

Tolu Minerals Limited

Financial report

For the year ended 31 December 2021

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TOLU MINERALS LIMITED

DIRECTORS' REPORT

The directors present their report together with the financial report of Tolu Minerals Limited (formerly Lole Mining Limited), the "company", for the year ended 31 December 2021 and auditor's report thereon.

Directors names

The names of the directors in office at any time during or since the end of the year are:

John Anderson (Chairman) (appointed 1 April 2021)

Larry Andagali (appointed 1 April 2021)

Howard Lole (appointed 19 March 2020)

John Macpherson (appointed 15 April 2021)

Brian Moller (appointed 24 February 2022)

Naime O'ome (Company Secretary) (appointed 2 July 2021)

The directors have been in office since the start of the year to the date of this report unless otherwise stated.

Results

The loss of the company for the year after providing for income tax amounted to \$810,374 (2020: \$13).

Review of operations

The company continued to engage in its principal activity, the results of which are disclosed in the attached financial statements.

Significant changes in state of affairs

There were no significant changes in the company's state of affairs that occurred during the financial year, other than those referred to elsewhere in this report.

Principal activities

The principal activity of the company during the year was mine acquisition and evaluation activities.

No significant change in the nature of these activities occurred during the year.

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TOLU MINERALS LIMITED

DIRECTORS' REPORT

After balance date events

Particulars of matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations or the state of affairs of the company in future financial years are as follows:

Tolukuma acquisition

On 17 February 2021 Tolu executed a Binding Term Sheet with Tolukuma Gold Mines Ltd (in Liquidation) to acquire the Tolukuma Gold Mine and associated assets for K20,000,000. On 27 April 2021 the two parties concluded a Sale of Assets Agreement (**SAA**) for that purpose.

On 1 September 2021 ML 104 was renewed for a further 10 years to August 2032.

On 30 September 2022 the conditions of the SAA were fully met and Tolu completed the acquisition of the former assets of Tolukuma Gold Mines Ltd., namely the Tolukuma Gold Project, in PNG including five exploration permits surrounding the Tolukuma mine providing a dominant landholding of 1,600 km² across the highly productive Tolukuma gold structure. Tolukuma was now 100% owned by the Company.

As at the date of this report, the Company has remitted a total of K3,000,000 in instalment payments under the Sale of Assets Agreement.

Frontier Acquisition

On 16 March 2022, the Company entered into a binding agreement with Frontier Resources Ltd (subsequently renamed Lanthanein Resources Limited, ASX:LNR (**Lanthanein**), to acquire all the shares in its wholly owned subsidiary Frontier Copper PNG Ltd, the 100% holder of the Tolukuma Exploration Licence EL2531 in close proximity to Tolukuma as well as a pending Exploration License Application for the historical Sinivit gold mine in East New Britain Province, PNG, ELA 2529.

The agreement with Lanthanein is expected to complete concurrently with completion of the IPO. On completion, Tolu shall pay A\$500,000 cash to Lanthanein and a further A\$1.5 million in either cash or more likely shares at the election of Tolu. Further consideration of A\$1 million is payable if, within the next 5 years, an aggregate minimum of 500,000oz of gold of not less than JORC (2012) Indicated category of resource is identified on EL2531.

Borrowings – Convertible Loans

During the financial year ended 31 December 2021, the company entered into Converting Loan Agreements with various parties, denominated in Papua New Guinea Kina. The convertible loans totaling K3,950,000 as at 31 December 2021 are unsecured and interest free, with repayment in 2 years from the execution date of the agreements, or earlier at the sole discretion of the company. Repayment can be in the form of shares or cash, or a combination at the discretion of the company.

On 14 February 2022 a new convertible loan agreement for K1,000,000 was entered into by the company taking the total to K4,950,000 to the following lenders:-

Amount of Loan in Kina

LLA Investment Ltd	K2,000,000
PNG Mining & Petroleum Hospitality Services Ltd	K300,000
Natko Investments Limited	K50,000
TD2Q Limited	K200,000
Tapara Engineering Services Limited	K100,000
Tuguba Holdings Limited	K100,000
Ipwenz Holdings Limited	K1,000,000
Trans Wonderland Limited	K1,000,000
Wandiago Kau	K100,000
Hiwa Corporation Ltd	K100,000
TOTAL	K4,950,000

On 27 October 2022, the above convertible loans totalling K4,950,000 were converted for 5,351,351 shares in the Company at a conversion price of A\$0.37 per share.

TOLU MINERALS LIMITED

DIRECTORS' REPORT

MRDC Convertible Note Deed

On 24 August 2022, the Company entered into a Convertible Note Deed with Petroleum Resources Kutubu Limited (PRK), a subsidiary of Mineral Development Resource Company for an amount of 10,000,000 Papua New Guinea Kina.

The Company has granted a registered first ranking security interest over ML 104 and all the assets situated upon ML 104 pursuant to a general security deed.

The notes issued to PRK have a 5 year maturity date expiring on 24 August 2027 and will bear interest at the rate of 8.5% p.a.

In the event of an IPO, the Noteholder is entitled to convert the notes into Shares at a conversion price being the 15-day VWAP for trading of the Company's shares on ASX immediately prior to the issue of the conversion notice.

PRK may exercise their right to convert the notes at any time and the Company must redeem the notes at face value on the maturity date.

The Company has an early redemption right exercisable at any time over the 5-year period at 103% of the face value of the notes.

Interest shall be capitalised annually in arrears and repaid on the earlier of;

- (a) the conversion date;
- (b) the maturity date; or
- (c) the early redemption date.

Share Issues

On 1 April 2021 the board resolved to issue 15,466,150 founder shares for nil consideration.

On 1 April 2021 the board also resolved to issue 364,830 shares for total consideration of A\$36,481 (gross) net of the conversion of a director related loan of A\$15,801.

On 28 April 2021 the board resolved to issue 33,000,000 founder shares for nil consideration.

On 28 April 2021 the board also resolved to issue 4,055,620 shares for total consideration of A\$399,864.

On 25 February 2022 the board resolved to issue 3,000,000 founder shares for nil consideration

On 27 October 2022 the company issued 19,843,906 shares for consideration of A\$0.37 per share as part of the Pre-IPO raise. This included the conversion of the convertible loans of K4,950,000

On 25 November 2022, the company issued a further 1,646,351 shares for consideration of A\$0.37 per share as part of the Pre IPO raise.

On 25 November 2022, the company redeemed 135,000 shares for consideration of A\$0.37 per share.

Likely developments

The company expects to maintain the present status and level of operations.

Dividends paid, recommended and declared

No dividends were paid or declared since the start of the year. No recommendation for payment of dividends has been made.

Options

No options over unissued shares or interests in the company were granted during or since the end of the year and there were no options outstanding at the end of the year.

TOLU MINERALS LIMITED

**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF TOLU MINERALS LIMITED**

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TOLU MINERALS LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 \$	2020 \$
Revenue and other income			
Other income	7	<u>181,225</u>	<u>-</u>
		<u>181,225</u>	<u>-</u>
Less: expenses			
Evaluation expenditure		(128,657)	-
Depreciation and amortisation expense	5	(618)	-
Finance costs	5	(81,990)	-
Legal and professional fees		(683,028)	-
Travel expenses		(14,980)	-
Other expenses		<u>(82,326)</u>	<u>(13)</u>
		<u>(991,599)</u>	<u>(13)</u>
Loss before income tax expense		(810,374)	(13)
Income tax expense	8	<u>-</u>	<u>-</u>
Loss for the year		<u>(810,374)</u>	<u>(13)</u>
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit and loss</i>			
Exchange differences on translation of foreign operations		<u>(282)</u>	<u>(11)</u>
Other comprehensive income for the year		<u>(282)</u>	<u>(11)</u>
Total comprehensive income		<u>(810,656)</u>	<u>(24)</u>

Comparatives reflect results of the Company for the period beginning 19 March 2020 being the incorporation date of the Company.

The accompanying notes form part of these financial statements.

TOLU MINERALS LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Note	2021 \$	2020 \$
Current assets			
Cash and cash equivalents	9	1,189,704	18,525
Receivables		<u>38,379</u>	<u>-</u>
Total current assets		<u>1,228,083</u>	<u>18,525</u>
Non-current assets			
Property, plant and equipment	10	12,569	-
Other assets	11	<u>196,387</u>	<u>-</u>
Total non-current assets		<u>208,956</u>	<u>-</u>
Total assets		<u>1,437,039</u>	<u>18,525</u>
Current liabilities			
Payables	12	361,713	-
Borrowings	13	<u>1,264,706</u>	<u>18,501</u>
Total current liabilities		<u>1,626,419</u>	<u>18,501</u>
Total liabilities		<u>1,626,419</u>	<u>18,501</u>
Net assets		<u>(189,380)</u>	<u>24</u>
Equity			
Share capital	14	436,413	48
Reserves	15	184,594	(11)
Retained earnings / (Accumulated losses)		<u>(810,387)</u>	<u>(13)</u>
Total equity		<u>(189,380)</u>	<u>24</u>

The accompanying notes form part of these financial statements.

TOLU MINERALS LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	Contributed equity \$	Reserves \$	Retained earnings \$	Total equity \$
Balance as at 19 March 2020	-	-	-	-
Loss for the year	-	-	(13)	(13)
Other comprehensive income for the year	-	(11)	-	(11)
Total comprehensive income for the year	-	(11)	(13)	(24)
Transactions with owners in their capacity as owners:				
Contributions	48	-	-	48
Total transactions with owners in their capacity as owners	48	-	-	48
Balance as at 31 December 2020	48	(11)	(13)	24
Balance as at 1 January 2021	48	(11)	(13)	24
Loss for the year	-	-	(810,374)	(810,374)
Other comprehensive income for the year	-	(282)	-	(282)
Total comprehensive income for the year	-	(282)	(810,374)	(810,656)
Transactions with owners in their capacity as owners:				
Contributions	436,365	-	-	436,365
Gain on convertible loans held by shareholders	-	184,887	-	184,887
Total transactions with owners in their capacity as owners	436,365	184,887	-	621,252
Balance as at 31 December 2021	436,413	184,594	(810,387)	(189,380)

The accompanying notes form part of these financial statements.

TOLU MINERALS LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 \$	2020 \$
Cash flow from operating activities			
Payments to suppliers and employees		<u>(585,657)</u>	<u>(13)</u>
Net cash used in operating activities	16(b)	<u>(585,657)</u>	<u>(13)</u>
Cash flow from investing activities			
Payment for property, plant and equipment		(13,208)	-
Payment for other non current assets		<u>(196,387)</u>	<u>-</u>
Net cash provided by / (used in) investing activities		<u>(209,595)</u>	<u>-</u>
Cash flow from financing activities			
Proceeds from share issue		417,864	48
Proceeds from borrowings		-	18,501
Proceeds from converting loans		<u>1,551,453</u>	<u>-</u>
Net cash provided by financing activities		<u>1,969,317</u>	<u>18,549</u>
Reconciliation of cash			
Cash at beginning of the financial year		18,525	-
Net increase in cash held		1,174,065	18,536
Foreign exchange differences on cash holdings		<u>(2,886)</u>	<u>(11)</u>
Cash at end of financial year	16(a)	<u><u>1,189,704</u></u>	<u><u>18,525</u></u>

The accompanying notes form part of these financial statements.

TOLU MINERALS LIMITED

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

NOTE 1: GENERAL INFORMATION

The registered office of Lole Mining Limited ('the Company') is:

Papua New Guinea Office

PO Box 507
Waterfront
National Capital District
Papua New Guinea

Australian Office

Group Floor, Lihir House
488 Queen Street
Brisbane QLD 4000
Australia

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial information is in compliance with the recognition and measurement requirements of International Accounting Standards and Interpretations issued by the International Accounting Standards Board ('IASB') and International Financial Reporting Interpretations Committee ('IFRIC') respectively, in substantial equivalence to Chapter 2M.3 of the *Corporations Act 2001*. They are presented in Australian dollars.

The financial report was approved by the directors as at the date of the directors' report.

The following are the significant accounting policies adopted by the company in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of preparation of the financial report

Historical Cost Convention

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets and liabilities as described in the accounting policies.

Significant accounting estimates and judgements

The preparation of the financial report requires the use of certain estimates and judgements in applying the company's accounting policies. Those estimates and judgements significant to the financial report are disclosed in Note 3 to the financial statements.

(b) Foreign currency transactions and balances

Functional and presentation currency

The financial statements are presented in Australian dollars which is the company's presentation currency. The company's functional currency is Papua New Guinea Kina.

Transactions and Balances

Transactions undertaken in foreign currencies are recognised in the company's functional currency, using the spot rate at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are restated to the spot rate at the reporting date.

Except for certain foreign currency hedges, all exchange gains or losses are recognised in profit or loss for the period in which they arise.

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**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

(d) Income tax

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are expected to be recovered or liabilities are settled. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not recognised if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(e) Evaluation expenditure

Evaluation costs, including the costs of acquiring licenses, are capitalised as evaluation assets on an area of interest basis. Costs incurred before the Company has obtained legal rights to evaluate / develop an area are expensed in the profit or loss.

Evaluation assets are only recognised if the rights to the area of interest are current and either:

- the expenditures are expected to be recouped through successful development and exploitation of the area of interest or by its sale; or
- activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability and the facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash generating units to which the exploration activity relates. The cash generation unit shall not be larger than the area of interest.

Once technical feasibility and commercial viability of the area of interest are demonstrable, evaluation assets attributable to that area are first tested for impairment and then reclassified from evaluation assets to property and development assets within property, plant and equipment.

(f) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks, short-term deposits with an original maturity of three months or less held at call with financial institutions, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

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TOLU MINERALS LIMITED

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value adjusted for transaction costs, except where the instrument is classified as fair value through profit or loss, in which case transaction costs are immediately recognised as expenses in profit or loss.

Classification of financial assets

Financial assets recognised by the company are subsequently measured in their entirety at either amortised cost or fair value, subject to their classification and whether the company irrevocably designates the financial asset on initial recognition at fair value through other comprehensive income (FVtOCI) in accordance with the relevant criteria in AASB 9.

Financial assets not irrevocably designated on initial recognition at FVtOCI are classified as subsequently measured at amortised cost, FVtOCI or fair value through profit or loss (FVtPL) on the basis of both:

- (a) the company's business model for managing the financial assets; and
- (b) the contractual cash flow characteristics of the financial asset.

Classification of financial liabilities

Financial liabilities classified as held-for-trading, contingent consideration payable by the company for the acquisition of a business, and financial liabilities designated at FVtPL, are subsequently measured at fair value.

All other financial liabilities recognised by the company are subsequently measured at amortised cost.

Trade and other receivables

Trade and other receivables arise from the company's transactions with its customers and are normally settled within 30 days.

Consistent with both the company's business model for managing the financial assets and the contractual cash flow characteristics of the assets, trade and other receivables are subsequently measured at amortised cost.

Trade payables

Trade payables are obligations on the basis of normal credit terms and do not bear interest. Trade payables denominated in a foreign currency are translated into Australian dollars using the exchange rate at the reporting date. Foreign exchange gains or losses are included in other income or other expenses.

(h) Property, plant and equipment

Each class of plant and equipment is measured at cost or fair value less, where applicable, any accumulated depreciation and any accumulated impairment losses.

Plant and equipment

Plant and equipment is measured at cost, less accumulated depreciation and any accumulated impairment losses.

Depreciation

The depreciable amount of all other property, plant and equipment is depreciated over their estimated useful lives commencing from the time the asset is held available for use, consistent with the estimated consumption of the economic benefits embodied in the asset.

Class of fixed asset	Useful lives	Depreciation basis
Plant and equipment at cost	10-20 yrs	Diminishing value
Office equipment at cost	3-15 yrs	Diminishing value
Furniture, fixtures and fittings at cost	10-20 yrs	Diminishing value

TOLU MINERALS LIMITED

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Going concern

The financial report has been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The company incurred a loss from ordinary activities of \$810,374 during the year ended 31 December 2021 and has a net current asset deficiency of \$398,336 as at 31 December 2021.

The company is currently undertaking a pre-IPO capital raising of approximately A\$8 million and A\$10 million to A\$15 million by way of IPO on the ASX in order to:

- Restart the Tolukuma Gold Mine (including the final completion payment under the Sales and Assets Agreement);
- Exploration on portfolio of prospective adjacent exploration licenses; and
- Recommence exploration on the Mt Penck gold/copper project.

On this basis no adjustments have been made to the financial report relating to the recoverability and classification of the carrying amount of assets or the amount and classification of liabilities that might be necessary should the company not continue as a going concern. Accordingly, the financial report has been prepared on a going concern basis.

Should the company be unsuccessful with the capital raisings there is a material uncertainty which may cast doubt over the company's ability to continue as a going concern, and the company may therefore be required to realise assets and extinguish liabilities other than in the ordinary course of business with the amount realised being different from those shown in the financial statements.

(j) Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

The comparatives for 2020 are for the period from incorporation on 19 March 2020 to 31 December 2020, and accordingly the amounts presented in the financial statements are not entirely comparable.

NOTE 3: SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the company's accounting policies, management makes various judgements that can significantly affect the amounts recognised in the financial statements. In addition, the determination of carrying amounts of some assets and liabilities require estimation of the effects of uncertain future events. Outcomes within the next financial year that are different from the assumptions made could require a material adjustment to the carrying amounts of those assets and liabilities affected by the assumption.

The following outlines the major judgements made by management in applying the company's accounting policies and/or the major sources of estimation uncertainty, that have the most significant effect on the amounts recognised in the financial statements and/or have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

(a) Borrowings - convertible loans

During the current financial year the company entered into Converting Loan Agreements ('convertible loans' or 'agreements') with various parties, denominated in Papua New Guinea Kina. The convertible loans are unsecured and interest free, with repayment in 2 years from the execution date of the agreements, or earlier at the sole discretion of the company. Repayment can be in the form of shares or cash, or a combination at the discretion of the company.

The convertible loans are recognised as financial liabilities, as they do not meet the definition of equity. The liabilities are measured at amortised cost adopting an effective interest rate of 15% which is based on comparable data for a similar instrument.

TOLU MINERALS LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

NOTE 4: OPERATING SEGMENTS

The company's operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')), in assessing performance and in determining the allocation of resources.

The Directors are of the opinion that there is one reportable segment as the CODM reviews results, assesses performance and allocates resources at a company level.

	2021	2020
	\$	\$
NOTE 5: OPERATING PROFIT		
Losses before income tax has been determined after:		
Finance costs		
- Convertible loans	81,990	-
Depreciation		
- plant and equipment	241	-
- office furniture and equipment	240	-
- furniture and fittings	<u>137</u>	<u>-</u>
	618	-
Foreign currency transaction losses / (gains)	(878)	-
NOTE 6: REMUNERATION OF AUDITORS		
Remuneration of auditors for:		
<i>Pitcher Partners (Brisbane)</i>		
Audit and assurance services		
- Audit or review of the financial report	45,000	-
NOTE 7: OTHER INCOME		
<i>Other Income</i>		
Foreign currency transaction gains	878	-
Gain on convertible loans (refer note 13) (i)	<u>180,347</u>	<u>-</u>
	<u><u>181,225</u></u>	<u><u>-</u></u>

- (i) Represents the initial recognition and measurement of the convertible loans (which are interest-free) under the effective interest rate method for loan holders other than shareholders.

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TOLU MINERALS LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

	2021	2020
	\$	\$
NOTE 8: INCOME TAX		
(a) Income tax reconciliation		
The prima facie tax payable on profit / (loss) before income tax is reconciled to the income tax expense as follows:		
Prima facie income tax payable on profit / (loss) before income tax at 30.0% (2020: 30.0%)	(243,112)	(4)
Add tax effect of:		
Deferred tax assets not recognised	<u>243,112</u>	<u>4</u>
Income tax expense attributable to profit / (loss)	<u><u>-</u></u>	<u><u>-</u></u>
NOTE 9: CASH AND CASH EQUIVALENTS		
Cash at bank	<u>1,189,704</u>	<u>18,525</u>
NOTE 10: PROPERTY, PLANT AND EQUIPMENT		
Plant and equipment at cost	3,046	-
Accumulated depreciation	<u>(249)</u>	<u>-</u>
	2,797	-
Office equipment at cost	2,895	-
Accumulated depreciation	<u>(249)</u>	<u>-</u>
	2,646	-
Furniture, fixtures and fittings at cost	7,268	-
Accumulated depreciation	<u>(142)</u>	<u>-</u>
	<u>7,126</u>	<u>-</u>
Total property, plant and equipment	<u><u>12,569</u></u>	<u><u>-</u></u>
(a) Reconciliations		
Reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year		
<i>Plant and equipment</i>		
Opening carrying amount	-	-
Additions	3,045	-
Depreciation expense	(241)	-
Net foreign currency exchange movements	<u>(7)</u>	<u>-</u>
Closing carrying amount	<u><u>2,797</u></u>	<u><u>-</u></u>
<i>Office equipment</i>		
Opening carrying amount	-	-
Additions	2,895	-
Depreciation expense	(240)	-
Net foreign currency exchange movements	<u>(9)</u>	<u>-</u>
Closing carrying amount	<u><u>2,646</u></u>	<u><u>-</u></u>

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TOLU MINERALS LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

	2021	2020
	\$	\$
NOTE 10: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)		
(a) Reconciliations (Continued)		
<i>Furniture, fixtures and fittings</i>		
Opening carrying amount	-	-
Additions	7,268	-
Depreciation expense	(137)	-
Net foreign currency exchange movements	<u>(5)</u>	-
Closing carrying amount	<u>7,126</u>	<u>-</u>
 NOTE 11: OTHER ASSETS		
NON CURRENT		
Other deposits	<u>196,387</u>	<u>-</u>
<p>Other deposits comprise an initial K500,000 deposit paid following the execution of the binding Term Sheet dated 17 February 2021 to acquire the assets from Tolukuma Gold Mines Limited (in liquidation). The Sale and Assets Agreement ('the agreement') was executed on 27 April 2021 and is expected to complete during 2022/23, subject to completion conditions required under the agreement.</p>		
 NOTE 12: PAYABLES		
CURRENT		
<i>Unsecured liabilities</i>		
Trade creditors	131,103	-
Sundry creditors and accruals	<u>230,610</u>	-
	<u>361,713</u>	<u>-</u>
 NOTE 13: BORROWINGS		
CURRENT		
<i>Unsecured liabilities</i>		
Convertible loans	1,551,453	-
Unexpired finance charges	(286,747)	-
Amounts payable to:		
- director related parties	<u>-</u>	<u>18,501</u>
	<u>1,264,706</u>	<u>18,501</u>

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TOLU MINERALS LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

	2021	2020
	\$	\$

NOTE 13: BORROWINGS (CONTINUED)

(a) Convertible loans

During the current financial year, the company entered into Converting Loan Agreements ('convertible loans' or 'the agreements') with various parties, denominated in Papua New Guinea Kina. The convertible loans are unsecured and interest free, with repayment in 2 years from the execution date of the agreements, or earlier at the sole discretion of the company. Repayment can be in the form of shares or cash, or a combination at the discretion of the company.

Reconciliation:

	December 2021
Opening balance	-
Convertible loan proceeds	1,551,453
Less: Unexpired interest - shareholders (equity)	(184,887)
Less: Unexpired interest - other loan holders	(186,771)
Accrued interest	81,990
Changes in foreign currency translation	<u>2,921</u>
Closing balance	<u><u>1,264,706</u></u>

(b) Director related entity loans

The loan from an entity related to a director, Mr Howard Lole of K50,000 was converted to issued capital during the current financial year. Refer Note 14(iii).

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TOLU MINERALS LIMITED
NOTES TO FINANCIAL STATEMENTS
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2021
\$

2020
\$

NOTE 14: SHARE CAPITAL

Issued and paid-up capital
52,936,600 (2020: 50,000) Ordinary shares (a) 436,413 48

	2021		2020	
	Number	\$	Number	\$
(a) Ordinary shares				
Opening balance	50,000	48	-	-
Shares issued:				
19 March 2020 (i)	-	-	50,000	48
1 April 2021 (ii)	15,466,150	-	-	-
1 April 2021 (iii)	364,830	36,481	-	-
28 April 2021 (iv)	33,000,000	-	-	-
28 April 2021 (v)	<u>4,055,620</u>	<u>399,884</u>	-	-
	<u>52,886,600</u>	<u>436,365</u>	<u>50,000</u>	<u>48</u>
	-	-	-	-
At reporting date	<u>52,936,600</u>	<u>436,413</u>	<u>50,000</u>	<u>48</u>

(i) Ordinary shares issued on incorporation for 0.10 cents per share.

(ii) Ordinary shares issued for 0.00 cents per share.

(iii) Ordinary shares issued for 9.99 cents per share, which includes the conversion of the director related party loan (refer note 13(b)).

(iv) Ordinary shares issued for 0.00 cents per share.

(v) Ordinary shares issued for 9.86 cents per share.

Rights of each type of share

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Capital management

When managing capital, management's objective is to ensure the company continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. This is achieved through the monitoring of historical and forecast performance and cash flows.

NOTE 15: RESERVES

Foreign currency translation reserve	(293)	(11)
Other reserves	<u>184,887</u>	<u>-</u>
	<u>184,594</u>	<u>(11)</u>

TOLU MINERALS LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

2021 **2020**
\$ **\$**

NOTE 15: RESERVES (CONTINUED)

The foreign currency translation reserve is used to record the exchange differences arising on translation of a foreign entity.

The other reserve is used to record the initial recognition and measurement of the converting loans (which are interest free) under the effective interest rate method for loan holders who are shareholders.

NOTE 16: CASH FLOW INFORMATION

(a) Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash at bank	<u>1,189,704</u>	<u>18,525</u>
	<u>1,189,704</u>	<u>18,525</u>

(b) Reconciliation of cash flow from operations with profit after income tax

Profit / (loss) from ordinary activities after income tax	(810,374)	(13)
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Adjustments and non-cash items

Depreciation	618	-
Net foreign exchange differences	(878)	-
Gain on convertible loans	(180,347)	-
Interest expense on convertible loans	81,990	-

Changes in operating assets and liabilities

(Increase) / decrease in receivables	(38,379)	-
Increase / (decrease) in payables	<u>361,713</u>	<u>-</u>
Cash flows from operating activities	<u>(585,657)</u>	<u>(13)</u>

(c) Non-cash financing and investing activities

There were no non-cash financing and investing activities during the year (2020: nil).

(d) Reconciliation of liabilities arising from financing activities

Liabilities arising from financing activities are liabilities for which cash flows are, or will be, classified as 'cash flows from financing activities' in the statement of cash flows. Changes in the carrying amount of such liabilities, which comprise borrowings (convertible loans), are summarised below.

Balance at the beginning of the year	-	-
Proceeds from financing activities	1,551,453	-
Foreign currency movements	2,921	-
Unexpired interest - recognised in borrowings	(186,771)	-
Unexpired interest - recognised within equity	(191,560)	-
Interest accrued	<u>81,990</u>	<u>-</u>
Balance at the end of the year	<u>1,258,033</u>	<u>-</u>

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TOLU MINERALS LIMITED

NOTES TO FINANCIAL STATEMENTS
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NOTE 17: RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel of the entity or its parent and their personally related entities

Consultancy fees are paid to a related entity of Iain Macpherson. These transactions are at arms length.

Payments to related entities of Iain Macpherson (CEO)	<u>112,136</u>	<u>-</u>
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NOTE 18: FINANCIAL RISK MANAGEMENT

The company is exposed to the following financial risks in respect to the financial instruments that it held at the end of the reporting period:

- (a) Currency risk
- (b) Liquidity risk

The board of directors have overall responsibility for identifying and managing operational and financial risks.

The company holds the following financial instruments:

Financial assets

Amortised cost

- Cash and cash equivalents	1,189,704	18,525
- Receivables	<u>38,379</u>	<u>-</u>
	<u>1,228,083</u>	<u>18,525</u>

Financial liabilities

Amortised cost

- Payables	361,713	-
- Borrowings	<u>1,264,706</u>	<u>18,501</u>
	<u>1,626,419</u>	<u>18,501</u>

(a) Currency risk

The company undertakes transactions denominated in foreign currencies. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The company manages its currency risk in accordance with approved policies.

The carrying amounts of foreign currency denominated monetary assets and monetary liabilities, expressed in Australian dollars at the reporting date are:

	Monetary assets		Monetary liabilities	
	2021	2020	2021	2020
	\$	\$	\$	\$
Papua New Guinea Kina denominated	<u>1,226,960</u>	<u>18,525</u>	<u>1,421,293</u>	<u>18,501</u>

TOLU MINERALS LIMITED

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

NOTE 18: FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The company manages its liquidity risk in accordance with approved policies.

The following table outlines the company's remaining contractual maturities for non-derivative financial instruments. The amounts presented in the table are the undiscounted contractual cash flows of the financial liabilities, allocated to time bands based on the earliest date on which the company can be required to pay.

Year ended 31 December 2021	< 6 months	6-12 months	1-5 years	Total contractual cash flows	Carrying amount
	\$	\$	\$	\$	\$
Payables	180,713	-	-	180,713	361,713
Borrowings	-	-	1,551,493	1,551,493	1,264,706
Net maturities	<u>180,713</u>	<u>-</u>	<u>1,551,493</u>	<u>1,732,206</u>	<u>1,626,419</u>

Year ended 31 December 2020	< 6 months	6-12 months	1-5 years	Total contractual cash flows	Carrying amount
	\$	\$	\$	\$	\$
Borrowings	<u>18,501</u>	<u>-</u>	<u>-</u>	<u>18,501</u>	<u>18,501</u>
Net maturities	<u>18,501</u>	<u>-</u>	<u>-</u>	<u>18,501</u>	<u>18,501</u>

Borrowings noted above have been classified as a current liability on the basis that they were converted for shares subsequent to year end, refer Note 20.

NOTE 19: CONTINGENT LIABILITIES

A contingent liability exists to acquire the assets from Tolukuma Gold Mines Limited (in liquidation) for a total remaining consideration of K19,500,000. The Sale and Assets Agreement ('the agreement') was executed on 27 April 2021 and is expected to complete during 2022/23, subject to completion conditions required under the agreement. Upon successful completion of the transaction, stamp duty may be payable.

NOTE 20: EVENTS SUBSEQUENT TO REPORTING DATE

Tolukuma acquisition

On 17 February 2021 Tolu executed a Binding Term Sheet with Tolukuma Gold Mines Ltd (in Liquidation) to acquire the Tolukuma Gold Mine and associated assets for K20,000,000. On 27 April 2021 the two parties concluded a Sale of Assets Agreement (SAA) for that purpose.

On 1 September 2021 ML 104 was renewed for a further 10 years to August 2032.

On 30 September 2022 the conditions of the SAA were fully met and Tolu completed the acquisition of the former assets of Tolukuma Gold Mines Ltd., namely the Tolukuma Gold Project, in PNG including five exploration permits surrounding the Tolukuma mine providing a dominant landholding of 1,600 km² across the highly productive Tolukuma gold structure. Tolukuma was now 100% owned by the Company.

As at the date of this report, the Company has remitted a total of K3,000,000 in instalment payments under the Sale of Assets Agreement.

TOLU MINERALS LIMITED

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

NOTE 20: EVENTS SUBSEQUENT TO REPORTING DATE (CONTINUED)

Frontier Acquisition

On 16 March 2022, the Company entered into a binding agreement with Frontier Resources Ltd (subsequently renamed Lanthanein Resources Limited, ASX:LNR (**Lanthanein**), to acquire all the shares in its wholly owned subsidiary Frontier Copper PNG Ltd, the 100% holder of the Tolukuma Exploration Licence EL2531 in close proximity to Tolukuma as well as a pending Exploration License Application for the historical Sinivit gold mine in East New Britain Province, PNG, ELA 2529.

The agreement with Lanthanein is expected to complete concurrently with completion of the IPO. On completion, Tolu shall pay A\$500,000 cash to Lanthanein and a further A\$1.5 million in either cash or more likely shares at the election of Tolu. Further consideration of A\$1 million is payable if, within the next 5 years, an aggregate minimum of 500,000oz of gold of not less than JORC (2012) Indicated category of resource is identified on EL2531.

Borrowings – Convertible Loans

During the financial year ended 31 December 2021, the company entered into Converting Loan Agreements with various parties, denominated in Papua New Guinea Kina. The convertible loans totalling K3,950,000 as at 31 December 2021 are unsecured and interest free, with repayment in 2 years from the execution date of the agreements, or earlier at the sole discretion of the company. Repayment can be in the form of shares or cash, or a combination at the discretion of the company.

On 14 February 2022 a new convertible loan agreement for K1,000,000 was entered into by the company taking the total to K4,950,000 to the following lenders:-

Amount of Loan in Kina

LLA Investment Ltd	K2,000,000
PNG Mining & Petroleum Hospitality Services Ltd	K300,000
Natko Investments Limited	K50,000
TD2Q Limited	K200,000
Tapara Engineering Services Limited	K100,000
Tuguba Holdings Limited	K100,000
Ipwenz Holdings Limited	K1,000,000
Trans Wonderland Limited	K1,000,000
Wandiago Kau	K100,000
Hiwa Corporation Ltd	K100,000

TOTAL **K4,950,000**

On 27 October 2022, the above convertible loans totalling K4,950,000 were converted for 5,351,351 shares in the Company at a conversion price of A\$0.37 per share.

MRDC Convertible Note Deed

On 24 August 2022, the Company entered into a Convertible Note Deed with Petroleum Resources Kutubu Limited (**PRK**), a subsidiary of Mineral Development Resource Company for an amount of 10,000,000 Papua New Guinea Kina.

The Company has granted a registered first ranking security interest over ML 104 and all the assets situated upon ML 104 pursuant to a general security deed.

The notes issued to PRK have a 5 year maturity date expiring on 24 August 2027 and will bear interest at the rate of 8.5% p.a.

In the event of an IPO, the Noteholder is entitled to convert the notes into Shares at a conversion price being the 15-day VWAP for trading of the Company's shares on ASX immediately prior to the issue of the conversion notice.

PRK may exercise their right to convert the notes at any time and the Company must redeem the notes at face value on the maturity date.

The Company has an early redemption right exercisable at any time over the 5-year period at 103% of the face value of the notes.

Interest shall be capitalised annually in arrears and repaid on the earlier of;

(a) the conversion date;

TOLU MINERALS LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

NOTE 20: EVENTS SUBSEQUENT TO REPORTING DATE (CONTINUED)

(b) the maturity date; or

(c) the early redemption date.

Share Issues

On 1 April 2021 the board resolved to issue 15,466,150 founder shares for nil consideration.

On 1 April 2021 the board also resolved to issue 364,830 shares for total consideration of A\$36,481 (gross) net of the conversion of a director related loan of A\$15,801.

On 28 April 2021 the board resolved to issue 33,000,000 founder shares for nil consideration.

On 28 April 2021 the board also resolved to issue 4,055,620 shares for total consideration of A\$399,864.

On 25 February 2022 the board resolved to issue 3,000,000 founder shares for nil consideration

On 27 October 2022 the company issued 19,843,906 shares for consideration of A\$0.37 per share as part of the Pre-IPO raise. This included the conversion of the convertible loans of K4,950,000

On 25 November 2022, the company issued a further 1,646,351 shares for consideration of A\$0.37 per share as part of the Pre IPO raise.

On 25 November 2022, the company redeemed 135,000 shares for consideration of A\$0.37 per share.

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Independent Auditor's Report to the Members of Tolu Minerals Limited**Report on the Audit of the Financial Report***Opinion*

We have audited the financial report of Tolu Minerals Limited ("the Company"), which comprises the statement of financial position as at 31 December 2021, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report presents fairly, in all material respects, the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with International Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Company in accordance with the ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) "the Code" that are relevant to our audit of the financial report. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to note 2(i) in the financial report, which describes events and/or conditions which indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

The directors of the company are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 31 December 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Directors for the Financial Report

Management is responsible for the preparation and fair presentation of the financial report in accordance with International Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company's or to cease operations, or has no realistic alternative but to do so.

The directors of the company are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with the International Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Pitcher Partners

PITCHER PARTNERS



DAN COLWELL
Partner

Brisbane, Queensland
5 December 2022

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