

21 December 2023

Response to Zhaojin's First Supplementary Bidder Statement

Dear Fellow Shareholder,

We refer to the first supplementary bidder's statement dated 18 December 2023 (**First Supplementary Bidder's Statement**) from Zhaojin Capital (Hong Kong) Limited (**Zhaojin**) in relation to its unsolicited, conditional, off-market takeover offer for all of the issued shares in Tietto Minerals Limited (**Tietto** or the **Company**) that Zhaojin does not already own (**Offer**). Having carefully considered the contents of Zhaojin's First Supplementary Bidder Statement, Tietto provides the following responses to certain observations made by Zhaojin in that document.

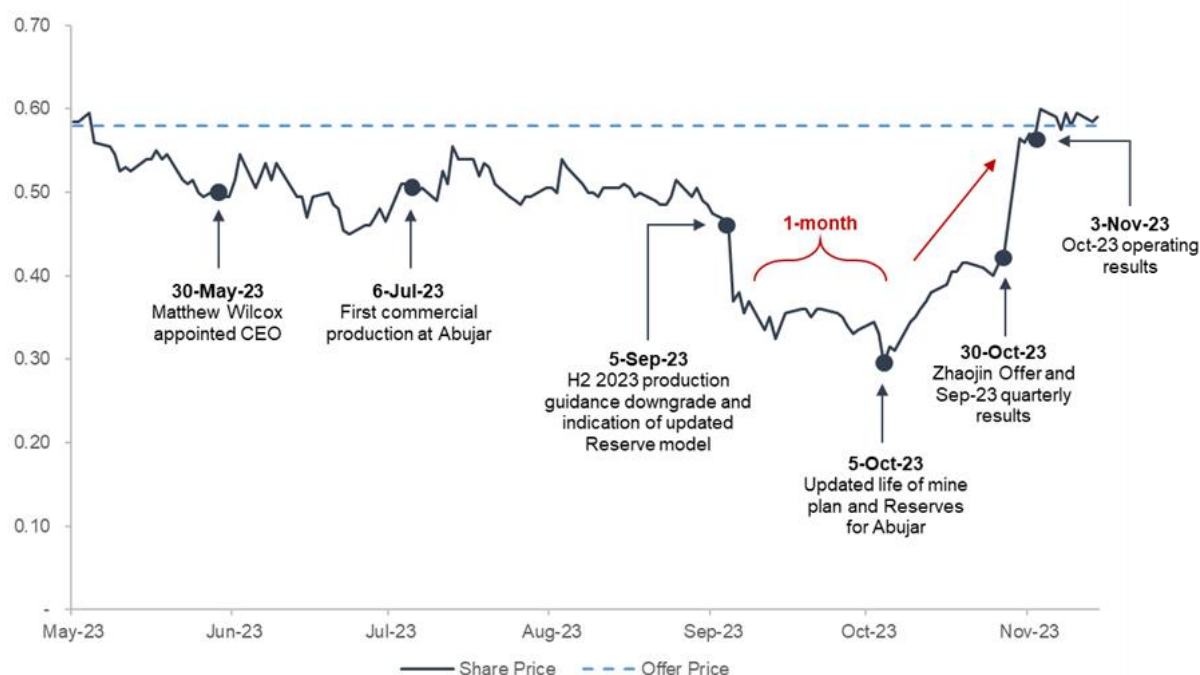
Zhaojin observation 1: Tietto has consistently failed to meet production guidance

Tietto is in the process of ramping up operations at the Abujar Gold Mine in Côte d'Ivoire, after experiencing extensive artisanal depletion. A non-linear progression to steady-state production is not uncommon for new mines in the gold mining industry.

In Tietto's target's statement dated 27 November 2023 (**Target's Statement**), Tietto stated production to date has been affected by the wet season in Côte d'Ivoire, which has negatively impacted mining rates and the ability to select higher grade ore for immediate milling and to stockpile lower grade ore. With the dry season in Côte d'Ivoire now commenced and with additional excavators and mobile mining equipment on site, mining rates at Abujar have significantly improved.

Tietto agrees that operational challenges experienced by the Company during the ramp-up at Abujar, and the resulting failure to meet production guidance, has negatively impacted Tietto's share price over the past 12 months. However, as outlined in the Target's Statement, this is not the only factor that Tietto Directors (**Tietto Directors**) consider has driven recent temporary weakness in the Tietto share price. For example, on 5 September 2023, Tietto announced an upcoming Ore Reserve amendment (alongside a production downgrade), which the Tietto Directors believe created short-term market uncertainty, but this was later alleviated by the release of the updated Ore Reserve and life of mine plan (**LOMP**) on 5 October 2023. This is evident by the fact that Tietto's share price was on an upward trajectory at the time of the Offer, increasing 44.1% between 4 October 2023 and 27 October 2023, being the last trading day before Tietto was first approached by Zhaojin in relation to its Offer (Figure 1).

Figure 1: Historical Tietto share price (A\$)



Source: Factset as at 14 November 2023. This data has been reproduced without permission.

Tietto Directors remain of the view that Zhaojin's Offer was opportunistically timed to take advantage of a period of short-term weakness in the Tietto share price caused by temporary operational challenges during the ramp-up of Abujar and the market's initial adverse reaction to announcing the need to update the Ore Reserve. Absent the Offer, the Tietto Directors believe that Tietto's share price would have continued to increase above pre-bid levels as operational performance stabilises in line with the updated LOMP.

Zhaojin observation 2: Omission of detailed assumptions means Tietto shareholders lack the information necessary to evaluate the reasonableness and reliability of the IER valuation

The Directors commissioned Grant Thornton Corporate Finance Pty Ltd (**Grant Thornton**) to act as Independent Expert and prepare an Independent Expert Report (**IER**) in relation to the Offer. As part of the IER, Grant Thornton prepared an independent valuation of Tietto in accordance with the requirements of ASIC Regulatory Guide 111. Grant Thornton's independent valuation of Tietto was materially (36% to 59%) above Zhaojin's Offer price of A\$0.58 cash per Tietto share.

In preparing its independent valuation of Tietto, Grant Thornton relied on independent technical specialist, SRK Consulting (Australasia) Pty Ltd (**SRK**), which had access to detailed geological and operational information on Abujar. The First Supplementary Bidder's Statement makes repeated references to a number of adjustments to the LOMP that were recommended by SRK. Conducting an independent review of an entity's LOMP is a key part

of the services rendered by an independent specialist in the context of preparing an IER. Importantly, Tietto shareholders should note that all of the adjustments recommended by SRK were incorporated by Grant Thornton in its discounted cash flow (“**DCF**”) analysis and therefore were factored into its independent valuation of Tietto of between A\$0.793 – A\$0.927 per Tietto share.

A detailed summary of the LOMP mining and processing physicals and costs, including the recommendations provided by SRK, are provided in Table 2.8 on page 45 of the SRK Report (it should be noted that this also includes a detailed breakdown of LOMP operating costs, including average all-in site costs, which Zhaojin’s First Supplementary Target’s Statement notes to be a key assumption that is unclear from the IER). Further, SRK provides detail on recommendations regarding cash flow and production assumptions in Table 2.9 of Section 2.4.3 and Table 3.5 in Section 3.6.2 of the IER, a copy of which accompanies the Target’s Statement that was publicly released on 27 November 2023.

Given the depth of information disclosed about SRK’s assumptions and recommendations, Tietto fundamentally disagrees with Zhaojin’s suggestion that Tietto shareholders lack the necessary information to evaluate the reasonableness and reliability of the IER valuation.

Zhaojin observation 3: Independent Expert’s valuation is particularly sensitive to gold price forecast

Tietto agrees with Zhaojin’s observation in its First Supplementary Bidder’s Statement that the Independent Expert’s valuation is highly sensitive to gold price movements. Tietto notes that forecasting future gold prices is highly speculative and uncertain in nature.

While Zhaojin observes that a 10% reduction in the assumed future gold price would result in a lower Independent Expert’s valuation range (although Tietto notes that, if a 10% reduction to the forecast future gold price was applied, the Independent Expert’s valuation range would still be above Zhaojin’s Offer price of A\$0.58 cash per Tietto share), it is misleading to only focus on the value impact of downwards movements in the gold price. As such, Tietto shareholders should note that if a 10% improvement in the future gold price is assumed, then this would increase the Independent Expert’s valuation range to A\$0.929-1.077 per Tietto share.

Further, the current spot gold price of US\$2,041 per ounce (as at 19 December 2023) is materially higher than the gold prices assumed in the IER of US\$1,653/oz and US\$1,735/oz per ounce and those sourced by Zhaojin from Bloomberg as set out in the First Supplementary Bidder’s Statement.

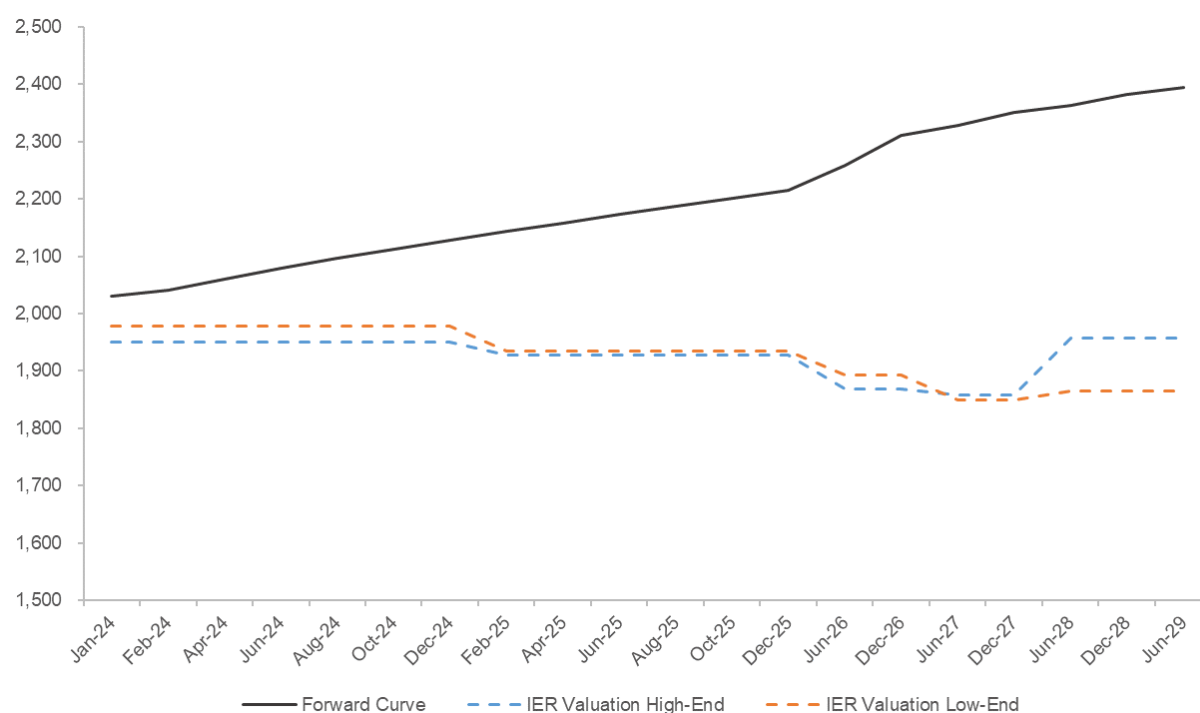
As such, Tietto has requested that the Independent Expert confirm its valuation range at the current spot gold price, which the Independent Expert has indicated to be A\$0.890-1.008 per

Tietto share (12%-9% above the valuation range of A\$0.793-0.927 per Tietto share in the IER and far higher (53%-72%) than Zhaojin's Offer price of A\$0.58 cash per Tietto share).

Tietto also notes that the Independent Expert has used Consensus Economics for its gold price forecast, which the Tietto Directors consider to be conservative compared to the gold price forecast adopted in other recent Independent Expert reports for transactions in the gold mining sector. For example, in the Independent Expert's report published by Grant Samuel & Associates Pty Ltd (**Grant Samuel**) for the recent transaction between (a) Newcrest Mining Limited and Newmont Corporation and; (b) BHP Group Limited and Oz Minerals Limited, Grant Samuel used long-term real gold prices of: (a) US\$1,900/oz and; (b) US\$/1,925/oz as part of its valuation. Tietto notes that these long-term gold prices are significantly higher than the long-term real gold prices of US\$1,653/oz and US\$1,735/oz used by the Independent Expert in the IER.

Finally, the forward curve, which represents the price at which producers can hedge future gold production, is currently in contango and well in excess of the prices used by the Independent Expert in the IER (Figure 2). As such, Tietto does have the option to hedge production in the medium term at gold prices well in excess of the current spot gold price.

Figure 2: Gold forward curve & IER gold price assumptions – nominal (US\$/oz)



Source: IER, Bloomberg as at 19 December 2023.

Zhaojin observation 4: First valuation cross-check does not support the IER valuation when different listed peers, comparable transactions and valuation multiples are used

Tietto has an operating mine at Abujar with a LOMP that has been verified by independent technical specialists.

In such instances, a DCF is the most reliable valuation methodology and typically applied to operating mines across the gold mining industry, with multiples analysis representing a “cross-check” based on the most comparable market data available. The Tietto Directors note that Zhaojin’s only comments in the First Supplementary Bidder’s Statement regarding the DCF as the primary and most accurate valuation methodology were to say that: (a) not enough information was provided to Tietto shareholders (an assertion with which the Tietto Directors disagree, as outlined in **section 2.3** of this Second Supplementary Target’s Statement); and (b) that if a different gold price was used the independent valuation could be lower. The Tietto Directors do not believe that these comments constitute compelling reasons to discount or question the outcome of the IER.

The multiples are based on a select and subjective peer set which the Independent Expert considered to be the most comparable listed peers available, however it was disclosed in the IER that “no listed peer was directly comparable to Tietto”. The multiples of the peer set do not take into account specific factors relevant to Tietto, including the underlying quality of Abujar. The Independent Expert disclosed that “although we consider these to be the most comparable listed companies to Tietto, there are a number of differences. Notably, these factors include size and stage of production, noting that many West African gold production companies operate multiple mines that have been producing for a number of years with a higher level of resources and grades.”, as also outlined by Zhaojin in the First Supplementary Bidder’s Statement. In relation to the gold production multiples, the Independent Expert also stated “that companies are at different stages of production and experiencing different operational challenges.” Zhaojin’s First Supplementary Bidder’s Statement simply repeats the qualifications made by the Independent Expert as to the reliability of the multiples in what the Tietto Directors consider to be an attempt to cast doubt on the valuation range for Tietto. This ignores the fact that the IER valuation range relies fundamentally on the DCF analysis performed by the Independent Expert, which concludes that the Offer materially undervalues Tietto and is neither fair nor reasonable to Tietto shareholders not associated with Zhaojin.

Zhaojin in the First Supplementary Bidder Statement also state “Orezone and West African Resources (which the Independent Expert considers to be the most comparable companies)”, whilst appearing to disregard the Independent Expert’s analysis on page 7 of the IER which outlines potential reasons behind the discrepancies of these multiples compared with the implied multiples of Tietto. Additionally, Zhaojin’s First Supplementary Bidder Statement has made no reference or consideration to the Independent Expert’s analysis on page 7 of the IER outlining the production multiples over time showcasing that there have been significant decreases in the multiples of these comparable companies since the beginning of the year.

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Specifically, the Independent Expert states that “Orezone and WAF have their flagship assets located in Burkina Faso, which is considered a higher risk jurisdiction than Côte d’Ivoire and the events that occurred in the country in the last twelve months are likely to have depressed the trading prices and the Gold Production Multiples.”

Zhaojin observation 5: an investment in Tietto remains subject to a number of risks and no competing proposal has emerged

It is true that an investment in Tietto remains subject to a number of risks associated with mining and, more specifically, the Abujar project. A number of these risks were pointed out in the Target’s Statement and the Independent Expert was aware of them when undertaking its independent valuation of Tietto. It is also true that no competing proposal has emerged at the time of this response and there is no guarantee that one will emerge.

However, the absence of a competing proposal and the fact that investments in entities operating in the mining industry carry risk does not mean Tietto shareholders should accept an Offer that the Independent Expert has concluded materially undervalues Tietto’s shares and is neither fair nor reasonable to Tietto shareholders not associated with Zhaojin.

Tietto Directors Recommendation

The Tietto Directors continue to unanimously recommend that Tietto shareholders reject Zhaojin’s Offer as, among other reasons:

- The Offer materially undervalues the Company (noting that the gold price range assumed in the IER is substantially below the current spot gold price);
- In the view of the Tietto Directors, the Offer was opportunistically timed; and
- Two of Tietto’s major shareholders, holding in aggregate 18.72%¹ of Tietto, have confirmed to Tietto that they do not intend to accept Zhaojin’s Offer at the Offer price of A\$0.58 cash per Tietto share in respect of the Tietto shares they own or control.

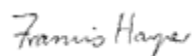
Full and detailed reasons for the Tietto Directors’ unanimous recommendation are set out in the Target’s Statement and the First Supplementary Target’s Statement, and the Tietto Directors encourage you to read those documents in full.

To reject the Offer as recommended by the Tietto Directors, Tietto shareholders should simply **do nothing** and **take no action** in relation to all documents sent to them by Zhaojin.

¹ This figure takes into account the slight dilution of existing Tietto shareholders’ interests in Tietto as a result of the conversion of a number of Tietto unlisted securities into fully paid ordinary Tietto shares as announced to the ASX on 14 December 2023.

If you have any questions in relation to Zhaojin's unsolicited, conditional, off-market takeover offer, you can contact Tietto on +61 (8) 6331 6182 between 9.00am and 5.00pm (Perth time) on Monday to Friday (excluding public holidays).

Yours sincerely,



Francis Harper
Chairman
Tietto Minerals Limited