



HERBERT  
SMITH  
FREEHILLS

Market Announcements Office  
Australian Securities Exchange  
20 Bridge Street  
Sydney NSW 2000

18 December 2023  
Matter 82743015  
Via ASX Online

Dear Sir/Madam

**Takeover bid by Zhaojin Capital (Hong Kong) Limited for Tietto Minerals Limited**

We act for Zhaojin Capital (Hong Kong) Limited (**Zhaojin Capital**) in relation to its off market takeover bid under Chapter 6 of the *Corporations Act 2001* (Cth) (the **Corporations Act**) for all of the fully paid ordinary shares in Tietto Minerals Limited ACN 143 493 118 (ASX:TIE) (**Tietto**).

We attach, by way of service pursuant to section 647(3)(a)(ii) of the Corporations Act (as inserted by *ASIC Corporations (Replacement Bidder's and Target's Statements) Instrument 2023/688*), Zhaojin Capital's first supplementary bidder's statement dated 18 December 2023 (**First Supplementary Bidder's Statement**).

A copy of the First Supplementary Bidder's Statement has been lodged with the Australian Securities and Investments Commission and sent to Tietto today, and will also be sent to Tietto shareholders.

Yours sincerely

**Philippa Stone**  
Partner  
Herbert Smith Freehills

+61 2 9225 5303  
+61 416 225 576  
philippa.stone@hsf.com

Herbert Smith Freehills LLP and its subsidiaries and Herbert Smith Freehills, an Australian Partnership ABN 98 773 882 646, are separate member firms of the international legal practice known as Herbert Smith Freehills.



ZHAOJIN

## ZHAOJIN MINING INDUSTRY COMPANY LIMITED

### 招金礦業股份有限公司

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

18 December 2023

Dear Tietto Shareholder

#### **Takeover bid by Zhaojin Capital (Hong Kong) Limited for Tietto Minerals Limited — First Supplementary Bidder's Statement**

On behalf of Zhaojin Capital (Hong Kong) Limited (**Zhaojin Capital**), I am writing to provide Tietto Shareholders with an update in relation to Zhaojin Capital's off market takeover bid for all of the fully paid ordinary shares in Tietto Minerals Limited ACN 143 493 118 (**Tietto**).

#### **Observations on Target's Statement and First Supplementary Target's Statement**

Zhaojin Capital has reviewed Tietto's target's statement dated 27 November 2023 (**Target's Statement**) in detail, including the Independent Expert's Report (**IER**) issued by Grant Thornton Australia Limited (**Independent Expert**) and the Independent Specialist Report (**SRK Report**) issued by SRK Consulting (Australasia) Pty Ltd (**SRK**), as well as the first supplementary target's statement dated 7 December 2023 (**First Supplementary Target's Statement**).

We express our overall disappointment that the Tietto Board has decided not to recommend that Tietto Shareholders accept Zhaojin Capital's Offer. We believe the Offer represents an attractive, certain exit price, which Tietto Shareholders should consider against several key points that call into question the Target's Statement's view on the value of Tietto.

To assist Tietto Shareholders in deciding whether to accept the Offer, Zhaojin Capital would like to make some observations about the Target's Statement, IER, SRK Report and First Supplementary Target's Statement. These are detailed in section 1 of this First Supplementary Bidder's Statement and are summarised below.

#### *Tietto has consistently failed to meet production guidance*

- On 7 December 2023, Tietto announced a downgrade in its production guidance for the six months ending 31 December 2023. This is despite Tietto having recently reaffirmed the guidance in the Target's Statement only 10 days earlier on 27 November 2023. Tietto has consistently failed to meet its production guidance since the Abujar Gold Mine commenced production. This has been the key reason for the long-term decline in Tietto's share price prior to the announcement of the Offer.

#### **Important notice**

This document is a supplementary bidder's statement under section 643 of the Corporations Act. It is the first supplementary bidder's statement (**First Supplementary Bidder's Statement**) issued by Zhaojin Capital in relation to its off market takeover bid for all of the fully paid ordinary shares in Tietto. This First Supplementary Bidder's Statement supplements, and should be read together with, Zhaojin Capital's bidder's statement dated 30 October 2023 (**Original Bidder's Statement**).

A copy of this First Supplementary Bidder's Statement has been lodged with ASIC and ASX. Neither ASIC, nor ASX, nor any of their respective officers take any responsibility for its contents.

Unless the context otherwise requires, terms defined in the Original Bidder's Statement have the same meaning as in this First Supplementary Bidder's Statement.

#### *The Independent Expert's valuation of Tietto*

- The omission of the detailed assumptions underlying the Tietto Financial Model on which the Independent Expert's valuation is based means Tietto Shareholders lack the information necessary to evaluate the reasonableness and reliability of the valuation presented in the IER.
- Tietto Shareholders should note that the Independent Expert's valuation is particularly sensitive to gold price forecasts. If a different gold price forecast is used, it may result in a materially lower valuation.

#### *The Independent Expert's valuation cross-checks*

- The valuation cross-checks undertaken by the Independent Expert raise concern. The Independent Expert's first valuation cross-check, which involves looking at Gold Production Multiples for comparable companies and transactions, includes comparisons which are not appropriate. For instance, they include large, multi-asset gold companies with a long track record of production, such as B2Gold, IAMGOLD, Endeavour and AngloGold Ashanti, which are very different and not directly comparable to single-asset, early-stage producers like Tietto. Similarly, the inclusion of a transaction involving a large multi-asset gold company like Randgold skews the results. Those companies also have far more consistent operating track records, unlike Tietto. If more appropriate comparisons are made, as outlined in section 1.4(b) of this First Supplementary Target's Statement, or if different multiples are used (such as multiples based on reserves and resources rather than gold production), the cross-check does not support the Independent Expert's valuation.
- The Independent Expert's second valuation cross-check, which involves looking at Tietto's Share price prior to the announcement of the Offer, focuses on an earlier period which fails to account for Tietto's production guidance downgrade on 5 September 2023 and revised life of mine plan for the Abujar Gold Mine (LOMP) on 5 October 2023. If a more recent period is used, which does include Tietto's Share price after that production downgrade and LOMP revision, the cross-check does not support the Independent Expert's valuation.

#### *An investment in Tietto remains subject to a number of significant risks*

- Tietto Shareholders should be aware that, despite the optimistic outlook of the Tietto Board, an investment in Tietto remains subject to significant risks. Zhaojin Capital's Offer represents an attractive, certain cash price for your Shares in the current uncertain environment and provides you with liquidity for your Tietto Shareholding regardless of its size. It also removes the risks of continuing to hold an investment in Tietto.
- In addition, Tietto shareholders should note that the SRK Report has recommended several adjustments to Abujar Gold Mine's reported mineral resources.

As set out in the Target's Statement, the Tietto Board is not aware, as at the date of the Target's Statement, of any competing proposal to the Offer. No competing proposal has been announced since that date. This means that Zhaojin Capital's A\$0.58 all-cash Offer is currently the only offer available to acquire all of the fully paid ordinary shares in Tietto, including your Shares. If Zhaojin Capital's Offer continues to be the only such offer available, there is a clear risk the Share price may fall after the Offer lapses.

#### **Further information**

The takeover offer by Zhaojin Capital is scheduled to close at 7.00pm (Sydney time) on 12 January 2024 (unless extended or withdrawn).

If you accept the Offer, you will, subject to the satisfaction of the conditions to the Offer and subject to the other terms of the Offer, be paid A\$0.58 cash for each of your fully paid ordinary shares in Tietto. Further information in relation to the Offer is set out in Zhaojin Capital's Original Bidder's Statement dated 30 October 2023.

**If you have already accepted Zhaojin Capital's Offer you need not take any action. If you have not, we strongly urge you to accept the Offer without delay.**

If you require a new acceptance form, or if you have any queries in relation to how to accept the Offer or any other matter relating to the takeover bid, please contact the Zhaojin Offer Information Line on 1300 918 419 (within Australia) or +61 3 9946 4423 (from outside of Australia), Monday to Friday (excluding public holidays) between 8.30am and 5.00pm (Sydney time).

Yours sincerely

A handwritten signature in black ink, appearing to be 'Jiang Guipeng' in Chinese characters.

**Mr. Jiang Guipeng**  
Chairman  
Zhaojin Capital (Hong Kong) Limited

This is an important document and requires your immediate attention.

If you are in any doubt about how to deal with this document, you should contact your broker, financial adviser or legal adviser immediately.

## First Supplementary Bidder's Statement

# ACCEPT

the Offer by

**Zhaojin Capital (Hong Kong) Limited  
(Zhaojin Capital)**

(a joint stock limited company incorporated in Hong Kong with limited liability and which is an indirect wholly-owned subsidiary of Zhaojin Mining Industry Company Limited (**Zhaojin Mining Industry**))

to purchase all of your ordinary shares in

**Tietto Minerals Limited ABN 53 143 493 118**

for

**A\$0.58 per Share**


# 1 Observations on Target's Statement, IER, SRK Report and First Supplementary Target's Statement


Zhaojin Capital would like to make some observations about the Target's Statement, IER, SRK Report and First Supplementary Target's Statement. Many of these observations relate to the Independent Expert's valuation of Tietto. Tietto Shareholders should consider the points set out below, in deciding whether to accept the Offer.

## 1.1 Tietto has consistently failed to meet production guidance


On 7 December 2023, Tietto announced a downgrade to its production guidance for the 6 months ending 31 December 2023.

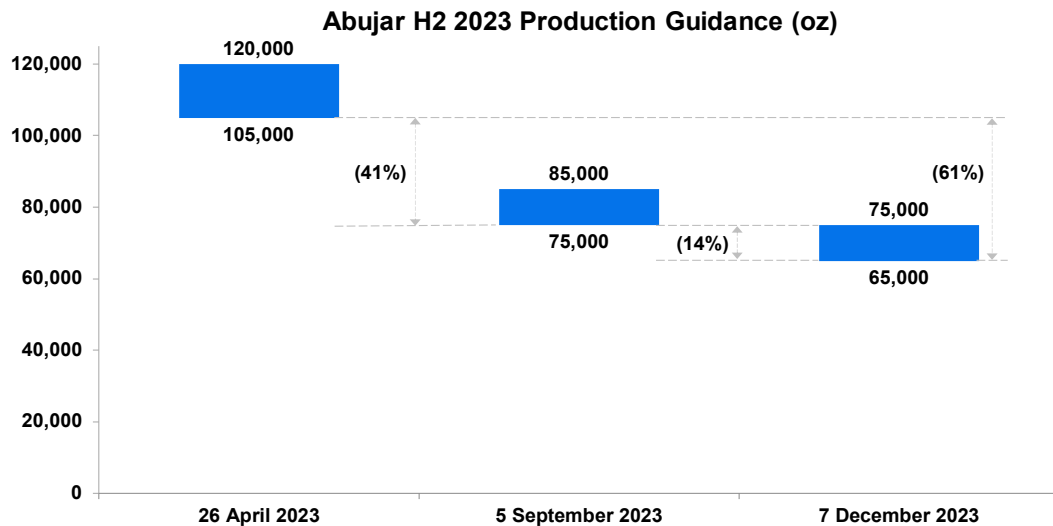
Tietto has consistently failed to meet its production guidance since the Abujar Gold Mine commenced production, even after Tietto lowered its key definitive feasibility study (DFS) parameters. This has been the key reason for the long-term decline in Tietto's share price prior to the announcement of the Offer.

Announcement date	Tietto's Abujar Gold Mine production guidance
3 January, 16 January and 20 March 2023	<ul style="list-style-type: none"> <li>Reaffirmed DFS forecast of 260,000oz gold in first year of production (30% increase over the preliminary feasibility study) at an all-in sustaining cost (AISC) of US\$651/oz</li> </ul>
26 April 2023	<ul style="list-style-type: none"> <li>Provided full-year 2023 production guidance of 134,000oz–154,000oz gold and reaffirmed all material assumptions underpinning first year production of 260,000oz gold continue to apply and have not materially changed</li> <li>Provided production guidance for: <ul style="list-style-type: none"> <li>the 3 months ending 30 June 2023 of 25,000oz–30,000oz gold; and</li> <li>the 6 months ending 31 December 2023 of 105,000oz–120,000oz gold at an AISC of US\$875/oz–US\$975/oz</li> </ul> </li> </ul>
28 July 2023	<p> <b>Failed to meet production guidance for the 3 months ending 30 June 2023 released on 26 April 2023, producing only 15,592oz gold</b></p> <ul style="list-style-type: none"> <li>Reaffirmed production guidance for the 6 months ending 31 December 2023 of 105,000oz–120,000oz gold at an AISC of US\$875/oz–US\$975/oz</li> </ul>
3 August 2023	<ul style="list-style-type: none"> <li>Reaffirmed production guidance for the 6 months ending 31 December 2023 of 105,000oz–120,000oz gold at an AISC of US\$875/oz–US\$975/oz</li> </ul>

5 September 2023  **Reduced production guidance for the 6 months ending 31 December 2023 to 75,000oz–85,000oz gold**

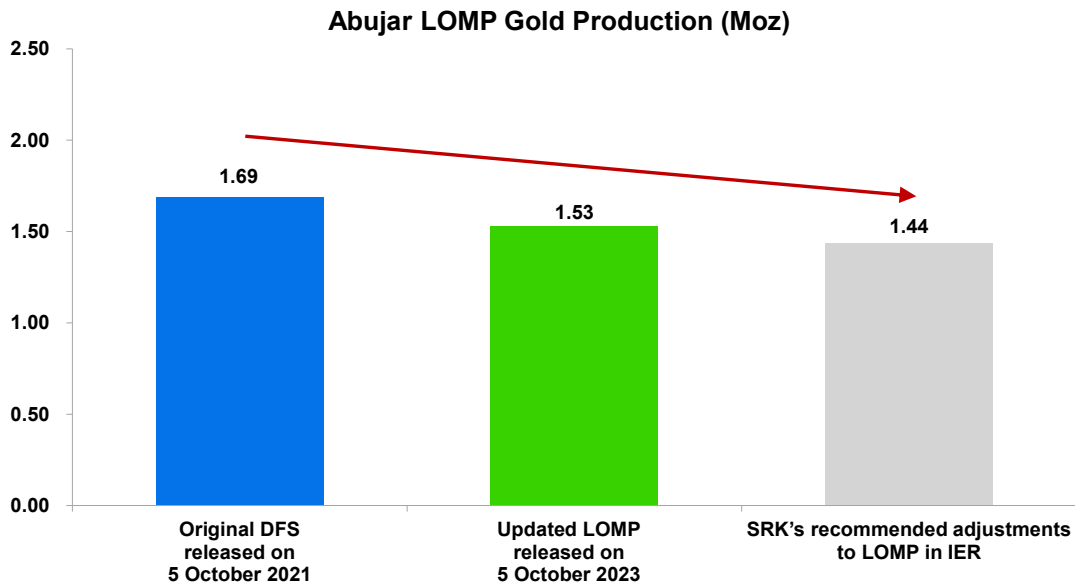
27 November 2023 • Reaffirmed production guidance for the 6 months ending 31 December 2023 of 75,000oz–85,000oz gold

7 December 2023  **Reduced production guidance for the 6 months ending 31 December 2023 to 65,000oz–75,000oz gold**

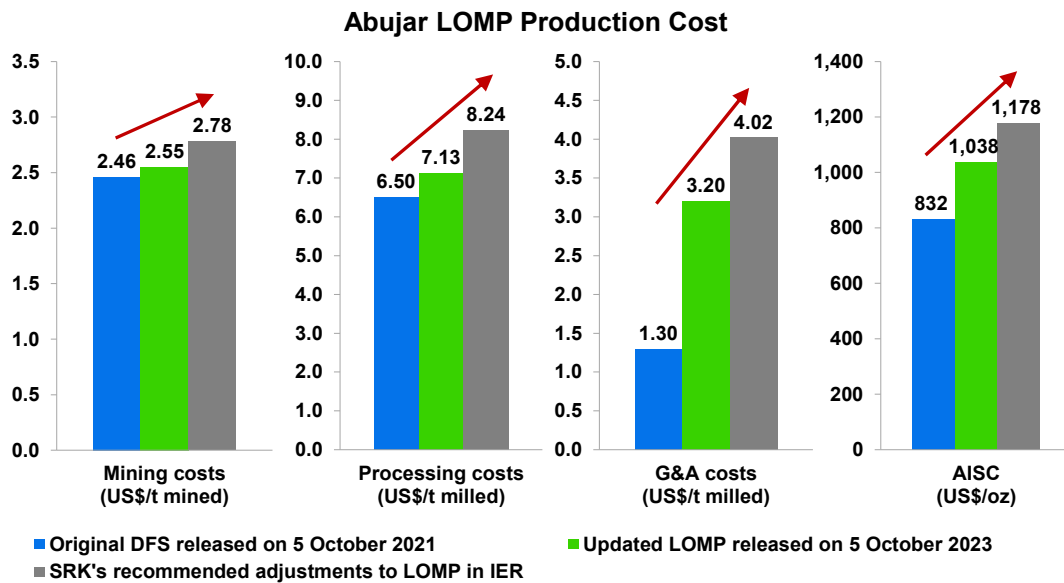


*Note: Percentage is calculated based on midpoint of the production guidance.*

The LOMP has been revised to reflect the production challenges described above and to increase the cost of production. The chart below highlights the evolution of the Abujar Gold Mine LOMP from the original DFS released on 5 October 2021, updated LOMP released on 5 October 2023 and SRK's recommended adjustments to the LOMP as set out in the IER for the period from 2024 to 2032.



*Note: SRK recommended adjustments to LOMP in IER of 1.44Moz has been calculated from the SRK LOMP recommended average of 0.16Moz per annum multiplied by 9 years (2024–2032).*



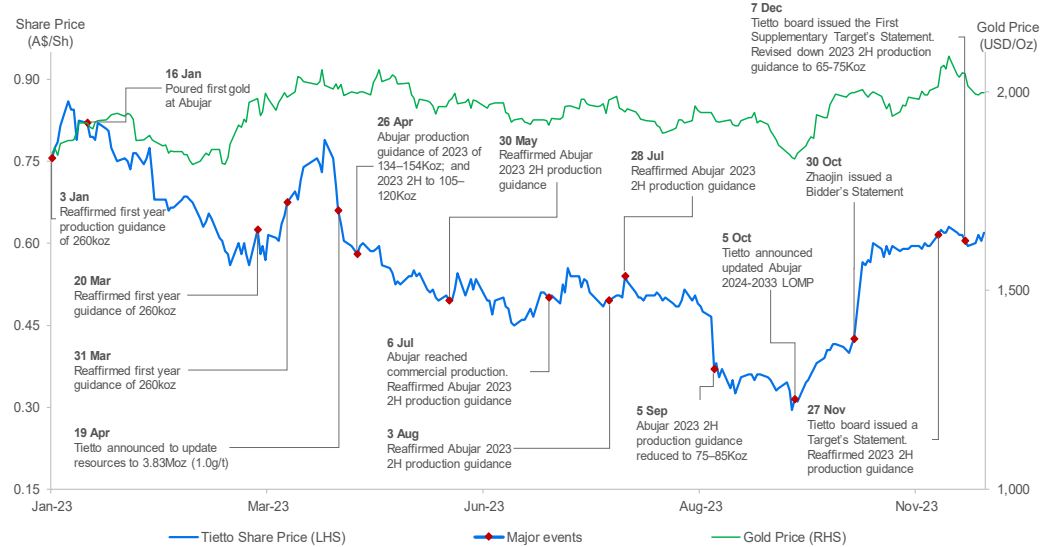
Zhaojin Capital's all-cash Offer eliminates both the uncertainty relating to the future mine plan and Tietto Shareholders' exposure to the mining risks associated with the Abujar Gold Mine's further development.

As set out in the following chart, Tietto's Share price has decreased from A\$0.860 in early January 2023, to as low as A\$0.295 in early October 2023, down more than 65%, despite the gold price decreasing 2% over the same period.<sup>1</sup>

<sup>1</sup> Gold price is sourced from Capital IQ database.



Tietto Share Price Performance (1 Jan 2023 – 14 Dec 2023)



When Zhaojin Capital's Offer at A\$0.58 per Tietto Share was announced on 30 October 2023, the Tietto Share price rose from A\$0.425 to A\$0.565, up 33%, which is the highest Tietto Share price since early May 2023. If Zhaojin Capital's Offer lapses, Tietto's Share price may drop to pre-Offer levels, reflecting the removal of the support which the Offer provides to the Share price and the fact that Tietto has been overly optimistic about its production and cost guidance in the past.

## 1.2 Omission of detailed assumptions means Tietto Shareholders lack the information necessary to evaluate the reasonableness and reliability of the IER valuation

In the IER, the Independent Expert assesses the value of Tietto using a discounted cash flow (DCF) approach. The DCF approach derives the value of Tietto Shares from, amongst other things, a financial model provided to the Independent Expert by Tietto summarising the forecast LOMP cash flows for the Abujar Gold Mine up to the financial year ending 30 June 2038 (Tietto Financial Model).

The Independent Expert did not disclose the assumptions underlying the Tietto Financial Model on the basis that they contain commercially sensitive information and do not meet ASIC's requirements for presentation of prospective financial information.

Although the Independent Expert states that it considers the assumptions to be reasonable and appropriate for the purpose of its valuation, the Independent Expert also acknowledges that the assumptions are inherently subject to considerable uncertainty, there is significant scope for differences of opinion and the value of Tietto could vary materially based on changes to certain key assumptions.

The omission of the detailed assumptions underlying the Tietto Financial Model on which the Independent Expert's valuation is based means Tietto Shareholders lack the information necessary to evaluate the reasonableness and reliability of the valuation presented in the IER.

For example, based on the IER, it is unclear what AISC assumptions have been used in the LOMP and whether costs in the LOMP have been appropriately adjusted for inflation. In addition, it is unclear how the Independent Expert's valuation has accounted for Tietto's

net working capital as at the valuation date, noting Tietto's 30 June 2023 financial statements disclosed a significant amount of trade and other payables (A\$68.7 million).

As a result of the omission of the detailed assumptions, Tietto Shareholders' evaluation of the IER may place greater emphasis on the Independent Expert's valuation cross-checks. However, the cross-checks raise concerns, as set out in sections 1.4 and 1.5 of this First Supplementary Bidder's Statement.

Further information in relation to the Independent Expert's DCF approach is set out in section 6.2 of the IER.

### 1.3 Independent Expert's valuation is particularly sensitive to gold price forecast

Tietto Shareholders should be aware that the Independent Expert's valuation is particularly sensitive to the Independent Expert's underlying long-term gold price assumptions, given the valuation is derived from predicted future sales of gold produced by the Abujar Gold Mine.

In the IER, the Independent Expert assumed future gold prices mainly based on data from Consensus Economics. As set out in the following table, using a Bloomberg consensus gold price instead can result in gold price assumptions that are close to 10% lower.

**Comparison of consensus gold prices (nominal basis)**

US\$/oz	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Independent Expert — high-end <sup>2</sup>	1,950	1,927	1,868	1,858	1,957	1,957	1,957	1,957	1,957	1,957
Bloomberg — high-end <sup>2, 3, 4, 5</sup>	1,968	1,942	1,817	1,756	1,793	1,793	1,793	1,793	1,793	1,793
<i>Variance</i>	<i>(0.9%)</i>	<i>(0.8%)</i>	<i>2.7%</i>	<i>5.5%</i>	<i>8.4%</i>	<i>8.4%</i>	<i>8.4%</i>	<i>8.4%</i>	<i>8.4%</i>	<i>8.4%</i>
Independent Expert — low-end <sup>2</sup>	1,978	1,935	1,893	1,850	1,865	1,865	1,865	1,865	1,865	1,865
Bloomberg — low-end <sup>2, 3, 4, 5</sup>	1,969	1,950	1,775	1,650	1,685	1,685	1,685	1,685	1,685	1,685
<i>Variance</i>	<i>0.5%</i>	<i>(0.8%)</i>	<i>6.2%</i>	<i>10.8%</i>	<i>9.7%</i>	<i>9.7%</i>	<i>9.7%</i>	<i>9.7%</i>	<i>9.7%</i>	<i>9.7%</i>

The Independent Expert's sensitivity analysis indicates that a 10% reduction in the assumed future gold price would lower its own valuation of Tietto by over 20%:

- Low-end valuation per Tietto Share from A\$0.793 to A\$0.613 (down 22%); and
- High-end valuation per Tietto Share from A\$0.927 to A\$0.731 (down 21.1%).

Forecasting gold prices is uncertain and Tietto shareholders will need to form their own view. However, Zhaojin Capital's all cash Offer eliminates the uncertainty relating to Tietto Shareholder's exposure to gold price fluctuation and risks.

<sup>2</sup> Assumes long-term price will be applied for 2028–2033.

<sup>3</sup> Includes broker forecasts updated in the past two months since 1 October 2023.

<sup>4</sup> Mean of gold consensus price is used for high-end scenario, and median is used for low-end scenario, adopting the same approach as the Independent Expert.

<sup>5</sup> High-end / low-end long-term price is calculated as US\$1,756 / US\$1,650 of 2027 inflated by long-term US inflation rate of 2.1% stated by the Independent Expert.

Further information in relation to the impact of the gold price forecast on the Independent Expert's valuation is set out in the executive summary and section 6.2.1 of the IER.

#### 1.4 First valuation cross-check does not support the IER valuation when different listed peers, comparable transactions and valuation multiples are used

The Independent Expert cross checks its valuation of Tietto based on the DCF approach by comparing multiples of annual gold production (**Gold Production Multiple**)<sup>6</sup> implied by its valuation of Tietto with the Gold Production Multiples of certain of Tietto's listed peers and comparable transactions.

##### (a) Tietto gold production comparison

The Independent Expert used two measures to calculate the Abujar Gold Mine's annual gold production for Tietto's Gold Production Multiples:

- the Abujar Gold Mine LOMP average of 170,000oz (**LOMP Multiple**); and
- an annualised forecast of 160,000oz, based on the midpoint of Tietto's then production guidance for the 6 months ending 31 December 2023 (**Guidance Multiple**).

As noted above, in the First Supplementary Target's Statement, Tietto downgraded its production guidance for the 6 months ending 31 December 2023 to 65,000oz–75,000oz gold, after publication of the IER. Using an annualised forecast of 140,000oz based on the midpoint of Tietto's current production guidance leads to a Gold Production Multiple of A\$7,127–A\$8,397/oz (**Revised Guidance Multiple**).

Tietto Shareholders should note that there is no guarantee that Tietto will achieve its production guidance.

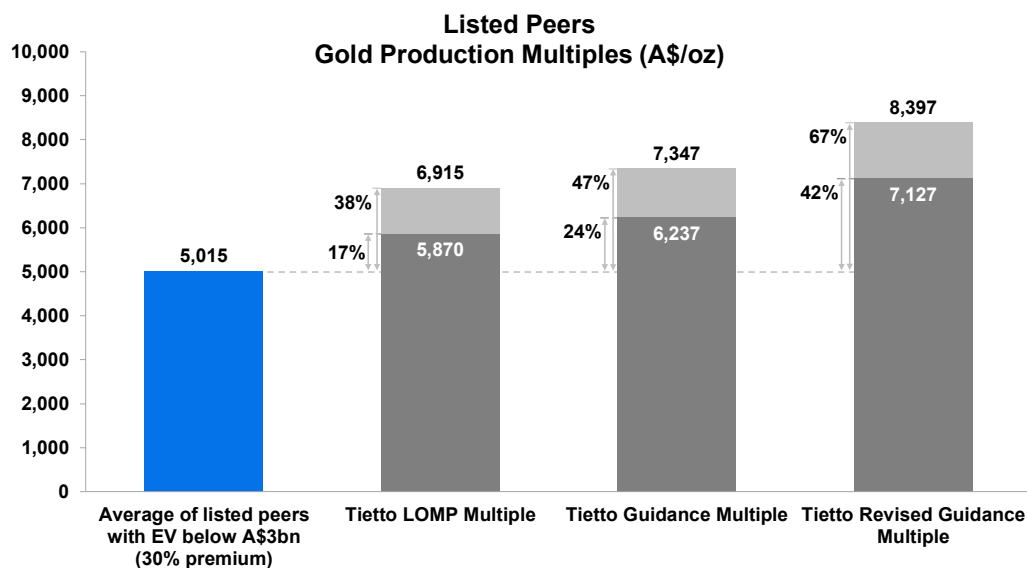
Further information in the Tietto Gold Production Multiples is set out in section 7.1 of the IER.

##### (b) Listed peer comparison

The listed peers used by the Independent Expert include large multi-asset gold companies with a long track record of production, such as B2Gold, IAMGOLD, Endeavour and AngloGold Ashanti, which skews the average Gold Production Multiple of the listed peers and results in a potentially misleading comparison. These multi-asset companies should have been excluded from the group of listed peers as they are normally expected to trade at a premium to single-asset companies.

Removing B2Gold, IAMGOLD, Endeavour and AngloGold Ashanti from the listed peers and comparing Tietto to the remaining listed peers (each of which have an EV of less than A\$3 billion), including Orezone and West African Resources (which the Independent Expert considers to be the most comparable companies), produces a very different comparison to that made by the Independent Expert, as set out in the following chart.

<sup>6</sup> Calculated as enterprise value (**EV**) divided by annual attributable gold production, which in Tietto's case reflects Tietto's 88% percentage ownership of the operations at the Abujar Gold Mine.

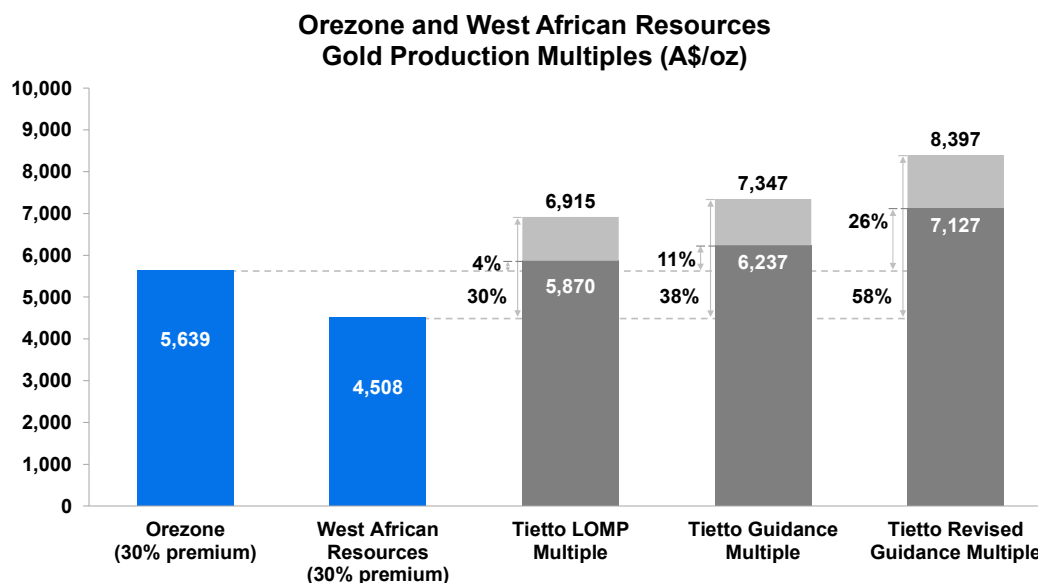


*Note: Listed peers with EV of less than A\$3 billion comprise Orezone, Centamin, Perseus Mining, Resolute Mining and West African Resources, as set out in the IER.*

Tietto Shareholders should note the Independent Expert applied a 30% premium to the market prices of the listed peers to calculate their EVs.

The chart above highlights that the Tietto Gold Production Multiples implied by the IER's valuation range are significantly higher than the average Gold Production Multiple of Tietto's listed peers with an EV of less than A\$3 billion. This implies that the Independent Expert's valuation range for Tietto is too high:

- **Tietto LOMP Multiple:** 17%–38% higher than the listed peers with an EV of less than A\$3 billion;
- **Tietto Guidance Multiple:** 24%–47% higher than the listed peers with an EV of less than A\$3 billion; and
- **Tietto Revised Guidance Multiple:** 42%–67% higher than the listed peers with an EV of less than A\$3 billion.



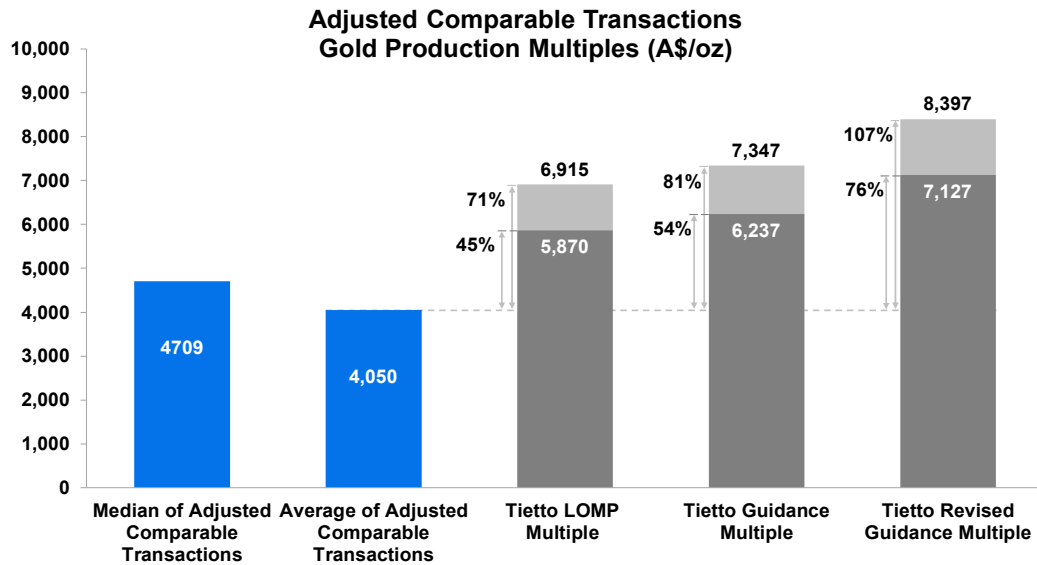
Similarly, the chart above highlights that the Tietto Gold Production Multiples implied by the IER's valuation range are significantly higher than the Gold Production Multiples of Orezone and West African Resources, even when compared to the lower end of the IER's valuation range. This implies that the Independent Expert's valuation range for Tietto is too high:

- **Tietto LOMP Multiple:** 4% higher than Orezone and 30% higher than West African Resources;
- **Tietto Guidance Multiple:** 11% higher than Orezone and 38% higher than West African Resources; and
- **Tietto Revised Guidance Multiple:** 26% higher than Orezone and 58% higher than West African Resources.

Further information in relation to the listed peer comparison is set out in the executive summary and section 7.1.1 of the IER.

(c) **Comparable transactions**

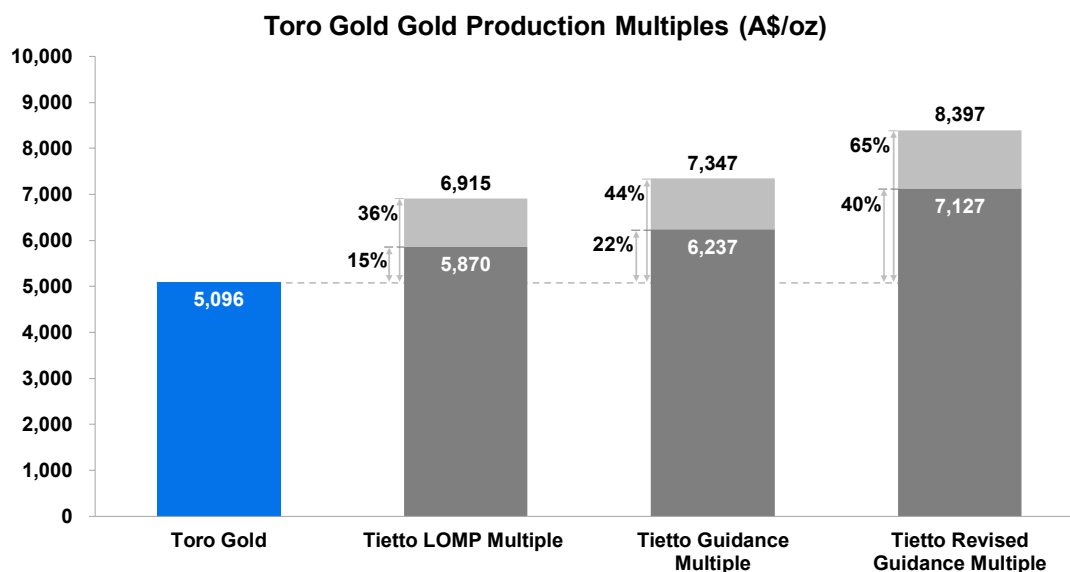
The Independent Expert's comparable transactions include Barrick's acquisition of Randgold, a large multi-asset, diversified gold producer with an implied EV of approximately A\$8 billion. It would be more appropriate to exclude this transaction from the comparable transactions because, as a large, multi-asset gold producer, Randgold had significantly lower production costs and a trading multiple that is not comparable to Tietto or the other comparable transactions.



Notes: (1) The data set has been reproduced from the IER; (2) Adjusted Comparable Transactions comprise Endeavour Mining's acquisitions of SEMAFO, Avesoro Jersey Limited's acquisition of Avesoro Resources, and Resolute Mining's acquisition of Toro Gold.

As set out in the chart above, excluding Randgold from the Independent Expert's comparable transactions (**Adjusted Comparable Transactions**) shows that, regardless of which measure of annual gold production is used, the Tietto Gold Production Multiples implied by the IER's valuation range are significantly higher than the Adjusted Comparable Transactions' average Gold Production Multiple. This implies that the Independent Expert's valuation range for Tietto is too high:

- **Tietto LOMP Multiple:** 45%–71% higher than the Adjusted Comparable Transactions average;
- **Tietto Guidance Multiple:** 54%–81% higher the Adjusted Comparable Transactions average; and
- **Tietto Revised Guidance Multiple:** 76%–107% higher than the Adjusted Comparable Transactions average.



*Note: The data set has been reproduced from the IER.*

The chart above shows that Tietto's Gold Production Multiples implied by the IER's valuation range are significantly higher than the Gold Production Multiple based on Resolute Mining's acquisition of Toro Gold, a single-asset West African gold company, which the Independent Expert considers is the most relevant comparison amongst the selected transactions for Tietto:

- **Tietto LOMP Multiple:** 15%–36% higher than Toro Gold;
- **Tietto Guidance Multiple:** 22%–44% higher than Toro Gold; and
- **Tietto Revised Guidance Multiple:** 40%–65% higher than Toro Gold.

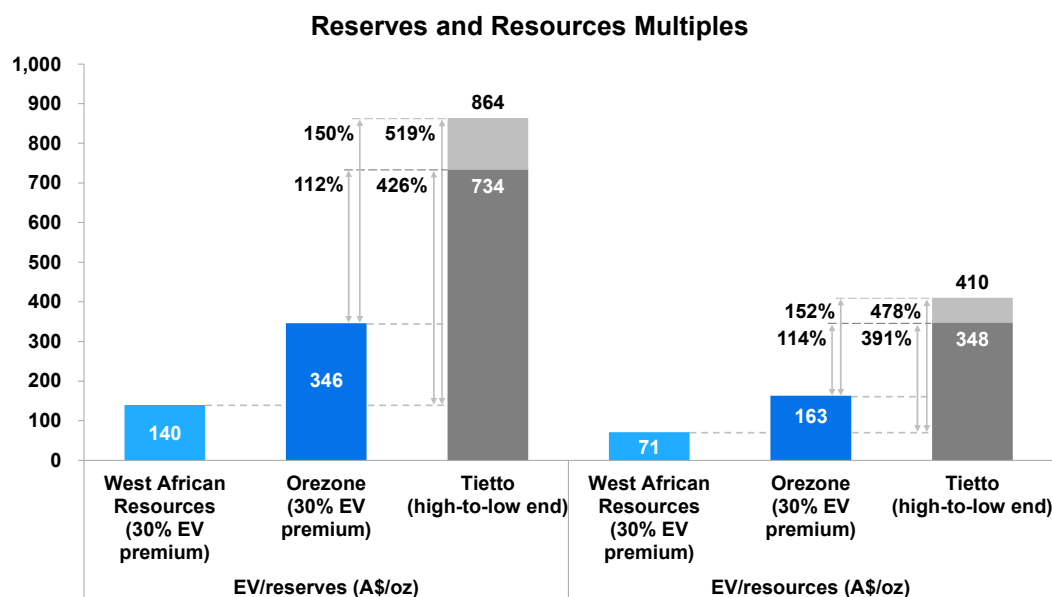
Further information in relation to the comparable transactions is set out in the executive summary and section 7.1.2 of the IER.

**(d) Omission of reserves and resources multiples**

In addition to the Gold Production Multiple, reserves and resources multiples are commonly used in the mining industry to provide a basis for comparison.

The Independent Expert states that, in its opinion, the Gold Production Multiple is more relevant for valuation assessment of Tietto than multiples based on reserves and resources given Tietto has prioritised construction and commissioning of the Abujar Gold Mine. However, growing reserves and resources requires a significant amount of work and investment, which highlights the risks to which Tietto Shareholders are exposed. As such, multiples based on reserves and resources are a relevant consideration for Tietto Shareholders.

As set out in the following chart, comparing the Independent Expert's valuation of Tietto to Orezone and West African Resources based on EV/reserves and EV/resources multiples shows the Independent Expert's valuation of Tietto is higher than these peers by 112% to 519%.



Further information in relation to the reserves multiples is set out in section 7.1.2 of the IER.

## 1.5 Second valuation cross-check in the IER uses VWAP analysis that is not credible

The Independent Expert also cross checks its valuation of Tietto based on the DCF approach by comparing it to various Tietto Share prices prior to the announcement of the Offer.

As part of this analysis, the Independent Expert states that it may not be necessarily appropriate to strictly refer to Tietto Share prices in the period immediately before the announcement of Zhaojin Capital's Offer on 30 October 2023 because the Tietto Share price 'may have been adversely affected by short-term market over-reaction to the predominantly temporary production issues faced by [Tietto]'. Instead, the Independent Expert states that other potentially more relevant benchmarks include volume weighted average prices (**VWAP**) of Tietto Shares over several periods prior to 5 September 2023, being a date on which Tietto announced reduced production guidance for the 6 months ending 31 December 2023.

The Independent Expert's VWAP analysis in periods prior to 5 September 2023 fails to capture the effect on Tietto's Share price of the production guidance downgrade announced on 5 September 2023. Consequently, it does not accurately reflect a fully informed market price for Tietto Shares as at the date the Offer was announced, and therefore it is not a credible basis for comparison with either the Independent Expert's valuation of Tietto under the DCF approach or Zhaojin's Capital's Offer.

On 5 October 2023, Tietto released an updated LOMP which reduced production guidance and increased assumed production costs. SRK recommended further adjustments to the LOMP, as set out in the IER. On 7 December 2023, Tietto announced a further reduction in production guidance. These revisions highlight the risks relating to the operation and further development of the Abujar Gold Mine for Tietto Shareholders and, in Zhaojin



Capital's view, such risks were better reflected in the Tietto Share price in the period immediately before the announcement of the Offer on 30 October 2023 rather than the period prior to 5 September 2023.

Further, the Independent Expert did not consider that the Tietto Share price at the beginning of 2023 may have been inflated as a result of ongoing speculation regarding a potential control transaction for Tietto involving Chifeng Jilong Gold Mining Co. or Zhaojin Mining Industry.<sup>7</sup>

The only true unaffected Tietto Share price against which the Offer can be compared is the closing price on 27 October 2023, being the trading day prior to the announcement of the Offer, and prices across periods to that date (although noting that those prices may have been even lower had the market known at that time about the further 7 December 2023 production downgrade). Comparing the Offer against other Tietto Share prices may be arbitrary and potentially misleading.

Zhaojin Capital reiterates the following VWAP analysis set out in the Original Bidder's Statement, which highlights the Offer's attractive premium for Tietto Shareholders:

- 36% to the Tietto closing price as at 27 October 2023 (the last trading day prior to the Announcement Date), being A\$0.425 per Share;
- 42% to the Tietto five-day VWAP as at 27 October 2023 (the last trading day prior to the Announcement Date), being A\$0.408 per Share;
- 60% to the Tietto one-month VWAP as at 27 October 2023 (the last trading day prior to the Announcement Date), being A\$0.362 per Share;
- 41% to the Tietto three-month VWAP as at 27 October 2023 (the last trading day prior to the Announcement Date), being A\$0.412 per Share; and
- 71% to the equity conversion price of the US\$8 million short term loan announced to ASX by Tietto on 17 October 2023, being A\$0.340 per Share.

Further information in relation to the Tietto Share price cross-check is set out in the executive summary and section 7.2 of the IER.

## **1.6 An investment in Tietto remains subject to a number of significant risks and uncertainties**

Tietto's Board is optimistic about the future prospects of Tietto. For instance, Tietto states in section 1 of the Target's Statement that:

- the ramp up in operations at the Abujar Gold Mine has recently shown significant improvement and the Tietto directors are confident this improvement will continue; and
- Tietto has a strong near-term cash flow forecast.

Tietto Shareholders should be aware that, despite the Tietto Board's optimism about the future, an investment in Tietto remains subject to a number of significant risks and uncertainties.

For instance, as set out in section 7.5 of the Target's Statement, Tietto faces gold price volatility, operational uncertainties and risks, risks relating to Tietto's reserves and resources, risks relating to meeting production guidance, environmental risks and risks relating to future capital requirements.

In particular, Tietto Shareholders should note that to achieve the Independent Expert's valuation of Tietto, Tietto's management will likely be required to deliver all the aspects

<sup>7</sup> See, for example, the articles published in the Australian Financial Review: "Bankers pitch Tietto Minerals after Chinese miner buys in" (20 July 2022) and "More buying in Tietto shares; fingers point to Chinese investors" (7 October 2022).

assumed in the LOMP (as adjusted by SRK's recommendations set out in the SRK Report) without any significant variance or delay.

Zhaojin Capital highlights the following key risks and uncertainties (among others) identified from its review of the Target's Statement, IER and SRK Report.

**(a) Inclusion of inferred resources in the LOMP**

As set out in the IER, Tietto's LOMP assumes 25% of the future mined ore will be sourced from currently inferred resources. To achieve this, Tietto will need to convert 60% of the Abujar Gold Mine's inferred resources into reserves through additional infill drilling. Tietto Shareholders should note that inferred resources are generally subject to a lower level of geological confidence and cannot be converted directly into reserves without additional exploration works. There is no guarantee that the Abujar Gold Mine's inferred resources will be converted into reserves and be mined economically by Tietto.

**(b) Uncertainty regarding capacity expansion and processing schedule**

Tietto's LOMP assumes milling throughput of 5.5Mtpa from 2025 onwards (as compared to the designed capacity of 4.5Mtpa). This assumption is subject to considerable operational risks. The complexity and interdependency of the change from original designed capacity can increase the difficulty and uncertainty of capacity planning and operation, as well as the risk of cascading failures or unintended consequences.

The production at the Abujar Gold Mine has encountered various operational issues and challenges since commencing operations, including the recurring wet season, bench-scale slope failure, insufficient stockpiles and grade control reconciliation with the reserve model, which have resulted in the delay of planned production and higher associated costs.

**(c) Omission of cyanide detoxification circuit in the process flow**

As set out in the SRK Report, a cyanide detoxification circuit was included in the original design of the Abujar Gold Mine process flow but appears not to have been implemented at this stage. Operating the Abujar Gold Mine without a cyanide detoxification circuit may increase the environmental risk of the mine. In addition, the installation of a cyanide detoxification circuit will involve additional capital investment and increase the processing costs of the mine.

**(d) Capital return not guaranteed**

Notwithstanding the statement in section 1.2 of the Target's Statement that there may be an opportunity for Tietto to return capital to Tietto Shareholders in the future (including in the form of a dividend), Tietto Shareholders should note that there is no guarantee that Tietto will pay its Shareholders a dividend in 2024, or ever.

## **1.7 SRK Report recommends adjusting the Abujar Gold Mine's mineral resources**

Tietto Shareholders should note the following comments made in the IER and SRK Report.

SRK highlighted that the 3.83Moz mineral resources reported by Tietto includes 25% of material (0.96Moz) below the 'Reasonable Prospects for Eventual Economic Extraction' (RPEEE) pit shells, which in turn, in SRK's opinion, does not meet the guideline requirements for the reporting of mineral resources under the JORC Code (2012).

SRK has recalculated the mineral resources from the block models supplied to ascertain cut-off grade splits to separate the material within the RPEEE pit shells from material below the pit shells.

Accordingly, the total mineral resource tonnage estimate by Tietto has decreased by 23MT from 124MT to 101MT, the average grade has decreased from 1.0 g/t gold to 0.88 g/t gold,

and the total contained gold has decreased by 0.96Moz from 3.83Moz to 2.87Moz by over 25%, based on SRK's recalculation.

Zhaojin Capital's all-cash Offer eliminates both the uncertainty relating to the future mine plan and Tietto Shareholders' exposure to the mining risks associated with further developing the Abujar Gold Mine.

Further information in relation to this recommended adjustment is set out in section 2.2.4 of the SRK Report.

## 1.8 No competing proposal has emerged

Tietto states in section 1.5 of the Target's Statement that if Tietto Shareholders accept Zhaojin Capital's Offer, they risk missing out if a superior proposal from a third party emerges.

Tietto Shareholders should note that:

- as at the date of the Target's Statement, Tietto's Board indicates that it is not aware of any competing offer that is available to be accepted by Tietto Shareholders, as set out in section 2 of the Target's Statement;
- Zhaojin Capital considers the likelihood of a superior proposal emerging from a third party to be low; and
- if a Tietto Shareholder accepts the Offer and Zhaojin Capital subsequently decides to increase the Offer price, including in response to the emergence of a competing proposal, the Tietto Shareholder would receive the increased Offer Price for their Shares.

## 2 Consents

---

This First Supplementary Bidder's Statement includes statements which are made in, or based on statements made in, documents lodged with ASIC or given to the ASX. Under the terms of *ASIC Corporations (Takeover Bids) Instrument 2023/683*, the parties making those statements are not required to consent to, and have not consented to, inclusion of those statements in this First Supplementary Bidder's Statement. If you would like to receive a copy of any of those documents, or the relevant parts of the documents containing the statements (free of charge), during the bid period, please contact the Zhaojin Offer Information Line on 1300 918 419 (within Australia) or +61 3 9946 4423 (from outside of Australia), Monday to Friday (excluding public holidays) between 8.30am and 5.00pm (Sydney time). Calls to this number may be recorded. Zhaojin Capital will provide these within 2 Business Days of the request.

In addition, as permitted by *ASIC Corporations (Consents to Statements) Instrument 2016/72*, this First Supplementary Bidder's Statement contains trading data sourced from Bloomberg provided without their consent.

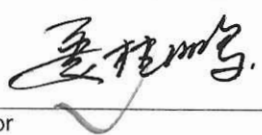
## Approval

---

This First Supplementary Bidder's Statement has been approved by a resolution passed by the directors of Zhaojin Capital.

date 18 December 2023

Signed for and on behalf of  
**Zhaojin Capital (Hong Kong) Limited**  
By

sign here ▶   
Director

print name Jiang Guipeng