



WEST AFRICAN RESOURCES ACQUIRING OREZONE

M&A Strategic Alternatives and Analysis



Rajeet Dhillon, *Senior Analyst*

BCom 2025

January 1, 2024

Target Overview - Orezone

Company Highlights

Overview: Orezone Gold Corporation (TSX:ORE) is a small-cap gold producer based in Vancouver, Canada. The company's operations focus on its 90% interest in the open-pit Bomboré Gold Mine in Burkina Faso, Africa.

Current Strategy: The Bomboré open-pit mine is currently in Phase 1 of production and processes 5.9 Mtpa of ore through its oxide processing facility. Bomboré's Phase II expansion will commence in 3Q25, introducing a hard rock plant that will increase processing to 10.3 Mtpa.

M&A Rationale: Orezone's Bomboré Gold Mine has encouraging growth prospects and is trading at a discount compared to similar emerging gold producers. Large gold producers are facing declining reserves and production issues, resulting in suppliers searching for alternative growth opportunities. Orezone's high growth potential makes it an ideal candidate for acquisition in an uncertain time for gold.

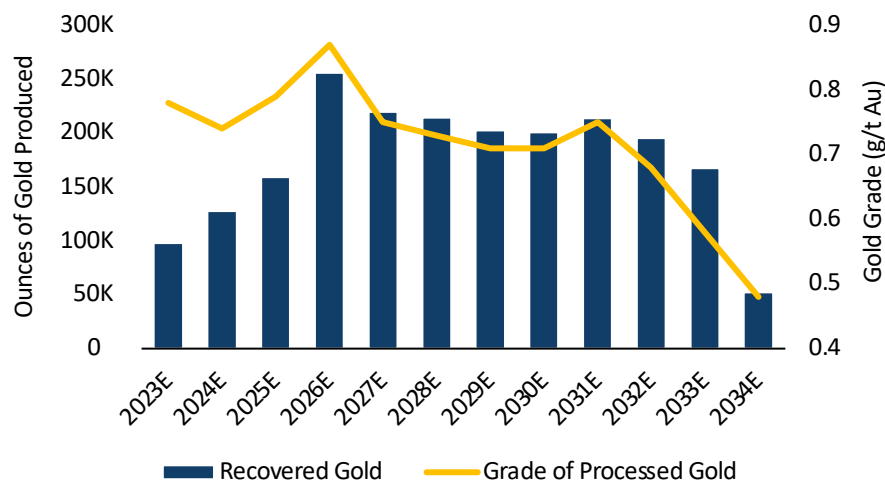
Key Valuation Metrics & Performance

Market Cap	\$232.50M	Cash	\$28.45M
Enterprise Value	\$296.20M	Debt	\$95.23M
Revenue (LTM)	\$247.34M	Mineral Reserve Grade	0.79 Au g/t
EBITDA (LTM)	\$108.28M	Mineral Resource Grade	0.86 Au g/t
Share Price	\$0.85	2023E Strip Ratio	1.96
52-Week High	\$1.61	LOM AISC (Gold)	\$1,122/oz
52-Week Low	\$0.73	LOM Average Production	186 Koz/year

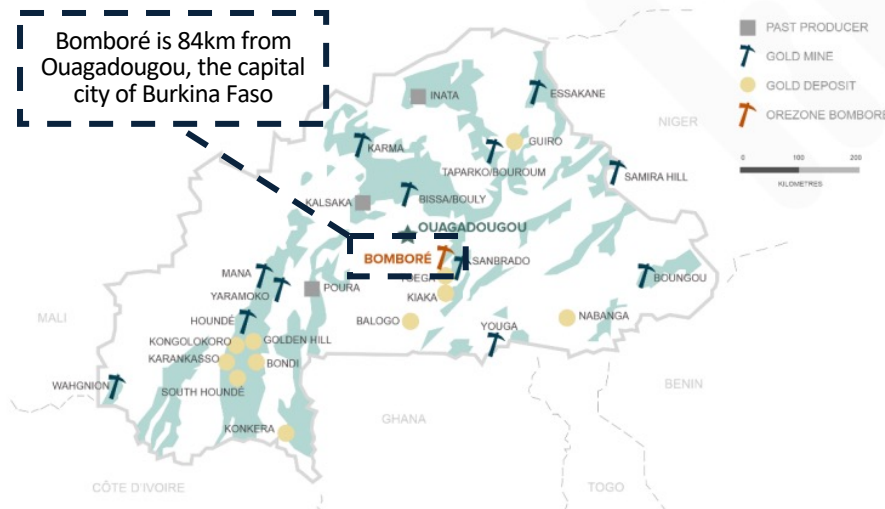
*Amounts expressed in USD, except share price values (CAD)

**Share price values as of January 1, 2024

Annual Production Target (2023E-2034E)



Gold Mining in Burkina Faso



Orezone's Historical Performance



Orezone's recent underperformance positions the company as an appealing acquisition target. WAF can acquire Orezone at a more favourable valuation, providing Orezone shareholders with the opportunity to realize a higher return compared to holding the stock.

Acquirer Overview - West African Resources

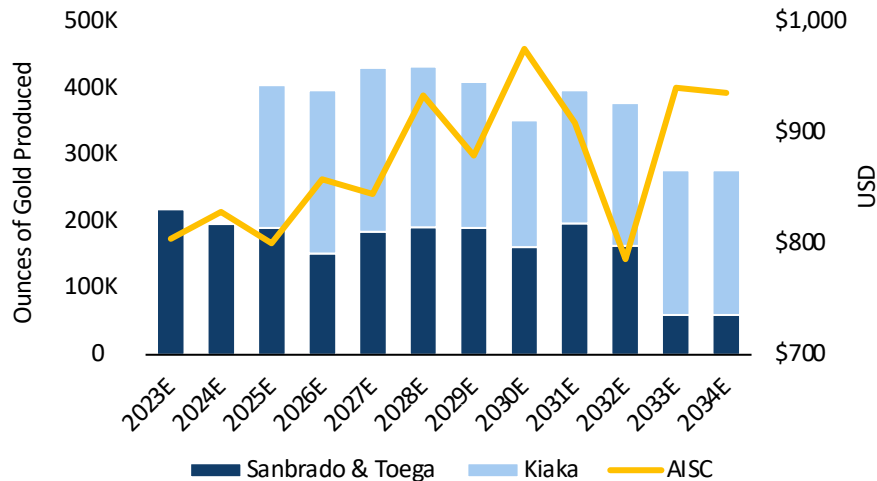
Company Highlights

Overview: West African Resources (ASX:WAF) is an emerging gold producer based in Australia. The company operates in Burkina Faso, Africa. WAF owns the Sanbrado Gold Mine (90% ownership), the Kiaka Gold Project (90% ownership), and the Toega Gold Project (90% ownership).

Current Strategy: WAF is targeting gold production of 400,000 ounces per annum by 2025. This will be achieved through the Kiaka Gold Project, which will add approximately 219,000 ounces of gold per year to WAF's current production profile once production commences in 2025.

M&A Rationale: WAF wants to expand its gold production within the upcoming decade. The company is following the industry trend of acquiring projects to expand its production profile, recently having acquired the Toega gold project from B2Gold in 2020 to extend Sanbrado's LOM to 2034. On October 2, 2023, WAF announced a memorandum of understanding with Orezone, showcasing both parties' recognition of operational synergies.

Annual Production Target (2023E-2034E)



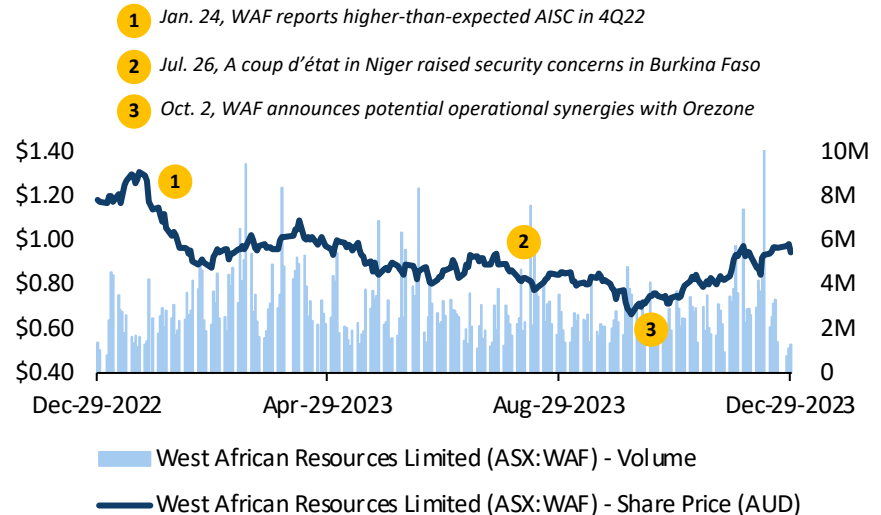
Key Valuation Metrics & Performance

Market Cap	\$645.40M	Cash	\$111.10M
Enterprise Value	\$573.60M	Debt	\$13.10M
Revenue (LTM)	\$396.40M	Mineral Reserve Grade	2.60 Au g/t
EBITDA (LTM)	\$186.50M	Mineral Resource Grade	2.90 Au g/t
Share Price	\$0.95	2023E Strip Ratio	3.90
52-Week High	\$1.31	2023E AISC (Gold)	\$1,175/oz
52-Week Low	\$0.67	2023E Production (Gold)	210-230 Koz

*Amounts expressed in USD, except share price values (AUD)

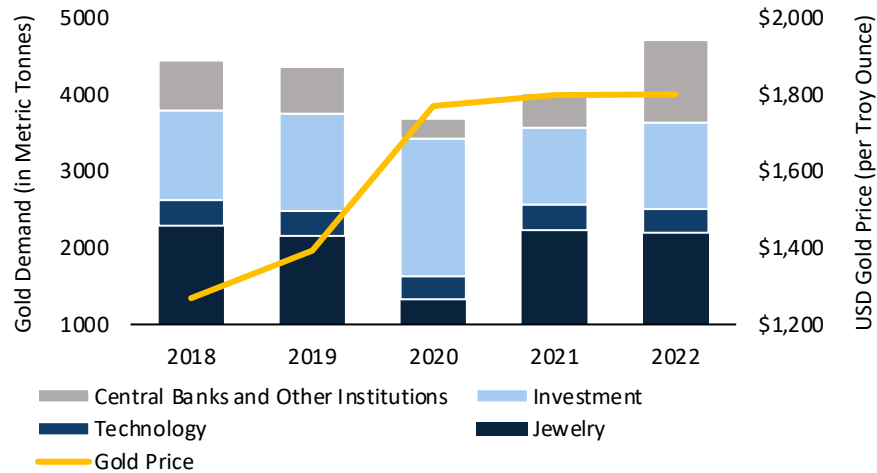
**Share price values as of January 1, 2024

Stock Chart



Industry Overview

Demand and Gold Price (2017-2022)



Key Trends

Increased M&A Activity: Gold producers face diminishing production levels and declining reserves. Exploration requires massive capital expenditures, which is pushing many companies to explore M&A deals. This M&A frenzy also arises from the fragmentation of the gold mining industry, which has further prompted companies to acquire assets rapidly to increase market share.

Weak Outlook on Retail Consumption: Global jewelry demand, which represented a third of gold demand in 2023, is likely to fall as consumers become more price-conscious. Other key sources of demand come from retailer investors looking to hedge against inflation risk, which accounted for 17.30% of total gold demand in 2022. However, 9M-23 investment purchases have cooled by 21% compared to 9M-22 as investors are discouraged by higher Treasury rates, increased spot prices, and projections for economic growth.

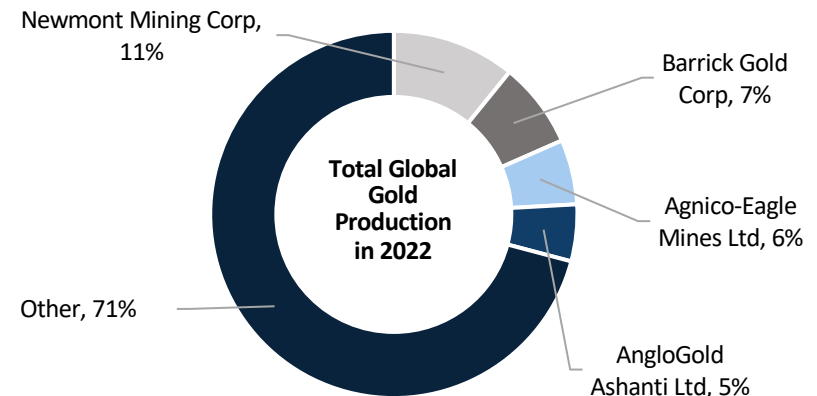
Central Banks' Rising Demand: Gold purchases from central banks in 9M-23 exceeded 9M-22 by 14%, with some of the largest purchasers including China, Poland, and Singapore.

Gold M&A Landscape in Burkina Faso



Date Announced	Jun 2023	Apr 2020	Mar 2020
Acquirer	Lilium Mining	West African Resources	Endeavour Mining
Deal Value	\$300M	\$45M	\$766M
Deal Type	Asset Transaction	Asset Transaction	Acquisition

2022 Global Gold Production



M&A Rationale

West African Resources' Rationale

Expansion of Production Profile: Acquiring Orezone will increase WAF's annual gold production by an estimated 186,000 oz/year. The Bomboré Gold Mine will provide WAF with gold at an impressive LOM strip ratio of 1.96 and help avoid extensive exploration costs for the foreseeable future as it will operate until 2034.

Maintain Desired AISC: WAF aims to produce gold at < \$1,175/oz. Bomboré's LOM AISC is \$1,122/oz, aligning with WAF's cost standards and highlighting an opportunity to increase gold production at an optimal mining cost. Orezone has suffered from underperformance due to low operating efficiency, but WAF's established infrastructure and operations will mitigate these issues.

Regional Operating Synergies: This acquisition would allow WAF to extend the Bomboré grid power lines to Sanbrado, which would materially reduce its processing costs. Orezone estimated savings of \$0.41/kWh by connecting to Burkina Faso's power grid. It is reasonable to assume that WAF can also obtain much, if not all, of these cost savings through connecting to Bomboré's power line.

Orezone's Rationale

Shareholder Value Creation: Orezone has been underperforming due to higher-than-expected AISC and decreasing production forecasts. The company initially estimated AISC of \$975-\$1075/oz for 2023, but its AISC rose to \$1,306/oz in 3Q23 while production levels decreased by 14% from 2Q22. These results were caused by increased security spending, delayed access to high-grade ore areas, and complications in material movement as its mining contractor was approximately 10% behind schedule. In this transaction, WAF would purchase Orezone at a sizeable premium, unlocking value for its shareholders who have faced a declining share price over the past year.

History of M&A Success: In prior years, Orezone's current CEO, President, and Director, Patrick Downey, built and developed mines into the production stage and sold them off for a profit. This transaction aligns with their historical strategy, providing guaranteed cash flows in a country with high risks for gold producers.

Cost Synergies

Optimized Resource Utilization



Regional Operating Synergies



Infrastructure Synergies



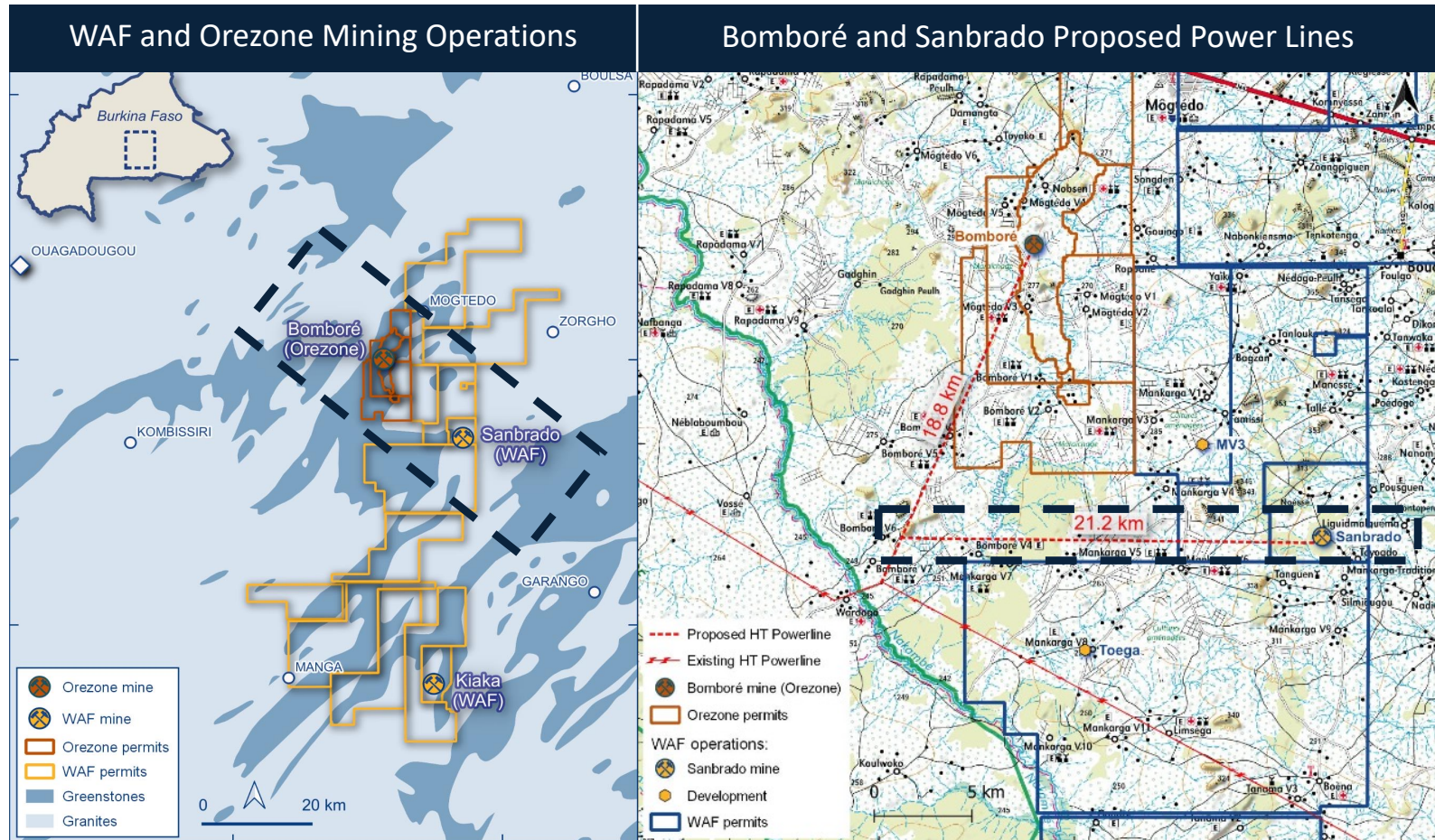
Shared Power Grid



Improved Strip Ratio



Regional Operating Synergies



Bomboré and Sanbrado operate within 14km of each other. The proximity between these mines enables opportunities for synergies by extending Bomboré's power line to Sanbrado, installing a centralized solar power system, improving supply chains through reducing storage and transportation costs, and collaborating to ensure that adverse impacts on local communities are minimized. Through acquiring Orezone, WAF would save \$27M USD on operating costs and \$6M USD on headquarters costs annually.

Orezone Valuation - Intrinsic

Orezone NAV

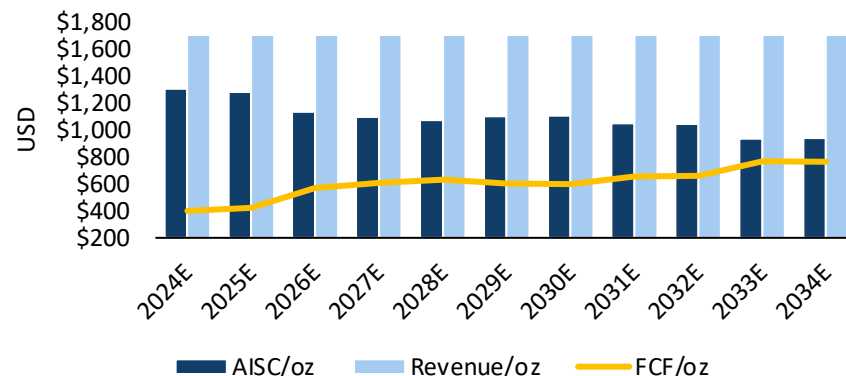
Assumptions			
Discount Rate	13.0%	Shares (mm)	363.45
LT Gold Price (US\$/oz)	1,700	USD/CAD Rate	\$1.32
Projects		(US\$mm)	(US\$/share)
Asset NAV*	\$496		1.36
Corporate Adjustments			
Net Debt	(\$95)		(\$0.26)
PV of G&A	(\$53)		(\$0.14)
PV of Exploration Costs	(\$39)		(\$0.11)
Corporate NAV (Post-Tax)	\$309		0.85
Valuation			
NAV Per Share (USD)	\$0.85		
NAV Per Share (CAD)	C\$1.12		
P/NAV**	1.00x		
Value Per Share	C\$1.12		
Current Share Price	C\$0.85		
Implied Upside	32.24%		

Orezone is undervalued at its current share price of C\$0.85. This model estimates its true value at C\$1.12, implying an upside of 32.24%.

*Asset NAV calculated from WestPeak model

**P/NAV estimate comes from TD Securities' Oct 2022 Equity Report on Orezone

Bomboré - AISC/oz, Revenue/oz and FCF/oz



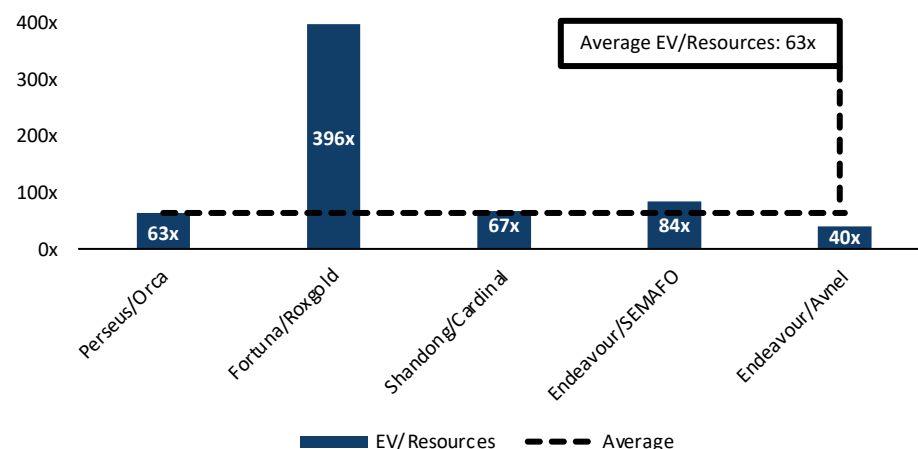
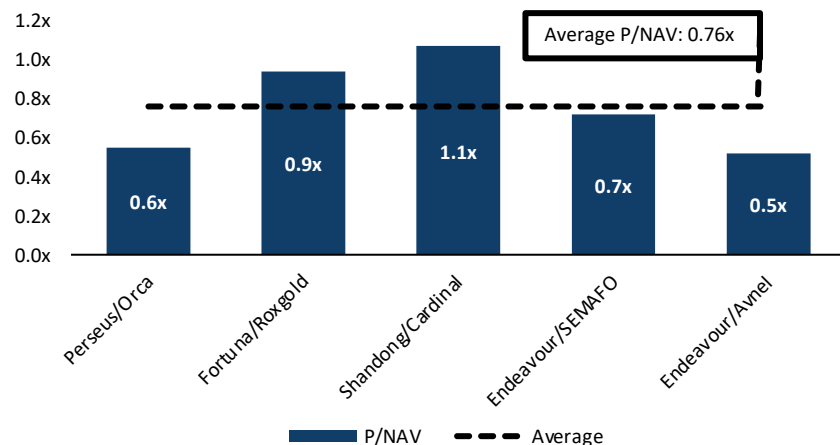
In this model, the estimated gold price per ounce was \$1700 USD. The Bomboré Gold Mine would provide WAF with steady FCF while maintaining a LOM AISC of < \$1,175 USD/oz from 2024E-2034E.

NPV Sensitivity Analysis (in thousands of USD)

		Gold Grade				
		\$1,550	\$1,625	\$1,700	\$1,775	\$1,850
Discount Rate	11%	\$447,612	\$495,285	\$542,957	\$562,027	\$581,096
	12%	\$426,962	\$472,705	\$518,447	\$536,744	\$555,041
	13%	\$407,680	\$451,614	\$495,548	\$513,121	\$530,695
	14%	\$389,655	\$431,892	\$474,130	\$491,025	\$507,920
	15%	\$372,786	\$413,431	\$454,076	\$470,334	\$486,591

Orezone Valuation - Relative

Precedent Transactions



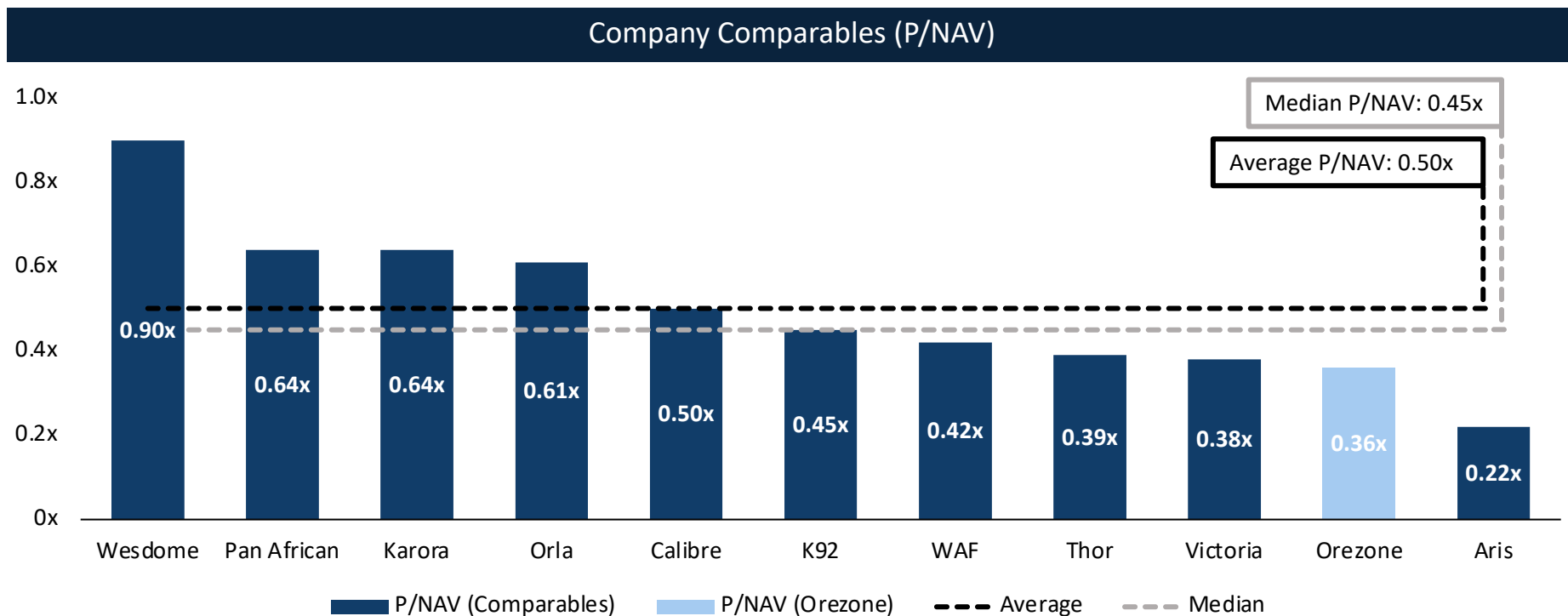
Date Announced	Feb 2022	Apr 2021	Dec 2020	Mar 2020	Jun 2017
Acquirer	Perseus Mining	Fortuna Silver	Shandong Gold	Endeavour Mining	Endeavour Mining
Target Enterprise Value	\$167M USD	\$872M USD	\$468M USD	\$766M USD	\$115M USD
Deal Type	Acquisition (100%)	Acquisition (100%)	Acquisition (100%)	Acquisition (100%)	Acquisition (100%)
Premium	62.9%	40.4%	39.3%	27.2%	48.0%

Applying the precedent transactions' average P/NAV of 0.76x to Orezone's consensus corporate NAV* of \$394M USD implies a market capitalization of \$300M USD relative to the current market capitalization of \$233M USD. On a per-share basis, this implies a value of \$0.83 USD, representing a 28.58% undervaluation relative to its current share price of \$0.64 USD. The EV/Resources multiple implies a market capitalization of \$309M USD and value of \$0.85 USD on a per-share basis, representing a 32.68% undervaluation relative to its current share price.

*Consensus corporate NAV calculated from the average of WestPeak, TD Securities, and Raymond James' NAV estimates. Calculation utilized a USD/CAD exchange rate of 1.3242.

**The Fortuna/Roxgold deal was not considered for EV/Resources, as it was an outlier in the data.

Orezone Valuation - Relative



Orezone's P/NAV multiple of 0.36x indicates that it is trading at a discount compared to its competitors. Moreover, broad-based underperformance in the peer group over the last 12 months has led to a sizeable contraction in P/NAV multiples relative to historical averages. Applying the average P/NAV* of 0.50x to Orezone's consensus corporate NAV** of \$394M USD implies a market capitalization of \$197M USD relative to the current market capitalization of \$233M USD. On a per-share basis, this implies a value of \$0.54 USD, representing an overvaluation of 15.63% relative to its current share price of \$0.64 USD. Given the industry's lackluster performance, the comparable valuation is likely not indicative of Orezone's long-term value.

*Peer set selected based on management guidance of comparable West African gold producers.

**Consensus P/NAV calculated from the average of WestPeak, TD Securities, and Raymond James' NAV estimates. Calculation utilized a USD/CAD exchange rate of 1.32.

Transaction Financing

Key Assumptions

Financing Mix: In the proposed transaction, WAF would acquire Orezone for \$399M USD on a cash-free and debt-free basis. A feasible financing mix would comprise of 20.0% cash, 48.5% debt, and 31.5% equity. WAF would issue \$126M USD of equity, which aligns with the average top-30 mining follow-on offerings at \$133M USD. Although WAF would issue an additional \$193M USD in debt, the combined entity will still maintain a safe interest coverage ratio of 24x in 2024E.

Purchase Price: In this proposed transaction, WAF would purchase Orezone for \$396M USD, which indicates a premium of 50% over Orezone's current share price. This 50% premium, slightly above the average 44% premium paid by acquirers in select precedent transactions, is likely to entice Orezone's equity investors.

Transaction Multiples: This transaction aligns with the P/NAV multiples provided in the precedent transactions.

	Purchase Estimates	Precedent Transactions
P/NAV	0.93x	0.76x
EV/Resources	69.46x	63.39x

Synergies (2024E-2034E)

Operating Costs: Orezone has estimated that it will save an annual \$20M-\$22M USD through connecting to Burkina Faso's national power grid. Extending the Bomboré power line to Sanbrado will result in savings of approximately \$50/oz AISC for the combined entity. Further synergies could be realized by installing a centralized solar power plant to reduce operating costs, but this model will only consider the benefits of connecting to Burkina Faso's power grid.

HQ Synergies: As WAF has an established corporate team and strong operations in Burkina Faso, Orezone's corporate team will be removed through this acquisition. This will save WAF approximately \$8.8M USD annually for the combined entity. In addition to reducing corporate expenses, maintaining the core WAF corporate team will allow the company to effectively integrate Orezone employees into its operations and culture.

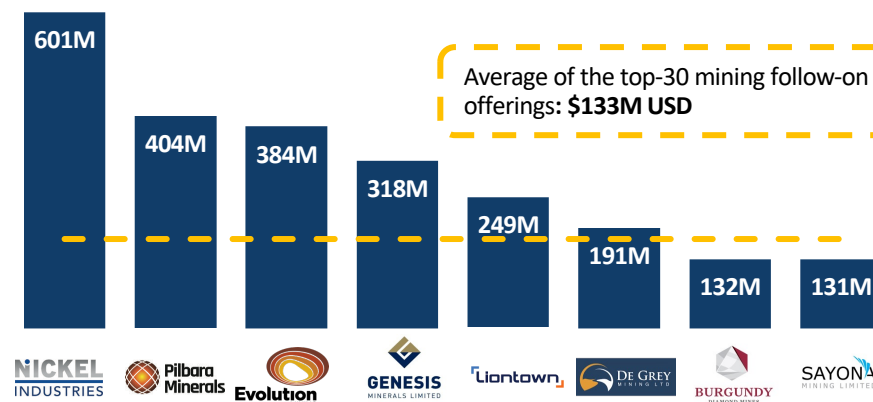
Sources and Uses

Sources of Cash (US\$mm)	Uses of Cash (US\$mm)
Cash Used	Equity Purchase Price
New Debt Issued	Debt
Equity Issued	Operating Cash
	Remaining Cash
Total Sources	Total Uses
\$399	\$399

Equity Issuance (USD)	\$126M
WAF Share Price (USD)	\$0.62
Share Issuance	203M
WAF Cash (USD)	\$113M
Cash Used (USD)	(\$80M)
Remaining Cash (USD)	\$33M

WAF will need to issue 203M shares, issue \$193M USD of debt, and use \$80M USD of cash to fund this acquisition. WAF will have \$33M USD of cash remaining coupled with 2024E FCF of approximately 217M USD.

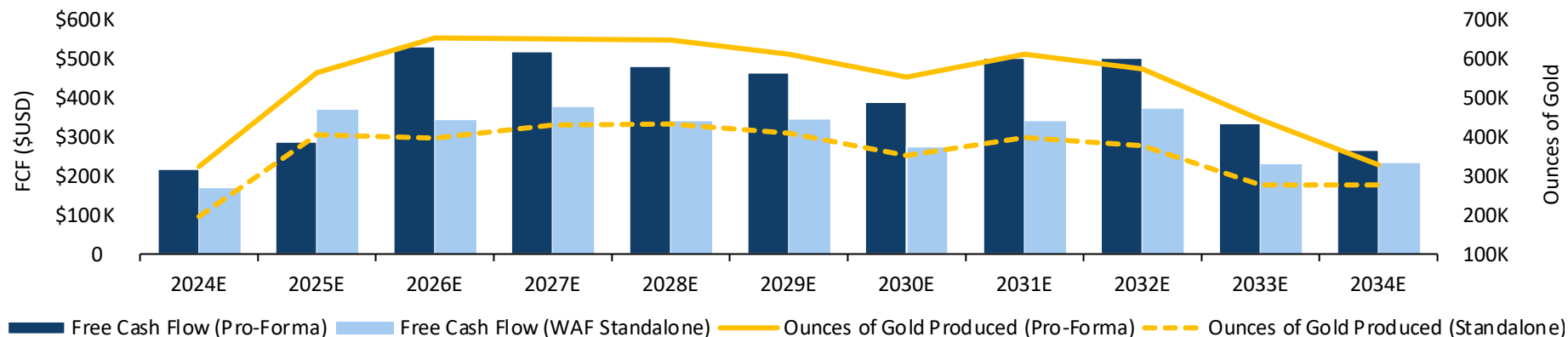
Notable ASX Follow-On Equity Offerings



*Chart amounts in USD. Data covers last 12 months of ASX follow-on offerings. Source: Refinitiv

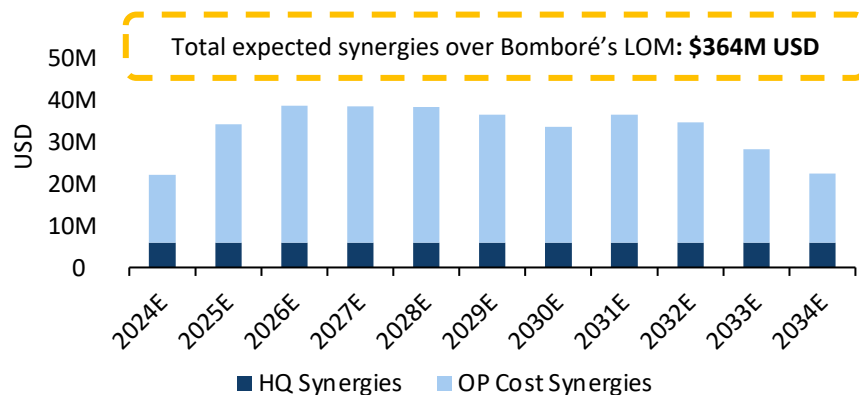
Accretion/Dilution Analysis

Post-Acquisition Forecast of Cash Flows and Gold Production (2024E-2034E)



The combined entity outperforms WAF on a standalone basis for every year except 2025 due to the additional \$167M USD capital expenditure required to fund the Phase 2 expansion of Bomboré. With this acquisition, the average annual gold production during 2024-2034 is roughly 541,538 ounces, surpassing WAF's standalone production forecasts of approximately 358,900 ounces by 50.89%.

Operating Cost & HQ Synergies (2024E-2034E)



Sensitivity Analysis (5-Year Average FCFPS Accretion)

		Financing Mix - % of Equity				
		26.50%	29.00%	31.50%	34.00%	36.50%
Premium Paid	30.00%	13.53%	12.41%	11.32%	10.25%	9.20%
	40.00%	12.37%	11.20%	10.06%	8.95%	7.86%
	50.00%	11.22%	10.01%	8.82%	7.67%	6.54%
	60.00%	10.10%	8.84%	7.61%	6.42%	5.25%
	70.00%	8.99%	7.69%	6.42%	5.19%	3.99%

Other Strategic Alternatives

Alternative Gold Acquisition in Africa

Recommendation: WAF could pursue acquiring another small-to-mid cap gold producer in Africa if the company is unable to complete this transaction with Orezone.

Rationale: WAF could increase its production profile by acquiring a gold mining asset or company. The gold industry has maintained high levels of demand, making it an attractive market for WAF to continue pursuing.

Potential Downside: WAF will lose out on the regional synergies that it could obtain from acquiring Orezone. These synergies include infrastructure synergies, security optimization, shared power grids, and more. This alternative will result in WAF foregoing these cost savings in an acquisition, making the transaction less appealing.

Potential Acquisitions:



Binding Power Agreement

Recommendation: Enter into a binding agreement with Orezone that extends the Bomboré power line to Sanbrado.

Rationale: WAF and Orezone announced intentions to enter a memorandum of understanding (MOU), which included synergies through extending Bomboré's power line to Sanbrado. A MOU is not legally binding, but a binding power agreement can allow WAF to secure the benefits from a combined power line. Sanbrado is currently powered by a heavy-fuel oil power station that produces substantial carbon emissions. As WAF prioritizes ESG, this would be an excellent method of improving its environmental practices while also reducing its operating costs at Sanbrado.

Expected Cost Savings: In Orezone's recent earnings calls, the company estimated annual savings of approximately \$20-22M USD from connecting to Burkina Faso's national power grid. Energy costs would be reduced to \$0.21/kWh compared to the current \$0.62/kWh, which comes from diesel sources.

WAF Production Profile Diversification

Recommendation: WAF could diversify its production portfolio through acquiring an asset that produces copper.

Rationale: As WAF's operations focus entirely on gold production, the company's profits are susceptible to fluctuations in the gold spot price. Integrating another valuable commodity, such as copper, will allow WAF to diversify its operations and reduce its exposure to changes in the gold industry. Copper is experiencing significant growth, with an expected increase of 20% in demand by 2035. This showcases the industry's potential and presents WAF with an opportunity to emerge as a prominent producer of this desired mineral.

Potential Acquisitions:



Jurisdiction Diversification

Recommendation: WAF could diversify the jurisdictions it operates in through purchasing a gold producing asset outside of Africa. Two regions of interest are Australia and Canada.

Rationale: Australia and Canada are significant more stable mining jurisdictions, giving rise to lower risk premiums. WAF would avoid the instability of Burkina Faso through operating in a region with minimal corruption and exposure to armed rebel groups. Additionally, buying an asset in either of these countries would help lift WAF's P/NAV multiple due to less exposure to lower-tier jurisdictions such as West Africa.

Potential Acquisitions:



Risks and Mitigants

Risk	Mitigation Strategies
Forecasting: Bomboré's success is heavily dependent on assumptions regarding operating costs and capital expenditures.	<ul style="list-style-type: none"> Conduct an independent evaluation of Bomboré to confirm gold reserves and resources, production forecasts, and cost estimates. Maintain target AISC through using WAF's mining contractors to ensure material movement is efficient.
Commodity Price: As WAF's operations solely focus on gold, the company's profits will be heavily impacted by the gold spot price.	<ul style="list-style-type: none"> Diversify away from this risk by expanding its portfolio in other commodities. To minimize WAF's risk from expanding operations into an unfamiliar commodity, the company should conduct brownfield M&A.
Financial Risk: This deal requires substantial cash, thus increasing WAF's risk of having insufficient funds if mining conditions change in the future.	<ul style="list-style-type: none"> Use a combination of cash and debt to fund the deal, ensuring that WAF keeps a healthy amount of cash on their balance sheet. Ensure the Kiaka project remains on schedule to produce gold in 2025, which will help offset this significant cash investment.
Regional Instability: Burkina Faso suffers from political uncertainty due to its unstable government, armed rebel groups who have attacked mines in the past, and corruption.	<ul style="list-style-type: none"> Continue investing heavily in security to protect the safety of its employees and local community members in Burkina Faso. Burkina Faso is considered a relatively safe region in Africa, but WAF must continue to prioritize all stakeholders' safety.
Regulatory Compliance: With this deal, WAF faces the risk of regulatory and legal concerns in Australia, Canada, and West Africa.	<ul style="list-style-type: none"> Conduct due diligence to ensure that the deal meets regulatory and legal requirements in these countries. Ensure Burkina Faso's mining requirements are met, such as obtaining exploration permits for potential mineral reserves.



If WAF faces issues of regional instability, its strategic value and projected synergies from this acquisition will be lower than anticipated. This highlights the importance of investing heavily in security for WAF's mines to ensure the company protects its operations from armed rebel groups. Not all regional risks can be eliminated, such as political instability. However, having excellent security will minimize its diversifiable risk in this acquisition.