearly, their ability to attract the capital to complete their first project, will remain topical. To that point, we would view the completion of the current equity raise as highly positive event.

Endurance’s management team includes individuals with considerable industry experience, especially with respect to the legal (“claims”) issues we identified above. We think that is likely paramount to the success of Endurance and salvage players in general. That certainly won’t guarantee success but it may go a long way towards mitigating issues that might insure their failure.

In spite of their modest market cap, and relatively modest retained earnings deficit (which for the sake of simplicity we will call their capex to this point) they actually have a great deal of heavy lifting behind them. It’s not as if they are still in the research room trying to identify potential targets, as they have recently announced, they are in the final stages of beginning to salvage assets. Granted, it remains to be seen what the quantity and resulting value of those assets might be, but again, a number of typical challenges are in the rear view mirror. Moreover, that may put them at the precipice of fundamental catalysts that could drive the valuation of the underlying stock.

**General Disclaimer:**

Touch 4 Partners LLC (“T4”) is a member based venture capital research and management firm. We produce and publish independent research, due diligence and analysis for distribution to our membership base. Our publications are for information purposes only. Readers should review all available information on any company mentioned in our reports or updates, including, but not limited to, the company’s annual report, quarterly report, press releases, as well as other regulatory filings. T4 is not registered as a securities broker-dealer or an investment advisor either within the U.S. Securities and Exchange Commission or with any state securities regulatory authority. Readers should consult with their own independent tax, business and financial advisors with respect to any reported company. T4 and/or its officers and employees, and/or members of their families may have a long/short position in the securities mentioned in our research and analysis and may make purchases and/or sales for their own account of those securities.

Reproduction of any portion of T4 Partner’s reports, updates or other publications without written permission of T4 is prohibited. All rights reserved. Portions of this publication excerpted from company filings or other sources are noted in *italics* and referenced at the bottom of this report.